Rothesaylife

Rothesay Holdco UK Limited & Rothesay Life Plc

Solvency and Financial Condition Report
31 December 2018

Rothesay Life is one of the leading providers of regulated insurance solutions in the UK market for pensions de-risking. Established in 2007, Rothesay Life has grown to become one of the largest annuity providers in the UK market, with over £36bn of assets under management and insuring the annuities of over 770,000 individuals.

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1. Background

The Solvency II regime is based around a three pillar model:

- Pillar 1 – the qualitative and quantitative requirements for the calculation of solvency
- Pillar 2 – governance requirements and own risk assessment
- Pillar 3 – reporting requirements

The annual Solvency and Financial Condition Report (SFCR) is a key component of Pillar 3. The structure and contents of the SFCR are prescribed under Solvency II regulations.

The SFCR is structured as follows:

- Section A provides a description of Rothesay Life and its performance for the year ended 31 December 2018;
- Section B describes the system of governance for the Group;
- Section C describes the risks faced by the business and the mitigation techniques used;
- Section D provides details of the way in which assets and liabilities have been valued for solvency purposes; and
- Section E provides information on the Group's solvency position.

The required quantitative reporting templates (QRTs) have been provided as an Appendix to this report.

2. Scope

The SFCR covers both:

- Rothesay Holdco UK Limited (RHUK) and its subsidiaries (the Group, Rothesay, or Rothesay Life); and
- Rothesay Life Plc (RLP), the regulated insurance subsidiary.

A summary of the waivers and discretions held by RLP can be found in Section B.8.

Executive Summary

A. Business and performance

Rothesay Life is one of the leading providers of regulated insurance solutions in the UK market for pensions de-risking. Established in 2007, Rothesay Life has grown to become one of the largest annuity providers in the UK market, with over £36bn of assets under management and insuring the annuities of 770,000 individuals.

Rothesay Life is a wholesale annuity provider, sourcing business through three different channels;

- Bulk annuity business from pension schemes;
- Reinsurance of annuity portfolios followed by Part VII transfer; and
- Acquisition of other annuity providers.

The Group's business strategy is focused around three key objectives;
i) Protect the security of policyholder benefits.
ii) Grow through writing value driven new business.
iii) Safeguard our brand and culture.

The Group has delivered a strong performance in 2018 which included these key highlights:

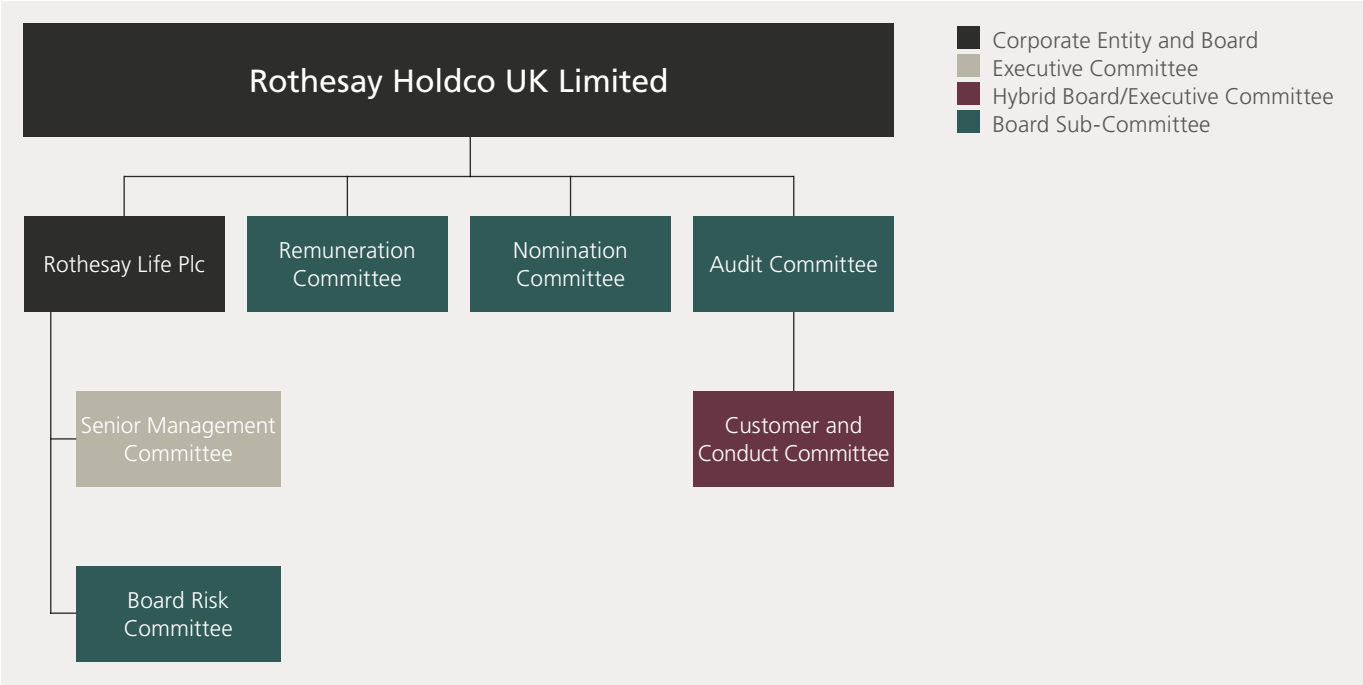
- **Purchase of £12bn of annuities:** The Group successfully completed the reinsurance of a £12bn block of in-force annuity business from Prudential plc (the 'Prudential transaction'). This was the largest transaction of its type in the UK and was funded through £380m of new equity and £350m of Restricted Tier 1 (RT1) notes.

  The transaction is structured initially as a reinsurance contract and covers around 340,000 individual policyholders who will remain customers of Prudential and continue to be serviced by Prudential until the Court-sanctioned transfer which is anticipated to take place during 2019.
- **New business:** In addition to the Prudential transaction, the Group assisted five pension schemes to de-risk their liabilities taking new business premiums to a record level for the Group of £13.2bn (2017: £1.2bn).
- **IFRS pre-tax profit:** Following completion of the Prudential transaction, we chose to de-risk the underlying assets and reinvest cautiously to take advantage of attractive market opportunities. Investments completed to date have out-performed our underwriting assumptions and we expect significant further IFRS profits to arise as we invest the remaining assets. While widening credit markets have dampened profits to £102m (2017: £312m), they also present opportunities to invest at more attractive levels.
- **Assets under management:** The Group's assets under management increased by 50% to £36.3bn (2017: £24.2bn), largely as a result of the Prudential transaction.
- **Equity release mortgages:** By funding new equity release mortgages and through the purchase of in-force books of equity release mortgages, most notably the acquisition of an £860m portfolio of equity release mortgages from UK Asset Resolution (UKAR), we have increased the value of our investment in equity release mortgages to £1.9bn (2017: £539m).
- **Partial internal model and solvency position:** The Group received approval from the PRA to use its partial internal model (PIM) for modelling the solvency capital requirement (SCR) for credit and counterparty risk from 31 December 2018. As at 31 December 2018 the Group's SCR coverage was 181% (2017: 169%) and Rothesay Life Plc's coverage was 180% (2017: 163%).
- **People:** We have continued to invest in the business through recruitment across the Group at all levels, including the appointment of a new Chief Technology Officer, a new Chief Auditor and a new in-house Chief Actuary.

B. System of governance

The Boards of Rothesay Life, together with management, are responsible for ensuring the security of our obligations to our policyholders and generating and delivering sustainable shareholder value through the management of the Group's business.

The Rothesay Group Committee structure is shown below:

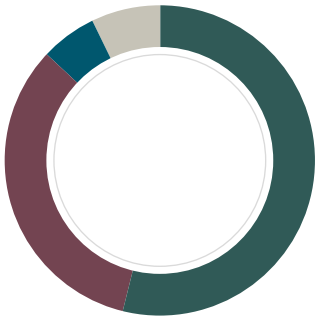


Rothesay's internal control system is designed to provide reasonable assurance that our financial reporting is reliable, is compliant with applicable laws and regulations and our operations are effectively controlled. The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems.

C. Risk profile

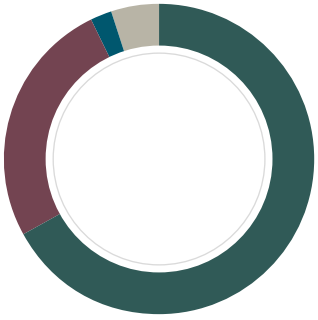
The Group is a wholesale annuity provider whose operations are materially within the United Kingdom. Our strategic approach is to de-risk our business in order to achieve attractive risk-adjusted returns. We aim to protect regulatory surplus and minimise balance sheet volatility by hedging longevity risk and adopting a cautious approach to investment.

Although the Prudential transaction materially increased the size of the Group's balance sheet, the risk profile of the acquired business is similar to existing business and did not therefore materially change the Group's risk profile. During 2018, the Group did increase its investment in equity release mortgages, increasing the Group's exposure to residential property prices as a result of the no negative equity guarantee. Given the significant growth in assets under management, we have also increased our exposure to corporate bonds.



Breakdown of SCR
as at 31 December 2018

Market risk	54%
Life underwriting risk	33%
Counterparty default risk	6%
Operational risk	7%



Breakdown of SCR
as at 31 December 2017

Market risk	67%
Life underwriting risk	26%
Counterparty default risk	2%
Operational risk	5%

Executive Summary continued

The charts on page 03 provide a breakdown of the Group's solvency capital requirement (SCR) post-diversification benefit between modules as at 31 December 2018 and 31 December 2017. Credit and counterparty risk capital for 31 December 2018 has been calculated using the PIM. Life underwriting relates mainly to longevity risk. Market risk is primarily spread risk. Further detail on each risk can be found in section C.

The management of risk is central to the success of the business. Every member of staff knows that he or she is responsible for the identification and management of risk. The Group's governance arrangements strengthen this principle by adding challenge, oversight and independent assurance from the second and third lines of defence. During 2018, the Group continued to invest in growing the size and capabilities of the risk function commensurate with the growth of the Group's balance sheet. The Group also brought the Chief Actuary role in-house.

D. Valuation for solvency purposes

The table below shows the technical provisions of the Group (which are the same for RLP) as at 31 December 2018. Transitional solvency relief is calculated using transitional measures on technical provisions. The transitional solvency relief shown for 31 December 2018 allows for the impact of recalculation on that date (as a result of PIM approval) and for amortisation of 2/16ths of the allowance. The transitional solvency relief shown for 31 December 2017 allows for recalculation on that date and for amortisation of 1/16th of the allowance.

	2018 £m	2017 £m
Best estimate liabilities	29,218	19,915
Reinsurance liabilities	2,198	1,272
Risk margin	1,512	1,163
Transitional solvency relief (gross of tax impact)	(733)	(1,215)
Net technical provisions	**32,195**	21,135

Net technical provisions increased from £21.1bn as at 31 December 2017 to £32.2bn as at 31 December 2018 largely as a result of new business. This was partially offset by a reduction due to a change in demographic assumptions (for more information see section D.2).

E. Capital management

The Group's capital resources are of critical importance. The Group'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 the Group;
- To satisfy our regulatory obligations;
- To match the profile of our 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.

Under the Solvency II regime, the Group and its insurance company subsidiary, RLP, are required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under our own economic capital models, Solvency II Pillar 2.

In practice, it is the Pillar 1 requirement which is more onerous and which has a direct impact on the Group's ability to pay dividends. The Group aims to maintain at least 130% of the regulatory minimum requirement. If solvency coverage exceeds 150% of SCR, the Board will consider the need for excess Own Funds to meet future opportunities or consider returning capital to shareholders.

The Group has implemented a dynamic capital management framework which uses interest rates and other hedging to target stability of the IFRS balance sheet under normal market conditions and seeks to manage both the IFRS and solvency balance sheets should market conditions deteriorate.

Capital support for the Prudential transaction was provided by the Group's shareholders with £380m of new equity being issued. In addition to the new equity, RLP issued £350m of RT1 notes. This, combined with continuing focus on proactive risk management, has ensured that the solvency position of the Group has remained robust throughout 2018. The Group utilises both debt and equity to optimise our capital structure and improve shareholder return.

The Group is in the process of converting each £0.001p ordinary share and £0.001p preference share into a new £0.002p ordinary share, thereby eliminating all of the Group's preference shares.

As noted previously, the Group received approval to use a PIM for the calculation of the SCR from 31 December 2018. The PIM means that the Group's bespoke models are used for calculation of credit and counterparty risk capital and ensures 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 the Group's investment strategy. The standard formula is used to calculate the SCR for all other risk components and for aggregation across risk components.

As at 31 December 2018, RLP had assets of £36,089m (2017: £23,980m) giving Own Funds of £3,895m (2017: £2,844m) and RHUK had assets of £36,112m (2017: £24,080m) giving Own Funds of £3,918m (2017: £2,944m).

Group SCR coverage increased from 169% at 31 December 2017 to 181% at 31 December 2018 and SCR coverage at RLP increased from 163% on 31 December 2017 to 180% on 31 December 2018. The increase in SCR coverage is largely as a result of adoption of the PIM. Group SCR coverage is higher than RLP SCR coverage because of additional assets held by RHUK as at 31 December 2017 and 31 December 2018. This can be seen in QRT S.23.01 Own Funds. This is summarised in the table below:

	RHUK		RLP	
	2018	2017	**2018**	2017
Tier 1 capital (£m)	**3,260**	2,280	**3,237**	2,180
Tier 2 capital (£m)	**658**	664	**658**	664
Own Funds available to meet SCR (£m)	**3,918**	2,944	**3,895**	2,844
SCR (£m)	**2,163**	1,745	**2,163**	1,743
Surplus above SCR (£m)	**1,755**	1,199	**1,732**	1,101
SCR coverage (%)	**181%**	169%	**180%**	163%
SCR coverage without transitional solvency relief (%)	**153%**	111%	**152%**	105%
MCR (£m)	**658**	442	**658**	442
Own Funds available to meet MCR (£m)	**3,392**	2,369	**3,368**	2,268
MCR coverage (%)	**516%**	535%	**512%**	513%

After allowing for amortisation of another 1/16th of transitional solvency relief on 1 January 2019, SCR coverage falls to 178% at RLP and 179% at RHUK.

RHUK and RLP have continued to meet both the Minimum Capital Requirement and Solvency Capital Requirement during 2018.

