

Rothesay
Protecting Pensions

Your future
in safe hands



Rothesay Limited
Interim condensed consolidated financial statements
for the six months ended 30 June 2024

Our purpose

We are dedicated
to securing the
future for every one
of our policyholders.



Overview

At a glance	2
Performance at a glance	3

Strategic report

Chief Executive's statement	6
Business review	11
Financial review	13
Risk and capital management	18
Report of the Directors	22

Financial statements

Condensed consolidated statement of comprehensive income	25
Condensed consolidated statement of financial position	26
Condensed consolidated statement of changes in equity	27
Condensed consolidated cash flow statement	29
Notes to the financial statements	30

Alternative Performance Measures	82
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Glossary of terms	86
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Rothesay refers to Rothesay Limited and its subsidiaries, together, the Group.

This document does not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or solicitation of any offer or invitation or advice or recommendation to subscribe for, underwrite or otherwise acquire or dispose of any securities (including share options and debt instruments) of Rothesay Limited (the Company) nor any other body corporate nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever which may at any time be entered into by the recipient or any other person, nor does it constitute an invitation or inducement to engage in investment activity under Section 21 of the Financial Services and Markets Act 2000 (FSMA). This document does not constitute an invitation to effect any transaction with the Company or to make use of any services provided by the Company. Forward-looking statements contained in this document involve risk and uncertainty as they depend on circumstances that may or may not occur and the Company expressly disclaims any obligations or undertakings to release publicly any updates or revisions to any forward-looking statements contained in this document. Past performance cannot be relied on as a guide to future performance.

At a glance

Purpose-built to protect pension schemes and their members' pensions

Who we are

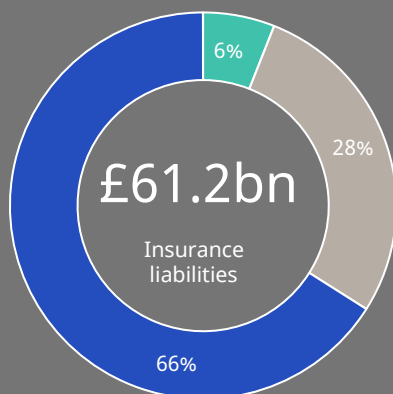
Rothesay is the largest UK specialist pensions insurer, purpose-built to protect pension schemes and their members' pensions. Our singular focus is to secure pension annuities for the future, providing certainty for our policyholders.

Our careful approach to investment, prudent underwriting and service excellence mean we are trusted to provide pension solutions by the pension schemes of some of the UK's best known companies including British Airways, Cadbury, the Civil Aviation Authority, the Co-Operative, Morrisons, Smiths Industries and Telnet.

Underpinned by sophisticated risk management, our expert in-house investment team is continually developing new ways to drive predictable, dependable returns that reduce risk and create real security.

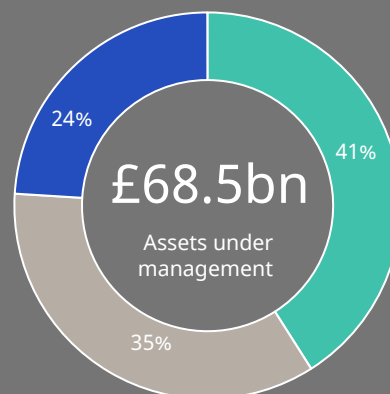
Today, we manage over £68bn in assets, secure the pensions of over one million people, and pay out, on average, over £200m in pension payments each month. We are safeguarding the future for every one of our clients and policyholders, and providing long-term value to our shareholders.

Securing pension annuities from pension schemes and other insurers



- Insurance company acquisitions, 6%
- Annuity back book acquisitions, 28%
- Pension buy-in/buy-out, 66%

Backed by high quality investments

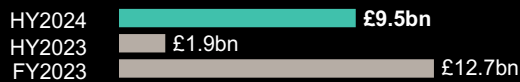


- Government securities & cash, 41%
- Corporate bonds & infrastructure, 35%
- Secured lending & mortgages, 24%

Performance at a glance

New business premium APM¹

£9.5bn



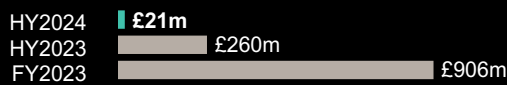
Number of policies

1,008,317



IFRS profit before tax

£21m



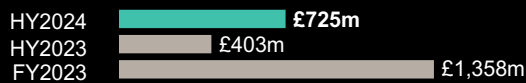
Assets under management APM

£68.5bn



Adjusted operating profit APM

£725m



Market consistent embedded value (MCEV) APM

£7.6bn



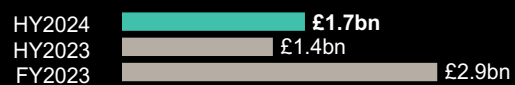
Group solvency capital requirement (SCR) coverage APM

244%



Paid to policyholders in the period

£1.7bn



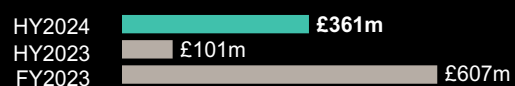
Longevity reinsured APM

86%



MCEV new business profit² APM

£361m



Customer satisfaction APM

95%



1. APM – Alternative Performance Measure; please see page 14 for further details.
2. Restated HY 2023 MCEV new business to reflect removal of the deduction for allocated expenses which are now shown separately.

A glossary of terms used can be found on page 86.

Section

2

Strategic report

➤ In this section

Chief Executive's statement	6
Business review	11
Financial review	13
Risk and capital management	18
Report of the Directors	22

Every decision that we make is informed by our cautious approach to risk management, conservative investment philosophy and sophisticated technology platform. We challenge ourselves to think originally and creatively so that our business model is best placed to meet the needs of our clients and policyholders.





We have prepared our business to provide capacity for even the largest risk transfer transactions.



Tom Pearce
Chief Executive Officer

Chief Executive's statement

In the first half of 2024 we continued to build on our very positive momentum in the market and convert significant volumes of new business.

The rise in interest rates over the last few years combined with contributions from sponsors and the run-off of closed schemes are all helping to improve pension scheme funding levels, making the journey to buy-out increasingly achievable for a growing number of schemes.

As a result, the Bulk Purchase Annuity (BPA) market continued to be very active in the first half of 2024 with a very significant pipeline of pension risk transfer transactions ahead. This is a continuation of the theme from 2023 which saw record BPA volumes of c.£50bn. Analysts suggest that these volume levels are likely to carry on increasing over the years ahead.

Rothesay's substantial capital resources combined with the proven strength of our execution capabilities mean we continue to be very well-positioned to capitalise on the significant new opportunities we are seeing in the market.

A key part of our ability to provide best-in-class execution capabilities is our commitment to delivering innovative solutions for our clients across all aspects of the pensions de-risking process. We have therefore continued to invest in our capabilities to provide pension scheme's looking to de-risk with the simplest path to locking their current positive funding levels quickly and securely through a bulk annuity policy. At the same time, we are also able to provide bespoke solutions offering execution certainty for insurers with annuity back books they wish to sell, through investing in the capabilities which allow us to seamlessly take on in-force annuity portfolios and the assets that support them.

In order to achieve this, we have continued to develop solutions that offer price certainty from early on in the process by "locking" pricing to the schemes' assets. We are also able to offer pension schemes and insurers with in-force annuity portfolios a risk solution which allows them to transition or transfer all of their existing asset holdings in full, including illiquid assets through our Illiquid Asset Transition team. As part of our long-term growth strategy, we have also prepared our business to offer capacity for even the largest risk transfer transactions which might enter the market.

As a result, in the first half of 2024 we have built on the very positive momentum we achieved in 2023 by completing some of the largest and most innovative transactions in the market.

IFRS
pre-tax profits

£21m

HY2023: £260m

SCR
coverage (APM)

244%

FY2023 273%

New business
premium (APM)

£9.5bn

HY2023: £1.9bn

Chief Executive's statement continued

In March 2024, we announced that we had agreed to acquire Scottish Widows' bulk annuity portfolio from Lloyds Banking Group, our sixth acquisition of in-force annuities from insurance counterparties. I am delighted that Lloyds Banking Group chose Rothesay as the long-term home for its bulk annuity business.

In addition to the above, we assisted 3 other pension schemes to de-risk in the first half of 2024 (HY2023: 5, FY2023: 12), generating total new business premiums of £9.5bn (HY2023: £1.9bn, FY2023: £12.7bn), and £725m of adjusted operating profits before tax (**APM**) (HY2023: £403m, FY2023: £1,358m) with new business embedded value of £361m (**APM**) (HY2023: £101m, FY2023: £607m).

Outside of the BPA market, we continued to see volatility in financial markets throughout the first half of 2024 due to geopolitical events as well as the ongoing uncertainty in the paths of interest rates and inflation, as a result we remain cautious in our underwriting, maintaining our pricing discipline. Rothesay's business model is designed to protect pensions and deliver growth through all market conditions. These volatile market conditions are demonstrating once again the value of our purpose-built risk management systems and focus on operational excellence. Regular stress testing and live monitoring of the financial, solvency and liquidity position of Rothesay allows us to respond dynamically as the market evolves. This ensured that, despite the significant volumes of new business written, we ended the first half of the year with strong SCR coverage (**APM**) of 244% (HY2023: 309%, FY2023: 273%), above our target operating range, giving us significant excess capital to write further new business and capitalise on the opportunities we are seeing in the market.

Following the end of the first half of the year, the Board approved an interim dividend of 23p per share (2023: 23p per share).

Group performance

Adjusted operating profits (**APM**) for the first half of the year were £725m (HY2023: £403m, FY2023: £1,358m), driven by profit on new business in addition to the release of margins as the business runs off. Operating profits were reduced by the net increase in the Contractual Service Margin (CSM) (**APM**) on new business, as well as borrowing costs, to arrive at IFRS pre-tax profits of £21m (HY2023: £260m, FY2023: £906m).

The increase in assets from the significant volumes of new business written was partly offset by the rise in long-term interest rates and the run-off of in-force business, with the Group's assets under management increasing to £68.5bn (HY2023: £48.1bn, FY2023: £61.0bn).

MCEV at 30 June 2024 increased to £7.6bn (**APM**) (HY2023: £7.0bn, FY2023: £7.5bn), with growth delivered through new business offset by changes in financial market conditions, principally the rise in long-term interest rates. Many of the assets received in relation to these new business transactions are yet to be reinvested in line with Rothesay's long-term investment approach, and this reinvestment is expected to result in further improvements to MCEV once our target investment allocation has been achieved.

More details on our MCEV performance can be found in the financial review on page 17.

Risk and capital management

As noted above, the first half of 2024 continued to see volatility in markets. The duration of our liabilities and our liability-matching assets means that Rothesay's assets and liabilities are sensitive to long-term interest rates. Our sophisticated in-house risk management systems again proved vital in managing this and responding quickly to a changing economic environment.

Our investment portfolio is focused on highly rated assets, many of which benefit from high quality security or collateral. The quality of our investments, combined with active monitoring and management of our credit portfolio, means that we continue to be well-positioned to withstand adverse market conditions.

We continue to hedge market and longevity risk exposures and benefit from robust collateral arrangements which mitigate counterparty risk. Rothesay manages its longevity risk through unfunded, collateralised "longevity swaps" and has not utilised any funded reinsurance. Under these longevity swaps, Rothesay retains the assets and pays a series of reinsurance premium amounts over time based on expected longevity and receives a series of reinsurance claim amounts based on actual experience. This allows us to hedge longevity risk whilst minimising counterparty risk exposure. We entered into additional longevity reinsurance agreements in the first half of 2024 primarily covering 2024 new business and 86% of our longevity exposure is now reinsured (**APM**) (HY2023: 88%, FY2023: 87%).

Chief Executive's statement **continued**

In recognition of the new business opportunity we are seeing, in June 2024 we successfully raised a further c.£750m of Tier 2 debt. This has also allowed us to refinance in advance £400m of Tier 2 borrowings callable in September 2024 which we have recently announced we intend to call to reduce our overall cost of debt. The new debt issuance comprised an inaugural \$325m of Tier 2 debt raised in the US dollar market as well as a £500m Tier 2 sterling issuance.

Following the implementation of the first part of the Treasury's Solvency UK reforms related to the Risk Margin at the end of last year, and the second part related to the Matching Adjustment at the end of June this year, we continue to evaluate new ways in which we can invest in UK infrastructure, clean energy and other forms of productive finance. We also continue to engage thoughtfully on key issues with external stakeholders including our regulators, government and wider industry in order to help shape future reforms. In particular, we look to participate in all relevant regulatory and government consultations where they may directly or indirectly impact our business.

Our policyholders

Providing approximately one million policyholders with a safe and secure pension is at the heart of what we do. We pride ourselves on the level of service we provide and I am glad to report that we maintained high service standards during the first half of the year, with over 95% (HY2023: 95%, FY2023: 94%) of customers rating the quality of service received (**APM**) as good or excellent.

As part of this, we continue to develop our in-house administration offering which uses Rothesay's technology platform to support the services of our administration partners.

Following our agreement in March 2024 to acquire the Scottish Widows in-force bulk annuity portfolio from Lloyds Banking Group, responsibility for the pension benefits of the underlying members has transferred to Rothesay, initially as a reinsurance agreement for the in-force bulk annuity portfolio, with a Part VII process to follow. I look forward to welcoming our new policyholders from Scottish Widows formally to Rothesay once that process has completed and in the meantime we are working closely with the teams at Lloyds Banking Group and Scottish Widows to ensure a successful Part VII transfer.

Our people

Our people are a key strength of Rothesay and we have continued to recruit across our business in the first half of 2024.

As our headcount nears 500 permanent employees we are nearing completion of the fit-out of a further two floors of The Post Building. This extra space will allow colleagues to continue to collaborate easily across all parts of the business, supporting our cultural values of excellence in everything we do, innovation and teamwork. I remain incredibly proud of our market-leading levels of employee engagement.

Sustainability matters

At Rothesay, we are clear that embedding sustainability principles across our business plays a fundamental role in us being able to deliver on our central purpose: providing our current and future policyholders with security for the future. We are therefore focused on creating a positive impact through all of our operations and for all of our stakeholders, including our policyholders, our suppliers, our people, our community and our investors.

With a global average temperature of 1.46°C above pre-industrial levels, 2023 was the warmest year on average over the globe since records began. While a single year may be anomalous in the context of a long-term average, and there has been a huge effort from nation states and companies across the world to reduce greenhouse gas emissions, it is clear that further actions will be needed in this field.

For this reason, this year we have published some new short-term priorities identified through our transition planning process. These have been added to support our overall target of transitioning our investment portfolio to Net Zero greenhouse gas emissions by 2050 by providing new, more near-term milestones which will need to be reached along our Pathway to Net Zero¹. Central to these is a new commitment to achieving a 50% Carbon Intensity reduction across our total investment portfolio by 2030, building on our target, introduced last year, to see a similar reduction across our publicly traded corporate debt portfolio.

For more information, please see both our 2023 Sustainability Report and Climate Report, the latter of which is aligned with the Task Force on Climate-related Financial Disclosures.

¹ Our Net Zero commitment is science-aligned, focusing on taking actions that are consistent with the Paris Agreement's long-term goal of limiting global warming to 1.5°C above pre-industrial levels.

Chief Executive's statement **continued**

ECB partnership: Title Partner of Test Cricket

During 2024, Rothesay announced a new multi-year partnership with the England and Wales Cricket Board (ECB), the national governing body of cricket.

Through the partnership, Rothesay became the Official Title Partner of Test Cricket, launching the 'Rothesay Test Series'. Rothesay is also an Official Partner of ECB & England Cricket and Official Partner of England Women's Cricket.

We look forward to partnering with the ECB to support the future of cricket and helping to inspire all generations by making cricket a game for everyone.

In addition, during 2024 Rothesay concluded the final year of its partnership with the LTA (the national governing body for tennis in Britain), as the title sponsor for three of the summer's show piece grass court international tennis tournaments.

Charitable donations

We encourage our employees to support charities personal to them through our matched giving policy, which gives everyone an annual matched allowance of £1,000. In response to current global conflicts we encourage our people to make donations in 2024 to support relief efforts by offering an additional £1,000 allowance to any charity of their choice. These donations will be matched at a rate of 4:1 so charities can receive up to £5,000 in total.

The Rothesay Foundation has also continued to make positive progress throughout the first half of 2024, expanding the breadth and depth of support it is able to provide for pensioners living in deprivation across the country.

Following a successful pilot with Age UK under which pensioners were provided with a free, confidential benefits check to ensure that they were claiming all of the benefits to which they are entitled, more than 2,400 pensioners were supported, both in person and through a dedicated line, to complete the benefits check. In total, the campaign identified approximately £20m of annual benefits for pensioners in need, with an Age UK benefits check identifying entitlement, on average, to an extra £5,000 benefits per person per annum.

Looking forward

Improved pension scheme funding levels driven by the rising long-term interest rates environment are making de-risking increasingly affordable for pension schemes, creating positive conditions in the BPA market. Many sponsors who had not previously thought that buy-out could be feasible for their schemes in the near term are now able to affordably de-risk within the existing assets of the scheme. This is generating exciting new business opportunities which we have converted extremely well over the first half of 2024, delivering a very strong performance.

With the market continuing to be buoyant, we are ideally placed with a significant capital surplus and are fortunate in having two long-term, supportive shareholders. This, combined with our track record of executing large innovative transactions, means that we have been able to capitalise on the growth opportunities in our market while preparing for a potentially even busier time in the years ahead. This includes continuing to innovate within our market to respond to the evolving needs of our pension scheme clients, as well as being able to offer bespoke solutions for insurers with in-force annuity portfolios which they are seeking to sell.

I am confident as we look forward to the second half of the year that Rothesay will continue to build on its positive momentum in the market, converting our very significant new business pipeline while maintaining pricing discipline, and providing pension security and service excellence for our policyholders while delivering long-term value to our shareholders.



Tom Pearce
Chief Executive Officer
9 August 2024

Business review

New business

Funding for many pension schemes has improved, primarily as a result of the increase in long-term interest rates. De-risking is increasingly affordable for schemes and this has led to a significant increase in the current and future pipeline of new business opportunities in the BPA market, including with a number of very large pension schemes for whom de-risking is now increasingly feasible. Given our financial strength and track record of executing large complex transactions, we are well-positioned for such developments.

In the first half of 2024, we assisted 3 pension schemes to de-risk their liabilities through BPA transactions (HY2023: 5, FY2023: 12). Outside of the BPA market, in March we announced that we had agreed to acquire Scottish Widows' bulk annuity portfolio from Lloyds Banking Group, our sixth acquisition of in-force annuities. This bulk annuity portfolio is reinsured to Rothsay pending completion of a Part VII transfer. In aggregate this generated total new business premiums of £9.5bn (**APM**) (HY2023: £1.9bn, FY2023: £12.7bn) and we are very pleased to have been chosen to provide a long-term home for these pension promises.

During the first half of 2024, we entered into four new longevity swap reinsurance agreements in relation to business written in 2024.

Investment activity

Our in-house team is responsible for the management of Rothsay's £68.5bn asset portfolio. Assets are sought which match our liability cash flows and provide an appropriate risk-adjusted return. Rothsay operates a cautious investment strategy which seeks to diversify exposure and actively manage risk. We are constantly looking for new ways to reduce risk and achieve the dependable returns that create real security for peoples' pensions in the future.

Rothsay's investment portfolio is focused on highly rated assets with over half of our rated assets having a rating of AAA or AA. The portfolio can be divided into three broad categories:

- **Cash and government bonds** – This part of the portfolio is available for future investment and to meet collateral calls and cash requirements and also backs some of our very long-dated cash flows.
- **Corporate bonds and infrastructure** – We also invest in a diversified portfolio of corporate bonds, including regulated infrastructure such as water, energy and transportation.
- **Secure, illiquid assets** – These assets include loans secured against property, mortgages and loans secured against other collateral. They are attractive because investors are rewarded for illiquidity rather than credit risk. Structural features such as collateral, covenants and other security features mean that recoveries in the event of default are maximised and credit risk minimised.

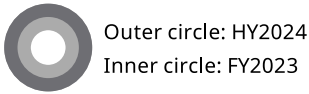
Our £25.1bn holding of corporate and infrastructure bonds is invested in high quality investment grade issuers and of those only £0.3bn is rated BBB- (HY2023: £0.1bn, FY2023: £0.2bn). Rothsay holds only £24m of sub-investment grade bonds (HY2023: £51m, FY2023: £42m).