Events post year end

On 27 March 2019 RLP sold its €140m portfolio of Irish annuities to Laguna Life DAC in order to ensure that these customers continue to receive their pensions post-Brexit. The transaction is structured initially as a reinsurance contract with Monument Re Limited and covers around 500 policyholders who will remain Rothesay Life's customers until the effective date of a Part VII transfer to Laguna Life, at which point the reinsurance agreement will also transfer to Laguna Life.

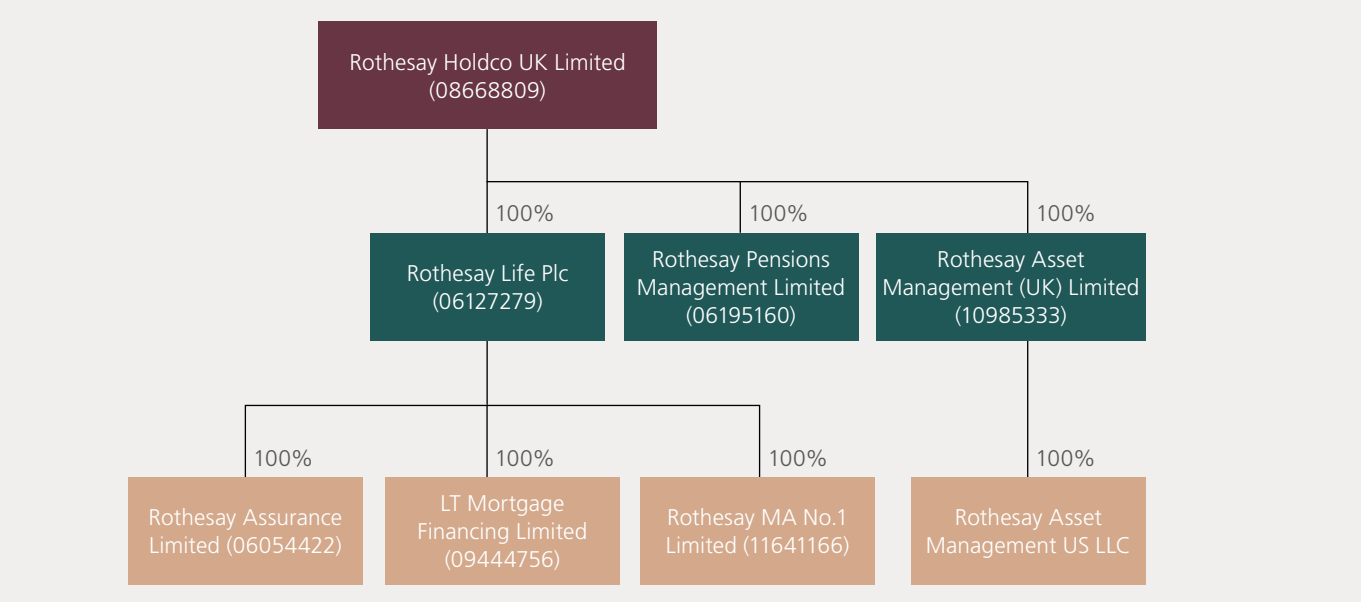
A. Business and performance

A.1 Business

A.1.1 Rothesay background and structure

RHUK is the ultimate holding company and is a UK Limited company with seven wholly owned subsidiaries. During the year, the Group established Rothesay MA No.1 Limited (RMA1) in order to allow us to restructure assets for matching adjustment purposes.

The Group issued £380m of new equity and issued £350m of RT1 loan notes from RLP. The structure of the Group is as shown in the diagram below:



A summary of the Group's entities is provided in the table below.

Group undertakings	Country of incorporation	Primary business operation	Value at cost £m	2018 % Equity interest	2017 % Equity interest
Rothesay Pensions Management Limited	UK	Service company	10	100%	100%
Rothesay Life Plc (formerly Rothesay Life Limited)	UK	Life insurance	1,764	100%	100%
Rothesay Assurance Limited	UK	Service company	–	100%	100%
LT Mortgage Financing Limited	UK	Service company	1	100%	100%
Rothesay MA No.1 Limited	UK	Service company	–	100%	N/A
Rothesay Asset Management UK Limited	UK	Service company	5	100%	100%
Rothesay Asset Management US LLC	US	Service company	5	100%	100%

Rothesay Pensions Management Limited (RPML) provides services to other companies in the Group.

RLP is the Group's regulated insurance entity.

Following the Part VII in December 2015, Rothesay Assurance Limited no longer writes insurance business and the PRA granted permission on 3 October 2016 to allow the Group to cancel the Part IV permissions of the company. This entity is dormant and in the process of being wound up.

LT Mortgage Financing Limited (LTMF) was incorporated as a wholly owned subsidiary of RLP on 17 February 2015. Following the approval of the PIM, a portfolio of ERMs was transferred to LTMF and a series of notes were issued to the matching and non-matching adjustment funds of RLP.

Rothesay MA No.1 Limited (RMA1) was incorporated as a wholly owned subsidiary of RLP on 24 October 2018. Following the approval of the PIM, loans secured on ground rents were transferred to RMA1 and a series of notes were issued to the matching and non-matching adjustment funds of RLP.

Rothesay Asset Management UK Limited was incorporated on 27 September 2017 as a wholly owned subsidiary of RHUK. The company has been set up as an intermediate holding company for Rothesay Asset Management US LLC and has no employees.

Rothesay Asset Management US LLC was incorporated as a limited liability company in the state of Delaware on 6 October 2017. Rothesay Asset Management US LLC will assist the Group in originating US assets on behalf of RLP.

A.1.2 Material lines of business and geographical areas

The Group is a wholesale annuity provider, sourcing business through three different channels:

- Bulk annuity business from pension schemes;
- Reinsurance of annuity portfolios followed by Part VII transfer; and
- Acquisition of other annuity providers.

The Group's operations are materially within the United Kingdom.

The Group manages the risks associated with our in-force portfolio of annuities in order to protect policyholder security and provide shareholders with a stable return. We look to use surplus capital to fund growth opportunities which we assess with a disciplined approach to risk and return.

A.1.3 Significant business events during 2018

The Group's new business premium for the year was £13.2bn (2017: £1.2bn) and this helped us to generate IFRS profit before tax of £102m (2017YE: £312m). Although the Prudential transaction materially increased the size of the Group's balance sheet, the risk profile of the acquired business was similar to existing business and hence the profile of the Group did not change materially during 2018.

The Group has increased its funding for equity release mortgages with the value of such loans increasing to £1.9bn by the end of 2018 (2017: £539m).

The Group received approval from the PRA to use the PIM for modelling the SCR for credit and counterparty risk from 31 December 2018.

A.1.4 Other information

Regulator

The Group supervisors can be contacted as follows:

Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 8AH
0207 601 4878

The Financial Conduct Authority
12 Endeavour Square
London
E20 1JN
0207 066 1000

Auditors

The statutory accounts are audited by PricewaterhouseCoopers LLP who can be contacted as follows:

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT
0207 583 5000

Shareholders

The shareholdings of each ultimate shareholder in RHUK as at 31 December 2018 based on economic interest are summarised below;

- The Blackstone Group L.P.: 35.85%
- GIC Private Limited: 35.85%
- MassMutual Financial Group: 24.67%

The remaining percentage is owned by the Directors, management, employees and the Rothesay Employee Share Trust.

RHUK holds 100% of the shares in RLP.

A. Business and performance continued

A.2 Underwriting performance

Since the Group prepares our financial statements in accordance with IFRS, the underwriting performance information given in this section is on an IFRS basis.

As noted previously, all of the Group's business risks and returns are within one business segment. The Group has a block of Irish business which is considered immaterial for segmental analysis. The split between regular premiums (payments of premium made regularly over the duration of the policy in relation to the in-force inwards longevity reinsurance business written in prior years) and single premiums (single payment of premium which covers the life of the policy) is shown below (please also see QRT S.05.01.02):

	Regular premiums		Single premiums	
	2018 £m	2017 £m	2018 £m	2017 £m
Group pension bulk annuities	263	263	928	978
Assumed reinsurance premiums	–	–	12,233	206
Total gross premiums written	**263**	263	**13,161**	1,184

Single premiums are made up of new business premiums of £13,100m and £61m of premium adjustments.

The Group achieved an operating profit before tax of £355m (2017: £382m) and a profit before tax of £102m (2017: £312m). The Group focuses on profit before tax as it's primary measure of profitability because this metric includes recurring and non-recurring items as well as market fluctuations and has a direct impact on distributable reserves.

IFRS financial performance	2018 £m	2017 £m
New business operating profit (with assets invested)	361	141
Management of in-force book	128	339
Acquisition costs	(105)	(85)
Administration expenses	(36)	(21)
Experience variance	2	(1)
Other	5	9
Operating profit before tax	355	382
Borrowing costs	(55)	(36)
Non-recurring and project expenditure	(20)	(48)
Economic (losses)/profits	(178)	14
IFRS profit before tax	102	312

With credit spreads on assets at relatively low levels and concern about potential deterioration in credit markets, the Group has taken the decision to remain overweight in gilts and cash. Investments completed to date have out-performed our underwriting assumptions but over £2bn of assets remain to be invested according to the Group's long-term investment strategy. As we invest the assets received from the Prudential transaction and other new business in line with our long-term investment strategy, we expect to generate significant additional IFRS profits.

New business profits in the table above are calculated assuming full investment of premiums and the impact of any under-deployment is reported in the table as a deduction from the management of the in-force book. New business profit for the year assuming full investment of premiums was £361m (2017: £141m).

The impact of under-deployment of premiums is offset by profits of over £200m being generated on the in-force book and changes in assumptions for 2018, notably £106m as a result of changes to demographic and expense assumptions and £82m as a result of updating the allowance for credit risk in the valuation rate of interest. The result shown in the table is a profit of £128m from management of the in-force book (2017: £339m).

Given the significant growth in the Group's assets under management, the Group has increased our exposure to corporate bonds. As corporate bond spreads widened during 2018 (i.e. bond prices fell), we increased the provision for credit default risk resulting in the Group making economic losses of £178m (2017: a profit of £14m).

The Annual Report and Accounts for the Group can be obtained from Companies House or via our website at www.rothesaylife.com.

A.3 Investment performance

The table below provides an analysis of the Group's financial investments and liabilities at fair value.

	2018 £m	2017 £m
Financial investments		
Collective investment schemes	1,390	1,028
Government, sub sovereign and agency obligations	16,047	12,019
Corporate bonds and other corporate debt	12,823	7,019
Derivative assets	11,451	10,735
Collateralised agreements and financing	2,028	2,402
Loans secured on property[1]	3,376	3,409
Equity release mortgages[1]	1,897	539
Certificate of deposits	162	161
Total financial assets	49,174	37,312
Financial liabilities		
Derivative liabilities	(11,790)	(11,165)
Collateralised financing agreements	(779)	(1,405)
Total financial liabilities	(12,569)	(12,570)
Net financial investments	36,605	24,742

1 £529m of equity release mortgages which were classified as loans secured on property as at 31 December 2017 have been separately identified following the increased significance of this asset class. £10m of life to date accrued interest on equity release mortgages which was included in the accrued interest balance as 31 December 2017 has been reclassified to be included in the fair value of equity release mortgages, as these are not receivable until the equity release mortgage is repaid and we believe that this is a more appropriate representation.

Net financial investments increased from £24.7bn at 31 December 2017 to £36.6bn at 31 December 2018, largely as a result of the Prudential transaction.

A.3.1 Investment return

The table below provides an analysis of the investment return:

	2018 £m	2017 £m
Interest income on financial investments at fair value through profit and loss	956	645
Unrealised (losses)/gains on financial investments	(686)	14
Realised (losses)/gains on financial investments	(93)	131
Investment management expenses	(36)	(21)
Total investment return	141	769

Interest received on financial assets net of interest payable on financial liabilities increased from £645m in 2017 to £956m in 2018, reflecting the growth in the size of the business.

The net movement in the fair value of assets including realised losses was a loss of £779m in 2018 compared to a gain of £145m in 2017. The fall in the value of assets in 2018 was due to a combination of rising interest rates and widening credit spreads and was largely offset by a similar reduction in insurance liabilities. Investment expenses increased from £21m in 2017 to £36m in 2018, in part due to the costs associated with the origination of equity release mortgages.

A.3.2 Information about profit and losses in equity

The Group did not recognise any gains and losses directly in equity.

Note, however, that under IFRS accounting, the coupon on the RT1 notes will be recorded though profit and losses in equity. As a result, from an IFRS perspective no accrual is required for the coupon on the RT1 notes. For solvency purposes, we are treating the accrued coupon as a foreseeable distribution (in forms S.23.01.22 for Group and S.23.01.01 for RLP).

A. Business and performance continued

A.3.3 Information about investments in securitisations

The Group holds notes issued by Finance for Residential Social Housing plc and Dublin Bay Securities, both of which are considered to be a securitisation. These are included in corporate bonds and other corporate debt above.

RLP holds notes issued by both LTMF and RMA1, wholly owned subsidiaries which were established in order to restructure both ERMs and ground rent loans for matching adjustment purposes.

A.4 Performance of other activities

The Group does not have any other material activities.

A.5 Any other information

There is no other material information on the business and performance.

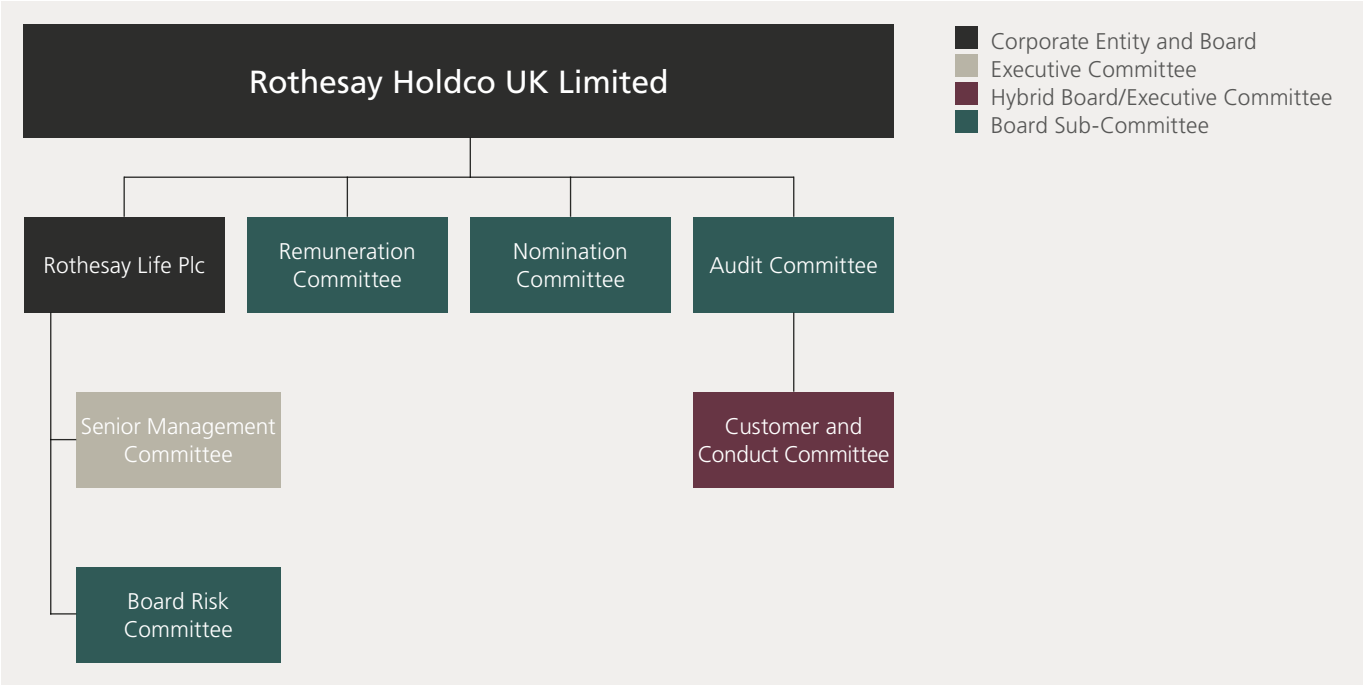
B. System of governance

B.1 General information on the system of governance

B.1.1 Corporate governance

The Boards of Rothesay Life, together with management, are responsible for ensuring security of our obligations to our policyholders and generating and delivering sustainable shareholder value through the management of the Group's business. We believe that the system of governance continues to be appropriate given the nature, scale and complexity of the risk inherent in the business.

The Rothesay Group Committee structure as at 31 December 2018 is outlined below:



The Boards and Board Level committees are comprised of a combination of Executives, shareholder representatives and Independent Non-Executive Directors (INEDS) and meet on a regular basis.

As a relatively simple group, Rothesay applies all of our risk management, internal control systems and reporting procedures at a Group level and they are therefore applied consistently across all entities in the Group and also at an employee level.

The Board of RHUK

The Board of RHUK is responsible to shareholders, policyholders, the PRA and other stakeholders for the overall performance of the Group. The Board of RLP has similar responsibilities in relation to RLP. The Boards' role is to provide oversight of and direction to the senior management team and to ensure that there is an appropriate risk and control framework.

The RHUK Board has a schedule of matters reserved for its consideration and approval, including:

- Group strategy and business plans;
- Material new investments and new insurance trades;
- Acquisitions and disposals;
- The constitution of Board Committees;
- Capital management policy including dividend policy; and
- Other key Group policies.

B. System of governance continued

Board Committees

A robust Board with an effective committee structure facilitates the governance framework of the Group. The Board is supported by the Audit Committee, the Board Risk Committee, the Remuneration Committee and the Nomination Committee.

Membership of the Committees as at 31 December 2018 is shown in the table below:

	Board Risk Committee	Audit Committee	Nomination Committee	Remuneration Committee
Chairman	Stan Beckers	Bill Robertson	Naguib Kheraj	Naguib Kheraj
INED Members	Ray King Naguib Kheraj Charles Pickup Bill Robertson	Richard Berliand Ray King Terry Miller Charles Pickup	Richard Berliand Ray King Charles Pickup	Stan Beckers Terry Miller
Shareholder Director Members	Qasim Abbas	Robin Jarratt	Qasim Abbas Robin Jarratt Tim Corbett	Qasim Abbas Robin Jarratt Tim Corbett

Audit Committee

The Audit Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit process, and the Group's process for monitoring compliance with laws and regulations and the business principles. The Committee has unrestricted access to management and external advisors to help discharge its duties.

The Committee has a majority of Independent Non-Executive Directors with an appropriate mix of expertise and experience.

The Committee's main responsibilities on behalf of the Group are to:

- Review the effectiveness of the Group's internal controls;
- Monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- Review the effectiveness of the system for monitoring compliance with laws and regulations;
- Oversee the activities of the Customer & Conduct Committee, which focuses on regulatory conduct and the fair treatment of customers;
- Review the effectiveness of the system for risk governance and monitoring;
- Monitor the integrity of the financial statements of the Group;
- Monitor the integrity of the Group's Solvency II reporting, including quantitative reporting templates, the Solvency and Financial Condition Report and the Regular Supervisory Report;
- Consider and recommend the appointment, reappointment and removal of external auditors of the Group;
- Review the Group's whistleblowing arrangements for its employees; and
- Consider and recommend to the Board the assumptions underlying the financial statements.

Board Risk Committee

The Board Risk Committee of RLP is authorised by the Board. The Committee's primary responsibility is the ongoing monitoring of all risks associated with the activities of the Group, within the parameters set by the Board and as set out in the risk and investment policies of the Group. The Committee is also responsible for the oversight of the executive level Working Level Risk Committee (WLRC).

The Committee has a majority of Independent Non-Executive Directors with an appropriate mix of expertise and experience.

The Committee carries out the following duties on behalf of the Board in respect of the Group:

- Monitoring the Group's overall risk appetite and tolerance;
- Reviewing the Group's risk framework and risk policies, standards and limits within the overall appetite and tolerance and recommending such to the Board;
- Considering the Group's process for determining risk appetite tolerance, monitoring compliance with approved risk tolerance levels and policies and the resultant action in respect of policy breaches;
- Monitoring and analysing the Group's material risk exposures, including insurance, market, credit, operational, liquidity, reputational and economic and regulatory capital risks in the context of the Group's risk methodologies;

- Commissioning management's action to monitor and control risk exposures;
- Review the results of the Group's stress-testing and monitor management's response to such results;
- Receiving notification of material breaches of risk limits and approving the proposed remedial action where such cases are escalated to the Board Risk Committee;
- Reviewing and approving any new material liability transactions to be executed by the Group which meets the criteria established by the Boards and applicable policies;
- Reviewing and approving any new asset transactions that falls outside existing approval limits to be executed by the Group which meets the criteria established by the Boards and applicable policies;
- Advising the Board on the risks inherent in strategic transactions and business plans and the impact on the Group's risk appetite and tolerance;
- Reviewing the Group's capability to identify and manage new types of risk;
- Considering the remit of the Group's risk function and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively;
- Evaluating whether the Group's risk function has adequate independence;
- Reviewing the effectiveness of the risk function and its resourcing upon any significant one-off increase in risk exposures or increase in assets under management by 20% or more;
- Providing oversight to the risk function and receiving reports from the risk function in relation to Solvency II requirements in respect of systems of governance and risk management;
- Monitoring and reviewing reports from the WLRC and Chief Risk Officer (CRO); and
- Reviewing key assumptions underlying economic capital calculations, individual capital assessments and the risk and solvency assessments and reviewing any major regulatory submissions involving capital.

The Committee is supported in its duties by the WLRC which is responsible for the ongoing monitoring and control of all financial risks, insurance risks and operational risks associated with the activities of the Group. The WLRC has 14 members and is chaired by the Chief Risk Officer.

Remuneration Committee

The Committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of the Group and for reviewing compliance with the policy in so far as it relates to senior managers and other employees. Within the context of the Group's remuneration policy the Committee is specifically responsible for making recommendations for the remuneration packages of the Independent Non-Executive Directors, Executive Directors, individuals whose remuneration is regulated under applicable regulation (including but not limited to the Solvency II regulations) and other senior managers of the Group. The Committee is further responsible for monitoring the level and structure of remuneration for the wider employees of the Group.

The Committee is composed solely of Non-Executive Directors with an appropriate mix of expertise and experience. Membership includes representation from the Group's three largest shareholders in order to ensure that remuneration structures have their support. The Independent Non-Executive Directors form a majority given the Chairman's casting vote.

Nomination Committee

The Committee is responsible for monitoring the balance of skills, knowledge and diversity on the Board, identifying and recommending Board, Board Committee and senior management appointments to the Boards of the various Group entities, as appropriate and monitoring succession plans for the Executive Directors and the development plans of senior management within the Group.

The responsibilities of the Committee include reviewing the structure, size and composition of the Board of Directors, identifying and nominating candidates to fill Board vacancies as and when they arise and approving senior management appointments.

The Committee is composed of a majority of Non-Executive Directors with an appropriate mix of expertise and experience. Membership includes representation from the Group's three largest shareholders in order to ensure that decisions about senior appointments have their support.

B. System of governance continued

Customer & Conduct Committee
The Customer & Conduct Committee assists the Group to ensure that it consistently delivers fair outcomes to customers, clients and counterparties and that senior management are taking responsibility for ensuring that Group and staff at all levels deliver outcomes appropriate to their business through establishing an appropriate culture.

The duties and responsibilities of the Customer & Conduct Committee include:

- Ensuring adherence to the FCA Treating Customers Fairly outcomes;
- Identifying and considering wholesale conduct risks and market integrity issues arising from the Group's investment strategy;
- Reviewing the Group's management and measurement of conduct risks; and
- Overseeing the Group's response to policyholder complaints.

The Committee is composed of ten members and is chaired by Richard Berliand, an Independent Non-Executive Director.

Senior Management Committee
The Senior Management Committee is chaired by the Chief Executive Officer of the Group and its membership includes senior members of appropriate business and control units. The Committee has been delegated by the Boards of the Group the powers of day-to-day oversight and management of the business and affairs of the Group, subject to any specific matters reserved for consideration by either of the Boards of the Group. The Committee is accountable for business standards and practices, including risk management.

B.1.2 Material changes in the governance structure
The systems of governance are monitored on an ongoing basis to ensure that they remain robust and appropriate for the size of the organisation and the breadth of the Group's activities.

No material changes were made to the governance structures during the year.

Following Richard Berliand's appointment as Chairman designate of TP ICAP plc, Richard has decided to stand down as an Independent Non-Executive Director of the Group from 28 February 2019. The Nomination Committee has appointed a new Independent Non-Executive Director, Simon Morris, with effect from 14 February 2019. Therese (Terry) Miller has assumed Chairmanship of the Customer & Conduct Committee.

B.1.3 Remuneration policies and practices
The remuneration policy is intended to:

- Promote sound and effective risk management;
- Align individuals' incentives with multi-year performance;
- Discourage excessive or concentrated risk-taking;
- Allow the Group to attract and retain proven talent; and
- Align aggregate remuneration with the performance of the Group as a whole and encourage teamwork.

This is achieved by ensuring that variable remuneration is linked to the Group's key performance indicators adjusted for current and future risks. The CRO provides input to the annual appraisal process and financial metrics are not considered when evaluating the performance of second and third line staff.

Remuneration packages combine a base salary, cash bonuses and a long-term share-based incentive plan (the RHUK SIP). The remuneration policy includes provision for part of the cash bonus to be deferred and the RHUK SIP ensures that stock vests and is delivered over several years. Any bonus that has been deferred is capable of a downwards adjustment or forfeiture and the rules of the RHUK SIP ensure that equity and cash awarded in the future can be clawed back even after vesting.

Share option schemes
The Group does not operate a share option scheme.

Pension schemes
The Group operates a defined contribution pension scheme and contributions to the scheme are charged to the statement of comprehensive income as they accrue.

B.1.4 Material transactions with related parties

During 2018 the Group entered into various transactions with fellow participating interests which are subject to common control from the same source.

Key management personnel comprise the Directors of RHUK, Directors of subsidiary undertakings and certain members of senior management. There are no material transactions between the Group and its key management personnel other than transactions discussed below:

	2018 £m	2017 £m
Salaries, bonus and other employee benefits	20	15
Equity based compensation payments	4	2
Total transactions	24	17

On 18 December 2017, members of key management personnel and their families sold stapled £0.001 B ordinary shares and £0.001 preference shares to The Blackstone Group L.P., GIC Private Limited and MassMutual Financial Group for consideration of £60m.

B.2 Fit and proper requirements

The Fit and Proper Policy was initially approved by the Board in November 2015 and was subsequently updated to ensure compliance with the Senior Managers & Certification Regime (SMCR). The policy identifies who is in scope, how fitness and propriety will be assessed for both new starters and on an ongoing basis and the governance arrangements in relation to individuals being approved as being fit and proper, including Rothesay's requirements concerning skills, knowledge and expertise applicable to persons who effectively run the business. The FCA Handbook requires firms to ensure that anyone performing a Senior Management Function or Certification Function is fit and proper for their role. This requirement also applies to Non-Executive Directors who are not Senior Managers.

The Group's assessments of individuals' fitness and propriety reflect the SMCR fit and proper requirements, namely:

- Financial soundness;
- Honesty, integrity and reputation; and
- Competence and capability.