As at 30 June 2024, our total lifetime mortgage portfolio has increased to £6.4bn (HY2023: £5.5bn, FY2023: £6.2bn) or 9% of assets under management (HY2023: 11%, FY2023: 10%). We remain cautious in underwriting mortgages in a more challenging market, with newly originated lifetime mortgages having an average loan-to-value ratio of 26% (HY2023: 26%, FY2023: 26%).

We also continue to fund long-term, fixed rate mortgages in the UK and the Netherlands. As at 30 June 2024, our long-term fixed rate mortgage portfolio remains at £1.7bn (HY2023: £1.2bn, FY2023: £1.7bn).

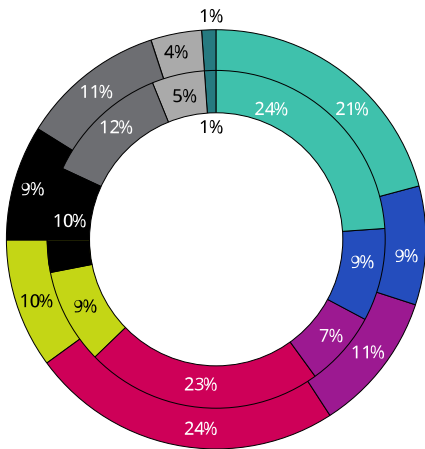
Business review continued

The following charts provide a breakdown of our financial assets excluding derivatives at 30 June 2024 and 31 December 2023 by sector and geography.



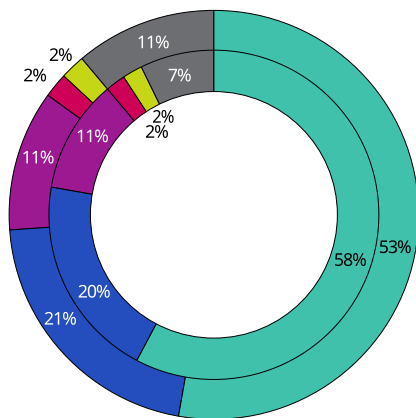
Our investments (%)

- UK sovereign **21%**
- Supranational, quasi sovereign and other sovereigns **9%**
- Cash **11%**
- Corporate bonds **24%**
- Infrastructure **10%**
- Secured residential lending **9%**
- Mortgages **11%**
- Other secured lending **4%**
- Other **1%**



International diversification (%)

- UK **53%**
- US **21%**
- EU **11%**
- Australia **2%**
- Other **2%**
- Cash **11%**



Responsible investment

The in-house investment team considers environmental, social and governance factors as part of the investment process and these factors are formally documented in all committee approval papers for new investments in order to ensure that appropriate account is taken of them.

We are transitioning our investment portfolio to Net Zero greenhouse gas emissions by 2050, aligned with the goal of the Paris Agreement to limit global warming to 1.5°C above pre-industrial levels.

This year we published a new commitment to achieving a 50% Carbon Intensity reduction across our total investment portfolio by 2030, building on our target, introduced last year, to see a similar reduction across our publicly traded corporate debt portfolio. We estimate that the Carbon Intensity of our portfolio had fallen by 39% against the estimate we made for year-end 2019. This is based upon measurements covering 93% of our portfolio.

In the first half of 2024, we were pleased to be reconfirmed as a signatory to the Financial Reporting Council’s UK Stewardship Code 2020. We are also a signatory to the UN Principles for Responsible Investing, a supporter of the Task Force on Climate-related Financial Disclosures and an adopter of the Sustainability Reporting Standard for Social Housing.

For more information, please see our 2023 Sustainability and Climate reports, the latter of which is aligned with the Task Force on Climate related Financial Disclosures.

Operations and customer service

As noted in the Chief Executive’s statement, during the first half of 2024, over 95% (**APM**) (HY2023: 95%, FY2023: 94%) of customers rated the quality of service they received as good or excellent. Our complaint levels remain low by industry standards with 1.54 complaints received per 1,000 policyholders (**APM**) (HY2023: 1.91 complaints per 1,000, FY2023: 1.94 complaints per 1,000) of which 0.63 complaints per 1,000 policyholders were upheld (**APM**) by us following a thorough investigation (HY2023: 0.60 complaints per 1,000, FY2023: 0.69 complaints per 1,000).

Financial review

The financial review describes the financial performance of Rothsay Limited and its subsidiaries.

Financial performance

Adjusted operating profits **(APM)** for the first half of the year were £725m (HY2023: £403m, FY2023: £1,358m), driven by profit on new business in addition to release of margins as the business runs off. Adjusted operating profits **(APM)** were reduced by the net increase in the Contractual Service Margin (CSM) **(APM)** on new business, as well as borrowing costs, to arrive at IFRS pre-tax profits of £21m (HY2023: £260m, FY2023: £906m).

The financial performance analysis shown in the table below provides an explanation of the way in which profits have been generated. Further explanation of the line items can be found in the notes on Alternative Performance Measures on page 82.

New business profit **(APM)** represents the value of the premiums charged less the best estimate liabilities and risk adjustment. After the deduction of the allocated acquisition expenses, this is equal to the new business CSM including the impact of new reinsurance. New business profit **(APM)** for the period was £565m (HY2023: £218m, FY2023: £767m).

Financial performance (Alternative analysis of profit generation) (APM)	HY2024 £m	HY2023 £m	FY2023 £m
New business profit	565	218	767
Acquisition expenses allocated to new business	(124)	(66)	(201)
Performance of the in-force book	281	249	649
Non-economic assumption changes and model refinement	3	2	143
Adjusted operating profit before tax	725	403	1,358
Increase in CSM	(364)	(85)	(731)
Liability for future new business acquisition costs	(28)	—	—
Borrowing costs	(72)	(55)	(123)
Economic (losses)/gains	(240)	(3)	402
IFRS profit before tax	21	260	906

IFRS profit
before tax

£21m

HY2023: £260m

Group
SCR coverage

244%

FY2023: 273%

MCEV **(APM)**

£7.6bn

FY2023: £7.5bn

Financial review **continued**

Under IFRS 17, profits on new business and from experience and non-financial assumption changes are largely held back as what is known as the CSM. The CSM represents a significant store of future value that will result in a stream of future insurance profits. Insurance businesses that are growing are likely to see an increase in CSM (**APM**) as the CSM created from new business written during the period exceeds the CSM released during the period. The net increase in CSM (**APM**) was £364m (HY2023: £85m, FY2023: £731m) as shown in the table below. Strong new business performance contributed to the CSM increase.

Profits generated on the in-force book (**APM**) were £281m (HY2023: £249m, FY2023: £649m). These profits mainly arose from the investment return on surplus assets and the release of the risk adjustment as the business runs off. Profits generated on the in-force book also includes the impact of operating expenses.

Rothesay made economic losses (**APM**) during the period of £240m (HY2023: £(3)m, FY2023: gains of £402m). Economic profits/(losses) (**APM**) represent the change in value of assets from changes in economic conditions less the change in value of liabilities from those changes. During the period, economic losses were mainly driven by the impact of increases in interest rates. Rothesay focuses its interest rate hedging strategy on managing the trade-offs between the MCEV and Solvency balance sheet measures, which can result in some volatility in relation to economic profits/(losses) on IFRS as a result of changes in long-term interest rates.

Movement in CSM	HY2024 £m	HY2023 £m	FY2023 £m
CSM at the start of the period	5,192	4,461	4,461
New business CSM	441	152	566
Change in CSM as a result of experience and assumption changes	72	55	456
Interest accretion on CSM	78	50	108
Release of CSM	(227)	(172)	(399)
Increase in CSM	364	85	731
CSM at the end of the period	5,556	4,546	5,192

Alternative Performance Measures

Rothesay's strategy is focused on protecting the security of policyholder benefits, growth through writing value-driven new business and, ultimately, delivering sustainable shareholder value.

In the opinion of the Directors, the prescribed IFRS results and disclosures do not fully reflect long-term value or changes to capital requirements and therefore do not fully reflect the performance of Rothesay. In addition, the changes in IFRS reporting standards from 1 January 2023 (IFRS 17) mean that it is difficult to analyse historical performance trends on the basis of IFRS results.

Rothesay therefore uses a number of Alternative Performance Measures (**APMs**) which focus on value generation and capital strength. Further information on Rothesay's APMs can be found on page 82, including definitions, why the measure is used and, if applicable, how the APM can be reconciled to the nearest GAAP measure. Rothesay uses the symbol **APM** to highlight APMs throughout the financial statements.

Financial review continued

IFRS income statement highlights

The key line items in the consolidated statement of comprehensive income are summarised in the table below:

Income statement highlights	HY2024	HY2023	FY2023	Commentary
	£m	£m	£m	
Insurance service result	222	176	420	The insurance service result is the difference between the actual and reserved cost of delivering insurance service, predominantly driven by the release of the CSM and Risk Adjustment (RA) in the period due to services provided and risk expired.
Net financial result	128	379	1,111	The net financial result is primarily driven by interest earned on assets above liabilities plus the impact of changes in economic conditions.
Operating expenses	(38)	(47)	(118)	Operating expenses are exclusive of costs included in fulfilment cashflows and attributable acquisition costs. A breakdown of expenses is provided in note B.3.
Finance costs	(291)	(248)	(507)	Finance costs represent interest payable on borrowings and on collateral. For further details see note B.4.
Profit before tax	21	260	906	

Financial review continued

IFRS statement of financial position

The key line items in the consolidated statement of financial position are summarised in the following table:

Statement of financial position highlights	HY2024 £m	HY2023 £m	FY2023 £m
Financial investments	111,602	95,006	98,968
Reinsurance contract assets	163	73	216
Deferred tax asset	615	679	658
Other assets	4,199	2,546	3,361
Total assets	116,579	98,304	103,203
Share capital and share premium	510	510	510
Tier 1 notes	793	793	793
Employee scheme treasury shares and share-based payment reserve	(150)	(148)	(150)
Profit and loss reserve	3,060	2,941	3,065
Other reserves	134	143	133
Total equity	4,347	4,239	4,351
Insurance contract liabilities	61,242	41,331	54,630
Reinsurance contract liabilities	434	849	461
Payables and financial investment liabilities	47,253	49,459	41,281
Borrowings	3,006	2,246	2,248
Other	297	180	232
Total liabilities	112,232	94,065	98,852
Total equity and liabilities	116,579	98,304	103,203

Assets under management (APM)

Assets under management adjusts for the gross up of derivative values and can be derived by adjusting total assets for reinsurance, payables, derivatives, collateralised financing and deferred tax. Assets under management have increased from £61.0bn at 31 December 2023 to £68.5bn as at 30 June 2024, driven primarily by new business premiums. A reconciliation of assets under management is provided in the notes on Alternative Performance Measures on page 82.

Borrowings

Borrowings increased to £3,006m (HY2023: £2,246m, FY2023: £2,248m) as a result of the issuance by Rothsay Life Plc (RLP) of approximately £750m of Tier 2 notes in June 2024.

Insurance liabilities

Insurance contract liabilities, which consist of the best estimate liabilities, the risk adjustment and the CSM, increased from £54.6bn as at 31 December 2023 to £61.2bn as at 30 June 2024. This move was largely driven by the impact of new business (see notes E.1 and E.2).

Total equity and adjusted equity (APM)

The decrease in total equity (a decrease of £4m from £4,351m at 31 December 2023 to £4,347m at 30 June 2024) was driven by RT1 coupons paid during 2024 partially offset by IFRS net profit.

Adjusting equity for CSM net of tax and the value of the sterling-denominated RT1 debt gives adjusted equity (APM) of £7.7bn (HY2023: £6.9bn, FY2023: £7.5bn).

Financial review **continued**

Market consistent embedded value (APM)

Market consistent embedded value (MCEV) reporting provides a useful measure of potential future profit on Rothsay's in-force business.

The MCEV is presented as an adjustment to IFRS Net Worth. The value of in-force business represents the present value of future release of IFRS 17 risk adjustment and CSM, net of tax, along with the costs of solvency capital and cost of non-hedgeable risk.

	HY2024	HY2023	FY2023
Market consistent embedded value (APM)	£m	£m	£m
Net worth of Rothsay Limited	7,353	6,485	6,599
Value of in-force business	3,916	3,184	3,752
Less: debt including RT1 notes	(3,664)	(2,667)	(2,842)
MCEV	7,605	7,002	7,509

A movement analysis for the overall MCEV is provided in the table below. Non-operating variances include borrowing costs and, for 2023, the dividend payment, and the impact on MCEV of the FIM implementation and the Risk Margin reform. The HY 2023 and FY2023 opening positions, showing the 31 December 2022 result, have been restated to reflect the impact of IFRS17.

	HY2024	HY2023	FY2023
Analysis of movement in MCEV	£m	£m	£m
Opening MCEV	7,509	6,631	6,631
New business value	361	101	607
Acquisition expenses allocated to new business	(110)	(23)	(144)
Management of the in-force book	77	126	492
Economic variances	(158)	158	257
Other non-operating variances	(74)	9	(334)
Total MCEV earnings	96	371	878
Closing MCEV	7,605	7,002	7,509

In the first half of 2024, MCEV grew primarily as a result of new business written, partially offset by the impact of increasing interest rates and having uninvested premiums. New business value is sensitive to the duration profile of the new business written as well as its return. Within management of the in-force book, there is a £(138)m impact as a result of being temporarily invested in gilts received by Rothsay as part of BPA transactions. Once these assets have been reinvested in line with Rothsay's investment strategy, this impact would be expected to reverse, causing the MCEV to increase by this amount.

Further information can be found in the notes on Alternative Performance Measures on page 82.

Risk and capital management

Rothesay's risk management principles are driven by the key objectives of the business:

- To ensure that our liabilities to policyholders can be met in a full and timely manner.
- To maintain our financial strength and capitalisation.
- To produce stable earnings from our in-force business.
- To protect and increase the value of our shareholders' investment.
- To provide excellent customer service.
- To safeguard Rothesay's reputation.

The risk management framework is intended to ensure that we identify and understand all of the risks inherent to the business. Where appropriate, longevity reinsurance, asset liability matching and hedging strategies are used to manage that risk and the use of capital. All of our longevity reinsurance agreements are unfunded, i.e. we retain the assets and pay a series of reinsurance premiums based on expected longevity and receive a series of reinsurance claim amounts based on actual experience.

We look to mitigate credit risk through investing in assets that benefit from collateral and structural protections. Rothesay's liquidity position has remained robust throughout the period and we continue to hold significant liquidity buffers.

We continue to make significant investment in our in-house technology platform to continually enhance our analytical and risk management capabilities, including the management of cloud and cyber risks.

Except as discussed herein, the principal risks remain unchanged from the period ended 31 December 2023.

Capital management

Rothesay aims to maintain solvency coverage in the range of 140% to 160% of the regulatory minimum solvency capital requirement (SCR). We started the year with capital surplus well above our target operating range but as we write large volumes of new business the solvency coverage is expected to move closer to our target operating range.

We operate a dynamic capital management framework which reflects the sensitivity of different performance measures. Our access to real-time solvency information and balance sheet sensitivities allows us to tailor our hedging strategy to manage the trade-offs between the solvency capital position and the embedded value of the business in such a way as to protect the long-term value of the business.

Risk and capital management continued

As at 30 June 2024, Rothesay had an SCR coverage ratio (**APM**) of 244% (HY2023: 309%, FY2023: 273%), giving us significant excess capital to write further new business. The solvency positions of the Group and RLP are summarised in the table below.

Solvency position of the Group and RLP	Group			RLP		
	HY2024 £m	HY2023 £m	FY2023 £m	HY2024 £m	HY2023 £m	FY2023 £m
Tier 1 capital	6,810	6,823	6,916	6,914	6,919	7,008
Tier 2 capital	2,135	1,323	1,402	2,135	1,323	1,402
Tier 3 capital	461	428	458	461	428	458
Own Funds available to meet SCR	9,406	8,574	8,776	9,510	8,670	8,868
Ineligible capital	(843)	(436)	(310)	(843)	(436)	(310)
Own Funds (APM) eligible to meet SCR	8,563	8,138	8,466	8,667	8,234	8,558
SCR	3,506	2,631	3,101	3,506	2,631	3,101
Surplus above SCR	5,057	5,507	5,365	5,161	5,603	5,457
SCR coverage (APM)	244%	309%	273%	247%	313%	276%
SCR coverage without transitional solvency relief	237%	282%	264%	240%	286%	267%

In June 2024, RLP issued £500m of GBP Tier 2 notes and \$325m of USD Tier 2 notes to provide additional capital for new business. Given Rothesay's solvency position and, in particular, the size of the SCR, some capital is not currently eligible as Own Funds to meet the SCR. However, as we continue to write new business, solvency capital requirements will increase and all the capital will become fully eligible.

On 5 August 2024 Rothesay announced its intention to call £400m of Tier 2 borrowings during September 2024. Had the debt been repaid on 30 June 2024 there would have been no impact on SCR coverage at Group or RLP level, as this Tier 2 capital is not eligible to be counted towards the SCR.

The Board approved the payment of an interim dividend of 23p per share on 9 August 2024. Had the dividend been recognised on 30 June 2024 then SCR coverage at Group and RLP would have reduced by 10% on a pro forma basis.

Given our robust solvency position, some of the new business written in 2023 and 2024 remains outside the Matching Adjustment fund in order to provide flexibility in transitioning assets to our long-term investment strategy. The business is eligible for inclusion in the Matching Adjustment fund and moving the business would improve both Own Funds and the SCR requirement because the Matching Adjustment could then be used in calculating the technical provisions.

The following table provides a breakdown of the SCR, post-diversification benefit, between modules. Insurance risk relates mainly to longevity risk. Market risk is dominated by spread risk, i.e. the risk that credit spreads widen. The change in the composition of the SCR during 2024 reflects the new business and reinsurance written along with new investments, offset by widening of long-term interest rates during the period.

Composition of SCR (%)	HY2024	HY2023	FY2023
Market risk	64	68	61
Insurance risk	24	20	27
Operational risk	6	6	6
Counterparty risk	6	6	6

Risk and capital management continued

An analysis of the change in surplus above SCR is shown in the following table. Surplus above SCR has decreased from £5,365m to £5,057m (after allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2024) with key drivers being the capital strain associated with new business written during the period plus the impact of being temporarily invested in gilts received as part of BPA transactions. This was offset by economic conditions, primarily the impact of increasing interest rates, and the increase in eligible debt capital contributing towards own funds. As with MCEV, following reinvestment of the gilts received as part of BPA transactions, Rothsay's solvency surplus is projected to improve.

Differences between IFRS accounting standards and Solvency II mean that management actions and changes in economic conditions can have very different impacts on the two bases. All numbers are shown net of tax impacts and allow, where relevant, for changes in transitional solvency relief.

Change in surplus	HY2024 £m	HY2023 £m	FY2023 £m
Opening surplus	5,365	4,904	4,904
Amortisation of 1/16th of transitional on 1 January	(25)	(52)	(52)
New business (on a fully invested basis)	(504)	(171)	(667)
Impact of temporarily being invested in gilts	(411)	30	151
Impact from investing prior year's premiums	63	—	—
Performance of in-force book	226	239	1,346
Non-economic assumption changes	9	37	104
Borrowing costs and RT1 coupons	(71)	(76)	(130)
Economic conditions	346	193	(438)
Impact of LACDT	(108)	11	113
New capital issuance	220	279	405
Impact of new business not in MA fund	(41)	(44)	(142)
Impact of not recalculating transitional	(12)	38	n/a
Dividend payment	n/a	n/a	(348)
Full internal model implementation	n/a	119	119
Surplus generation	(308)	603	461
Closing surplus	5,057	5,507	5,365

Viability and going concern

Viability statement

Rothesay's strategy and business model centres on long-term pension security for our policyholders. This focus leads management and the Board to consider the viability of Rothesay on an ongoing basis. The viability of Rothesay is linked to our ability to generate profits and maintain solvency and liquidity over a period of time.

Why we assess viability

The Board's assessment of viability is a central process within our risk management and strategic planning framework. Rothesay has been purpose-built to protect pensions and ensuring the Group remains viable is critical to protecting our policyholders' pensions.

The period we assess

Making a viability assessment requires the principal risks of the Group to be thoroughly understood and regularly updated for changes.

Rothesay's own views of risk and associated capital requirements have been investigated through the Own Risk and Solvency Assessment (ORSA), including consideration of the way in which future changes to Rothesay's risk profile and also external influences may impact on the Group's solvency needs and ability to execute the business plan. The ORSA, approved by the Board in January 2024, considers risks across a five-year time horizon and therefore it is felt appropriate for the viability assessment to be considered across the same time horizon. Rothesay recognises that the Group has policyholder liabilities which extend beyond the five-year horizon but considers that year-by-year projections beyond the five-year period are likely to be unreliable given everything that might happen in that time. However, given the projected financial position of the Group in five years' time on a range of scenarios, the Board does not consider there to be any going concern or viability issues beyond this timeframe.

How we assess viability

The ORSA includes a number of forward-looking scenarios intended to test the impact of stresses and scenarios that may impact Rothesay's ability to execute the business plan. Scenarios considered include shocks to new business (up and down), liquidity, financial markets (including the global financial crisis) and longevity. Financial market stresses are calibrated to ensure that they capture the potential impact of climate change on our investments. More details on point-in-time stress testing can be found in note E of the financial statements. The results demonstrate the robustness of Rothesay's solvency and provide insight into the way in which the business plan would need to be adapted to respond to adverse conditions. Management and the Board believe Rothesay is well capitalised on both a regulatory and economic capital basis.

Given the dynamic nature of the market, the strategic business plan is based on a period of five years and is prepared on a rolling basis and reviewed and approved by the Board. The business plan is refreshed if there are material changes to the business model or market environment. The business plan is centred around Rothesay's projected new business targets, with assumptions about pricing, reinsurance, longevity, investment strategy, revenue generation, expenses and leverage based on Rothesay's existing business and target operating model. In certain scenarios where there is very material new business growth, the plan also assumes that new equity would be provided by our shareholders. In the near term, IFRS pre-tax profits are largely driven by profit emergence on the Rothesay back book. New business then generates CSM which is released into IFRS profits over the longer term.

Our assessment of viability and going concern

Given Rothesay's significant surplus capital, the analysis showed that the Group can withstand very material adverse shocks. Based on the results of this analysis and consideration of viability, as the Group is holding surplus capital within its target operating range, the Board has a reasonable expectation that Rothesay will be able to continue in operation and meet its liabilities and obligations as they fall due over the five-year period of the assessment. The same analysis also informs the Board's assessment of Rothesay's ability to continue to adopt the going concern basis of accounting.

Report of the Directors

The Directors present their interim condensed consolidated financial statements for Rothesay Limited (the Company), registered number 08668809, for the period ended 30 June 2024. Rothesay Limited is the ultimate holding company of the Rothesay group of companies. Rothesay Limited is a registered limited company incorporated and domiciled in London, United Kingdom.

Comparative information has been presented for the period ended 30 June 2023 and the year ended 31 December 2023.

The Directors of Rothesay confirm that to the best of their knowledge these interim condensed consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and that the interim financial report includes a fair review of the information, namely:

- An indication of important events that have occurred during the six months ended 30 June 2024 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the six months ended 30 June 2024 and any material changes in the related-party transactions described in the last Annual Report.

During 2024 and up to the date of this report, the following changes to the Board took place:

- Charles Pickup stood down from the Board on 31 March 2024;
- Katherine Garner was appointed to the Board as an independent Non-Executive Director on 1 April 2024.

Post balance sheet event

On 5 August 2024, Rothesay announced its intention to call £400m of Tier 2 borrowings during September 2024.

On 9 August 2024, the Board approved a dividend of 23p per share. Had the dividend been paid on 30 June 2024 then the profit and loss reserve would have fallen by £352m to £2,708m.

Rothesay Limited

Board of Directors

Chairman

Naguib Kheraj

Executive Directors

Tom Pearce

Graham Butcher

Founder Non-Executive Director

Addy Loudiadis

Shareholder Non-Executive Directors

Tim Corbett

Geoff Craddock

Arjun Gupta

Robin Jarratt

Independent Non-Executive Directors

Lisa Arnold

Angela Darlington

Katherine Garner

Ed Giera

Heather Jackson

Terry Miller

Sophie O'Connor

The financial statements were authorised for issue by the Board of Directors on 9 August 2024.

ON BEHALF OF THE BOARD



Tom Pearce
Chief Executive Officer
9 August 2024

Section

3

Financial statements

> In this section

Condensed consolidated statement of comprehensive income	25
Condensed consolidated statement of financial position	26
Condensed consolidated statement of changes in equity	27
Condensed consolidated cash flow statement	29
Notes to the financial statements	30
Alternative Performance Measures	82
Glossary of terms	86



The financial statements set out the consolidated results for Rothsay Limited and its subsidiaries for the period ended 30 June 2024.



Condensed consolidated statement of comprehensive income

For the period ended 30 June 2024

	Notes	HY2024 £m	HY2023 £m	FY2023 £m
Insurance revenue	B.1	1,841	1,484	3,127
Insurance service expense	B.1	(1,558)	(1,287)	(2,658)
Net expense from reinsurance contracts held	B.1	(61)	(21)	(49)
Insurance service result		222	176	420
Total investment (loss)/return	B.2	(961)	306	5,100
Finance income/(expense) for insurance contracts issued	B.2	1,154	113	(4,380)
Finance (expense)/income for reinsurance contracts held	B.2	(65)	(40)	391
Net insurance finance result		1,089	73	(3,989)
Net insurance and investment result		350	555	1,531
Operating expenses	B.3	(38)	(47)	(118)
Finance costs	B.4	(291)	(248)	(507)
Profit before tax		21	260	906
Income tax expense	B.5	(8)	(61)	(213)
Profit for the period/year		13	199	693

	Note	HY2024 £m	HY2023 £m	FY2023 £m
Profit for the financial period/year		13	199	693
Other comprehensive income/(loss):				
Items that are or may be reclassified to profit or loss		—	—	—
Currency translation:				
Losses from translation of foreign operations		—	—	(1)
Cash flow hedges:				
Fair value gains/(losses) during the period/year	C.4	1	7	(3)
Total comprehensive income for the period/year		14	206	689

All income and expenses are related to continuing operations. As at 30 June 2023 £14m has been reclassified from insurance liability to payables reducing the insurance liability from £41,345m to £41,331m.

Notes A-I form an integral part of these financial statements.

Condensed consolidated statement of financial position

As at 30 June 2024

	Notes	HY2024 £m	HY2023 £m	FY2023 £m
Assets				
Property, plant and equipment		38	23	27
Lease – right-of-use assets		54	29	57
Financial investments	D.1	111,602	95,006	98,968
Deferred tax asset	G.1	615	679	658
Reinsurance contract assets	E.2	163	73	216
Accrued interest and prepayments		925	700	870
Receivables		2,881	1,577	2,013
Cash and cash equivalents		283	217	267
Assets held for sale	D.2	18	—	127
Total assets		116,579	98,304	103,203
Equity and liabilities				
Equity				
Share capital	C.1	3	3	3
Share premium	C.4	507	507	507
Tier 1 notes	C.3	793	793	793
Employee scheme treasury shares and share-based payment reserve	C.2	(150)	(148)	(150)
Other reserves	C.4	134	143	133
Profit and loss reserve	C.4	3,060	2,941	3,065
Total equity		4,347	4,239	4,351
Liabilities				
Insurance contract liabilities	E.1	61,242	41,331	54,630
Reinsurance contract liabilities	E.2	434	849	461
Payables and financial investment liabilities	D.3	47,253	49,459	41,281
Leasehold liabilities		67	42	72
Borrowings	D.4	3,006	2,246	2,248
Accruals		230	138	160
Total liabilities		112,232	94,065	98,852
Total equity and liabilities		116,579	98,304	103,203

Notes A–I form an integral part of these financial statements. As at 30 June 2023 £14m has been reclassified from insurance liability to payables reducing the insurance liability from £41,345m to £41,331m.

The financial statements on pages 25 to 81 were approved by the Board of Directors on 9 August 2024 and signed on its behalf by:



Tom Pearce
Chief Executive Officer

9 August 2024
Company number 08668809

Condensed consolidated statement of changes in equity

For the period ended 30 June 2024

	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Employee scheme treasury shares and share-based payment reserve £m	Profit and loss reserve £m	Other reserves £m	Total equity £m
As at 1 January 2024		3	507	793	(150)	3,065	133	4,351
Profit for the period	C.4	—	—	—	—	13	—	13
Tier 1 note coupon	C.3, C.4	—	—	—	—	(23)	—	(23)
Tier 1 coupon tax relief	C.3, C.4	—	—	—	—	5	—	5
Effective portion of changes in fair value of cash flow hedges	C.4	—	—	—	—	—	1	1
As at 30 June 2024		3	507	793	(150)	3,060	134	4,347

For the period ended 30 June 2023

	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Employee scheme treasury shares and share-based payment reserve £m	Profit and loss reserve £m	Other reserves £m	Total equity £m
As at 1 January 2023		3	507	793	(143)	2,760	137	4,057
Profit for the period	C.4	—	—	—	—	199	—	199
Currency translation	C.4	—	—	—	—	—	(1)	(1)
Tier 1 note coupon	C.3, C.4	—	—	—	—	(23)	—	(23)
Tier 1 coupon tax relief	C.3, C.4	—	—	—	—	5	—	5
Effective portion of changes in fair value of cash flow hedges	C.4	—	—	—	—	—	7	7
Share-based payments	C.2, C.4	—	—	—	(5)	—	—	(5)
As at 30 June 2023		3	507	793	(148)	2,941	143	4,239

Condensed consolidated statement of changes in equity *continued*

For the year ended 31 December 2023

	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Employee scheme treasury shares and share-based payment reserve £m	Profit and loss reserve £m	Other reserves £m	Total equity £m
As at 1 January 2023		3	507	793	(143)	2,760	137	4,057
Profit for the year	C.4	—	—	—	—	693	—	693
Currency translation	C.4	—	—	—	—	—	(1)	(1)
Tier 1 note coupon	C.3, C.4	—	—	—	—	(47)	—	(47)
Tier 1 coupon tax relief	C.3, C.4	—	—	—	—	10	—	10
Effective portion of changes in fair value of cash flow hedges	C.4	—	—	—	—	—	(3)	(3)
Dividends paid	C.4, C.5	—	—	—	—	(351)	—	(351)
Share-based payments	C.2	—	—	—	(7)	—	—	(7)
As at 31 December 2023		3	507	793	(150)	3,065	133	4,351

Other reserves as at 30 June 2024 includes a hedging reserve of £2m (HY2023: £11m; FY2024: £1m) and the reorganisation reserve of £132m (HY2023: £132m; FY2024: £132m) (which reflects the impact of Rothsay's reorganisation in 2013, specifically the excess of consolidated net assets to the historical cost of investment in subsidiary entities) (see note C.4).

Condensed consolidated cash flow statement

For the period ended 30 June 2024

	Notes	HY2024 £m	HY2023 £m	FY2023 £m
Cash flows from operating activities				
Profit for the period/year		13	199	693
Adjustments for non-cash movements in net profit for the period/year				
Hedging reserve	C.4	1	7	(3)
Currency translation	C.4	—	(1)	(1)
Exchange rate movement on USD borrowings		2	(19)	(19)
Amortisation of debt cost	B.4	2	2	4
Property, plant and equipment depreciation		1	1	3
Lease – right-of-use assets depreciation		3	1	4
Financing charge on leasehold liabilities		2	1	2
Employee benefit trust		(12)	(5)	6
Share-based payment		12	—	(14)
Interest income	B.2	(1,454)	(1,091)	(2,331)
Interest expense	B.4	286	243	499
Income tax (credit)/expense	B.5	(35)	29	157
Net (increase)/decrease in operational assets				
Financial investments	D.1	(12,634)	(4,078)	(8,039)
Deferred tax asset	G.1	43	34	55
Reinsurance contract assets	E.2	53	(20)	(162)
Receivables		(805)	549	94
Prepayments		(29)	44	55
Assets held for sale	D.2	109	—	(127)
Net increase/(decrease) in operational liabilities				
Insurance contract liabilities	E.1	6,612	360	13,659
Reinsurance contract liabilities	E.2	(27)	1	(387)
Financial investment liabilities	D.3	5,996	2,574	(5,775)
Other payables	D.3	80	(301)	(236)
Accrued expenses		12	(10)	8
Cash flows used in operating activities				
Interest paid		(228)	(192)	(445)
Interest received		1,425	1,153	2,212
Taxes paid		(127)	—	—
Net cash flows used in operating activities				
Cash flows generated from financing activities				
Interest payments on Tier 1 notes	C.3	(23)	(23)	(47)
Cash outflows for leases		(5)	(3)	(3)
Proceeds from issuance of debt (net of issuance costs)	D.4	754	498	498
Dividends paid	C.5	—	—	(351)
Net cash flows generated from financing activities				
Net cash outflows used in investing activities				
Acquisitions of property, plant and equipment		(11)	(6)	(12)
Net cash outflows used in investing activities				
Net increase/(decrease) in cash and cash equivalents				
Cash and cash equivalents at 1 January		267	270	270
Cash and cash equivalents at 30 June/31 December				
		283	217	267

Notes to the financial statements

Note A – Material accounting policy information

A.1 Basis of preparation and consolidation

The interim condensed consolidated financial statements of Rothesay for the six-month period ended 30 June 2024 have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards. The financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting'.

These condensed consolidated interim financial statements do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. These financial statements have been reviewed, not audited. Statutory financial statements for the year ended 31 December 2023 were approved by the Board of Directors on 9 February 2024 and delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The interim condensed consolidated financial statements do not include all of the notes included in the annual financial report. Accordingly, this report should be read in conjunction with the annual report and accounts for the year ended 31 December 2023, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards.

During the preparation of the interim condensed consolidated financial statements, Rothesay selects accounting policies and makes estimates and assumptions that impact on the items reported and their presentation. The Audit Committee reviews the reasonableness of these judgements and assumptions as well as the appropriateness of the accounting policies applied. Judgements are decisions which management has made in the process of applying Rothesay's accounting policies. Key considerations of the standard include:

- Assessment of the significance of insurance risk transferred to Rothesay in determining whether a contract should be accounted for as an insurance or investment contract (see note A.2).
- Assessment of the level of aggregation of insurance and reinsurance contracts which includes identifying portfolios of contracts and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently (see note E).
- The method used to measure the risk adjustment for non-financial risk (see note E.7(e)).
- The method used to measure the coverage units for both immediate and deferred annuities provided under insurance contracts (see note E.6).

Estimates are based on evidence available at the accounting date and opinions provided by subject matter experts. Actual results may vary from the estimates provided. As new facts become available estimates will be updated. Items considered particularly susceptible to changes in estimates are noted below:

- Fair value of financial investments where quoted market prices are not available (see note D.1).
- Measurement of (re)insurance contract liabilities (see note E).

The Directors have considered the appropriateness of adopting the going concern basis for the preparation of the interim financial statements. The Board has considered forward-looking scenarios intended to test the impact of stresses and scenarios that may impact Rothesay's ability to execute its business plan. The results demonstrate the robustness of Rothesay's solvency. Management and the Board believe Rothesay is well capitalised on both a regulatory and economic capital basis and therefore the Board believes it is appropriate to continue to adopt the going concern basis of accounting (see Viability and going concern section).

The interim condensed consolidated financial statements of Rothesay are presented in sterling (£) rounded to the nearest million (£m) except where otherwise stated.

Notes to the financial statements **continued**

Note A – Material accounting policy information (continued)

A.1 Basis of preparation and consolidation (continued)

Rothesay presents its interim condensed consolidated statement of financial position broadly in order of liquidity.

Assets and liabilities are offset and the net amount reported in the condensed consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the interim condensed consolidated income statement unless required or permitted by IFRS.

There is no seasonality or cyclicity in Rothesay's business operations.

All of Rothesay's business risks and returns are within one business segment (i.e. long-term insurance annuities business). This includes the premiums generated on inwards reinsurance contracts; refer to note B for Rothesay's total insurance revenue. Rothesay's insurance operations are within the United Kingdom.

A.2 Contract classification

Contracts under which Rothesay accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder are classified as insurance contracts. Rothesay has classified its policyholder contracts as insurance contracts based on a contract-by-contract assessment of substantive rights and obligations. Rothesay uses judgement to assess whether a contract transfers significant insurance risk and whether the transferred insurance risk is significant by considering scenarios with commercial substance in which Rothesay has the possibility of a significant loss. For Rothesay, the most material such risk is longevity risk, i.e. the risk that the policyholder lives for longer than expected. Unless otherwise stated, insurance contracts issued also includes reinsurance contracts issued by Rothesay.

Contracts that do not transfer significant insurance risk are investment contracts. Rothesay does not have any investment contracts.

Lifetime mortgages are not considered to be insurance contracts and have been classified as financial investments in accordance with IFRS 9.

A.3 Accounting policies and changes in accounting policies

The following amendments to existing standards are effective on 1 January 2024:

Amendments to IAS 1, Presentation of Financial Statements

These amendments to classification of liabilities as current or non-current, and non-current liabilities with covenants clarify that the classification of liabilities as current or non-current is based solely on a company's right to defer settlement for at least 12 months at the reporting date. The right needs to exist at the reporting date and must have substance. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions. These amendments are not expected to have any impact on Rothesay.

Amendments to IFRS 16, Leases

These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all of the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. These amendments are not expected to have any impact on Rothesay.

Amendment to IAS 7, Statement of Cash Flows and IFRS 7, Financial Instruments: Disclosures

These amendments require an entity to disclose qualitative and quantitative information about its supplier finance programmes and their effects on a company's liabilities, cash flows and exposure to liquidity risk. These amendments are not expected to have any impact on Rothesay.

Notes to the financial statements **continued**

Note A – Material accounting policy information (continued)

A.3 Accounting policies and changes in accounting policies (continued)

New amendments to existing standards that are not yet effective during the period:

Amendments to IAS 21, Foreign Exchange

The amendments impact an entity when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. These amendments are effective for reporting periods beginning on or after 1 January 2025. These amendments are not expected to have any impact on Rothestay.

Amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures

The amendments to the classification and measurement of financial instruments address matters identified during the post-implementation review of the classification and measurement requirements of IFRS 9. The amendments are effective for reporting periods beginning on or after 1 January 2026. These amendments are not expected to have any impact on Rothestay.

Notes to the financial statements continued

Note B – Income statement notes

B.1 Insurance revenue and insurance service results

Analysis of the total insurance revenue, insurance service expenses, and net expense from reinsurance contracts held recognised during the period is shown in the following tables. Note that Rothesay has not written any onerous insurance contracts nor have any insurance contracts become onerous during the period. Consequently, Rothesay has not recognised any losses from onerous insurance contracts in the profit or loss.

	HY2024 £m	HY2023 £m	FY2023 £m
Insurance revenue			
Amounts relating to changes in liabilities for remaining coverage:			
– Expected insurance service expense incurred during the period/year	1,538	1,275	2,648
– Change in the risk adjustment for non-financial risk	5	4	8
– CSM recognised in profit or loss for the services provided during the period/year	276	191	442
Allocation of the portion of premiums that relate to the recovery of insurance acquisition cash flows	22	14	29
Total insurance revenue	1,841	1,484	3,127
Insurance service expense			
Incurred claims and other incurred insurance service expenses	(1,536)	(1,273)	(2,629)
Adjustments to liabilities for incurred claims	—	—	—
Amortisation of insurance acquisition cash flows	(22)	(14)	(29)
Total insurance service expense	(1,558)	(1,287)	(2,658)
Insurance service result before reinsurance contracts held	283	197	469
Net expense from reinsurance contracts held			
Amounts relating to changes in liabilities for remaining coverage:			
– Expected recovery for insurance service expenses incurred during the period/year	(1,205)	(1,037)	(2,132)
– Change in the risk adjustment for non-financial risk	—	—	—
– Net cost recognised in profit or loss for the services received	(49)	(19)	(43)
– Amounts relating to recovery in insurance acquisition cash flows	2	1	2
Total allocation of reinsurance premiums paid	(1,252)	(1,055)	(2,173)
Amounts recoverable for claims and other expenses incurred during the period/year	1,193	1,035	2,126
Amounts relating to recovery in insurance acquisition cash flows	(2)	(1)	(2)
Amounts recoverable from reinsurers	1,191	1,034	2,124
Total net expense from reinsurance contracts held	(61)	(21)	(49)
Total insurance service result	222	176	420

Notes to the financial statements continued

Note B – Income statement notes (continued)

B.2 Investment return and net insurance finance income/(expense)

Net foreign exchange income/(expense) is not shown in the table below because it is not material.