In addition, the Nomination Committee ensures that the Boards collectively possess appropriate qualifications, experience and knowledge about at least:

- Insurance and financial markets;
- Business strategy and business model;
- Solvency II requirements for the system of governance;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

The Group employs the following procedures to assess fitness and propriety:

1) Performance against the applicable PRA Conduct Standards and FCA Conduct Rules;
2) Performance against internal policies and procedures;
3) Disclosure and Barring Service (DBS) checks;
4) Review of historic regulatory references;
4) Annual performance reviews and assessments; and
5) Self-attestation annually.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management framework

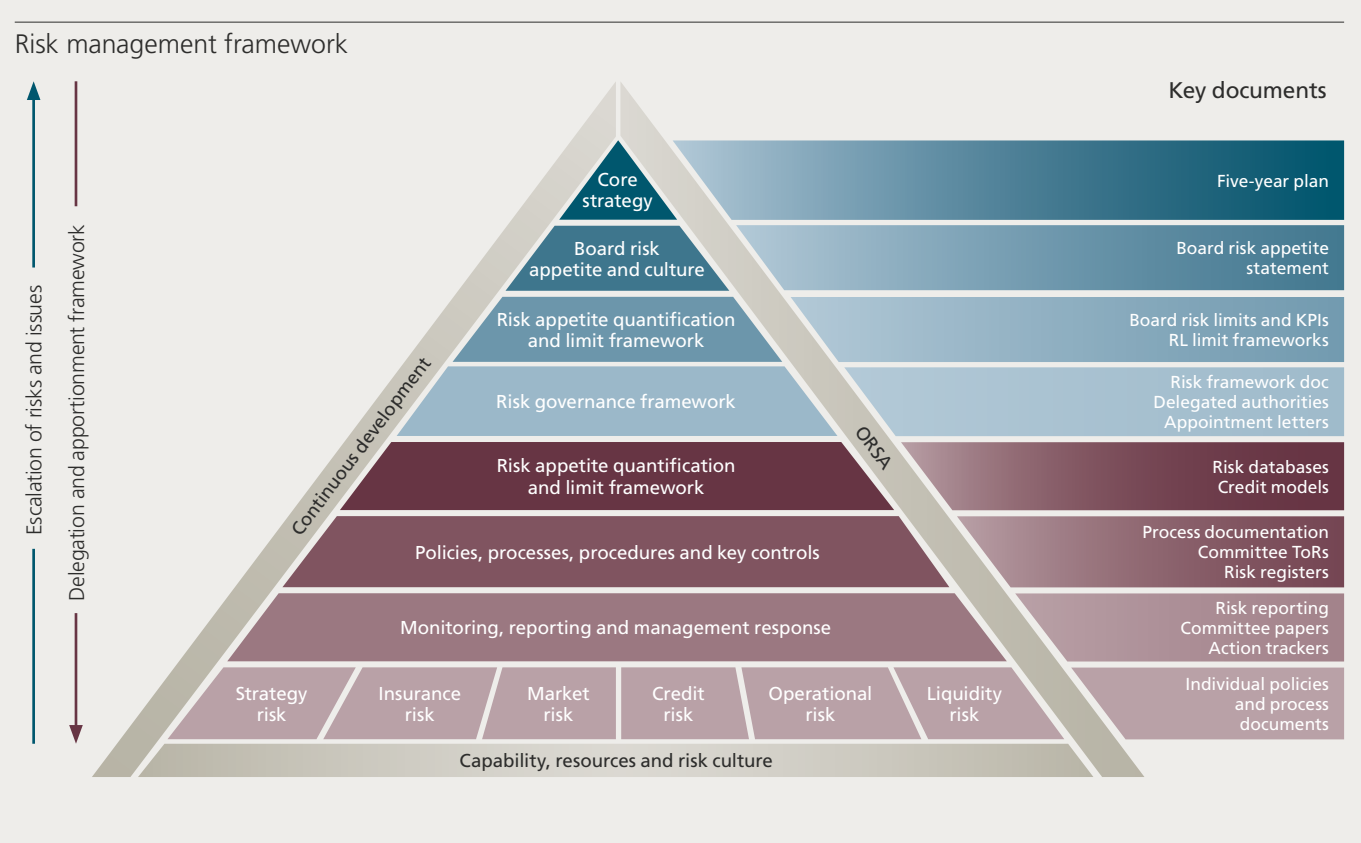
The Group looks to embed proactive and effective risk management across the organisation via the risk management framework (RMF). During 2018, the Group further invested in growing the size and capabilities of the risk function to ensure that the function is well equipped to challenge and support the business as it continues to grow in line with the Group's business plan. During the year several areas of the RMF have been enhanced to further strengthen Rothesay Life's risk management. These include liquidity risk management and the management of non-financial risks such as model risk and outsourcing risk. The RMF informs and is directed by Rothesay Life's business strategy. Risk management considerations are integral to setting business strategy, as we seek to optimise our risk-adjusted returns and create shareholder value whilst also meeting the expectations of our customers.

B. System of governance continued

Core strategy

Rothesay Life'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; and
- To safeguard Rothesay Life's reputation.



Board risk appetite and culture

Rothesay Life's risk appetite expresses the types of risk that the Board is willing to be exposed to in pursuing strategic objectives. The Board's risk appetite sets the tone for the culture of risk management throughout the organisation.

Our strategic approach is to de-risk our business in order to achieve attractive risk adjusted returns. We aim to protect regulatory surplus and minimise balance sheet volatility by hedging longevity risk and adopting a cautious approach to investment. Risk taking is therefore limited to circumstances where we believe that we fully understand the inherent and residual risks, where we are able to manage them within prudent, observable levels and where incurring the risks provides sufficient value to our stakeholders.

We aim to substantially mitigate the financial risks in our portfolio in order to protect policyholders, lock-in value and to safeguard capital surplus such that excess capital may be deployed into attractive risk-adjusted new business opportunities where the Group believes it has a comparative advantage.

The risk appetite categorises risks as Desired, Tolerated or Undesired. First order risks that are core to our business model (desired), second order risks that we incur as a result of our business model but seek to mitigate or manage to influence risk/return (tolerated) and second order risks that we seek to fully eliminate to the extent possible (undesired). Risk appetite has remained consistent year on year.

Risk type	Definition	Risk preference		
		Undesired	Tolerated	Desired
Strategy risk	The risk of loss in future earnings and capital arising from changes in the competitive, economic, legal or political environment, changing customer behaviour, or a failure to select appropriate strategic or long-term business plans.			●
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions, or changes in longevity or other expectations.			●
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.		●	
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.			●
Liquidity risk	The risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due	●		
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events	●		

Risk appetite quantification and limit framework

The risk limit framework was enhanced in 2018 and is intended to ensure the stability of earnings and solvency position of the business. Risk appetite is translated into quantifiable limits and early warning triggers that prompt management action to avoid our risk exposures breaching the Board's risk appetite. Limits exist in relation to market, counterparty, liquidity, demographic and longevity risks and are sized with reference to our overall risk appetite and capital position. Limits are constantly reviewed and regularly reported against.

Risk governance framework

Rothesay Life's risk governance arrangements strengthen the risk-taking and risk management by the business by adding challenge, oversight and independent assurance. During 2018, this framework was enhanced to ensure compliance with the Senior Managers and Certification Regime (SMCR). Rothesay Life adopts the principles of a 'three lines of defence' model for risk management that provides a consistent, transparent and clearly documented allocation of accountability and segregation of functional responsibilities.

- **First line:** Day-to-day risk management is delegated from the Board to the CEO and, through a system of delegated authorities, to business managers. Rothesay Life also makes the distinction between:
  - the risk-taking functions, including investment and new business origination; and
  - the control functions, whose responsibility it is to ensure the integrity of the Group's operations and reporting. These include operations, finance and legal.
- **Second line:** Risk oversight is provided by the Chief Risk Officer (CRO), his team and risk management committees. The executive-level WLRC is chaired by the CRO and consists of relevant senior managers working within a delegated risk management framework. This Committee, and its sub-committees, review all material new investment, hedging or liability transactions, and is supported by a number of other committees which focus on risks arising from new activities, methodology and assumptions underlying our financial modelling and the management of third party suppliers.
- **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the Internal audit function.

B. System of governance continued

The Board has overall responsibility for the management of the exposure to risks and is supported by the Board Risk Committee whose membership consists entirely of Non-Executive Directors and looks to ensure that the management of the business is conducted within the delegated risk framework from the main Board.

Systems and infrastructure

The Group operates an integrated system infrastructure which captures all assets and liabilities centrally and provides us with the capability to report and monitor risk daily at both the portfolio and the individual transaction level. Close coordination of underwriting, reinsurance, investment and risk hedging functions ensures risk management is central to all aspects of the business, and that new business pricing reflects latest market conditions, hedging costs, investment opportunities as well as comprehensive liability analysis.

Policies, processes, procedures and key controls

Our risks are grouped into one of six categories: strategy, insurance, market, credit, operational and liquidity risk. Rothesay Life has developed appropriate processes and documented procedures, appropriate controls and other risk mitigation techniques in order to manage them effectively. The Group policy framework ensures that an appropriate suite of risk management policies is maintained which set out the principles and standards for risk identification, measurement, mitigation, control and monitoring.

Monitoring, reporting and management response

We monitor our risk exposures against risk appetite as well as management actions on a continuous basis to confirm that our risk mitigations are effective. We then report our monitoring to oversight committees and individuals with responsibility for risk management in order to inform business decisions. Monitoring considers both those risks to which the Group is currently exposed, in addition to emerging risks that may impact the Group in the future.

The Group has implemented a recovery and resolution framework which includes a comprehensive toolkit of actions that may be taken in order to improve solvency or liquidity at times of stress. In addition, the Rothesay operating model has been mapped in detail, including the interconnectedness of entities within the Group and the use of external vendors, allowing a robust resolution plan to be put in place in the extremely unlikely event that Rothesay was to enter into solvent run-off in the future.

Capability, resources and risk culture

Rothesay Life seeks to attract and retain the highest quality talent in the industry. The effectiveness of our risk management depends upon the high quality of staff employed by Rothesay Life and the strong risk culture and risk management practices. Consequently, training is conducted so that everyone understands their role in how to manage risk effectively and risk management is considered as part of all performance reviews.

B.3.2 Own Risk and Solvency Assessment (ORSA)

The ORSA represents a key component of the Group's risk management and strategic planning framework, requiring the risk profile of the Group to be thoroughly understood, including capital that should be held to support this risk profile based upon prevailing market conditions and also under stressed conditions across a five-year time horizon. The report also provides a comparison of capital requirements derived using the Group's own economic capital models compared to the statutory capital requirements calculated under Solvency II Pillar 1.

The ORSA process includes an assessment of our capital requirements over the next 12 months, in particular the amount of capital that would be required to withstand a 1-in-200 year event. A thorough risk identification exercise is performed to highlight those risks that should be captured within our economic capital model. The level of economic capital required is then derived using stresses consistent with the 99.5% confidence level movement over a 12 month timeframe. The instantaneous capital available to the Group is recalculated under the movement of each risk factor.

Dependencies between risk factors are derived, where possible consistent with observed correlations and a multivariate distribution for the capital available to the Group created by combining the marginal distributions and the dependencies. A Monte-Carlo simulation is run with 100,000 scenarios and the capital available to the Group determined in each. The capital requirement is determined as the 99.5% confidence level adverse change.

This analysis is supplemented by a suite of portfolio stress tests which target key risks present within the asset portfolio at any one time. As such, the stress tests performed will vary over time as the composition of the asset portfolio, and hence risk profile of the Group, changes. The results of the stress testing analysis form a key input to risk management and investment decisions. Such stress testing focuses on areas of correlated risk across the balance sheet, such as property risk or unsecured credit exposures.

A further important component of the ORSA process is the forward looking risk assessment. We start by identifying circumstances which could increase the likelihood of business failure and could therefore cause the market to lose confidence in the firm. This can happen even before our regulatory capital position has fallen below minimum statutory requirements and can lead to difficulties in raising capital or transacting business with new and existing counterparties. The impact of the selected scenarios on our business projections, including our solvency position, IFRS earnings and market consistent embedded value, are then assessed, allowing potential management actions to be identified and explored. Furthermore scenarios that may render our business non-viable are explored as part of a reverse stress testing exercise, allowing management actions to be developed where appropriate.

The ORSA includes consideration of the suitability of the Pillar 1 capital calculation versus those capital requirements derived from the Group's own view of risk/Pillar 2. Following the approval of the Group's partial internal model (PIM) for spread and counterparty risk at the end of 2018, the Pillar 1 calculation is now based on the PIM for these risks and the standard formula for all other risks. As part of the ORSA process, it has been assessed that the standard formula is materially appropriate for those risks not covered by the PIM, but nonetheless the Group will extend the internal model to cover all risks over time.

While an annual ORSA report is produced, the ORSA process is continuous and helps inform our business strategy and capital requirements over time. Furthermore, ad hoc ORSA exercises may be conducted if a material change in the risk profile of the Group was to take place in between the annual reviews. The Boards of the Group are involved throughout the ORSA process, from setting the Group risk appetite, to discussing the suite of stresses that should be applied to our business model.

B.3.3 Partial internal model (PIM)

Governance

The Board is accountable for ensuring the ongoing appropriateness of the design and operation of the internal model. The following bodies support the Board in their governance of the internal model. Their responsibilities cover the development of new models, their ongoing use and review, and changes to the existing model.

- The Board Risk Committee assists the Board in the ongoing monitoring of the internal model, including accountability for model reviews and the classification, approval and implementation of model changes. The Board Risk Committee is accountable for conducting model validation and delegates this responsibility to the CRO.
- The Audit Committee's responsibilities include the external reporting of the internal model results and reviewing the quality and independence of the validation process.
- The CRO has overall responsibility for running the model, ensuring that it is appropriate for its purpose, functions are expected, complies with all relevant regulatory requirements and is in line with the key principles.
- The executive level Working Level Risk Committee is responsible for the on-going monitoring and control of risks associated with the activities of the Group. A number of duties and responsibilities are delegated to the Economic Capital Model Working Group (ECMWG), which is a senior body responsible for the approval of calibrations and methodologies for the internal model. The ECMWG plays an active role in the model development, use and change on an ongoing basis. This includes reviewing relevant internal model reports and management information produced by first and second line functions across the business.
- The day-to-day running of the internal model is performed by the Actuarial Function. The process and results are reviewed and monitored by the Risk Function.

Material changes to the internal model

The PIM was approved for use from 31 December 2018 and so the approach to internal model governance changed from that applicable during the development phase and that described above.

Validation approach

The partial internal model is subject to a regular cycle of validation and ongoing performance monitoring. The purpose of validation is:

- The provide the management and the Board of Rothesay Life with confidence that the internal model reflects the Group's risk profile.
- To demonstrate to supervisory authorities that the capital requirements calculated by the PIM are appropriate.
- To provide assurance that the PIM is operating effectively, and can be relied upon at all times.
- To provide assurance that the inputs, methodologies and outputs of the PIM are representative of the Group's risk profile.
- To provide this assurance to the management and Boards of Rothesay Life from an independent perspective.
- To identify model shortcomings and/or identify potential improvements to the PIM that can then be addressed for the next review cycle.

Validation is an ongoing activity which takes different forms over the lifecycle of the PIM. The model was subject to full initial validation before the application for approval was made. Thereafter, types of validation include:

- Validation of new internal model components and model changes.
- Regular validation as part of the ongoing validation cycle.
- Other ad hoc validation, for example at the request of the Board or BRC.

A range of processes and methods are use to validate the internal model. These are both quantitative and qualitative tests and include certain tests that are compulsory (under Solvency II), subject to their appropriateness and guidance on the use of proportionality and materiality. The CRO is responsible for validation and for ensuring that the team undertaking the work is suitably qualified and independent from the development of the model.

B. System of governance continued

B.4 Internal control system

B.4.1 Internal control system

Rothesay's internal control system is designed to provide reasonable assurance that our financial reporting is reliable, is compliant with applicable laws and regulations and our operations are effectively controlled. The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. In practice the oversight and management of these systems necessarily involves participation of the Board, the Audit Committee, the Board Risk Committee, Senior Management, Risk, Finance, Compliance, Legal, Business Managers, various committees and Internal Audit.