	HY2024 £m	HY2023 £m	FY2023 £m
Interest income on financial investments at FVTPL	1,454	1,091	2,331
Unrealised (losses)/gains on financial investments and liabilities at FVTPL	(2,429)	(1,049)	3,312
Realised gains/(losses) on financial investments and liabilities at FVTPL	41	297	(482)
Investment management expenses	(27)	(33)	(61)
Total investment (loss)/return	(961)	306	5,100
Finance income/(expense) from insurance contracts issued			
Interest accreted to insurance contracts using current financial assumptions on fulfilment cash flows	(1,244)	(874)	(1,878)
Interest accreted to insurance contracts using locked-in rate on the CSM	(83)	(54)	(112)
Effects of changes in interest rates and other financial assumptions	2,481	1,041	(2,390)
Total finance income/(expense) from insurance contracts issued	1,154	113	(4,380)
Finance (expense)/income from reinsurance contracts held			
Interest accreted to reinsurance contracts using current financial assumptions on fulfilment cash flows	(88)	(82)	(157)
Interest accreted to reinsurance contracts using locked-in rate on the CSM	5	4	5
Effects of changes in interest rates and other financial assumptions	19	38	543
Effect of changes in non-performance risk of reinsurers	(1)	—	—
Total finance (expense)/income from reinsurance contracts held	(65)	(40)	391
Total net insurance finance income/(expense)	1,089	73	(3,989)
Represented by:			
Amounts recognised in profit or loss	128	379	1,111
Amounts recognised in other comprehensive income	—	—	—

Given the approach to interest rate hedging, Rothsay is effectively over-hedged on an IFRS 17 basis. In the first half of 2024, long-term interest rates were higher driving losses (unrealised loss) on the financial investments.

Notes to the financial statements continued

Note B – Income statement notes (continued)

B.3 Operating expenses

Operating expenses are presented net of expenses attributed to insurance acquisition cash flows and other directly attributable expenses incurred by Rothesay relating to the fulfilment of the group of insurance contracts in the reporting period. Directly attributable expenses are included in measurement of fulfilment cash flows of the group of insurance contracts and recognised in insurance service expenses as incurred. Costs that are not directly attributable to a portfolio of insurance contracts are recognised in operating expenses as incurred.

The costs of acquiring new business are treated as insurance acquisition cash flows which are amortised in the insurance service expense over time. Where costs are incurred on business that is expected to be written in a subsequent period, an insurance acquisition asset is established.

Expenses can be broken down as follows:

	HY2024 £m	HY2023 £m	FY2023 £m
Attributable acquisition costs	96	66	161
Fulfilment cash flows	39	31	64
Non-attributable costs	38	47	118
Expenses	173	144	343

Non-attributable costs (shown as operating expenses in the statement of comprehensive income) can be broken down between reinsurance fees, property, plant and equipment and right-of-use assets depreciation, and other non-attributable costs. Reinsurance fees can be positive or negative as this amount represents the change in provisions relating to such fees.

	HY2024 £m	HY2023 £m	FY2023 £m
Reinsurance fees	(1)	(3)	(3)
Property, plant and equipment depreciation	1	—	3
Lease – right-of-use assets depreciation	3	—	4
Other non-attributable costs	35	50	114
Operating expenses	38	47	118

An insurance acquisition asset was established in 2022 (FY2023: nil, HY2024: nil) which was derecognised and included in the measurement of the group of insurance contracts in 2023. The table below shows the movement in the value of that asset. No insurance acquisition asset was held at HY2024 as all acquisition cashflows were derecognised and included in the measurement of insurance contracts.

	HY2024 £m	HY2023 £m	FY2023 £m
Opening insurance acquisition asset	—	40	40
Acquisition cash flows during the period/year	96	66	161
Amounts derecognised and included in the measurement of insurance contracts	(96)	(24)	(201)
Closing insurance acquisition asset	—	82	—

Notes to the financial statements continued

Note B – Income statement notes (continued)

B.4 Finance costs

	HY2024 £m	HY2023 £m	FY2023 £m
Interest payable on collateral	130	131	268
Interest payable on collateralised agreements and financing	89	62	116
Total interest payable on collateral and collateralised agreements	219	193	384
Interest payable on borrowings from related parties	9	9	18
Interest payable on third party borrowings	61	45	103
Financing charge on leasehold liability	2	1	2
Total borrowing costs	72	55	123
Net finance costs	291	248	507

Debt issuance expenses associated with the issue of subordinated loans are recognised over the term of the loan within interest payable.

B.5 Income tax

The major components of income tax expense/(credit) for the periods ended 30 June 2024, 30 June 2023 and the financial year 31 December 2023 are set out below.

	HY2024 £m	HY2023 £m	FY2023 £m
Current income tax:			
UK corporation tax	—	29	157
Loss carry back to prior period	(31)	—	—
Adjustment in respect of prior period	(4)	—	—
Total current income tax	(35)	29	157
Deferred tax:			
Origination and reversal of temporary differences	38	32	56
Adjustment in respect of prior period	5	—	—
Total deferred tax	43	32	56
Total tax in the interim condensed consolidated statement of comprehensive income	8	61	213

Notes to the financial statements continued

Note B – Income statement notes (continued)

B.5 Income tax expense (continued)

The tax expense in the consolidated statement of comprehensive income for the financial period and the standard rate of corporation tax in the UK of 25.00% (HY2023: 23.52%, FY2023: 23.52%) is reconciled below:

	HY2024 £m	HY2023 £m	FY2023 £m
Profit on ordinary activities before taxation	21	260	906
Tax calculated at UK standard rate of corporation tax of 25% (2023: 23.52%)	5	61	213
Impact of tax losses carried back at lower tax rate	2	—	—
Permanent differences	1	—	—
Total tax expense reported in the interim condensed consolidated statement of comprehensive income	8	61	213

The Group has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

On 20 June 2023, the Government of the United Kingdom, where the Company is incorporated, substantively enacted the Pillar Two income taxes legislation effective from 1 January 2024. Under the legislation, the parent company will be required to pay, in the United Kingdom, top-up tax on profits of its subsidiaries that are taxed at an effective tax rate of less than 15%. The Group does not currently generate profits in jurisdictions at rates of below 15% therefore the Group is not currently expecting a cost to arise as a result of this legislative change. This information is based on the profits and tax expense determined as part of the preparation of the Group's consolidated financial statements.

The Group is continuing to assess the impact of the Pillar Two income taxes legislation on its future financial performance and does not currently expect Pillar Two income taxes legislation to have a material impact on its future financial performance.

Notes to the financial statements continued

Note C – Equity

C.1 Share capital

At 30 June 2024, 30 June 2023 and 31 December 2023 the share capital of Rothsay Limited comprised:

	HY2024		HY2023		FY2023	
	No.	£m	No.	£m	No.	£m
Ordinary share capital of £0.002 each	1,547,867,965	3.1	1,547,867,965	3.1	1,547,867,965	3.1
Ordinary share capital of £0.001 each	1	—	1	—	1	—
Authorised and issued share capital	1,547,867,966	3.1	1,547,867,966	3.1	1,547,867,966	3.1

No changes have been made to equity share capital in the first half of 2024 or during the year ended 2023.

The ordinary shares issued are analysed into the following categories:

	HY2024		HY2023		FY2023	
	No.	£m	No.	£m	No.	£m
A £0.002 ordinary	1,513,673,632	3.0	1,513,673,632	3.0	1,513,673,632	3.0
B £0.002 ordinary	34,194,333	0.1	34,194,333	0.1	34,194,333	0.1
D £0.001	1	—	1	—	1	—
Total	1,547,867,966	3.1	1,547,867,966	3.1	1,547,867,966	3.1

The A and B shares entitle the holder to participate in dividends. All ordinary shares entitle the holder to share in the proceeds of the winding up of the Company in proportion to the number of, and amounts paid on, the shares held. Only the A and D shares have full voting rights. The B ordinary shares have limited voting rights. All classes of shares have been fully paid.

C.2 Employee scheme treasury shares and share-based payment reserve

The Rothsay Employee Share Trust (EBT) was established to purchase and hold shares of the Company for delivery of employee share schemes. Shares owned by the EBT are included at cost in the consolidated statement of financial position and are shown as a deduction from shareholders' equity. Gains and losses on sale of shares are charged or credited to the share-based payment reserve in equity. They are disclosed as employee scheme shares until they vest. The table below provides an analysis of the movement in the number of B ordinary shares held by the EBT.

Number of shares	HY2024 No.	HY2023 No.	FY2023 No.
At 1 January	19,013,488	21,212,847	21,212,847
Shares acquired from employees	962,114	366,524	371,925
Shares transferred to the ESIP Trust	(298,927)	(321,260)	(380,066)
Shares issued to employees as RSUs vest	(2,204,254)	(2,191,218)	(2,191,218)
At financial statement date	17,472,421	19,066,893	19,013,488

On 28 March 2024, the EBT purchased 932,256 B ordinary shares for consideration of £4.1m. During 2024, it acquired 29,858 (HY2023: 4,605, FY2023: 10,006) B ordinary shares from employees leaving employment.

Notes to the financial statements continued

Note C – Equity (continued)

C.2 Employee scheme treasury shares and share-based payment reserve (continued)

The Rothesay Life UK Employee Share Incentive Plan (ESIP) has also been established. The plan has been structured to operate within specific rules set by HM Revenue & Customs. A new employee benefit trust was established to support the ESIP (the ESIP Trust). During the period, the Trust transferred 298,927 shares to the ESIP Trust (HY2023: 321,260, FY2023: 380,066 shares). These shares are held in trust for participating employees in accordance with the ESIP rules. Shares owned by the ESIP Trust are included at cost in the consolidated statement of financial position and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme shares until they are withdrawn.

The table below provides an analysis of the movement in the number of B ordinary shares held by the ESIP Trust.

Number of shares	HY2024 No.	HY2023 No.	FY2023 No.
At 1 January	1,120,107	750,081	750,081
Shares forfeited by employees	—	(3,567)	—
Shares acquired by employees	(11,700)	—	—
Shares transferred to employees	(16,163)	—	(10,040)
Shares transferred from the EBT Trust	298,927	321,260	380,066
At financial statement date	1,391,171	1,067,774	1,120,107

During 2024, the Trust transferred 16,163 (HY2023: nil, FY2023: 10,040) B ordinary shares to employees leaving employment.

The table below details the movement in both the employee benefit trust and the share-based payment reserve.

	Employee benefit trust £m	Share-based payment reserve £m
1 January 2024	(58)	(93)
Equity amortisation and fair value movement	—	4
Employee share buy back	(4)	—
Equity vesting and transfers	(8)	8
30 June 2024	(70)	(81)

	Employee benefit trust £m	Share-based payment reserve £m
1 January 2023	(63)	(80)
Equity amortisation and fair value movement	—	(4)
Employee share buy back	(2)	—
Equity vesting and transfers	7	(7)
30 June 2023	(58)	(91)

Notes to the financial statements continued

Note C – Equity (continued)

C.2 Employee scheme treasury shares and share-based payment reserve (continued)

	Employee benefit trust £m	Share-based payment reserve £m
1 January 2023	(63)	(80)
Equity amortisation and fair value movement	—	(6)
Employee share buy back	(1)	—
Equity vesting and transfers	7	(7)
31 December 2023	(57)	(93)

C.3 Restricted Tier 1 notes – sterling

The table below provides a summary of Rothsay's sterling-denominated RT1 notes:

Notional amount	Issue date	Callable at par at the option of the Group from	Coupon	Carrying amount		
				HY2024 £m	HY2023 £m	FY2023 £m
Loan notes issued through public debt markets						
£350m	12 September 2018	12 September 2028	6.875%	347	347	347
£450m	13 October 2021	13 October 2031	5%	446	446	446
				793	793	793

Rothsay has the option to cancel the principal or coupon payment on all RT1 notes which becomes mandatory cancellable upon breach or non-compliance with RLP's SCR, a breach of the minimum capital requirement (MCR) or where Rothsay has insufficient distributable reserves.

The full principal amount of each note is irrevocably and automatically reduced to zero on a permanent basis if RLP determines at any time that:

- i) eligible Own Fund items are less than or equal to 75% of the SCR;
- ii) eligible Own Fund items are less than or equal to 100% of the MCR; or
- iii) a breach of the SCR has occurred and has not been remedied within three months.

Then either:

- i) in the case of the £350m of RT1 notes (issued on 12 September 2018), the full principal amount of each note issued is irrevocably and automatically reduced to zero on a permanent basis; or
- ii) in the case of the £450m of RT1 notes (issued on 13 October 2021) the notes convert into a new class B of non-voting ordinary shares of RLP.

Notes to the financial statements continued

Note C – Equity (continued)

C.4 Share premium account and reserve

	Share premium £m	Profit and loss reserve £m	Hedging reserve £m	Translation reserve £m	Reorganisation reserve £m
Balances as at 1 January 2024	507	3,065	1	—	132
Profit for the financial period	—	13	—	—	—
Effective portion of changes in fair value of cash flow hedges	—	—	1	—	—
Tier 1 note coupon	—	(23)	—	—	—
Tier 1 note coupon tax relief	—	5	—	—	—
Balances as at 30 June 2024	507	3,060	2	—	132

	Share premium £m	Profit and loss reserve £m	Hedging reserve £m	Translation reserve £m	Reorganisation reserve £m
Balances as at 1 January 2023	507	2,760	4	1	132
Profit for the financial period	—	199	—	—	—
Effective portion of changes in fair value of cash flow hedges	—	—	7	—	—
Currency translation	—	—	—	(1)	—
Tier 1 note coupon	—	(23)	—	—	—
Tier 1 note coupon tax relief	—	5	—	—	—
Balances as at 30 June 2023	507	2,941	11	—	132

	Share premium £m	Profit and loss reserve £m	Hedging reserve £m	Translation reserve £m	Reorganisation reserve £m
Balances as at 1 January 2023	507	2,760	4	1	132
Profit for the financial year	—	693	—	—	—
Dividends paid	—	(351)	—	—	—
Effective portion of changes in fair value of cash flow hedges	—	—	(3)	—	—
Currency translation	—	—	—	(1)	—
Tier 1 note coupon	—	(47)	—	—	—
Tier 1 note coupon tax relief	—	10	—	—	—
Balances as at 31 December 2023	507	3,065	1	—	132

Notes to the financial statements **continued**

Note C – Equity (continued)

C.4 Share premium account and reserve (continued)

Hedging reserve

Foreign currency exposure arises on the \$400m RT1 notes and \$325m Tier 2 notes, and the associated coupon payments (see note D.4). The risk arises from the fluctuation in exchange rates, which would cause volatility in the biannual coupon payments and the principal repayment.

As part of Rothesay's foreign currency risk management objective, cash flow hedges were put in place to remove the volatility caused by exchange rate movements, using bespoke fixed-for-fixed cross currency swaps. The swaps are designated as hedges of probable forecasted transactions, being the foreign currency sterling costs of the coupons and principal payments.

Rothesay determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currencies, interest rates, amounts and timing of their respective cash flows. Rothesay assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item under the hypothetical derivative method. It is Rothesay's policy to align the critical terms of the hedging instruments or the swaps with the hedged items or the USD notes. As the hedging instruments were bespoke derivatives, the hedge relationship is assessed to be highly effective and any ineffectiveness is expected to be immaterial.

The total fair value of the currency swap hedging instruments is £29m as at 30 June 2024 (HY2023: £38m, FY2023: £25m) with total nominal amounts of £546m as at 30 June 2024 (HY2023: £291m, FY2023: £291m). The currency swaps are included in the derivative assets as part of the total financial investments (see note D.1).

C.5 Dividends on ordinary shares

The Directors have recommended no payment of interim dividends during the period ended 30 June 2024 (HY2023: £nil; FY2023: £351m). The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2023. The Board approved the payment of an interim dividend on 9 August 2024, the size of the payment is 23p per share (see note I.3).

Notes to the financial statements continued

Note D – Financial assets and liabilities

D.1 Financial investments

Rothesay's financial assets and liabilities are grouped into the following categories:

	HY2024 £m	HY2023 £m	FY2023 £m
Financial investments designated at FVTPL	66,777	48,485	59,139
Financial investments mandatorily measured at FVTPL	44,825	46,521	39,829
Total financial investments at FVTPL	111,602	95,006	98,968
Accrued interest at amortised cost	705	497	677
Receivables at amortised cost	2,881	1,577	2,013
Cash and cash equivalents at amortised cost	283	217	267
Total other financial assets at amortised cost	3,869	2,291	2,957
Total financial assets	115,471	97,297	101,925
Financial liabilities designated at FVTPL	3,019	3,199	2,969
Financial liabilities mandatorily measured at FVTPL	38,939	41,112	32,993
Total financial liabilities at FVTPL	41,958	44,311	35,962
Payables at amortised cost	5,295	5,148	5,319
Borrowings at amortised cost	3,006	2,246	2,248
Accrued interest at amortised cost	172	109	114
Total other financial liabilities at amortised cost	8,473	7,503	7,681
Total financial liabilities	50,431	51,814	43,643

Determination of fair value and fair value hierarchy

Rothesay uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: inputs are unadjusted quoted prices in active markets to which Rothesay had access at the measurement date for identical unrestricted assets and liabilities;
- Level 2: inputs to valuation techniques are observable either directly or indirectly; and
- Level 3: one or more inputs to valuation techniques are significant and unobservable.

The fair value of certain debt securities classified as Level 3 instruments is determined using inputs that are not based on observable market data. One of the most significant inputs is liquidity premiums. The valuation model discounts future cash flows using interest rate swap curves in addition to a spread to reflect the associated credit risk and liquidity premiums.

When assessing the fair value of our Level 3 financial investments, we consider and allow for the extent to which the investments may be vulnerable to climate change, either because of vulnerability to physical climate risk or the risk of being stranded assets in the drive to net zero carbon emissions. The valuation of Level 1 and Level 2 financial investments is also assumed to allow for climate change exposure.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

The following tables show an analysis of financial investments recorded at fair value by level of the fair value hierarchy for HY2024, HY2023 and FY2023 (please refer to note D.3 for financial liabilities):

30 June 2024	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	7,778	—	118	7,896
Government sub-sovereign and agency obligations	12,647	7,491	—	20,138
Corporate bonds and other corporate debt	—	31,647	1,156	32,803
Collateralised agreements and financing	—	62	—	62
Loans secured on property	—	103	5,641	5,744
Certificates of deposit	—	134	—	134
Financial investments designated at FVTPL	20,425	39,437	6,915	66,777
Derivative assets	—	36,683	1,704	38,387
Lifetime mortgages	—	—	6,438	6,438
Financial investments mandatorily measured at FVTPL	—	36,683	8,142	44,825
Total financial investments measured at FVTPL	20,425	76,120	15,057	111,602
Assets held for sale	—	—	18	18
Total assets measured at fair value	20,425	76,120	15,075	111,620

30 June 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	5,468	—	—	5,468
Government sub-sovereign and agency obligations	5,853	6,857	—	12,710
Corporate bonds and other corporate debt	—	23,486	785	24,271
Collateralised agreements and financing	—	63	—	63
Loans secured on property	—	100	5,743	5,843
Certificate of deposit	—	130	—	130
Financial investments designated at FVTPL	11,321	30,636	6,528	48,485
Derivative assets	—	39,186	1,819	41,005
Lifetime mortgages	—	—	5,516	5,516
Financial investments mandatorily measured at FVTPL	—	39,186	7,335	46,521
Total assets measured at fair value	11,321	69,822	13,863	95,006

Notes to the financial statements **continued**

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

31 December 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	4,238	—	157	4,395
Government sub-sovereign and agency obligations	12,328	7,555	—	19,883
Corporate bonds and other corporate debt	—	27,394	817	28,211
Collateralised agreements and financing	—	63	—	63
Loans secured on property	—	103	6,344	6,447
Certificates of deposit	—	140	—	140
Financial investments designated at FVTPL	16,566	35,255	7,318	59,139
Derivative assets	—	31,723	1,894	33,617
Lifetime mortgages	—	—	6,212	6,212
Financial investments mandatorily measured at FVTPL	—	31,723	8,106	39,829
Total financial investments measured at FVTPL	16,566	66,978	15,424	98,968
Assets held for sale	—	—	127	127
Total assets measured at fair value	16,566	66,978	15,551	99,095

Rothsay discloses offsetting derivative asset and derivative liability contracts separately in line with IAS 32 requirements and the value of both has increased significantly during the period due to changes in economic conditions. However, the movement in the value of derivative assets is offset by the movement in the value of derivative liabilities such that on a net basis the value of derivatives decreased by £1,176m during the first half of 2024 (HY2023: fell by £118m, FY2023: increased by £613m).

Collective investment schemes represent money market funds with same-day liquidity. Rothsay utilises these funds as an additional form of financial investment to back insurance contract liabilities. In the first half of 2024, there were other investments in funds which are classified within collective investment schemes which are classified as level 3 assets. Approximately 14% (HY2023: 15%, FY2023: 16%) of the total financial investments recorded at fair value are valued based on estimates using unobservable inputs and recorded as Level 3 investments.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

The following table shows a reconciliation of the opening and closing recorded amounts in relation to the Level 3 financial instruments recorded at fair value (excluding lifetime mortgages which are discussed in the lifetime mortgages in the subsequent section below):

	Financial assets measured at fair value on a recurring basis					Others		Financial liabilities measured at fair value on a recurring basis		
	Corporate bonds & other corporate debt £m	Loans secured on property £m	Derivative assets £m	Collective investment schemes £m	Assets held for sale £m	Total £m	Collateralised agreements and financing £m	Derivative liabilities £m	Total £m	
As at 1 January 2024	817	6,344	1,894	157	127	9,339	(119)	(1,985)	(2,104)	
Total gains/(losses) in the statement of comprehensive income:										
Realised gains	—	1	—	9	8	18	—	—	—	
Unrealised (losses)/gains	(6)	(159)	(175)	(1)	(4)	(345)	7	245	252	
Transfer into Level 3	—	—	—	—	—	—	—	—	—	
Net purchases/(sales)	345	(545)	(15)	(47)	(113)	(375)	—	—	—	
As at 30 June 2024	1,156	5,641	1,704	118	18	8,637	(112)	(1,740)	(1,852)	
As at 1 January 2023	756	5,846	1,817	—	—	8,419	(113)	(1,882)	(1,995)	
Total gains/(losses) in the statement of comprehensive income:										
Unrealised (losses)/gains	(53)	(149)	2	—	—	(200)	1	97	98	
Transfer into Level 3	51	—	—	—	—	51	—	—	—	
Net purchases	31	46	—	—	—	77	—	—	—	
As at 30 June 2023	785	5,743	1,819	—	—	8,347	(112)	(1,785)	(1,897)	
As at 1 January 2023	756	5,846	1,817	—	—	8,419	(113)	(1,882)	(1,995)	
Total gains/(losses) in the statement of comprehensive income:										
Unrealised (losses)/gains	(8)	(225)	77	—	—	(156)	(6)	(94)	(100)	
Transfer into Level 3	38	—	—	—	—	38	—	(2)	(2)	
Net purchases	31	723	—	157	127	1,038	—	(7)	(7)	
As at 31 December 2023	817	6,344	1,894	157	127	9,339	(119)	(1,985)	(2,104)	

Please see note D.3 for further details of Level 3 financial liabilities. Please refer to note D.2 for the details of assets held for sale.

Notes to the financial statements **continued**

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Rothsay's policy is to determine the relevant categorisation of financial assets and liabilities at least annually and, where availability of inputs has changed, transfers will be made between levels. No corporate debt was transferred from Level 2 to Level 3 during the period (HY2023: £51m, FY2023: £38m). No corporate debt was transferred from Level 3 to Level 2 in HY2024 (HY2023: £nil, FY2023: £nil).

The unrealised losses on Level 3 financial assets were mainly driven by the increase in the interest rates. The gain observed in Level 3 derivative liabilities largely offsets with the loss from the Level 3 derivative assets.

Lifetime mortgages

Lifetime mortgages allow the borrowers to take equity from their homes either as a lump sum or in smaller, regular amounts. The total amount, capital plus interest, is repaid when the borrower dies or moves into long-term care. All lifetime mortgage loans provide a 'no negative equity guarantee' (NNEG), which means that the mortgage repayment amounts (loan principal plus interest on redemption) are subject to a maximum of the sale proceeds of the property on which the loan is secured.

Lifetime mortgages are valued using a discounted cash flow model by projecting future net cash flows on a closed form basis allowing for demographic assumptions, consistent with those used for insurance contracts adjusted for transfer to long-term care, prepayment rates, future expenses and potential cost of providing the NNEG. Cash flows are then discounted at a risk-free rate plus liquidity premium inferred from market-observed levels.

The NNEG can be thought of as a series of options written by Rothsay which allow the lifetime mortgage holders to extinguish their loan by selling their property back to Rothsay at the current market value and at the point at which the mortgage must be redeemed (typically on death or transfer to long-term care), even when property values are lower than the outstanding loan balance.

Underlying house prices have been updated in line with the latest available data. Sensitivities to interest rates and house prices are shown later in this note as these are the most material assumptions given the way in which the potential cost of the no negative equity guarantee is derived.

Given the various assumptions used in valuing the lifetime mortgages, the instruments are recorded as Level 3 assets. The table below provides an analysis of the movement in the value of lifetime mortgages. New business includes both the acquisition of back books of lifetime mortgages and new origination through Rothsay's strategic partners. The impact of the change in economic assumptions for 2024 is dominated by the increase in interest rates.

	HY2024 £m	HY2023 £m	FY2023 £m
Carrying amount at 1 January	6,212	5,086	5,086
Increase in respect of new business	251	400	745
Redemptions/repayments	(155)	(138)	(288)
Accrued interest for the financial period/year	171	147	305
Change in economic assumptions	(41)	21	369
Change in demographic assumptions	—	—	(5)
Closing balance at end of the period/year	6,438	5,516	6,212

Notes to the financial statements **continued**

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Lifetime mortgages (continued)

The table below provides a summary of the discounted cash flows arising from the lifetime mortgage portfolio:

	HY2024	HY2023	FY2023
	£m	£m	£m
Less than one year	499	448	469
One to five years	1,384	1,259	1,336
Over five years	4,555	3,809	4,407
Total	6,438	5,516	6,212

Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions

The following table shows the impact on the fair value (FV) of Level 3 instruments of using reasonably possible alternative assumptions by class of instrument. Changes are made in isolation so, for example, no change is made to property price inflation in the property price sensitivities. Since part of any spread movement is likely to be included in the derivation of the valuation rate of interest, changes in fair value of assets also impact liabilities. The following table also shows the potential impact on profit before tax (PBT) and equity of the same alternative assumptions, assuming that all other pricing inputs remain constant.

For corporate bonds and other corporate debt, a 25bp sensitivity is applied to secured debt and a 50bp sensitivity is applied to unsecured corporate bonds. The range of reasonably possible alternative inputs has been reviewed for an indication of changes based on market measures such as the quoted bid-offer spreads in liquid bond markets relevant to the investment portfolio and it was deemed to remain appropriate at the reporting date.

For certain loans secured on property, the valuation sensitivity assumption was increased at 31st December 2023 from +/-25bps to +/- 50bps to reflect the increased uncertainty associated with potential adverse leasehold reform outcomes. Whilst the Leasehold and Freehold Reform Act has now been passed without any restrictions on ground rent cashflows, the valuation and sensitivity assumptions have been retained at 30 June 2024 to reflect residual uncertainty resulting from any potential future reforms.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions (continued)

Impact on financial assets & liabilities, PBT and equity	Main assumptions	Changes in assumptions	HY2024			
			Current FV £m	(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	(Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps/+50bps	1,156	(18)	(2)	(1)
		-25bps/-50bps	1,156	19	2	1
Collective investment schemes	Fund price	+10%	118	12	12	9
		-10%	118	(12)	(12)	(9)
Loans secured on property	Liquidity premium	+25bps/+50bps	5,641	(201)	—	—
		-25bps/-50bps	5,641	225	—	—
Loans secured on property	Property prices	+10%	5,641	10	12	9
		-10%	5,641	(18)	(25)	(19)
Lifetime mortgages	Liquidity premium	+25bps	6,438	(169)	—	—
		-25bps	6,438	176	—	—
Lifetime mortgages	House prices	+10%	6,438	69	50	38
		-10%	6,438	(93)	(70)	(53)
Derivative assets	LPI bid-mid spread	+15bps	1,704	10	10	7
		-15bps	1,704	(10)	(10)	(7)
Assets held for sale						
	Property prices	+10%	18	2	2	1
		-10%	18	(2)	(2)	(1)
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	1,740	74	74	56
		-15bps	1,740	(74)	(74)	(56)
Collateralised financing agreements	Liquidity premium	+25bps	112	5	5	4
		-25bps	112	(5)	(5)	(4)

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions (continued)

Impact on financial assets & liabilities, PBT and equity	Main assumptions	Changes in assumptions	Current FV £m	HY2023		
				(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	(Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps/+50bps	785	(15)	(2)	(1)
		-25bps/-50bps	785	15	2	1
Loans secured on property	Liquidity premium	+25bps	5,743	(134)	—	—
		-25bps	5,743	144	—	—
Loans secured on property	Property prices	+10%	5,743	15	3	2
		-10%	5,743	(19)	(12)	(9)
Lifetime mortgages	Liquidity premium	+25bps	5,516	(142)	—	—
		-25bps	5,516	148	—	—
Lifetime mortgages	House prices	+10%	5,516	52	38	29
		-10%	5,516	(70)	(53)	(41)
Derivative assets	LPI bid-mid spread	+15bps	1,819	15	15	11
		-15bps	1,819	(15)	(15)	(11)
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	1,785	75	75	57
		-15bps	1,785	(75)	(75)	(57)
Collateralised financing agreements	Liquidity premium	+25bps	112	5	5	4
		-25bps	112	(5)	(5)	(4)

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions (continued)

Impact on financial assets & liabilities, PBT and equity	Main assumptions	Changes in assumptions	FY2023			
			Current FV £m	(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	(Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps/+50bps	817	(15)	(1)	(1)
		-25bps/-50bps	817	16	1	1
Collective investment schemes	Fund price	+10%	157	16	16	12
		-10%	157	(16)	(16)	(12)
Loans secured on property	Liquidity premium	+25bps/+50bps	6,344	(227)	—	—
		-25bps/-50bps	6,344	258	—	—
Loans secured on property	Property prices	+10%	6,344	13	15	11
		-10%	6,344	(24)	(30)	(23)
Lifetime mortgages	Liquidity premium	+25bps	6,212	(164)	—	—
		-25bps	6,212	171	—	—
Lifetime mortgages	House prices	+10%	6,212	71	54	41
		-10%	6,212	(95)	(74)	(57)
Derivative assets	LPI bid-mid spread	+15bps	1,894	7	7	6
		-15bps	1,894	(7)	(7)	(6)
Assets held for sale	Property prices	+10%	127	13	13	10
		-10%	127	(13)	(13)	(10)
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	1,985	86	86	66
		-15bps	1,985	(86)	(86)	(66)
Collateralised financing agreements	Liquidity premium	+25bps	119	6	6	4
		-25bps	119	(6)	(6)	(4)

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.2 Assets held for sale

The assets held for sale of Rothesay at the period end is as follows:

	HY2024 £m	HY2023 £m	FY2023 £m
Investment properties	6	—	48
Finance lease receivables	12	—	79
Total assets held for sale	18	—	127

Investment properties include residential properties and a hotel under short-term lease. Finance lease receivables include long-term leases of commercial ground rent properties. Rothesay committed to a plan to sell these assets. We continue to focus on selling these assets and a number of assets have been disposed of during 2024.

The fair value measurement of assets held for sale has been categorised as Level 3 as one or more inputs is significant and unobservable. As at 30 June 2024, the fair value of these assets was based on the most recent transaction prices or the most recent valuation statement after allowing for appropriate valuation haircuts.

D.3 Payables and financial liabilities

	HY2024 £m	HY2023 £m	FY2023 £m
Derivative financial instruments	38,939	41,112	32,993
Government, sub-sovereign and agency obligations	4	33	—
Collateralised agreements and financing	3,015	3,166	2,969
Total financial investment liabilities	41,958	44,311	35,962
Deposits received as collateral from third parties	4,723	4,901	4,940
Current tax payable	2	—	105
Employee payables	145	130	196
Other taxes and social security costs	14	13	22
Other payables	411	104	56
Total payables	5,295	5,148	5,319
Total payables and financial investment liabilities	47,253	49,459	41,281

Employee payables include deferred cash of £69m (HY2023: £60m, FY2023: £63m) and the fair value of share-based payments awarded to employees over the lifetime of the incentive plans of £41m (HY2023: £39m, FY2023 restated: £57m²). Other payables include reinsurance fees and trade date adjustments (£349m).

Financial investment liabilities are recorded at fair value, of which, £1,852m are valued using Level 3 techniques (HY2023: £1,897m, FY2023: £2,104m). The Level 3 financial liabilities are predominantly LPI linked derivatives. The remainder of the financial liabilities are valued using Level 1 and Level 2 techniques.

The impact on the fair value of Level 3 financial liabilities of using reasonably possible alternative assumptions is included in note D.1.

² The fair value of share-based payments awarded to employees over the lifetime of the incentive plans was overstated in the narrative at year end 2023 by £76m.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.4 Borrowings

Rothsay's borrowings are as follows:

	HY2024 £m	HY2023 £m	FY2023 £m
Subordinated loans from related parties	299	299	299
Subordinated loan notes	2,392	1,634	1,636
US\$400m contingent convertible RT1 notes	315	313	313
Total borrowed	3,006	2,246	2,248

During June 2024, Rothsay Life Plc (RLP) issued £500m of 10-year Tier 2 debt in the sterling market and \$325m of 10-year Tier 2 debt in the US dollar market. The sterling notes mature on 10 December 2034 and can be called at par at any time from 10 June 2034. A fixed coupon of 7.019% is payable annually in arrears. The US Dollar notes mature on 11 September 2034 and can be called at par at any time from 11 June 2029 up to 10 December 2029. A fixed coupon of 7.00% is payable annually in arrears. If the notes are not repaid by 11 September 2029, the fixed rates of interest per annum will be reset.

The £300m revolving credit facility entered into in March 2017 was renegotiated in March 2023 and increased to £750m. During January 2023, the facility was extended to February 2028 and remains effective but undrawn.

The carrying amounts, fair values and features of Rothsay's borrowings are summarised in the table below:

Notional amount	Issue date	Redemption date	Callable at par at the option of the Group from	Coupon	Carrying amount			Fair value		
					HY2024 £m	HY2023 £m	FY2023 £m	HY2024 £m	HY2023 £m	FY2023 £m
Subordinated loans from related parties										
£300m	19 September 2017	19 September 2028	19 September 2023 and annually thereafter	6.05%	299	299	299	297	297	297
Subordinated loans										
£250m	30 October 2015	30 October 2025	No call option	8.00%	250	250	250	255	249	258
£500m	12 July 2019	12 July 2026	No call option	3.38%	494	491	492	478	443	472
£400m	17 September 2019	17 September 2029	17 September 2024	5.50%	396	396	396	399	388	396
\$400m	27 October 2021	Perpetual	13 April 2027	4.88%	315	313	313	278	233	252
£500m	16 May 2023	16 May 2033	16 November 2032	7.73%	498	497	498	527	481	535
£500m	3 June 2024	10 December 2034	10 June 2034	7.02%	498	—	—	499	—	—
\$325m	4 June 2024	11 September 2034	11 June 2029	7.00%	256	—	—	257	—	—

For the period ended 30 June 2024, an interest expense of £70m (HY2023: £54m, FY2023: £121m) was recognised in the condensed consolidated statement of comprehensive income in respect of these borrowings.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.4 Borrowings (continued)

Reconciliation of borrowings

The table below provides a reconciliation between opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activity:

	1 January 2024 £m	Cash flows £m	Non-cash flows £m	30 June 2024 £m
Subordinated loans from related parties	299	—	—	299
Subordinated loan notes	1,636	754	2	2,392
US\$400m contingent convertible RT1 notes	313	—	2	315
Total borrowings	2,248	754	4	3,006

	1 January 2023 £m	Cash flows £m	Non-cash flows £m	30 June 2023 £m
Subordinated loans from related parties	299	—	—	299
Subordinated loan notes	1,135	498	1	1,634
US\$400m contingent convertible RT1 notes	330	—	(17)	313
Total borrowings	1,764	498	(16)	2,246

	1 January 2023 £m	Cash flows £m	Non-cash flows £m	31 December 2023 £m
Subordinated loans from related parties	299	—	—	299
Subordinated loan notes	1,135	498	3	1,636
US\$400m contingent convertible RT1 notes	330	—	(17)	313
Total borrowings	1,764	498	(14)	2,248

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance

The notes in this section show insurance and reinsurance liability balances as negative numbers.

E.1 Insurance contracts issued – Analysis of liabilities for remaining coverage and incurred claims

The tables below show the roll forward of the liability for insurance contracts issued, showing the liabilities for remaining coverage (excluding loss components) and liabilities for incurred claims.

HY2024	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2024	(54,630)	—	(54,630)
Insurance revenue			
Contracts under fair value approach at transition	465	—	465
New contracts and contracts under full retrospective approach at transition	1,376	—	1,376
Total insurance revenue	1,841	—	1,841
Insurance service expense			
Incurred claims and other incurred insurance service expenses	—	(1,536)	(1,536)
Amortisation of insurance acquisition cash flows	(22)	—	(22)
Total insurance service expense	(22)	(1,536)	(1,558)
Investment components and premium refunds	208	(208)	—
Insurance service results	2,027	(1,744)	283
Finance income from insurance contracts issued	1,154	—	1,154
Total change in profit or loss	3,181	(1,744)	1,437
Cash flows			
Premiums received	(9,875)	—	(9,875)
Claims and other expenses paid	—	1,536	1,536
Investment components and premium refunds	—	208	208
Insurance acquisition cash flows	82	—	82
Insurance acquisition asset	—	—	—
Total cash flows	(9,793)	1,744	(8,049)
Insurance contract liabilities as at 30 June 2024	(61,242)	—	(61,242)

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.1 Insurance contracts issued – Analysis of liabilities for remaining coverage and incurred claims (continued)

HY2023	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2023	(40,971)	—	(40,971)
Insurance revenue			
Contracts under fair value approach at transition	449	—	449
New contracts and contracts under full retrospective approach at transition	1,035	—	1,035
Total insurance revenue	1,484	—	1,484
Insurance service expense			
Incurred claims and other incurred insurance service expenses	—	(1,273)	(1,273)
Amortisation of insurance acquisition cash flows	(14)	—	(14)
Total insurance service expense	(14)	(1,273)	(1,287)
Investment components and premium refunds	170	(170)	—
Insurance service results	1,640	(1,443)	197
Finance income from insurance contracts issued	113	—	113
Total change in profit or loss	1,753	(1,443)	310
Cash flows			
Premiums received	(2,170)	—	(2,170)
Claims and other expenses paid	—	1,273	1,273
Investment components and premium refunds	—	170	170
Insurance acquisition cash flows	15	—	15
Insurance acquisition asset	42	—	42
Total cash flows	(2,113)	1,443	(670)
Insurance contract liabilities as at 30 June 2023	(41,331)	—	(41,331)

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.1 Insurance contracts issued – Analysis of liabilities for remaining coverage and incurred claims (continued)

FY2023	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2023	(40,971)	—	(40,971)
Insurance revenue			
Contracts under fair value approach at transition	926	—	926
New contracts and contracts under full retrospective approach at transition	2,201	—	2,201
Total insurance revenue	3,127	—	3,127
Insurance service expense			
Incurred claims and other incurred insurance service expenses	—	(2,629)	(2,629)
Amortisation of insurance acquisition cash flows	(29)	—	(29)
Total insurance service expense	(29)	(2,629)	(2,658)
Investment components and premium refunds	349	(349)	—
Insurance service results	3,447	(2,978)	469
Finance expense from insurance contracts issued	(4,380)	—	(4,380)
Total change in profit or loss	(933)	(2,978)	(3,911)
Cash flows			
Premiums received	(12,827)	—	(12,827)
Claims and other expenses paid	—	2,629	2,629
Investment components and premium refunds	—	349	349
Insurance acquisition cash flows	141	—	141
Insurance acquisition asset	(40)	—	(40)
Total cash flows	(12,726)	2,978	(9,748)
Insurance contract liabilities as at 31 December 2023	(54,630)	—	(54,630)

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.2 Reinsurance contracts held – Analysis of liabilities for remaining coverage and incurred claims

The table below shows the roll forward of the net liability for reinsurance contracts held, showing the liabilities for remaining coverage (excluding loss-recovery component) and amounts recoverable on incurred claims arising on business ceded to reinsurers.