Primary responsibility for ensuring day-to-day oversight of the internal control system lies with Rothesay's Senior Managers (SMFs) and Key Function Holders. Rothesay promotes the importance of appropriate internal controls by:
i) ensuring that all personnel are aware of their role in the internal control system through, for example, Statements of Responsibilities;
ii) ensuring a consistent implementation of the internal control systems across the Group;
iii) establishing, monitoring and reporting mechanisms for decision making processes; and
iv) continually reviewing the adequacy of the internal control system through risk and controls self-assessment exercises.

Please see Section B.3 on the previous page for a description of the internal control system relating to the risk function.

B.4.2 Compliance

Compliance's missions are to:

- Protect the Group's reputation and manage compliance risk by partnering with the business to develop commercially viable solutions that are in accordance with applicable laws, rules and regulations;
- Demonstrate its commitment to the highest ethical standards in the conduct of its business and advance the Group's business; and
- Establish the framework for managing the Group's compliance risk.

The Chief Compliance Officer and Money Laundering Reporting Officer are classified by the FCA as Senior Management Functions (SMF16 and SMF17) and these are required functions. The Group's Compliance function operates independently from the business and reports to the Chief Risk Officer. The Chief Compliance Officer also has direct access to the Board and the Audit Committee, in order to assist management with possible conflicts of interest.

Compliance interacts with regulatory bodies and authorities. Compliance monitors trends and changes in regulations and shares information and collaborates with regulators to manage reputational and compliance risks.

Compliance engages in a variety of activities and processes to identify, assess, control, measure, mitigate, monitor and report compliance risks across the Group as a part of its oversight and administration of the Compliance Programme.

A Board approved Compliance Manual details all aspects of the Group's Compliance arrangements with a number of supporting policies providing further details on specific subject matters including Gifts and Entertainments, Personal Account Dealing, Whistleblowing and Conflicts of Interests. These policies are reviewed and updated on an annual basis or as a result of regulatory change.

B.5 Internal audit function

The internal audit function (Internal Audit) has been established by the Audit Committee in order to assist the Audit Committee in fulfilling its oversight responsibilities.

The primary role of Internal Audit is to help the Board and Management to protect the assets, reputation and sustainability of the organisation. It does this by assessing whether all significant risks are identified and appropriately reported to the Board and Management; assessing whether they are adequately controlled; and by encouraging Management to improve the effectiveness of governance, risk management and internal controls.

A new Chief Auditor (CA) joined the Group in May 2018 and she has been tasked with strengthening the in-house internal audit function. The CA's reporting line is to the Chairman of the Audit Committee. On a day-to-day basis she also reports to the CFO and Managing Director.

The Audit Committee approves all decisions regarding the performance evaluation, appointment, or removal of the CA. The Remuneration Committee will also review and approve recommendations made by the Audit Committee in relation to the CA's annual compensation and salary adjustment.

Rothesay's Internal Audit Policy states that internal audit activity will remain free from interference by any element of executive management, including matters of audit selection, scope, procedures, frequency, timing, or report opinion to permit maintenance of a necessary independent and objective mental attitude, which is monitored by the Audit Committee.

Individuals who undertake the internal audits have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity

that may impair the internal auditor's judgement. Internal Audit will avoid possible conflict of interest between audit responsibilities and any other responsibilities.

Neither the CA nor any internal audit staff perform any other controlled function including the compliance, risk management and actuarial functions.

The Group operates a co-sourcing approach to internal audit using external advisors to supplement the in-house internal audit team. During 2016, the Group re-tendered these services with the result that EY was appointed.

Internal auditors that have been recruited internally will not audit activities or functions that they have performed in the last 12 months.

B.6 Actuarial function

During 2018, a new Chief Actuary was appointed by the Group and the role brought in-house. The Chief Actuary reports to the CRO and also has responsibility for the oversight of insurance risk.

The Chief Actuary and the actuarial function are responsible for a range of activities including:

- Co-ordinating the calculation of technical provisions, including:
  - Ensuring the appropriateness of methodologies, models and assumptions;
  - Comparing the best estimates against experience;
  - Assessing the adequacy and quality of data used; and
  - Informing the Board of the reliability of the calculation;
- Opining on the underwriting policy and adequacy of reinsurance arrangements; and
- Contributing to the effective implementation of the risk management system, in particular to the modelling risk in respect of the ORSA and MCR/SCR calculations.

Each of these activities is undertaken on at least an annual basis.

The Chief Actuary is supported by:

- The capital and actuarial reporting team which consists of twelve actuaries and actuarial students and which reports to the Chief Financial Officer; and
- The longevity team, which consists of the Head of Longevity, one actuary, one actuarial student and two quantitative analysts which report to the Head of Asset and Liability Management.

The additional responsibilities of the Chief Actuary do not create conflicts of interest.

B.7 Outsourcing

With the exception of staff employed in the US by Rothesay Asset Management US LLC, RPML employs all of the Group's management and staff and provides services to the other companies in the Group.

The Group has chosen to outsource some of our operational functions and activities in order to take advantage of economies of scale and external expertise. Rothesay maintains oversight of these outsourced functions in line with our Third Party Oversight policy. The following key functions and activities have been outsourced or partially outsourced:

- Risk software and some IT provision to Goldman Sachs.
- Pensions administration to Jardine Lloyd Thomson, Capita Employee Benefits and Willis Towers Watson.
- Middle office operational activity (settlements and collateral management) to Northern Trust.
- UK payroll to Midland HR.
- International payroll and HR support to Vistra.
- Background checks to Verifile.

All of these providers have entities located within the EU (with the exception of the US payroll provider).

As noted above, the Chief Actuary role was brought in-house from Willis Towers Watson during 2018.

The Group has adopted an Outsourcing Policy which is intended to establish a prudent risk management framework in relation to the management of the outsourcing arrangements and ensure compliance with the relevant regulatory requirements. The policy covers the entire outsourcing lifecycle, from identifying the need for outsourcing through relationship management and oversight and provides processes to effectively manage risk associated with outsourcing relationships.

B. System of governance continued

B.8 Any other information

B.8.1 PRA waivers and discretions

The table below provides a summary of the waivers and discretions held by RLP up to 31 December 2018.

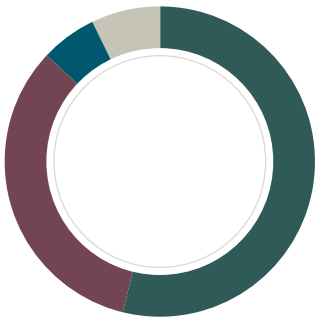
Date granted	Reference number	Permission
2 December 2015	2197307	Permission to apply a transitional deduction to our technical provisions.
17 December 2015	2199952	Requirement to produce an ORSA covering RLP and RAL as a combined Group (pre the cancellation of RAL's permissions).
11 April 2016	2625239	Permission to recalculate the transitional deduction as at 10 March 2016 to reflect the impact on the Group's risk profile of the Aegon transaction.
7 November 2016	3106329	Permission to recalculate the transitional deduction as at 30 June 2016 to reflect the change in economic conditions between 10 March 2016 and 30 June 2016.
2 December 2016	3184816	Decision to allow the Group to produce a single Group-wide SFCR.
28 December 2017	4850533	Permission to recalculate the transitional deduction as at 31 December 2017.
14 March 2018	4897286	Permission to recalculate the transitional deduction as at 14 March 2018 to reflect the impact on the Group's risk profile of the Prudential transaction.
5 September 2018	4996708	Decision to classify £350m of loan notes issued by RLP in September 2018 as restricted tier 1 capital.
3 December 2018	4973403	Approval to use the PIM for the calculation of the SCR.
	5083226	Permission to apply a matching adjustment as per a revised application and addendum covering securitisation of ERMs.
	5083260	Permission to recalculate the transitional deduction as at 31 December 2018 to reflect the impact of the PIM.

As part of the approval to apply a revised matching adjustment, the initial matching adjustment approval (reference 2197797) was revoked.

C. Risk profile

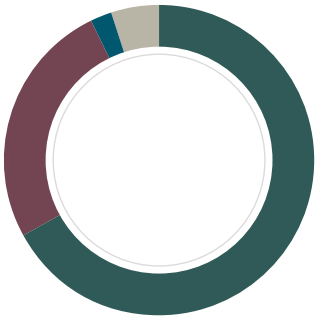
The Group is a wholesale annuity provider whose operations are materially within the United Kingdom. Our strategic approach is to de-risk our business in order to achieve attractive risk-adjusted returns. We aim to protect regulatory surplus and minimise balance sheet volatility by hedging longevity risk and adopting a cautious approach to investment. For further information in relation to the Group's risk exposures and concentration, please refer to the Annual report and accounts.

The chart below provides a breakdown of the Group's solvency capital requirement (SCR) post-diversification benefit between modules as at 31 December 2018 and 31 December 2017. Credit and counterparty risk capital for 31 December 2018 has been calculated using the PIM. Life underwriting (or insurance risk) relates mainly to longevity risk. Market risk is primarily spread risk. Please refer to QRT S.25.02.



Breakdown of SCR
as at 31 December 2018

Market risk	54%
Life underwriting risk	33%
Counterparty default risk	6%
Operational risk	7%



Breakdown of SCR
as at 31 December 2017

Market risk	67%
Life underwriting risk	26%
Counterparty default risk	2%
Operational risk	5%

The management of risk is central to the success of the business. Every member of the staff knows that he or she is responsible for the identification and management of risk. The Group's governance arrangements strengthen this principle by adding challenge, oversight and independent assurance from the second and third lines of defence.

During 2018 the Group continued to invest in the risk and compliance functions to meet the needs of the Group and to be able to respond robustly to the changing nature of the uncertainties facing the Group.

An overview of the risks associated with the business including an outline of how they are each mitigated is provided in this section of the SFCR.

Changes in the Group's risk profile and emerging risks

2018 saw the Group continue to grow, including the successful completion of a deal to transfer around £12bn of liabilities from Prudential. The Group now manages the retirement benefits of over 770,000 members.

The Group has continued its strategy of investment in a diverse range of assets, including providing investment to critical UK infrastructure assets such as the Thames Tideway Scheme. The Group has also continued to grow its exposure to equity release mortgages, through funding new origination as well as acquiring back-books of mortgages. The Group sources assets globally in order to achieve its targeted risk-adjusted returns, and has increased its capabilities in the US market while also enhancing its expertise in the domestic corporate debt markets.

This evolving investment strategy, together with the backdrop of political uncertainty, market volatility and increasing uncertainty over future life expectancy, has meant that the Group's proactive approach to risk management has continued to be crucial in delivering to the Group's strategic objectives and ensuring continued financial security for our policyholders.

The Group has continued to strengthen its control functions and the risk function, bringing in additional experts in credit risk as well as bringing the Chief Actuary role in-house for the first time.

There continue to be changes in accounting regulation, asset trading markets, pensions and tax, the effects of which are highly uncertain. For example, during 2018 the PRA consulted on changes to the treatment of equity release mortgages under Solvency II which led to publication of Policy Statement 31/18 'Solvency II: Equity release mortgages' and the final Supervisory Statement (SS) 3/17 'Solvency II: Matching adjustment – illiquid unrated assets and equity release mortgages.' The Group can already meet the Effective Value Test and, if implemented today, the statement would have no impact on the Group's solvency position. However, the risk remains that the PRA or other regulators make changes in the future which do adversely impact the Group's business model.

Brexit

As a UK insurer serving the domestic market, the Group's business model is largely unaffected by the UK's decision to leave the EU. However, the Group does have a small portfolio of Irish annuities which we are looking to transfer to an EU-domiciled insurer during March 2019. We also have a number of ex-pat policyholders based outside the UK. In the unlikely event that we are prevented from making payments to such policyholders then we will look to take reasonable steps to ensure continuity of pension payment.

C. Risk profile continued

The Group has reviewed its investment portfolio, suppliers and counterparties in the context of a 'hard Brexit' and taken action to minimise any impact and ensure contract continuity.

The continued uncertainty over the UK's future political and financial relationship with the EU and the potential implications for financial markets, provide investment challenges for all UK insurers. A 'hard Brexit' could have an adverse financial impact on the Group, for example because of movements in interest rates, credit spreads or exchange rates, but regular stress testing of the balance sheet ensures that the financial and solvency impact of such an exit is within our risk tolerances.

Longer term

The Group has identified a number of emerging risks that could impact the business over the medium to long term. Geopolitical risk continues to be high across Europe and the US, driven by changes in government or evolving global relationships.

Over the longer term there are risks relating to climate change and how this could impact the Group's investments, and emerging or changing drivers of population mortality, including antimicrobial resistance, new screening technologies, dementia management and scope for pharmacological breakthroughs. The Group's investment policy requires consideration of the potential impact of climate change on new investments.

The Group continues to manage its affairs prudently such that it is not over-exposed to one particular risk and so that it only accepts risks which it understands and where it is adequately rewarded for accepting the risk.

C.1 Insurance risk

The projection of annuity obligations used for pricing and reserving requires a number of actuarial assumptions to be made. Similar to other bulk annuity providers, the performance of the Group's business will primarily depend on the actual experience of mortality rates and longevity improvements. Systemic changes in mortality rates could arise, for example, from a cure for a major disease (e.g. cancer) being found in the near term.

The Group also needs to make a number of other assumptions, including the proportion of deferred and immediate annuitants that have a dependant eligible for contingent benefits, dependant's age and the proportion of deferred annuitants opting to take a proportion or all of their benefit at retirement (or before) as a lump sum.

Longevity and other demographic risks are mitigated through:

- Strict underwriting criteria and the use of reinsurance targeting a majority of insured lives. Assumptions used in the projections are determined using historic experience, rating models or reinsurance pricing. Given the nature of the larger bulk annuities that the Group writes, the assumptions used can be derived specifically from the population under consideration.
- All reinsurance contracts entered by the Group have been implemented through the use of unfunded longevity swaps where no initial premium outlay is required. 78% of longevity risk on an IFRS basis was hedged as at 31 December 2018 (2017 82%).

Insurance risk also includes expense risk. Expenses are managed through close monitoring of expenditure and careful budgeting.

As at 31 December 2018, the required capital for underwriting risk pre-diversification, based on the standard formula (classified as underwriting risk), is £1,114m (2017: £799m). Please refer to QRT S.25.02. Insurance risk increased over the year as a result of new business. This was partly offset by an increase in the use of reinsurance. Information on risk exposures and concentration on an IFRS basis are included in the Annual Report and accounts Note 23.