HY2024	Liabilities for remaining coverage £m	Asset for incurred claims £m	Total £m
Reinsurance contract liabilities as at 1 January 2024	(461)	—	(461)
Reinsurance contract assets as at 1 January 2024	216	—	216
Net reinsurance contract liabilities as at 1 January 2024	(245)	—	(245)
Allocation of reinsurance premiums paid			
Changes in the liabilities for remaining coverage	(1,254)	—	(1,254)
Amortisation of reinsurance acquisition cash flows	2	—	2
Total allocation of reinsurance premiums paid	(1,252)	—	(1,252)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred	—	1,193	1,193
Amortisation of reinsurance acquisition cash flows	(2)	—	(2)
Total amounts recoverable from reinsurers	(2)	1,193	1,191
Net (expense)/income from reinsurance contracts held	(1,254)	1,193	(61)
Finance expense from reinsurance contracts held	(65)	—	(65)
Total change in profit or loss	(1,319)	1,193	(126)
Cash flows			
Premiums paid	1,279	—	1,279
Amounts received	—	(1,193)	(1,193)
Acquisition cash flows	14	—	14
Total cash flows	1,293	(1,193)	100
Net reinsurance contract liabilities as at 30 June 2024	(271)	—	(271)
Reinsurance contract liabilities as at 30 June 2024	(434)	—	(434)
Reinsurance contract assets as at 30 June 2024	163	—	163

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.2 Reinsurance contracts held – Analysis of liabilities for remaining coverage and incurred claims (continued)

HY2023	Liabilities for remaining coverage £m	Asset for incurred claims £m	Total £m
Reinsurance contract liabilities as at 1 January 2023	(848)	—	(848)
Reinsurance contract assets as at 1 January 2023	54	—	54
Net reinsurance contract liabilities as at 1 January 2023	(794)	—	(794)
Allocation of reinsurance premiums paid			
Changes in the liabilities for remaining coverage	(1,056)	—	(1,056)
Amortisation of reinsurance acquisition cash flows	1	—	1
Total allocation of reinsurance premiums paid	(1,055)	—	(1,055)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred	—	1,035	1,035
Amortisation of reinsurance acquisition cash flows	(1)	—	(1)
Total amounts recoverable from reinsurers	(1)	1,035	1,034
Net expense from reinsurance contracts held	(1,056)	1,035	(21)
Finance expense from reinsurance contracts held	(40)	—	(40)
Total change in profit or loss	(1,096)	1,035	(61)
Cash flows			
Premiums paid	1,104	—	1,104
Amounts received	—	(1,035)	(1,035)
Acquisition cash flows	10	—	10
Total cash flows	1,114	(1,035)	79
Net reinsurance contract liabilities as at 30 June 2023	(776)	—	(776)
Reinsurance contract liabilities as at 30 June 2023	(849)	—	(849)
Reinsurance contract assets as at 30 June 2023	73	—	73

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.2 Reinsurance contracts held – Analysis of liabilities for remaining coverage and incurred claims (continued)

FY2023	Liabilities for remaining coverage £m	Asset for incurred claims £m	Total £m
Reinsurance contract liabilities as at 1 January 2023	(848)	—	(848)
Reinsurance contract assets as at 1 January 2023	54	—	54
Net reinsurance contract assets as at 1 January 2023	(794)	—	(794)
Allocation of reinsurance premiums paid			
Changes in the liabilities for remaining coverage	(2,175)	—	(2,175)
Amortisation of reinsurance acquisition cash flows	2	—	2
Total allocation of reinsurance premiums paid	(2,173)	—	(2,173)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred	—	2,126	2,126
Amortisation of reinsurance acquisition cash flows	(2)	—	(2)
Total amounts recoverable from reinsurers	(2)	2,126	2,124
Net expense from reinsurance contracts held	(2,175)	2,126	(49)
Finance income from reinsurance contracts held	391	—	391
Total change in profit or loss	(1,784)	2,126	342
Cash flows			
Premiums paid	2,273	—	2,273
Amounts received	—	(2,126)	(2,126)
Acquisition cash flows	60	—	60
Total cash flows	2,333	(2,126)	207
Net reinsurance contract liabilities as at 31 December 2023			
Reinsurance contract liabilities as at 31 December 2023	(461)	—	(461)
Reinsurance contract assets as at 31 December 2023	216	—	216

At 30 June 2024, 30 June 2023 and 31 December 2023, Rothsay conducted an impairment review of the reinsurance contract assets and found no impairment necessary.

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contracts issued – Analysis of the measurement components of contract balances

This reconciliation presents a roll-forward of the liability for insurance contracts issued showing estimates of the present value of future cash flows, risk adjustment and CSM for the portfolio's insurance service results during the period.

HY2024	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin		Total £m
			Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	
Insurance contract liabilities as at 1 January 2024	(46,324)	(1,695)	(1,199)	(5,412)	(54,630)
Changes that relate to current services					
CSM recognised for services provided	—	—	50	226	276
Change in risk adjustment for the risk expired	—	5	—	—	5
Experience adjustments relating to insurance service expenses	2	—	—	—	2
Changes that relate to future services					
Contracts initially recognised during the period	563	(251)	—	(312)	—
Changes in estimates that adjust the CSM	59	45	(39)	(65)	—
Insurance service results	624	(201)	11	(151)	283
Finance income/(expense) from insurance contracts issued	1,085	152	(13)	(70)	1,154
Total changes in profit or loss	1,709	(49)	(2)	(221)	1,437
Cash flows					
Premiums received	(9,875)	—	—	—	(9,875)
Claims and other expenses paid	1,536	—	—	—	1,536
Investment components and premium refunds	208	—	—	—	208
Insurance acquisition cash flows	82	—	—	—	82
Insurance acquisition asset	—	—	—	—	—
Total cash flows	(8,049)	—	—	—	(8,049)
Insurance contract liabilities as at 30 June 2024	(52,664)	(1,744)	(1,201)	(5,633)	(61,242)

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contracts issued – Analysis of the measurement components of contract balances (continued)

HY2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin		Total £m
			Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	
Insurance contract liabilities as at 1 January 2023	(34,521)	(1,512)	(773)	(4,165)	(40,971)
Changes that relate to current services					
CSM recognised for services provided	—	—	31	160	191
Change in risk adjustment for the risk expired	—	4	—	—	4
Experience adjustments relating to insurance service expenses	2	—	—	—	2
Changes that relate to future services					
Contracts initially recognised in the period	163	(97)	—	(66)	—
Changes in estimates that adjust the CSM	81	(24)	(8)	(49)	—
Insurance service results	246	(117)	23	45	197
Finance income/(expense) from insurance contracts issued	92	75	(9)	(45)	113
Total changes in profit or loss	338	(42)	14	—	310
Cash flows					
Premiums received	(2,170)	—	—	—	(2,170)
Claims and other expenses paid	1,273	—	—	—	1,273
Investment components and premium refunds	170	—	—	—	170
Insurance acquisition cash flows	15	—	—	—	15
Insurance acquisition asset	42	—	—	—	42
Total cash flows	(670)	—	—	—	(670)
Insurance contract liabilities as at 30 June 2023	(34,853)	(1,554)	(759)	(4,165)	(41,331)

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contracts issued – Analysis of the measurement components of contract balances (continued)

FY2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin		Total £m
			Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	
Insurance contract liabilities as at 1 January 2023	(34,521)	(1,512)	(773)	(4,165)	(40,971)
Changes that relate to current services					
CSM recognised for services provided	—	—	78	364	442
Change in risk adjustment for the risk expired	—	8	—	—	8
Experience adjustments relating to insurance service expenses	19	—	—	—	19
Changes that relate to future services					
Contracts initially recognised during the year	825	(447)	—	(378)	—
Changes in estimates that adjust the CSM	1,078	547	(486)	(1,139)	—
Insurance service results	1,922	108	(408)	(1,153)	469
Finance expense from insurance contracts issued	(3,977)	(291)	(18)	(94)	(4,380)
Total changes in profit or loss	(2,055)	(183)	(426)	(1,247)	(3,911)
Cash flows					
Premiums received	(12,827)	—	—	—	(12,827)
Claims and other expenses paid	2,629	—	—	—	2,629
Investment components and premium refunds	349	—	—	—	349
Insurance acquisition cash flows	141	—	—	—	141
Insurance acquisition asset	(40)	—	—	—	(40)
Total cash flows	(9,748)	—	—	—	(9,748)
Insurance contract liabilities as at 31 December 2023	(46,324)	(1,695)	(1,199)	(5,412)	(54,630)

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.4 Reinsurance contracts held – Analysis of the measurement components of contract balances

The tables below show the roll-forward of the net asset or liability for reinsurance contracts held, showing estimates of the present value of future cash flows, risk adjustment and CSM for reinsurance held portfolios during the period.

HY2024	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin		Total £m
			Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	
Reinsurance contract liabilities as at 1 January 2024	(2,078)	518	477	622	(461)
Reinsurance contract assets as at 1 January 2024	(777)	673	—	320	216
Net reinsurance contract liabilities as at 1 January 2024	(2,855)	1,191	477	942	(245)
Changes that relate to current services					
CSM recognised for services received	—	—	(15)	(34)	(49)
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	(12)	—	—	—	(12)
Changes that relate to future services					
Contracts initially recognised during the period	(101)	230	—	(129)	—
Changes in estimates that adjust the CSM	(14)	(18)	18	14	—
Net (expense)/income from reinsurance contracts held	(127)	212	3	(149)	(61)
Finance income/(expense) from reinsurance contracts held	95	(165)	3	2	(65)
Total changes in profit or loss	(32)	47	6	(147)	(126)
Cash flows					
Premiums paid	1,279	—	—	—	1,279
Amounts received	(1,193)	—	—	—	(1,193)
Acquisition cash flows	14	—	—	—	14
Total cash flows	100	—	—	—	100
Net reinsurance contract liabilities as at 30 June 2024	(2,787)	1,238	483	795	(271)
Reinsurance contract liabilities as at 30 June 2024	(1,949)	533	483	499	(434)
Reinsurance contract assets as at 30 June 2024	(838)	705	—	296	163

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.4 Reinsurance contracts held – Analysis of the measurement components of contract balances (continued)

HY2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin		Total £m
			Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	
Reinsurance contract liabilities as at 1 January 2023	(2,135)	1,039	161	87	(848)
Reinsurance contract assets as at 1 January 2023	(309)	134	—	229	54
Net reinsurance contract liabilities as at 1 January 2023	(2,444)	1,173	161	316	(794)
Changes that relate to current services					
CSM recognised for services received	—	—	(4)	(15)	(19)
Change in risk adjustment for the risk expired	—	—	—	—	—
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	(2)	—	—	—	(2)
Changes that relate to future services					
Contracts initially recognised in the period	(23)	109	—	(86)	—
Changes in estimates that adjust the CSM	3	(5)	(15)	17	—
Net (expense)/income from reinsurance contracts held	(22)	104	(19)	(84)	(21)
Finance income/(expense) from reinsurance contracts held	41	(85)	1	3	(40)
Total changes in profit or loss	19	19	(18)	(81)	(61)
Cash flows					
Premiums paid	1,104	—	—	—	1,104
Amounts received	(1,035)	—	—	—	(1,035)
Acquisition cash flows	10	—	—	—	10
Total cash flows	79	—	—	—	79
Net reinsurance contract liabilities as at 30 June 2023	(2,346)	1,192	143	235	(776)
Reinsurance contract liabilities as at 30 June 2023	(2,096)	977	143	127	(849)
Reinsurance contract assets as at 30 June 2023	(250)	215	—	108	73

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.4 Reinsurance contracts held – Analysis of the measurement components of contract balances (continued)

FY2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin		Total £m
			Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	
Reinsurance contract liabilities as at 1 January 2023	(2,135)	1,039	161	87	(848)
Reinsurance contract assets as at 1 January 2023	(309)	134	—	229	54
Net reinsurance contract liabilities as at 1 January 2023	(2,444)	1,173	161	316	(794)
Changes that relate to current services					
CSM recognised for services received	—	—	(17)	(26)	(43)
Change in risk adjustment for the risk expired	—	—	—	—	—
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	(6)	—	—	—	(6)
Changes that relate to future services					
Contracts initially recognised during the year	(230)	418	—	(188)	—
Changes in estimates that adjust the CSM	(492)	(677)	332	837	—
Net (expense)/income from reinsurance contracts held	(728)	(259)	315	623	(49)
Finance income from reinsurance contracts held	110	277	1	3	391
Total changes in profit or loss	(618)	18	316	626	342
Cash flows					
Premiums paid	2,273	—	—	—	2,273
Amounts received	(2,126)	—	—	—	(2,126)
Acquisition cash flows	60	—	—	—	60
Total cash flows	207	—	—	—	207
Net reinsurance contract liabilities as at 31 December 2023					
Reinsurance contract liabilities as at 31 December 2023	(2,078)	518	477	622	(461)
Reinsurance contract assets as at 31 December 2023	(777)	673	—	320	216

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.6 Contractual Service Margin recognition expectation in the profit and loss

In determining the CSM amortisation, we consider the services delivered under the contract and define the coverage units that should be used to amortise the CSM over time. The CSM is amortised in line with the release of the coverage units during the period as the services are provided to the policyholders.

The methods used to measure the coverage units for both immediate and deferred annuities require significant judgement. We define the coverage units as the quantity of benefit provided as part of the insurance service as the expected payment due to the policyholder during the period contingent on the insured event occurring (i.e. survival until the payment date). For reinsurance contracts held, the insured event is the survival of the reinsured policyholder until the payment date, with the payment being that due from the reinsurer to Rothesay under the terms of the contract (see note A.1).

For deferred annuities, the services delivered include both the insurance service and the investment return service. Rothesay uses judgement in assessing the quantity of benefits by determining the relative weighting of the benefits provided to the policyholder by these services. To determine the relative weighting of the benefits provided by insurance coverage (which represents the whole period of an immediate annuity) and investment services (provided in the deferred phase of the annuity before vesting and in any guarantee period), the coverage units across the deferred and in-payment periods are combined (or 'blended') to create a profile of expected CSM amortisation across the lifetime of the contract. The blended coverage units are calculated by appropriately weighting the expected insurance and investment return service coverage units such that by the time a deferred annuitant reaches retirement, the CSM is consistent with that of an equivalent immediate annuitant, and ensures that the relative values ascribed to the different services are consistent throughout the CSM amortisation over the lifetime of the contract.

For immediate annuities, the services delivered also include both the insurance service and the investment return service (provided during the guarantee period). The insurance services provided during the in-payment phase are the annuity cash flow payments, which are outside the guarantee period, expected to be paid out in the event of the insured event occurring (i.e. survival of the policyholders).

The following table presents the projected release of the CSM into future period maturity buckets.

HY2024	0-5 years £m	5-10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	1,782	1,384	3,668	6,834
Reinsurance contracts held	(392)	(331)	(555)	(1,278)
Net CSM release	1,390	1,053	3,113	5,556

HY2023	0-5 years £m	5-10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	1,210	919	2,795	4,924
Reinsurance contracts held	(148)	(113)	(117)	(378)
Net CSM release	1,062	806	2,678	4,546

FY2023	0-5 years £m	5-10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	1,735	1,340	3,536	6,611
Reinsurance contracts held	(390)	(336)	(693)	(1,419)
Net CSM release	1,345	1,004	2,843	5,192

Notes to the financial statements **continued**

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows

The fulfilment cash flows include estimates of future cash flows, adjusted to reflect the time value of money, and a risk adjustment for non-financial risk (as described in note E.7(f)).

Estimate of future cash flows

In estimating future cash flows, we incorporate all reasonable and supportable information that is available without undue cost or effort at the reporting date. The estimates of future cash flows reflect our view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices. In estimating the future cash flows, we determine the cash flows to be included and how these are derived, and the boundary of insurance contracts.

Cash flows within the boundary of an insurance or reinsurance contract are those that relate directly to the fulfilment of the contract, which include:

- Policyholder premiums including premium adjustments;
- Policyholder claims and benefit payments, including annuity payments, death benefit lump sums, pension commencement lump sums, guarantee period cash flows and transfer value lump sums;
- Insurance acquisition cash flows from writing new business; and
- Other costs and expenses which relate to directly fulfilling the obligations within the contract such as claims handling costs, policy administration and maintenance costs, premium taxes, allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts, investment management expenses to the extent that they enhance benefits from insurance coverage, and any other costs that may be charged specifically to the policyholder under the terms of the contract.

In determining the best estimate cash flows, we use observable market variables (or economic variables) and non-market variables (or demographic variables). Estimates of economic variables are consistent with observable market prices, while demographic variables reflect all reasonable and supportable evidence available without undue cost or effort. Below are the key economic and demographic variables or assumptions with the greatest impact on Rothesay's insurance and reinsurance contract liability and asset valuations under IFRS 17.

(a) Mortality assumptions

The adoption of IFRS 17 has not impacted the way in which best estimate mortality assumptions have been determined. Best estimate mortality assumptions are determined separately for each insurance contract (with consistent assumptions used when valuing reinsurance contracts). The resulting assumptions are equivalent to using the base mortality assumptions set out in the table below:

	HY2024		HY2023		FY2023	
	Pensions originated	Insurance originated	Pensions originated	Insurance originated	Pensions originated	Insurance originated
Males	105.6% S3PMA	101.1% S3PMA	105.7% S3PMA	102.1% S3PMA	105.9% S3PMA	101.1% S3PMA
Females	105.6% S3PFA	101.1% S3PFA	105.7% S3PFA	102.1% S3PFA	105.9% S3PFA	101.1% S3PFA

The changes to the single equivalent rates over 2024 reflects the inclusion of new business. The change over 2023 reflected the inclusion of new business, differences from expected mortality in recent years and the impact of updating the mortality improvements used to roll the base tables forward to the current date. For pension scheme originated business, ultimate mortality has been used in all cases. For insurance originated business, the stated base mortality basis incorporates the effect of selection adjustments for relevant policies.

Recent mortality experience is analysed annually for each pension scheme and for insurance originated business. The last review was carried out during 2023. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. Mortality experience has been compared to expected levels with allowance for population level experience, hence heavy experience due to the COVID-19 pandemic has not been projected indefinitely. Mortality assumptions are generally set with reference to a Rothesay-specific suite of

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(a) Mortality assumptions (continued)

mortality tables. For the purpose of our reporting disclosures, these have been expressed as a single adjustment equivalent to the CMI S3 series of mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. The S3 tables are based on industry-wide experience. For the S3 tables, past mortality improvements are applied assuming the base mortality rates are as at 2013.

Mortality improvements used to roll base tables forward to the current date use an advanced calibration of the CMI 2022 model with limited period smoothing and including 2020 to 2022 experience in order to represent realised population mortality improvements. This is allowed for in the base table and mortality improvement equivalents shown in the preceding/proceeding tables.

Allowance is made for future improvements in annuitant mortality with reference to statistical analysis of historical rates of mortality improvements, expert judgement of future changes in mortality improvements, industry benchmarking and reinsurance pricing. During 2023, mortality improvement assumptions were updated to reflect recent mortality improvements, including adoption of the CMI 2022 improvement model. This is unchanged for 30 June 2024 reporting. The CMI 2022 model places no weight on 2020 or 2021 data, and limited weight on 2022 data, which significantly reduces the impact of COVID-19 on our improvement projections. For both 2024 and 2023, an advanced calibration of the model has been used.

The chosen long-term improvement rate assumption varies by age using a bespoke calibration that tapers non-linearly from age 70 to 0% at age 120. The long-term rates in the table below are expressed as core CMI model long-term rates and are equivalent on a present value basis to the actual long-term rate adopted. The best estimate long-term improvement rates remain unchanged from 2023. The assumed initial rates of improvements are unchanged for 30 June 2024, after being lowered as at 31 December 2023 compared to those used as at 30 June 2023. The initial adjustment parameter ("A" parameter) has not been adopted, with adjustment to the initial rate of mortality improvements continuing to be made through the Sk parameter. Best estimate improvements are equivalent to those shown in the table below:

	Future mortality improvements (excluding margins)		
	HY2024	HY2023	FY2023
Males	CMI_2022*_M[1.7%; Sk=7.4]	CMI_2021*_M[1.7%; Sk=7.5]	CMI_2022*_M[1.7%; Sk=7.4]
Females	CMI_2022*_F[1.7%; Sk=7.4]	CMI_2021*_F[1.7%; Sk=7.5]	CMI_2022*_F[1.7%; Sk=7.4]

* Calibration ages 20-90

The impact of the assumption changes can be seen through the changes in estimates that adjust the CSM in notes E3 and E4. These estimates are shown on a locked-in rate basis. Due to the significant increase in interest rates since many of the schemes were written, a material offset is included through Insurance Finance Expense reflecting the impacts being significantly smaller when calculating the change in present value of future cash flows and risk adjustment using current interest rates.