C.2 Market risk

Market risk is the risk of changes in the value of the Group's net asset position due to changes in market prices. Financial investments are accounted for at fair value and, therefore, fluctuate on a daily basis. Categories of market risk include the following:

- Interest rate risk arises from discounting cash flow mismatches across all future dates. Profits and losses are generated through changes in the level, slope and curvature of interest rate curves. The risk is hedged closely by matching assets and liabilities and by using interest rate swaps. Consideration is given to both the Group's IFRS and solvency risk positions when determining the appropriate hedging strategy.
- Inflation rate risk results from mismatches in the index linkage of annuities and assets. Profits and losses are generated through changes to the level, slope and curvature of inflation curves. The risk is hedged by matching assets and liabilities and by using inflation swaps.
- Currency rate risk results from mismatches in the denomination of annuities and assets. Profits and losses are generated due to changes in the level of foreign exchange rates. The risk is hedged using spot foreign exchange and cross currency swaps.
- Property risk results from investments that are secured on commercial or residential properties. Profits and losses may be generated by material movements in spot, or forward property prices. This risk is mitigated through strict underwriting criteria and low loan to value limits. Where the property risk becomes more material then prudent allowance is made for this within the credit risk adjustment.
- Spread risk results from spread widening on assets that are held in the non-matching adjustment fund or from assets held in the matching adjustment fund which are not used to back the technical provisions. Under Solvency II, spread risk capital is also intended to cover the credit risk associated with bonds, loans and securitisations.

The Group manages market risk by diversifying exposures, controlling position sizes through limits and regular stress and scenario testing and establishing economic hedges in related securities, derivatives and insurance liabilities. The CRO and the risk function, which is independent of management and reports to the Chief Executive Officer and the Chairman of the Board Risk Committee, has responsibility for ensuring an appropriate framework is in place for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

The tables below show sensitivities on an IFRS basis to movements in interest rates and inflation.

Interest rate risk sensitivity analysis

2018 RHUK and RLP Change in variables	Impact on PBT £m	Impact on IFRS equity up to a year £m
(+) 1 basis point	(0.30)	(0.24)
(-) 1 basis point	0.30	0.24

2017 RHUK and RLP Change in variables	Impact on PBT £m	Impact on IFRS equity up to a year £m
(+) 1 basis point	(0.24)	(0.20)
(-) 1 basis point	0.24	0.20

There was no change in the method used for deriving sensitivity information and significant variables during the year.

Inflation rate risk sensitivity analysis

2018 RHUK and RLP Change in variables	Impact on PBT £m	Impact on IFRS equity up to a year £m
(+) 1 basis point	(0.45)	(0.37)
(-) 1 basis point	0.45	0.37

2017 RHUK and RLP Change in variables	Impact on PBT £m	Impact on IFRS equity up to a year £m
(+) 1 basis point	(0.38)	(0.30)
(-) 1 basis point	0.38	0.30

As at 31 December 2018 the required capital for market risk (including spread risk and concentration risk) pre-diversification is £1,451m (2017: £1,404m). For 2018, the capital in relation to spread risk has been calculated using the PIM. Please refer to QRT S.25.02 and Section E.4. Market risk increased over the year in line with the Group's best estimate liabilities. This was partially offset by the impact of the PIM.

C.2.1 Concentration risk

The Group mitigates concentration risk by investing in a diversified portfolio of assets and, where positions are more concentrated, seeking appropriate collateral or other forms of security. As a result, only two investment positions (2017: one) lead to holding capital against concentration risk and the impact of this on the Group's SCR is not significant.

C. Risk profile continued

C.2.2 Prudent person principles

In line with the prudent person principles, and embedded within the investment policy, before investments are made consideration is given to a number of risk indicators to ensure that investments:

- Are of a suitable quality and security to meet policyholder liabilities;
- Are matching adjustment eligible (where relevant);
- Can be suitably modelled and valued;
- Appropriately match liabilities by duration, currency and index-linkage;
- Take account of the liquidity needs of the Group; and
- Meet concentration limits for individual assets and sector.

By managing investments in-house, the Group is able to consider the impact of new investments on a list of defined risk indicators, including stress tests, before investments are made. This assessment, along with consideration of prudent person principles, is captured within the investment memos that are presented to the relevant risk committee as part of the approval process for new issuers or asset classes.

C.3 Credit risk

The Group's investments include government debt, government guaranteed debt, supranational debt, corporate debt, secured debt and secured loans. Therefore the Group is exposed to varying degrees of credit risk. The Group also enters into longevity reinsurance (unfunded swaps) and over-the-counter (OTC) derivative transactions (credit, interest and inflation swaps) to manage market and insurance risks. The Group is therefore exposed to the credit risk of these counterparties.

The Group's strategy seeks to mitigate credit risk in a number of ways:

- Investing in low-risk asset classes such as government guaranteed and other highly rated bonds;
- Investing in asset classes with security and other structural mitigation which protects the Group against loss in the event of a borrower default, including over-collateralisation;
- Derivative contracts are subject to margining requirements to ensure changes in their fair value are appropriately collateralised. Where there is residual gap risk, the value of each contract is adjusted to reflect their credit riskiness;
- Diversification of assets and counterparties;
- Purchase of credit protection; and
- Active monitoring of assets and counterparties including for downgrade risk.

Investments include debt that has been issued from special purpose vehicles (SPVs). The purpose of such SPVs is to ring-fence collateral to reduce losses in the event that the counterparty defaults.

The table on the next page shows the Group's gross and net credit exposure on an IFRS basis and is based on external ratings. The external rating is generally based on the median of the ratings assigned by Standard & Poor's, Moody's and Fitch. This is consistent with the Group's approach under Solvency II.

Net credit exposure is primarily higher rated bonds. 'AAA' assets include supranational bonds, sub sovereigns, covered bonds, US not-for-profit private universities and certificates of deposit. 'AA' assets include gilts. Other net credit exposures rated 'A' and 'BBB' include investments in regulated infrastructure assets and English social housing bonds, which are secured on property assets, as well as unsecured corporate bonds.

£268m (2017: £325m) of the total net credit exposure relates to bonds, rated investment grade or lower, held within negative basis packages, for which maturity, currency and reference obligation matched credit default swap protection is held. The net credit exposure and external rating does not reflect the credit default protection in place.

Other net credit exposure rated non-investment grade, excluding negative basis packages positions, are mitigated by the use of collateral. As of current and prior year end there were no financial assets past due or impaired.

	2018 Related amounts not offset				
	Net amounts of financial assets presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral £m	Net credit exposures £m
Exposure to credit risk by rating					
AAA	7,444	–	–	–	7,444
AA	13,579	(891)	–	–	12,688
A	16,146	(6,319)	(402)	(2,015)	7,410
BBB	6,726	(939)	(178)	(2,654)	2,955
BB	61	–	–	–	61
B	37	–	–	–	37
Unrated	6,240	–	–	(5,350)	890
Total	50,233	(8,149)	(580)	(10,019)	31,485

The unrated financial assets of £6,240m (2017: £4,737m) reflect investments in issuers and issues that are not externally rated. During the year, the Group invested in unrated financial assets which are highly secured and subject to very low credit risk.

For the purpose of Solvency II, unrated assets are internally rated by the Group's independent credit risk function under a framework which has been externally validated. Under this framework 40% of the unrated balance is rated 'AAA', 3% rated 'AA', 18% rated 'A' and 6% rated 'BBB'. The remaining 33% includes the financing of equity release mortgages.

	2017 (restated)[1] Related amounts not offset				
	Net amounts of financial assets presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral £m	Net credit exposures £m
Exposure to credit risk by rating					
AAA	4,565	–	–	–	4,565
AA	11,440	(342)	–	–	11,098
A	12,520	(6,478)	(525)	(2,003)	3,514
BBB	4,987	(907)	(179)	(2,698)	1,203
BB	81	–	–	–	81
B	44	–	–	–	44
Unrated	4,737	–	–	(3,948)	789
Total	38,374	(7,727)	(704)	(8,649)	21,294

1 At 31 December 2017 £1.4bn or collateralised agreements with an 'A' credit rating were incorrectly classified as 'BBB' and £26m of collateralised agreements with a 'BBB' rating were incorrectly classified as 'AA'.

As at 31 December 2018, the required capital for counterparty default risk pre-diversification is £197m (2017: £80m). For 2018, the capital in relation to counterparty risk has been calculated using the PIM. Please refer to QRT S.25.02 and Section E.4. Counterparty risk increased over the year as a result of the adoption of the PIM and also because of the increase in longevity reinsurance (due to the Prudential transaction). Capital for the credit risk associated with bonds, loans and securitisations is included in the market risk sub-module under Solvency II (see section C.2).

Information on risk exposures and concentration on an IFRS basis are included in the Annual Report and accounts Note 13 and Note 16.

C. Risk profile continued

C.4 Liquidity risk

The Group is exposed to liquidity risk through its financial assets, financial liabilities and insurance contract liabilities. These risks, described below, are managed in accordance with risk management policies and procedures established by the Group.

Liquidity risk arises where timing differences and/or uncertainties occur between cash inflows and cash outflows. The objective of liquidity management is to ensure that the Group is capable of honouring all cash flow commitments on both an ongoing basis and in a stressed scenario, without incurring significant cost or business disruption.

The Group liquidity policy is designed to ensure the availability of sufficient funds to meet cash flow requirements on a timely basis via:

- Maintenance of substantial excess liquidity. The Group seeks to enter into long-term, illiquid investments that match its liabilities in order to maximise the value of the illiquidity premium. To mitigate residual liquidity risk, the Group maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including collateral outflows and financing obligations.
- Conservative asset/liability management. The Group seeks to maintain funding sources that are sufficiently long-term in order to withstand a prolonged or severe liquidity stressed environment without having to rely on asset sales.

The liquidity management framework is designed to ensure that a prudent level of liquidity is maintained on a spot basis, but also under stressed market conditions at which time liquidity may leave the Group through collateral outflows and ongoing business obligations such as expenses and undrawn investments. A suite of market stresses are considered as part of the liquidity management framework, against which limits are applied by the Board.

The risk function has primary responsibility for ensuring an appropriate framework is in place for assessing, monitoring and managing liquidity risk. The liquidity risk management framework requires liquid assets to be held to meet a wide range of stressed market conditions which consider all material sources of liquidity risk present on the balance sheet. Liquidity is managed for the Group as a whole, in addition to at a Solvency II fund level (MA and non MA funds). Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Management is responsible and accountable for managing liquidity risks within prescribed limits that are set by the Board and are overseen by the BRC.

Expected profits included in future premiums (EPIFP) amounted to £776m (2017: £642m). Future premiums are only payable to the Group on our unfunded longevity swap contracts. In the event that no future premiums were received then the policyholder would be in breach of contract, i.e. the insured pension schemes do not have a unilateral right to stop paying premiums.

No capital is held to meet liquidity risk as capital is not an appropriate mitigant for liquidity risk. Please refer to QRT S.23. Information on risk exposures and concentration on an IFRS basis are included in the Annual Reports and accounts Note 17.

C.5 Operational risk

The Group is exposed to operational risk, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In particular, this includes the failure of key outsourcing arrangements, business disruption, cyber risk, fraud and loss of key management. The Group is reliant on the use of external parties to provide some services, for example policyholder administration, middle and back office services and core risk management systems. The Group is therefore exposed to the potential failure of these outsourcing partners.

The Group employs financial models in our day-to-day activities to inform and manage the business. Material errors in these models could expose the Group to losses and/or reputational damage.

A change in regulations relating to taxation or financial reporting could result in the Group paying more taxes or being sanctioned for our approach to taxation and/or reputational damage.

The Group mitigates operational risk through our risk management framework and in particular:

- The risk and control self-assessment process which ensures that risks are appropriately identified and controlled;
- Scenario analysis covering a variety of potential operational risk events;
- Regular reporting, monitoring and oversight of operational risk events;
- A sub-committee of the WLRC oversees the monitoring of third party suppliers according to a regular review cycle;
- Model risk is managed via a model control framework that identifies, validates and monitors models that are material to the Group;
- The Group seeks to mitigate cyber risk through robust processes and controls including data protection, penetration testing and staff training. Recognising the importance of cyber risk management, the Group maintains ISO27001 accreditation;
- The Group seeks to mitigate taxation and financial reporting risk by focusing on compliance with relevant tax laws and financial reporting regulations; and

- The Group will not undertake tax planning that is contrived or artificial and the Group seeks to have an open, fair and proactive relationship with tax authorities at all times.

As at 31 December 2018, the required capital for operational risk based on the standard formula is £178m (2017: £101m). Please refer to QRT S.25.02. Operational risk capital increased over the year as a result of increased new business volumes.

C.6 Other material risks

The Group is exposed to the risk that a change in the regulatory, legal or political environment may have adverse consequences on the Group's business model, operations and financial performance. The Group is subject to UK regulation, and in particular the Group is required to comply with capital adequacy requirements. In addition, the UK's referendum vote to leave the EU means that there is significant uncertainty about the future regulatory framework for UK insurers. The Group considers that the UK leaving the EU will have no material direct impact on its operations and is currently putting in place plans to ensure that we can continue to pay the pensions of our EU-based policyholders (around 7,000 policyholders). The Group maintains contingency plans for adverse outcomes such as a 'Hard Brexit' which includes the second order impact on our investment and derivative portfolio.

Political and regulatory developments may significantly impact the business and economic environment that the Group operates in. The Group now has over 268,000 individual policyholders and is therefore exposed to conduct risk associated with unfair treatment of customers.

To mitigate this risk, the Group participates in industry bodies and consultations to ensure that our interests are protected for the benefit of policyholders. A sub-committee of the Board, the Customer & Conduct Committee, oversees customer and conduct risk to ensure that the Group meets the highest standards.

The Group also maintains a regular dialogue with regulators in order to ensure compliance, as well as the ability to react quickly to any unanticipated developments. The Group seeks to have an open and transparent relationship with regulators at all times.

No additional capital is held to meet these risks.