(b) Discount rates

Under IFRS 17, the discount rate used must reflect the characteristics of the liabilities both in terms of timing and liquidity. The rate can be determined using either a bottom-up or a top-down approach. Under a bottom-up approach the discount rate is based on a liquid risk-free yield curve and then an addition is made to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts. Rothesay uses judgement to assess liquidity characteristics of the liability cash flows. Where the asset cash flows do not perfectly match the liability cash flows a reinvestment assumption is assumed for the rate at which surplus asset cash flows within the asset model are reinvested. Under a top-down approach the discount rate is based on a yield curve that reflects the current market rates of return of a reference portfolio of assets adjusted to eliminate any factors that are not relevant to the insurance contracts, including credit risk. The reference portfolio comprises a mix of assets that Rothesay owns or expects to buy backing insurance liabilities, such as sovereign bonds, corporate bonds, infrastructure and secure

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(b) Discount rates (continued)

illiquid assets, which in aggregate closely match the cash flow profile of the liabilities. As such it is materially equivalent, and similar in composition to the total portfolio owned by Rothsay as detailed in note D.

We apply separate discount rates to value our insurance contracts and our longevity swap reinsurance contracts.

- For insurance contracts, we use a top-down approach to derive the discount curve based on the market consistent rate of return on a reference portfolio of assets appropriate to back the liabilities. In determining the rate of return on the assets in the reference portfolio, a deduction is made to reflect retained risks, i.e. credit default risk and property price risk.
- For collateralised longevity swap reinsurance contracts, we use a bottom-up approach which reflects the overall higher liquidity of assets cash flows which can be posted as collateral under the relevant contracts.

We use discount rates to measure the Best Estimate Liability (BEL) and RA and to determine the interest to accrete on the CSM, to measure the impact of adjustments to the CSM, and to derive the amortisation profile for CSM recognised during the period. The locked-in rates used for the CSM calculations for insurance and reinsurance contracts are in line with the discount rates used to discount the projected BEL and RA at initial recognition.

The table below summarises the overall weighted average discount rate, and spread above the risk-free curve (SONIA), for determining the BEL and RA for insurance contracts issued and reinsurance contracts held.

	HY2024 bps	HY2023 bps	FY2023 bps
Risk-free rate	386	401	330
Spread above risk-free rate	132	142	141
Aggregate discount rate	518	543	471

(c) Other economic assumptions

An important actuarial assumption relates to the future rate of escalation of certain annuity benefits. Where possible such rates are derived from inflation swap markets. Whilst that is still the case for more liquid inflation rates, there is not a sufficiently deep, liquid market to support setting the rate of limited price indexation (LPI). We have therefore projected these rates using LPI models based on realised LPI and other market inputs.

(d) Expense assumptions

Rothsay includes estimates of future expenses relating to fulfilment of contracts within the scope of IFRS 17 in the measurement of insurance contracts. These expenses include those attributable to the groups of contracts, which include an allocation of fixed and variable overheads. The allowance made for future expenses was updated at the end of 2023 following an investigation into the total costs incurred by Rothsay during 2023 and projected 2024 expenses.

The insurance contract liabilities future cash flows include both the projected expenses payable under the third party administration agreements and the long-term business overhead expenses expressed as an amount per policy. The average per policy allowance is £48 per policy per annum (HY2023: £44, FY2023: £48 per policy per annum). Additional allowances are then made for short-term project costs and investment management expenses.

Within these expense provisions, an allowance for future expense inflation has been made to cover the impact of both salary and price inflation. The future rate of expense inflation is assumed to be RPI (as implied by the RPI swap curve) for maintenance expenses, with an additional 0.25% p.a on some expenses (HY2023: 0.25% p.a., FY2023: 0.25% p.a on some expenses).

Notes to the financial statements **continued**

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(e) Risk adjustment (RA)

The RA reflects the compensation that Rothesay requires for bearing the non-financial uncertainty in the liabilities. The RA is an explicit measurement of the non-financial risks based on Rothesay's view of the economic burden imposed by the non-financial risks associated with the insurance contracts.

In determining the RA, we reflect this compensation by using the provision for adverse deviation approach (the PAD approach), under which we apply margins to the best estimates for demographic and expense risks. Allowances are also made for directly attributable operational risk and diversification between these risk factors.

The key risk factors considered in the RA for insurance contracts and the approach to calculating these risks include:

- Longevity/mortality risk margins are applied to the best estimate assumptions which are set based on quotes obtained for longevity reinsurance pricing, which represents the market price of longevity risk, which Rothesay considers an appropriate compensation for this risk.
- Spouse ratio/financial dependant risk margins are applied to the best estimate assumption used, which Rothesay considers an appropriate compensation for this risk.
- Expense risk, including both level and expense inflation risk. Expense level risk corresponds to the risk of an immediate and permanent change in the reserved expense levels, and expense inflation risk corresponds to the risk that the expenses increase in the future at a different rate to that assumed in the best estimate reserves. A fixed percentage increase over the best estimate assumptions is used for expense risk and expense inflation. Rothesay considers expense inflation based on an index as a financial risk, but any growth assumption basis above the index is considered a non-financial risk which is considered in the risk adjustment.

The calibration of these parameters is in line with the calibration of the underlying best estimate assumptions for these risk factors which is typically annually. The RA calibration for longevity risk and spousal risk were recalibrated for FY23. The recalibration reduced the size of the RA for longevity risk, reflecting a reduction in the market price of longevity risk, and an increase in the allowance for spousal risk. The confidence level reduced slightly as a result of the changes. The impact of the assumption changes can be seen through the changes in estimates that adjust the CSM in notes E3 and E4. These estimates are shown on a locked-in rate basis. Due to the significant increase in interest rates since many of the schemes were written a material offset is included through Insurance Finance Expense reflecting the impacts being significantly smaller when calculating the change in risk adjustment using current interest rates.

Allowance in the RA is also made for less significant risk factors such as risk of data error and impact of the timing of retirement. For reinsurance contracts held, the risk factors considered in determining the risk adjustment include the longevity/mortality risk and spouse/financial dependant risk. A consistent technique is applied to both insurance and reinsurance contracts, with the RA related to reinsurance reflecting the marginal change in RA as a result of transacting reinsurance contracts. Changes in RA are taken through profit and loss, rather than other comprehensive income.

We estimate that the calculated RA corresponds to a confidence level as follows:

Net of reinsurance	HY2024	HY2023	FY2023
Confidence level – 1 year basis	90%	91%	91%
Confidence level – ultimate basis	63%	64%	65%

The confidence level on an ultimate basis is derived by comparing the value of the RA to the relevant one year, 1-in-200 Solvency II SCR stresses on an IFRS 17 basis, projected for the lifetime of the liabilities. Confidence levels may vary from period to period due to changes in economic conditions or changes in the risk profile.

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.8 Sensitivity analysis

We assess the significant assumptions in measuring insurance and reinsurance contracts and provide sensitivities to the changes in the most material assumptions below. The schedule below provides an analysis of the reasonably possible movements in key assumptions that would have a material impact on adjusted operating profit (**APM**), profit before tax (PBT) and equity, at gross and net of reinsurance. Analysis is shown separately for adjusted operating profit (**APM**) and PBT because the former excludes the impact of assumption changes on the CSM. We have assessed the key risks in our insurance contracts and have shown the sensitivities of the material risks. The analysis is based on a change in a single assumption whilst holding all other assumptions constant. The analysis assumes an instantaneous shock to the assumptions other than for the interest rate and inflation sensitivities where the impact of dynamic hedging is allowed for as market conditions change.

HY2024	Change in assumptions	Increase/(Decrease) in adjusted operating profit (APM)		Increase/(Decrease) in PBT		Impact on equity	
		Gross £m	Net £m	Gross £m	Net £m	Gross £m	Net £m
Annuitant mortality	+5% qx	864	127	(430)	(47)	(322)	(36)
Annuitant mortality	-5% qx	(911)	(131)	435	42	326	31
Interest rate	+100bps	—	—	(1,009)	(975)	(757)	(731)
Interest rate	-100bps	—	—	1,197	1,199	898	899
Inflation	+100bps	—	—	713	735	535	551
Inflation	-100bps	—	—	(567)	(579)	(425)	(434)
Credit spread widening	+100bps	—	—	(678)	(580)	(509)	(435)
Change in property prices	+10%	—	—	62	62	47	46
Change in property prices	-10%	—	—	(95)	(95)	(71)	(71)
Expenses	+10%	(105)	(105)	35	35	26	26

HY2023	Change in assumptions	Increase/(Decrease) in adjusted operating profit		Increase/(Decrease) in PBT		Impact on equity	
		Gross £m	Net £m	Gross £m	Net £m	Gross £m	Net £m
Annuitant mortality	+5% qx	641	82	(451)	(39)	(345)	(30)
Annuitant mortality	-5% qx	(677)	(83)	441	34	337	26
Interest rate	+100bps	—	—	(447)	(419)	(342)	(320)
Interest rate	-100bps	—	—	549	542	420	414
Inflation	+100bps	—	—	365	385	279	294
Inflation	-100bps	—	—	(232)	(245)	(178)	(188)
Credit spread widening	+100bps	—	—	(570)	(474)	(436)	(363)
Change in property prices	+10%	—	—	40	39	31	30
Change in property prices	-10%	—	—	(64)	(64)	(49)	(49)
Expenses	+10%	(81)	(81)	39	39	29	29

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.8 Sensitivity analysis (continued)

FY2023	Change in assumptions	Increase/(Decrease) in adjusted operating profit (APM)		Increase/(Decrease) in PBT		Impact on equity	
		Gross £m	Net £m	Gross £m	Net £m	Gross £m	Net £m
Annuitant mortality	+5% qx	837	117	(371)	(59)	(284)	(45)
Annuitant mortality	-5% qx	(884)	(119)	374	55	286	42
Interest rate	+100bps	—	—	(931)	(853)	(712)	(653)
Interest rate	-100bps	—	—	1,158	1,097	886	839
Inflation	+100bps	—	—	562	555	430	424
Inflation	-100bps	—	—	(431)	(419)	(330)	(320)
Credit spread widening	+100bps	—	—	(427)	(329)	(327)	(252)
Change in property prices	+10%	—	—	68	67	52	52
Change in property prices	-10%	—	—	(104)	(103)	(79)	(79)
Expenses	+10%	(100)	(100)	39	39	30	30

The sensitivities shown capture non-linearity effects, which may be significant following large market movements.

The annuitant mortality sensitivity is defined in terms of a qx stress, where qx represents the probability of a life dying during the period. Given the qx stress relates to a non-economic assumption, any changes in the BEL and RA also lead to an adjustment of the CSM using locked-in economic conditions from group inception. As most historic business was inceptioned at a time when long-term interest rates were significantly lower than as at half year 2024, the impact of the qx stress on the CSM is larger than on the BEL and RA. This results in the impact on IFRS 17 profits being the opposite of that which might be expected (and which would be seen on other financial metrics), i.e. an increase in longevity would result in an increase in IFRS profits. This was also the case for the 2023 comparatives.

Notes to the financial statements **continued**

Note F – Risk and capital management

F.1 Capital management

Rothesay's capital resources are of critical importance. Rothesay's capital management framework is designed to meet the following objectives:

- to maintain financial strength in adverse conditions;
- to give customers long-term confidence in Rothesay;
- to satisfy its regulatory obligations;
- to match the profile of its assets and liabilities, taking account of the risk inherent in the business;
- to allocate capital efficiently to support new business growth;
- to retain financial flexibility by maintaining strong liquidity; and
- to provide an appropriate return to shareholders.

Rothesay had sufficient capital available to meet its regulatory capital requirements at all times during the period ended 30 June 2024.

Rothesay operates under the Solvency II regime. This regime is presently being adapted for the UK market as part of an HM Treasury review – several reforms relating to the Risk Margin and Matching Adjustment have already been implemented, with the remainder of the planned reforms scheduled to come into effect at the end of 2024. Once the Solvency II reforms are fully implemented, the regime will be referred to as Solvency UK.

Rothesay is required to hold sufficient assets to meet:

- Rothesay's technical provisions, being:
 - the liabilities of Rothesay calculated on a best estimate basis (the BEL); plus
 - the risk margin; less
 - available transitional solvency relief.
- The capital required to meet a 1-in-200-year stress (known as the solvency capital requirement or SCR).

Transitional solvency relief was recalculated as at 31 December 2023 and amortises by 1/16th each year from January 2017. As at 30 June 2024, solvency estimates allow for amortisation of 8/16ths of transitional solvency relief (HY2023: 7/16ths, FY2023: 7/16ths).

Rothesay's application to use a full internal model (FIM) for the calculation of the SCR was approved by the PRA for use from 30 June 2023. The FIM means that Rothesay's bespoke models are used for calculation of all risks and ensure that the allocation of capital to investment is consistent with the risk inherent in the types of highly secured and collateralised investments which are core to Rothesay's investment strategy.

Notes to the financial statements **continued**

Note F – Risk and capital management (continued)

F.1 Capital management (continued)

Capital in excess of that required to meet the technical provisions is known as Own Funds. As at 30 June 2024, Own Funds for Rothestay were £9,406m (HY2023: £8,574m, FY2023: £8,776m) made up as follows:

	HY2024 £m	HY2023 £m	FY2023 £m
Total IFRS equity	4,347	4,239	4,351
Liability valuation differences and other regulatory adjustments	2,463	2,584	2,565
Total Tier 1	6,810	6,823	6,916
Tier 2 debt valuation	2,135	1,323	1,402
Tier 3 debt valuation	461	428	458
Own Funds available to meet SCR	9,406	8,574	8,776
Own Funds eligible to meet SCR	8,563	8,138	8,466

Rothestay holds both debt and equity to optimise its capital structure and improve shareholder return. During June 2024, RLP issued £500m of GBP Tier 2 notes and \$325m of USD Tier 2 notes to provide additional capital for new business. Given Rothestay's solvency position and, in particular, the size of the SCR, some capital is not currently eligible as Own Funds to meet SCR. However, as we continue to write new business, solvency capital requirements will increase and all the capital will become fully eligible.

The capital position is sensitive to changes in market conditions, due to changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. Rothestay seeks to mitigate these risks through the close matching of asset and liability cash flows, and through the use of derivative hedges and reinsurance. Management monitors market conditions and emerging longevity experience on a regular basis. As these conditions change, management will take remedial action such as adjustment of hedging strategies and reinvestment of assets as appropriate.

Notes to the financial statements continued

Note G – Other statement of the condensed consolidated financial position notes

G.1 Deferred tax assets

Deferred tax balances comprise:

	HY2024 £m	HY2023 £m	FY2023 £m
Deferred tax arising from the impact of IFRS 17 initial application	—	396	396
Deferred tax on 2022 losses carried forward arising from IFRS 17 Profit & Loss restatement	—	304	304
Total deferred tax arising from IFRS 17 application	—	700	700
At 1 January	658	—	—
Reversal of IFRS 17 transitional losses	(35)	(33)	(66)
Other temporary differences	(8)	12	24
Total deferred tax	615	679	658

The movements in the deferred tax balances were as follows:

	HY2024 £m	HY2023 £m	FY2023 £m
Balance as at 1 January	658	713	713
Reversal of IFRS 17 transitional losses	(35)	(33)	(66)
Deferred tax (charged)/credited to equity	—	(2)	1
Current period income statement (expense)/credit	(8)	1	10
At 30 June/31 December	615	679	658

Deferred tax assets are only recognised to the extent that, based on management's assessment, they are regarded as recoverable. Management considers it appropriate to recognise a deferred tax asset on the IFRS 17 transitional losses in light of forecast future profits and the history of profits within the Group. The recoverability of the deferred tax asset has been assessed at each reporting period based on projected future taxable profits arising from the release of CSM and RA as insurance services are provided. We also expect to write business in the future which is expected to increase the future taxable profit against which the unused tax losses can be utilised.

Other temporary differences are the result of differences between the accounting and tax basis which will reverse over time.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a qualifying domestic minimum effective tax rate of 15%. The legislation implements a domestic top up tax and a multinational top up tax, effective for accounting periods starting on or after 31 December 2023. The Group has applied the exception under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top up income taxes. Rothsay does not currently expect the effect of the Pillar Two legislation to have an impact on the tax position in future periods.

Notes to the financial statements **continued**

Note H – Interests in subsidiaries

H.1 Investments in subsidiaries

The financial statements include the financial statements of Rothesay Limited and the subsidiaries listed in the following table:

Group undertakings	Country of incorporation	Primary business operation	HY2024 £m	HY2023 £m	FY2023 £m	HY2024 % equity interest	HY2023 % equity interest	FY2023 % equity interest
Rothesay Pensions Management Limited	UK	Service company	3	2	2	100%	100%	100%
Rothesay Life Plc	UK	Life insurance	2,464	2,464	2,464	100%	100%	100%
LT Mortgage Financing Limited	UK	Service company	6	6	6	100%	100%	100%
Rothesay Property Partnership 1 LLP	UK	Service company	—	—	—	100%	100%	100%
Rothesay MA No.1 Limited	UK	Service company	5	5	5	100%	100%	100%
Rothesay Mortgages Limited	UK	Service company	—	—	—	100%	100%	100%
Rothesay MA No.3 Limited	UK	Service company	2	2	2	100%	100%	100%
Rothesay MA No.4 Limited	UK	Service company	—	—	—	100%	100%	100%
Rothesay Asset Management UK Limited	UK	Service company	10	10	10	100%	100%	100%
Rothesay Asset Management Australia Pty Ltd	Aus	Service company	5	5	5	100%	100%	100%
Rothesay Asset Management North America LLC	US	Service company	5	5	5	100%	100%	100%

Subsidiaries are held at cost less impairment.

The above subsidiary undertakings, with the exception of Rothesay Asset Management North America LLC and Rothesay Asset Management Australia Pty Ltd, are registered in the United Kingdom. The registered office and principal place of business for all UK subsidiary undertakings is The Post Building, 100 Museum Street, London WC1A 1PB.

Rothesay Asset Management North America LLC is registered in Delaware, United States of America. The registered office is Corporate Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, New Castle County, USA.

Rothesay Asset Management Australia Pty Ltd was incorporated during July 2021 and is registered in New South Wales, Australia. The registered office is Level 12, 680 George Street, Sydney, NSW 2000, Australia.

Rothesay Property Partnership 1 LLP was incorporated during March 2021 and has not commenced trading.

Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited) was incorporated during March 2019 and underwent a name change in September 2022.

Rothesay MA No.4 Limited (RMA4) was incorporated during November 2019. RMA4 remains dormant.

During October 2019, Rothesay established a charitable foundation, Rothesay Foundation; this entity is not incorporated into the consolidated financial statements as the charity is controlled by its trustees rather than Rothesay Limited or the Group.

Notes to the financial statements **continued**

Note I – Other notes

I.1 Related parties disclosures

Ultimate holding companies

Based on the percentage of nominal share capital owned, the shareholdings of Rothsay's institutional investors are as follows:

- GIC Private Limited: 49%
- MassMutual Financial Group: 49%

The remaining percentage is owned by the Directors, management, employees, the Trust and the ESIP Trust (see note C.2).

Related party transactions

Rothsay entered into various transactions with fellow participating interests which are subject to common control from the same source.

	HY2024 £m	HY2023 £m	FY2023 £m
Statement of comprehensive income			
Net recovery from reinsurance contracts held	(2)	1	(1)
Finance expense for reinsurance contracts held	(9)	(1)	83
Investment return	2	(5)	36
Finance costs	(9)	(9)	(18)
Operating expenses	—	(1)	(1)
Statement of financial position			
Financial investments	1,181	358	583
Receivables	—	—	43
Reinsurance contract liabilities	(9)	(76)	(10)
Reinsurance contract assets	15	—	20
Borrowings	299	299	299
Capital	1,548	1,548	1,548

Financial investments comprises secured loans, investments in corporate and Real Estate Investment Trust (REIT) bonds and derivatives, the counterparties and or issuers of these investments are subject to common ownership by one of our shareholders. We have written a number of reinsurance contracts with one of our shareholders MassMutual Financial Group. All related party transactions were disclosed to and approved by the Board.

On 9 August 2024, the Board approved an interim dividend of 23p per share, this will be paid to shareholders later in the year. On 6 July 2023, the Board also approved an interim dividend of 23p per share which was paid to shareholders on 4 October 2023.

Notes to the financial statements continued

Note I – Other notes (continued)

I.1 Related parties disclosures (continued)

Transactions with key management personnel

Key management personnel comprise the Directors of the Company, Directors of subsidiary undertakings and certain members of senior management.

There are no material transactions between Rothsay and its key management personnel other than the transactions discussed below:

	HY2024 £m	HY2023 £m	FY2023 £m
Salaries, bonus and other employee benefits	6	6	30
Equity-based compensation payments	10	16	35
Pension costs	—	—	1
Total transactions	16	22	66

On 28 March 2024, members of key management personnel and their families sold 93,007 B ordinary shares to the employment benefit trust for consideration of £0.4m. (On 3 April 2023, members of key management personnel and their families sold 112,560 B ordinary shares to the employment benefit trust for consideration of £0.4m).