C.7 Any other information

C.7.1 Solvency II sensitivities

The table below provides a range of sensitivities as at 31 December 2018. Where applicable, allowance has been made for the impact of recalculating transitional solvency relief. The sensitivities show that the Group can withstand a wide range of stresses and that the Group is particularly sensitive to movements in interest rates. In order to mitigate this impact, the Group has implemented a dynamic capital management framework which targets stability of the IFRS balance sheet under normal conditions and seeks to manage both the IFRS and solvency balance sheets as conditions deteriorate. In the results below, interest rates are assumed to fall progressively and hedging adjusted accordingly:

2018	Change in assumptions	Impact on own funds £m	Impact on SCR £m	Impact on RHUK coverage ratio %
Annuitant mortality	+5% qx	102	37	8%
Annuitant mortality	-5% qx	(105)	(26)	(7%)
Interest rate	+100bps	(82)	384	36%
Interest rate	-100bps	400	(506)	(20%)
Inflation	+100bps	104	(242)	(14%)
Inflation	-100bps	(22)	194	17%
Credit spread widening (all non-government guaranteed assets)	+100bps	(419)	188	(3%)
Property value	-10%	(56)	(27)	(5%)
Expenses	+10%	(54)	(13)	(4%)

For 2018 sensitivities have been added to the movement in the value of underlying collateral to property prices. This sensitivity was not included for 2017 as the portfolio was less sensitive to movements in property values.

C. Risk profile continued

2017	Change in assumptions	Impact on surplus £m	Impact on RHUK coverage ratio %
Annuitant mortality	+5% qx	82	6%
Annuitant mortality	-5% qx	(89)	(6%)
Interest rate	+100bps	278	36%
Interest rate	-100bps	(51)	(16%)
Inflation	+100bps	(57)	(9%)
Inflation	-100bps	118	14%
Credit spread widening (all non-government guaranteed assets)	+100bps	(290)	(9%)
Expenses	+10%	(50)	(3%)

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

C.7.2. Events post year-end

On 26 March 2019 RLP sold its €140m portfolio of Irish annuities to Laguna Life DAC in order to ensure that these customers continue to receive their pensions post-Brexit. The transaction is structured initially as a reinsurance contract with Monument Re Limited and covers around 500 policyholders who will remain Rothesay Life's customers until the effective date of a Part VII transfer to Laguna Life, at which point the reinsurance agreement will also transfer to Laguna Life.

The impact of the transaction on the Group's risk profile is immaterial except that it marginally increases counterparty risk during the reinsurance phase and it provides a long-term regulatory solution in relation to our Irish customers.

D. Valuation for solvency purposes

The significant classes of assets shown on the Group's Solvency II balance sheet, the Solvency II values and values for the corresponding assets shown in the Group's financial statements are summarised in the table below. The numbering of the line items refers to the sections below. Please note there may be rounding differences between the QRTs and the numbers below.

	RHUK – Reconciliation IFRS balance sheet to SII balance sheet – 2018	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	1,390	1	1,391
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	28,870	285	29,155
	Derivative assets	11,451	–	11,451
	Collateralised agreement and financing	2,028	11	2,039
	Loans secured on property	3,376	50	3,426
	Equity release mortgages	1,897	–	1,897
	Certificates of deposit	162	–	162
D1.1	**Total investments**	**49,174**	**347**	**49,526**
D1.3	Property, plant and equipment	2	(2)	–
D1.4	Accrued interest and prepayments	497	(346)	151
D1.4	Receivables	353	–	353
D1.5	Cash and cash equivalents	163	–	163
D2.1	Reinsurance assets	43	(2,241)	(2,198)
D3.3	Deferred tax asset	1	(1)	–
	Own shares (held directly)	–	19	19
	Total assets	**50,233**	**(2,224)**	**48,009**
D1.1	Derivative and collateralised financing liabilities	(12,569)	(2)	(12,571)
D2.1	Insurance contract liabilities	(32,435)	2,438	(29,997)
D2.1	Reinsurance liabilities	(673)	673	–
D3.1	Payables	(1,280)	(69)	(1,349)
D3.2	Borrowings	(647)	(361)	(1,008)
D3.3	Deferred tax liabilities	–	(145)	(145)
D3.4	Accruals and deferred income	(58)	58	–
	Total liabilities	**(47,662)**	**2,592**	**(45,070)**
	Net Assets	**2,571**	**368**	**2,939**

	RHUK – Reconciliation IFRS balance sheet to SII balance sheet – 2017	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	1,028	–	1,028
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	19,038	164	19,202
	Derivative assets	10,735	–	10,735
	Collateralised agreements and financing	2,402	10	2,412
	Loans secured on property	3,409	59	3,468
	Equity release mortgages[1]	539	–	539
	Certificate of deposit	161	–	161
D1.1	**Total investments**	**37,312**	**233**	**37,545**
D1.3	Property, plant and equipment	3	(3)	–
D1.4	Accrued interest and prepayments[1]	302	(233)	69
D1.4	Receivables	337	(5)	332
D1.5	Cash and cash equivalents	251	–	251
D2.1	Reinsurance assets	168	(1,440)	(1,272)
D3.3	Deferred tax asset	1	(1)	–
	Own shares (held directly)	–	20	20
	Total assets	**38,374**	**(1,429)**	**36,945**
D1.1	Derivative and collateralised financing liabilities	(12,570)	(4)	(12,574)
D2.1	Insurance contract liabilities	(21,741)	1,878	(19,863)
D2.1	Reinsurance liabilities	(231)	231	–
D3.1	Payables	(1,395)	(36)	(1,431)
D3.2	Borrowings	(647)	(17)	(664)
D3.3	Deferred tax liabilities	–	(112)	(112)
D3.4	Accruals and deferred income	(37)	37	–
	Total liabilities	**(36,621)**	**1,977**	**(34,644)**
	Net Assets	**1,753**	**548**	**2,301**

1 £529m of equity release mortgages which were classified as loans secured on property as at 31 December 2017 have been separately identified following the increased significance of this asset class. £10m of life to date accrued interest on equity release mortgages which was included in the accrued interest balance as at 31 December 2017 has been reclassed to be included in the fair value of equity release mortgages, as these are not receivable until the equity release mortgage is repaid and we believe that this is a more appropriate representation.

D. Valuation for solvency purposes continued

The material classes of assets shown on RLP's Solvency II balance sheet, the Solvency II values and values for the corresponding assets shown in RLP's financial statements are summarised in the table below:

	RLP – Reconciliation IFRS balance sheet to SII balance sheet – 2018	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	1,379	1	1,380
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	28,870	285	29,155
	Derivative assets	11,451	–	11,451
	Collateralised agreements and financing	2,028	11	2,039
	Loans secured on property	3,376	50	3,426
	Equity release mortgages	1,897	–	1,897
	Certificates of deposit	162	–	162
D1.1	**Total investments**	**49,163**	**347**	**49,510**
D1.2	Investments in subsidiaries	1	–	1
D1.3	Property, plant and equipment	2	(2)	–
D1.4	Accrued interest and prepayments	497	(347)	150
D1.4	Receivables	357	–	357
D1.5	Cash and cash equivalents	151	–	151
D2.1	Reinsurance assets	43	(2,241)	(2,198)
	Total assets	**50,214**	**(2,243)**	**47,971**
D1.1	Derivative and collateralised financing liabilities	(12,569)	(3)	(12,572)
D2.1	Insurance contract liabilities	(32,435)	2,438	(29,997)
D2.1	Reinsurance liabilities	(673)	673	–
D3.1	Payables	(1,286)	(67)	(1,353)
D3.2	Borrowings	(647)	(361)	(1,008)
D3.3	Deferred tax liabilities	(2)	(145)	(147)
D3.4	Accruals and deferred income	(57)	57	–
	Total liabilities	**(47,669)**	**2,592**	**(45,077)**
	Net assets	**2,545**	**349**	**2,894**

	RLP – Reconciliation IFRS balance sheet to SII balance sheet – 2017	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	1,028	–	1,028
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	19,038	164	19,202
	Derivative assets	10,735	–	10,735
	Collateralised agreements and financing	2,402	10	2,412
	Loans secured on property	3,409	59	3,468
	Equity release mortgages[1]	539		539
	Certificates of deposit	161	–	161
D1.1	**Total investments**	**37,312**	**233**	**37,545**
D1.3	Property, plant and equipment	3	(3)	–
D1.4	Accrued interest and prepayments[1]	302	(233)	69
D1.4	Receivables	339	(4)	335
D1.5	Cash and cash equivalents	142	–	142
D2.1	Reinsurance assets	168	(1,440)	(1,272)
	Total assets	**38,266**	**(1,447)**	**36,819**
D1.1	Derivative and collateralised financing liabilities	(12,570)	(4)	(12,574)
D2.1	Insurance contract liabilities	(21,741)	1,878	(19,863)
D2.1	Reinsurance liabilities	(231)	231	–
D3.1	Payables	(1,390)	(34)	(1,424)
D3.2	Borrowings	(647)	(17)	(664)
D3.3	Deferred tax liabilities	(2)	(112)	(114)
D3.4	Accruals and deferred income	(34)	34	–
	Total liabilities	**(36,615)**	**1,976**	**(34,639)**
	Net assets	**1,651**	**529**	**2,180**

1 £529m of equity release mortgages which were classified as loans secured on property as at 31 December 2017 have been separately identified following the increased significance of this asset class. £10m of life to date accrued interest on equity release mortgages which was included in the accrued interest balance as at 31 December 2017 has been reclassed to be included in the fair value of equity release mortgages, as these are not receivable until the equity release mortgage is repaid and we believe that this is a more appropriate representation.

D.1 Valuation of assets and financial liabilities

Please refer to QRT S.02.01. Except where otherwise noted, the narrative below applies to both RLP and the Group.

There are no measurement differences in relation to assets and financial liabilities between IFRS and Solvency II, except for property, plant and equipment (PPE), reinsurance balances, borrowings and deferred tax. There are presentational differences, for example under Solvency II financial assets are presented including accrued interest but under IFRS accrued interest is disclosed in accrued interest and prepayments.

D.1.1 Financial investments and financial liabilities

Valuation of financial investments is based on fair value consistent with the Group's accounting policies. The fair value of a financial instrument is the 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, i.e. the exit price. Financial investments are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

As previously noted, following the approval of the PIM, a portfolio of ERMs was transferred to LTMF and a series of notes were issued to the matching and non-matching adjustment funds of RLP. Loans secured on ground rents were also transferred to RMA1 and notes issued to RLP. For the purpose of the Solvency II balance sheet, the notes issued by LTMF are included in equity release mortgages and the notes issued by RMA1 are considered to be loans secured on property. As a result, the breakdown of financial investments is unchanged by the restructuring.

There is no difference in the fair value of our financial liabilities between the IFRS valuation and the Solvency II valuation apart from the accrued interest presentational difference explained above.

Further details on the Group's accounting policy for the valuation of financial investments and liabilities can be found in the Annual Report and Accounts.

D.1.2 Investment in subsidiaries

Investment in subsidiaries under IFRS are valued at cost less provision for impairment and under Solvency II are valued at the underlying value of the assets and liabilities.

D.1.3 Property, plant and equipment

The IFRS valuation of the Group's property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The Directive states that property, plant and equipment should be valued on a basis that reflects their fair value. The Group therefore makes a management decision to value property, plant and equipment at nil on a Solvency II basis.

D.1.4 Accrued interest, prepayments and receivables

Accrued interest and prepayments are carried at amortised cost for IFRS purposes. The Group consider that there are no material differences between an amortised cost and mark-to-market valuation for these receivables and therefore there are no differences between the IFRS and Solvency II valuation.

There are, however, presentation differences due to accrued interest being included within financial investments on a Solvency II basis and excluded on an IFRS basis (except in relation to ERMs).

At 31 December 2018, other receivables at RHUK also include £0.6m of assets that are inadmissible from a Solvency II perspective.

D.1.5 Cash and cash equivalents

Cash and cash equivalents are recognised as assets at their fair value in the IFRS financial statements. This is generally their full nominal value and the amount due on repayment for redemption. Therefore there are no differences on an IFRS and Solvency II basis.

D.1.6 Goodwill and intangible assets

The Group has no goodwill assets or any intangible assets on our Solvency II balance sheet.

D. Valuation for solvency purposes continued

D.2 Technical provisions

Please refer to QRT S.12.01

Technical provisions are the sum of a best estimate of liabilities allowing for reinsurance inwards and a risk margin. As part of the transitional arrangements in relation to the introduction of Solvency II, the Group is permitted to take credit for transitional solvency relief which acts as a deduction from the technical provisions. The table below shows the technical provisions of the Group. The transitional solvency relief shown for 31 December 2018 allows for the impact of recalculation on that date and for amortisation of 2/16ths of the allowance (2017: 1/16th of the allowance):

	2018 £m	2017 £m
Best estimate liabilities	29,218	19,915
Risk margin (Unaudited)	1,512	1,163
Transitional solvency relief (gross of tax impact) (Unaudited)	(733)	(1,215)
Insurance contract liabilities	29,997	19,863
Reinsurance liabilities	2,198	1,272
Net technical provisions	32,195	21,135

D.2.1 Best estimate and reinsurance liabilities

Best estimate liabilities (BEL) are calculated by discounting the projected cash flows based on our best estimate assumptions with regards to future demographic experience. Cash flows include benefits and claims, future contractual premiums and expenses. The BEL is calculated gross of reinsurance, although the cash flow projections include reinsurance-related cash flows in order to allow the reinsurance liabilities to be separately calculated.

Reinsurance liabilities are shown as negative assets under Solvency II. The value of reinsurance is negative because under best estimate assumptions, the Group expects to pay reinsurance fees to the reinsurers. However, the solvency position of the Group benefits from reinsurance as the use of reinsurance leads to reductions in the SCR and in the risk margin.

Mortality assumptions

Mortality bases have been determined separately for each insurance contract. The resulting assumptions are equivalent to using the base mortality and improvement assumptions set out in the table below:

	2018		2017	
	Pensions originated	Insurance originated	Pensions originated	Insurance originated
Males	94.8% S2PMA	100.2% PMA08	96.1% S2PMA	104.3% PMA08
Females	94.8% S2PFA	100.2% PFA08	96.1% S2PFA	104.3% PFA08

	Future mortality improvements	
	2018	2017
Males	CMI_2017_M[1.73%; Sk=6.75]	CMI_2016_M[1.75%; Sk=7.75]
Females	CMI_2017_F[1.73%; Sk=6.75]	CMI_2016_F[1.75%; Sk=7.75]

For pension scheme originated business, ultimate mortality has been used in all cases and past mortality improvements are applied assuming the base mortality rates are as at 2007. For insurance originated business, the stated base mortality basis incorporates the effect of selection adjustments for relevant policies and past mortality improvements are applied assuming the base mortality rates are as at 2008.

Recent mortality experience is analysed annually for each pension scheme and insurance originated contracts. The last review was carried out during 2018. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. The changes to the single equivalent rates over 2018 reflect the inclusion of new business along with the results of the experience investigations.