The tables below represent transactions between Rothsay Limited and its subsidiaries RPML, RLP, Rothsay Asset Management North America LLC (RAM NA) and Rothsay Asset Management UK Limited (RAM UK).

Transactions with RPML	HY2024 £m	HY2023 £m	FY2023 £m
Statement of financial position			
Other payables	15	14	8
Capital	3	2	2

Transactions with RLP	HY2024 £m	HY2023 £m	FY2023 £m
Statement of comprehensive income			
Finance costs	(2)	(1)	(3)
Cost transfer	(3)	(2)	(5)
Statement of financial position			
Other payables	101	87	91
Capital	2,464	2,464	2,464

Transactions with RAM UK	HY2024 £m	HY2023 £m	FY2023 £m
Capital	10	10	10

Transactions with RAM NA	HY2024 £m	HY2023 £m	FY2023 £m
Statement of financial position			
Other receivables	1	—	—

Notes to the financial statements **continued**

Note I – Other notes (continued)

I.1 Related parties disclosures (continued)

Transactions with LT Mortgage Financing Limited

Between 2018 and 2023, £5.9bn of lifetime mortgages were transferred from RLP to its subsidiary LT Mortgage Financing Limited (LTMF). During the first half of 2024 a further £0.5bn were transferred. Whenever lifetime mortgages were transferred, LTMF became the beneficial owner of the lifetime mortgages in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the lifetime mortgages. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes.

Transactions with Rothestay MA No.1 Limited

During December 2018, £0.8bn of ground rent loans were transferred from RLP to its subsidiary Rothestay MA No.1 Limited (RMA1). RMA1 became the beneficial owner in the ground rent loans in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the ground rent loans. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the loans after the securitisations through the loan notes.

Transactions with Rothestay MA No.3 Limited

Between 2020 and 2023, €2.0bn of Dutch mortgage loans were transferred from RLP to its subsidiary Rothestay MA No.3 Limited (RMA3). In each case, RMA3 became the beneficial owner in the Dutch mortgage loans in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the Dutch mortgages. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes.

I.2 Financial commitments and contingencies

During previous years, Rothestay executed transactions to purchase partly funded bonds, forward settling bonds and fund units with a commitment for future funding. During 2024, Rothestay purchased additional partly funded bonds and forward settling bonds. Rothestay has also signed up to a number of multi-year contracts, in relation to the provision of market data. Rothestay expects to pay a further £96m in relation to these commitments (HY2023: £293m, FY2023: £149m), £39m of this being due within 12 months of the financial reporting date (HY2023: £272m, FY2023: £122m).

	HY2024 £m	HY2023 £m	FY2023 £m
Not later than one year	39	272	122
Later than one year and no later than five years	40	21	27
Later than five years	17	—	—
Total other commitments	96	293	149

I.3 Post balance sheet events

On 5 August 2024, Rothestay announced its intention to call £400m of Tier 2 borrowings during September 2024. On 9 August 2024, the Board approved a dividend of 23p per share. Had the dividend been paid on 30 June 2024 then the profit and loss reserve would have fallen by £352m to £2,708m.

Alternative Performance Measures

As noted on page 14, throughout the financial statements Rothsay has used a variety of measures to provide stakeholders with the necessary information on the performance and financial position of Rothsay. Where it is possible to reconcile to the financial statements this is referenced; however, some of these measures are not on a consistent basis with IFRS and therefore the methodology is explained below. Where relevant, we have used accounting policies and assumptions that are consistent with the IFRS financial statements.

These measures are included in the monthly management information circulated and discussed by the Board.

Adjusted equity

Adjusted equity provides a reflection of value which aligns with the long-term value of the Group. Adjusted equity equals total equity plus CSM net of tax less the value of sterling-denominated RT1 debt and gives a value of £7.7bn (HY2023: £6.9bn, FY2023: £7.5bn).

Assets under management

Assets under management can be derived by adjusting total assets for reinsurance, payables, derivatives, collateralised financing and deferred tax asset as shown in the table below. By netting down the derivative gross up, Rothsay provides a more meaningful value for the assets managed and a useful measure of the size of business.

Assets under management (APM)	HY2024 £m	HY2023 £m	FY2023 £m
Total assets	116,579	98,304	103,203
Less reinsurance assets	(163)	(73)	(216)
Less payables and financial liabilities	(47,253)	(49,459)	(41,281)
Less deferred tax asset	(615)	(679)	(658)
Assets under management	68,548	48,093	61,048

New business premium

New business premium is defined as the present value of premiums paid or due to be paid on new business transacted during the period. It corresponds to the present value of future cash inflows in note E.5(a).

Alternative Performance Measures **continued**

Alternative presentation of IFRS profits

The alternative presentation of IFRS profits seeks to provide an explanation of the way in which profits have been generated by considering the movement in assets alongside the movement in liabilities. When taken together with the other items in the alternative analysis of profit generation, the items can be reconciled to the IFRS financial statements (see page 13). The adjusted operating profit and the profit before tax has been impacted following the transition to IFRS 17.

Measure	Reconciliation to IFRS
New business profit	New business premium less increase in best estimate liabilities and risk adjustment. After deduction of allocated acquisition expenses this is equal to the increase in CSM (APM) as a result of new business including new reinsurance (see note E.5).
New business acquisition expense	The new business acquisition expense are the expenses allocated to the execution of new business, equal to the amounts derecognised in 2023 and included in the measurement of insurance contracts (see note B.3).
Performance of in-force book	Insurance service result (adjusted for the impact of changes in assumptions and the impact of changes in the CSM) plus net investment income (adjusted for the impact of changes in economic conditions) less operating expenses. This represents the profit that can be attributed to: <ul style="list-style-type: none"> • differences in actual investment returns compared to those assumed; • the release of the risk adjustment as the business runs off and members exercise their options; • the release of credit default allowances; • the impact of actual demographic experience versus assumptions; • the investment return on surplus assets; and • offset by non-attributable expenses from note B.3.
Non-economic assumption changes	Effect of non-economic assumption changes on BEL and RA net of reinsurance.
Adjusted operating profit before tax	Sum of the rows above.
Increase in CSM	Increase in CSM (APM) as a result of new business, experience and non-economic assumption changes less the release of CSM on in-force business net of accretion (see note E.3). This is a new APM following the transition to IFRS 17.
Borrowing costs	Interest payable on borrowings. This is a subset of the finance costs shown in note B.4.
Economic profits/(losses)	Change in asset valuation due to changes in economic conditions less the effect of economic assumption changes on net insurance liabilities. Changes in economic conditions include movements in interest rates, inflation, exchange rates, credit spreads, credit default allowances, actual defaults and property prices. The release of credit default allowances over time is included in the performance of the in-force book. This item also includes the reinsurance fees from note B.3.
Profit before tax	Sum of the above and consistent with reported profit.

Alternative Performance Measures **continued**

Market consistent embedded value (MCEV)

Embedded value reporting provides investors with a useful measure of the future profit streams of Rothestay's long-term business. Rothestay therefore uses a number of APMs that are derived from MCEV measures in addition to those that are derived from IFRS-based measures.

Market consistent embedded value (APM)	HY2024 £m	HY2023 £m	FY2023 £m	
Net worth of Rothestay Limited	7,353	6,485	6,599	Total IFRS equity of £4,347m (HY2023:£4,239m; FY2023: £4,351m) and IFRS borrowings of £3,006m (HY2023: £2,246m; FY2023: £2,248m).
Value of in-force business	3,916	3,184	3,752	Value of emergence of IFRS margins and profit stored in the risk adjustment and CSM, allowing for the cost of capital.
Less: debt	(3,664)	(2,667)	(2,842)	Value of debt using a market value approach rather than the amortised cost valuation under IFRS. However, most of the difference between the value of debt on an MCEV basis and IFRS borrowings arises from the treatment of all the Restricted Tier 1 notes as debt under MCEV.
MCEV	7,605	7,002	7,509	

The movement analysis seeks to provide an explanation of the way in which MCEV has changed during the period. Acquisition expenses are allowed for in the MCEV value of new business and projects, and other one-off expenses are included in other non-operating variances. Administration expenses are allowed for in the management of in-force business.

The MCEV new business profit is the risk-adjusted value of the business written during the period, allowing for the unwind of margins and cost of capital. Note that unlike the IFRS 17 new business profit (**APM**), it does not include the impact of new reinsurance contracts that relate to historic new business. It provides a measure of the profitability of new business once all margins have been released and cannot be reconciled to the IFRS financial statements.

The assumptions and methodology used in the calculation of the MCEV is subject to review and approval by the Board.

Alternative Performance Measures **continued**

Solvency measures

Rothesay is a regulated entity under the Solvency II regulatory framework and therefore uses a number of APMs that are derived from Solvency II measures in addition to those that are derived from IFRS-based measures. The assumptions and methodology used in the calculation of solvency is subject to review and approval by the Board.

Own Funds represent the capital in excess of technical provisions and provide a measure of regulatory capital. A reconciliation of Own Funds to IFRS equity is provided in note F.1.

Under Solvency II, the capital required to withstand a 1-in-200-year event is known as the solvency capital requirement (SCR). SCR coverage is then Own Funds (capital in excess of technical provisions) that are eligible to meet the SCR divided by the SCR and expressed as a percentage. SCR coverage provides a measure of the financial strength of Rothesay. It is not possible to reconcile the SCR or the SCR coverage to the IFRS financial statements.

Other APMs

The longevity reinsurance percentage provides an indication of the extent to which Rothesay is protected from fluctuations in longevity through reinsurance. The percentage is derived by comparing the IFRS sensitivity of net insurance liabilities with the sensitivity of gross insurance liabilities to changes in assumed longevity (see note E.8).

For the following APMs, it is not possible to reconcile to the IFRS financial statements:

Measure	Definition	Why is this used
Customer satisfaction	Policyholder feedback surveys are sent to all policyholders following interaction with them (apart from complaints and bereavements).	Rothesay prides itself on the quality of the service that it provides and this APM provides a measure of the quality of that service.
Complaints received and upheld	The number of complaints received and upheld by Rothesay per 1,000 policyholders.	Complaints provide a useful indication of customer (dis)satisfaction.

These metrics are regularly discussed by the Customer Conduct Committee.

Glossary of terms

Adjusted equity	Adjusted equity provides a reflection of value which aligns with the long-term value of the Group. Equals total equity plus CSM net of tax less the value of sterling-denominated RT1 debt.
Adjusted operating profit before tax	See Alternative Performance Measures.
Alternative Performance Measure	Rothsay's strategy is focused on protecting the security of policyholder benefits, growth through writing value-driven new business and, ultimately, delivering sustainable shareholder value. In the opinion of the Directors, the prescribed IFRS results and disclosures do not capture long-term value creation or changes to capital requirements and therefore do not fully reflect the performance. Rothsay therefore uses a number of Alternative Performance Measures which focus on value creation and capital strength.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	See Alternative Performance Measures.
Best estimate liability (BEL)	The liabilities of Rothsay calculated on a best estimate basis under Solvency II and IFRS 17, i.e. where all the assumptions made in the calculation are best estimate.
Bulk annuity	A bulk annuity, sometimes referred to as a bulk purchase annuity, is a contract between a defined benefit pension scheme and an insurance company, whereby an insurance company insures some or all of the annuities being paid by the pension scheme.
Buy-in	Held as an asset of the pension scheme, a bulk annuity buy-in is a contract that covers all or some of the benefits for a subset of scheme members. The scheme retains responsibility for paying pensions to members but the contract protects the scheme against all risks relating to the insured benefits, for example longevity risk and inflation risk.
Buy-out	The bulk annuity buy-out is a contract that covers all of the benefits for all or a subset of scheme members. The insurer issues individual policies to members under which pensions are paid. Once all benefits are covered, the pension scheme can be wound up.
Carbon intensity	A measure of emissions that allows for comparison between entities of different size. It is measured in t CO ₂ e/million USD of revenue annually.
CO₂e	Carbon dioxide equivalent – greenhouse gases (GHGs) all have varying warming potentials and therefore in order to report one metric, other GHGs are converted to CO ₂ equivalent.
Collateralised agreements/ investments	Loans secured on property or other collateral.
Collective investment schemes	A way of investing money alongside other investors.
Contractual service margin (CSM)	Defined within the IFRS 17 standard as unearned profit on a group of contracts that relate to future service to be provided.
Corporate bonds and other corporate debt	These are debt securities issued by corporations which are not guaranteed by governments.
Credit risk	The risk of loss or of adverse change in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors.

Glossary of terms **continued**

Currency translation	Gains and losses incurred when translating the overseas subsidiaries into the sterling consolidated balance sheet.
Customer satisfaction	See Alternative Performance Measures.
Deferred annuities	Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.
Distributable profits	A company's profits available for distribution are its accumulated realised profits.
Economic profits	See Alternative Performance Measures.
Employee benefit trust (EBT)	A trust established to purchase and hold shares of the Company for delivery under employee share schemes.
Equity-based compensation	Share-based transactions awarded under incentive plans.
Fair value	Amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance costs	Represent interest payable on borrowings.
Fixed-for-term mortgages	Residential mortgages where the interest rate payable is fixed at outset for the whole term of the mortgage.
Full internal model (FIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
Government, sub-sovereign and agency obligations	A bond issued by a country's government or corporate debt which is guaranteed by a government to repay borrowed money at a specific time.
In-force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Infrastructure	Investments in infrastructure such as water, energy and transportation.
Insurance acquisition cash flows	Under IFRS 17, the cash flows which have been identified as insurance acquisition cash flows are allocated to groups of insurance contracts. These cash flows include expenses associated with the origination of new business, including annual compensation for employees.
Insurance finance income or expenses	Comprises the change in the carrying amount of the group of insurance contracts arising from (a) the effect of the time value of money and changes in the time value of money; and (b) the effect of changes in assumption that relate to financial risk.
Insurance revenue	Under IFRS 17, the amount charged for insurance coverage when it is earned rather than when it is paid.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
Insurance service expenses	Under IFRS 17, the costs incurred in providing insurance services during the period.
Insurance service result	Under IFRS 17, the insurance revenue less the insurance service expense, i.e. the insurance profit made on the provision of insurance coverage.
International Financial Reporting Standards (IFRS)	Accounting standards that are applied in preparing Rothesay's consolidated financial statements.
Investment profit from prior year	See Alternative Performance Measures.

Glossary of terms **continued**

Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the period.
Inwards reinsurance	Reinsurance where Rothesay is acting as the reinsurer.
Liability for incurred claims (LIC)	The liability for incurred claims includes unpaid claims and expenses.
Liability for remaining coverage (LRC)	Liability for remaining coverage represents the carrying amount of a group of insurance contracts at each reporting date. The LRC comprises the future BEL and RA cash flows that relate to services to be delivered in future periods and any remaining CSM.
Lifetime mortgages	Mortgages extended to older customers (aged 55 and over) against their residential property at low loan-to-value percentage. Unlike a typical residential mortgage, no interest is paid monthly by the customer. Instead, the interest is simply added to the principal loan amount with the loan only repayable on death or entry into long-term care of the last remaining homeowner.
Limited price indexation (LPI)	LPI is a pricing index used to calculate increases in components of scheme pension payments in the UK.
Liquidity premium	An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.
Liquidity premium adjustment	In calculating the MCEV, liabilities are discounted using the risk-free rate plus a liquidity premium adjustment, designed to capture the component of yield on a portfolio of assets that is attributable to liquidity rather than credit risk.
Liquidity risk	The risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due.
Longevity reinsurance (%)	See Alternative Performance Measures.
Longevity risk	The risk that a company could be exposed to a higher payout as a result of increasing life expectancy.
LTMF	LT Mortgage Financing Limited.
Market consistent embedded value (MCEV)	See Alternative Performance Measures.
Market risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
Matching adjustment	The matching adjustment, a concept in Solvency II, is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities.
Matching adjustment fund	A ring-fenced fund set up for Solvency II purposes. Liabilities written into the fund are discounted at a risk-free rate plus a matching adjustment derived from the assets in the fund. Such assets must meet eligibility criteria.
Mortality tables	A table which shows, for each age, what the probability is that a person of that age and gender will die before their next birthday.
Net worth	Under MCEV, the value of equity plus the value of borrowings on an IFRS basis.
Net zero	A state in which the GHGs going into the atmosphere (anthropogenic emissions) are balanced by their removal out of the atmosphere (carbon sinks/removal).

Glossary of terms **continued**

New business	New insurance contracts and reinsurance inwards sold during the period. Includes business acquired through purchase of companies.
New business premium	New business premium is defined as the present value of premiums paid or due to be paid on new business transacted during the period.
New business profit	See Alternative Performance Measures.
No negative equity guarantee (NNEG)	Lifetime mortgages provide what is known as a NNEG, which means that the mortgage repayment amount (loan principal plus interest on redemption) cannot exceed the sale proceeds of the property on which the loan is secured.
Non-attributable costs	These are operating expenses incurred in the period that cannot be directly attributable to a portfolio of insurance contracts (see note B.3).
Onerous contracts	An insurance contract is classified as onerous as at the date of its initial recognition if the sum of the fulfilment cash flows and the recognised insurance acquisition cash flows are a net outflow (i.e. there would have been a negative CSM).
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events.
Own Funds	Assets in excess of those required to meet the Solvency II technical provisions. See also Alternative Performance Measures.
Own risk and solvency assessment (ORSA)	An assessment of the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise Rothsay's business plans.
Partial internal model (PIM)	Under Solvency II, an insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA. All other risks are calculated using the standard formula.
Performance of in-force book	See Alternative Performance Measures.
Physical climate risk	Risks resulting from climatic events including acute and chronic impacts. Acute risks include droughts, floods, and wildfires. Chronic risks include rising temperatures, sea level rise, and an accelerating loss of biodiversity.
Pillar 1	Under Solvency II, represents the solvency capital requirement calculated using a standard formula or (partial) internal model.
Pillar 2	Under Solvency II, represents the required risk management principles and practices relating to the risk and capital estimates covered by Pillar 1.
Policyholders	Rothsay generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by Rothsay regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
Provision for adverse deviation (PAD)	The provision for adverse deviation approach reflects the compensation that Rothsay requires for bearing the non-financial uncertainty in the liabilities.
Prudential Regulation Authority (PRA)	The PRA is the UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
qx	qx is actuarial notation used to represent the probability of a life aged x dying during the period.
Reinsurance	Protection sold to or purchased from another insurance company.

Glossary of terms **continued**

Reorganisation reserve	Reflects the impact of Rothesay's reorganisation in 2013 which led to an increase in reserves of £132m, reflecting the excess of consolidated net assets to the historical cost of investment in subsidiary entities.
Responsible Investment	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.
Risk adjustment	Defined within IFRS 17 as the compensation that Rothesay requires for bearing the non-financial uncertainty in the (re)insurance contract liabilities.
Risk margin	Under Solvency II, the cost of transferring non-hedgeable risks.
RL	Rothesay Limited.
RLP	Rothesay Life Plc, the Group's regulated life company.
RMA1	Rothesay MA No.1 Limited.
RMA3	Rothesay MA No.3 Limited.
RMA4	Rothesay MA No.4 Limited.
RML	Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited).
RPML	Rothesay Pensions Management Limited, the Group's service company.
RSUs	Restricted share units.
S3PMA/S3PFA	S3PMA/S3PFA refer to mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. These represent version 3 of the industry standard tables derived from pensioner data from self-administered pension schemes. Separate tables are utilised for males and females.
SCR coverage %	See Alternative Performance Measures.
Secured investments	Bespoke investments where very high levels of collateral have been negotiated and returns are generated through illiquidity premium.
Share-based payment reserve	The share-based payment reserve relates to equity-based compensation awards.
Sk	Smoothing parameter in the CMI longevity improvement model determining the weighting on recent experience. Given recent improvements, a higher Sk than adopted by RL will generally lead to a higher initial assumed rate of mortality improvement.
Solvency capital requirement (SCR)	See Alternative Performance Measures.
Solvency II	The solvency regime applicable from 1 January 2016. Under Solvency II, Rothesay is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under Rothesay's own economic capital model Solvency II Pillar 2.
SONIA	The Sterling Overnight Index Average, abbreviated to SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.
Subordinated loan	A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for added risk through higher rates of interest. Under Solvency II, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency with limitations.

Glossary of terms **continued**

Third party administration (TPA) agreement	Contract with pensions administrator to process claims and payroll on behalf of Rothesay.
Transition plan	A transition plan sets out an organisation's approach for how it will align all its activities to net zero.
Value of new business on an MCEV basis	See Alternative Performance Measures.
Yield	A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

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