For pension scheme originated business, mortality assumptions are generally set with reference to a Rothesay specific suite of mortality tables. These have been expressed for reporting purposes as an equivalent to the CMI S2 series of mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. The S2 tables are based on industry-wide experience.

The base table assumptions for pension scheme business in-force throughout the period have been weakened during 2018 following heavier than expected experience over the period analysed. No changes were made to the base tables for insurance originated business.

For insurance originated annuities, a combination of bespoke mortality tables and the CMI 2008 series of annuitant mortality tables are used to value the liabilities. These have been expressed for reporting purposes as an equivalent to the CMI 2008 series tables. These incorporate the effect of selection adjustments for relevant policies.

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 2018 the mortality improvement assumptions were updated to reflect the latest mortality improvement model as released by the CMI, CMI_2017. This model allows the user to choose the level of smoothing applied to historic mortality improvements (Sk parameter). During 2018 the Sk factor has been reduced to 6.75 in order to ensure that future improvements are more responsive to recent experience and to set initial improvements at a level reflective of our expectation of near-term improvements. The chosen long-term improvement rate assumption varies by age using a bespoke calibration that tapers non-linearly from age 67 to 0% at age 120. These rates have remained unchanged from 2017, although the equivalent single long-term rate as applied to the core model has decreased slightly.

The changes to the demographic assumptions improved Own Funds by £284m prior to TMTP recalculation, £115m after TMTP recalculation.

Discount rate

The discount rate used to discount the cash flows for the purpose of calculating the technical provisions is the Solvency II basic risk-free term structure.

Firms with illiquid liabilities such as annuity business can discount these illiquid liabilities using the risk-free rate plus the matching adjustment. The matching adjustment is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities. The Group applies the matching adjustment in calculating the BEL for almost all of our single premium insurance business. Liabilities not covered by the matching adjustment include regular premium longevity swap business and single premium annuities with guarantees that prevent matching adjustment eligibility. Reinsurance liabilities are also discounted using the basic risk-free rate with no adjustment.

The assets held in the matching adjustment fund have fixed cash flows and predominantly consist of assets included in Bonds (Government and Corporate Bonds) and Other Loans and Mortgages categories on QRT reference S.02.01.

As at 31 December 2018, the matching adjustment was approximately equal to 125 basis points (2017: 105 bps). The increase in matching adjustment has arisen from the change in the mix of assets used to the back the liabilities in the matching adjustment fund, particularly the inclusion of ERMs, along with changes in market conditions. Use of the matching adjustment had the impact of reducing the best estimate liabilities for the business in the matching adjustment fund by around 14% (2017: 14%).

Insurers using the matching adjustment are required to disclose the impact on the balance sheet of not applying the matching adjustment. Without the matching adjustment, the BEL would increase by £4.9bn (2017: £3.2bn), although this would be offset by an increase in transitional solvency relief leaving Own Funds £0.2bn lower (unaudited) as at 31 December 2018 (2017: £0.01bn lower (unaudited)). However, as can be seen in S.22, the SCR would also increase by around 190% (2017: 33%). The increased sensitivity of the SCR is predominantly due to the implementation of the PIM. This would lead to SCR coverage at RHUK of 60% (2017: 126%) and 60% (2017: 122%) at RLP. These amounts are not subject to audit. No volatility adjustment is applied.

The valuation rate of interest used includes an allowance for investment management expenses of 3 bps per annum (2017: 3 bps per annum).

Expenses

Cash flows include an allowance for all expenses associated with managing existing insurance obligations, namely:

- The cost of maintenance associated with existing insurance obligations (in-house); and
- The cost of administration associated with existing insurance obligations (outsourced).

Allowance for future expense inflation has been provided 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) plus an addition at each duration of 0.25% p.a. for TPA expenses (2017: 0.25% p.a., or 1.00% p.a depending on the TPA provider). On average, an allowance of £27 per policy per annum (2017: £32 per policy per annum) is made.

Other assumptions

An important actuarial assumption relates to the future rate of escalation of certain benefits but as the Group is holding appropriate matching assets (such as index-linked bonds and inflation-linked swaps with associated caps and floors), the impact on the overall financial position of the Group of actual or assumed changes in these rates is relatively small. The assumed future rate of escalation for both assets and liabilities is determined in line with observed market prices for the relevant indices.

D. Valuation for solvency purposes continued

A number of other, less financially significant, assumptions are made in determining the provisions. These assumptions include, inter alia, the proportion of deferred and immediate annuitants assumed to have a dependant eligible for contingent benefits, dependant's age difference and the proportion of deferred annuitants opting to take a proportion or all of their benefit at retirement as a lump sum. For 2018 the modelling of member options has been improved to separately allow for the probability that deferred annuitants choose to transfer their benefits each year. In prior years, this was allowed for by assuming an equivalent level of overall take-up occurred immediately prior to starting pension payments. The main impact of this modelling update is to change the profile of the cash flows assumed to be paid as the same cash flows are used to derive the lump sums and the annuities.

When deferred annuitants have passed the scheme normal retirement date and have been subject to an in-depth tracing exercises and yet remain untraced, a prudent allowance has been made for the probability of them retiring in the future. All other individuals who have passed the scheme normal retirement date are assumed to retire immediately.

D.2.2 Risk margin

The risk margin is the cost of transferring non-hedgeable risks. For the Group, this includes longevity and expense risk, counterparty default risk in relation to reinsurance and operational risk. When calculating the risk margin, the SCR associated with non-hedgeable risks is assumed to remain a constant proportion of the BEL (method 2 under EIOPA's guidelines on the valuation of technical provisions). For 2018, the SCR in relation to counterparty risk has been calculated using the PIM. This section is not subject to audit.

D.2.3 Transitional solvency relief

This section is not subject to audit.

The Group is permitted to take credit for transitional solvency relief in relation to business written before 1 January 2016. Transitional solvency relief amortises linearly to zero, falling by 1/16th on 1 January 2017 and again each year thereafter.

As at 31 December 2018, transitional solvency relief was £733m gross of the impact of tax after allowing for amortisation of 1/16th on 1 January 2018 and on 1 January 2017 (2017: £1,215m allowing for amortisation of 1/16th on 1 January 2017). Transitional solvency relief is calculated using transitional measures on technical provisions. Transitional measures on interest rate are not applied.

Use of transitional solvency relief increases the deferred tax liability on a Solvency II basis as it leads to the net technical provisions being less than the IFRS liabilities. This is discussed in Section D.3.3.

An application can be made to recalculate the amount of transitional solvency relief that can be taken if the risk profile of the Group changes materially. The Group made such an application twice in 2018:

- To allow for the additional liabilities taken on as a result of the reinsurance agreement with Prudential (since the Prudential policies were written prior to the introduction of Solvency II); and
- To reflect the impact of the PIM on the Group's solvency position.

Insurers using transitional solvency relief are required to disclose the impact on the balance sheet of not using transitional solvency relief. In the absence of transitional solvency relief, the Group's Own Funds would reduce by £609m after allowing for the associated impact of tax on Own Funds (2017: £1,009m). There is no impact on the SCR on removal of transitional measures. Without allowance for transitional solvency relief the Group coverage would be 153% (2017: 111%) and RLP's coverage would be 152% (2017: 105%).

D.2.4 Uncertainty associated with the value of technical provisions

Uncertainty relates primarily to the way in which actual performance differs from the best estimate assumptions used to calculate the technical provisions. Differences will arise as a result of the Group's risk profile, as described in Section C (which is not subject to audit), namely:

- Insurance risk covering demographic assumptions, including assumptions in relation to base mortality, mortality improvements, dependants and the exercise of options by deferred annuitants.
- Market risk (predominantly interest rates and inflation); and
- Credit risk.

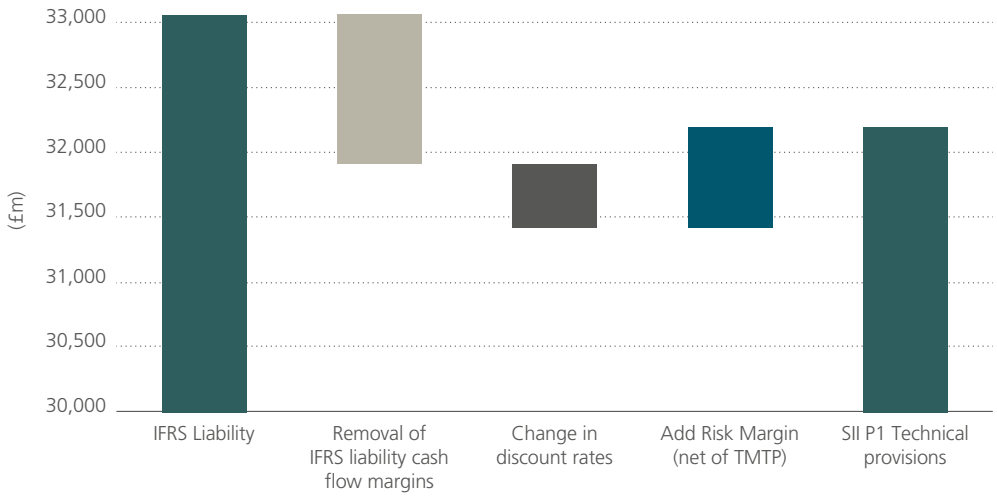
Section C.7 provides sensitivities of the surplus to changes in these areas. It should be noted that for market risks the sensitivities reflect changes to both the technical provisions and the assets.

Further operational risks exist as covered in section C.5.

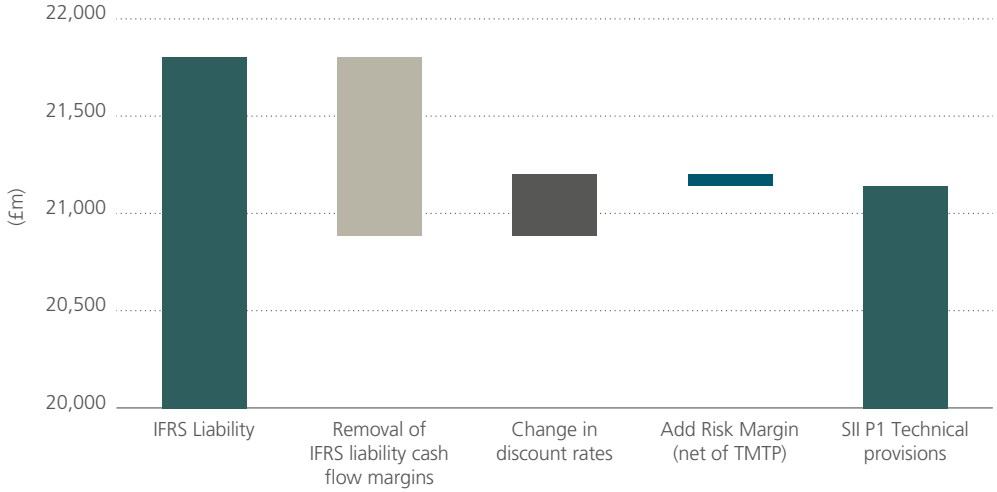
D.2.5 Comparison of Solvency II technical provisions and IFRS liabilities

A reconciliation between Solvency II technical provisions and IFRS liabilities is shown in the chart below:

Reconciliation from IFRS liabilities to SII technical provisions as at 31 December 2018



Reconciliation from IFRS liabilities to SII technical provisions as at 31 December 2017



The main differences between the Solvency II technical provisions and IFRS liabilities arise due to:

- Solvency II uses best estimate assumptions whereas the IFRS assumptions include a margin of prudence.
- Differences in the valuation rate of interest used.
- Inclusion of the risk margin (net of transitional measures) under Solvency II.

The differences in the discount rates arise predominantly from:

- Differences between the prudent IFRS credit default allowance and Solvency II fundamental spreads;
- Differences between the assets hypothecated for the yield calculation through calculation methodology differences and differences in liability profiles under IFRS and Solvency II;
- Removal of prudence held in the IFRS discount rate; and
- Exclusion under Solvency II of certain single premium liabilities not eligible for matching adjustment.

D.2.6 Simplified methods

No material simplifications have been used in the valuation of technical provisions other than as detailed for the risk margin calculation in Section D.2.2.

D. Valuation for solvency purposes continued

D.3 Other liabilities

Please refer to QRT S.02.01

D.3.1 Payables

Payables are carried at amortised cost for IFRS purposes. The Group consider that there are no material differences between an amortised cost and mark-to-market valuation for these payables and therefore there are no differences between the IFRS and Solvency II valuation except for presentation differences.

D.3.2 Borrowings

Borrowings outstanding for RLP valued on an IFRS basis as at 31 December 2018 include:

- £100m of floating rate perpetual callable loan notes (2017: £100m). Solvency II valuation £101m;
- £249m unsecured, subordinated loan notes being issue proceeds of £250m less capitalised issue costs of £1m (2017: £249m). Solvency II valuation £257m;
- On 19 September 2017 RLP issued £300m of floating rate subordinated loan notes which mature in 2028. The notes were issued and initially recognised at fair value of £298m being issue proceeds of £300m less capitalised issue costs of £2m. Solvency II valuation £300m.

In March 2018, the Group entered into a £500m three-year term loan facility with a syndicate of third party banks. On 10 October 2018, £350m of this facility was repaid using the proceeds of the RT1 note issuance in RLP. On 12 December 2018 the remaining £150m of the facility was repaid using the proceeds from a dividend from RLP. The £300m revolving credit facility entered into in March 2017 remains effective but undrawn.

Under Solvency II, the value of borrowings is updated to take account of changes in the relevant risk-free interest rate curve and market based spread. As at 31 December 2018 this methodology leads to a valuation under Solvency II of £658m (2017: £664m) for Tier 2 borrowings.

Under IFRS, the £350m of RT1 notes that were issued on 5 September 2018 are accounted for as equity and hence do not appear in borrowings. Under Solvency II these notes are included in borrowings and are valued at £350m (2017: £nil).

D.3.3 Deferred tax

The deferred tax asset under IFRS arises from a temporary difference between the financial statements and the tax deductions generated in relation to transitional adjustments following changes to the basis of insurance taxation in 2012, as well as equity compensation timing differences.

The value of the assets held in accordance with the Solvency II Directive is the same as the value presently used for the purposes of our tax calculation (with the exception of fixed asset valuations and reinsurance assets).

As discussed in Section D.2.3, the Solvency II technical provisions are lower than the IFRS liabilities used to calculate our tax position. As a result, there is an additional deferred tax liability on a Solvency II basis being the difference between IFRS liabilities and Solvency II technical provisions (after transitional measures) multiplied by the applicable tax rate.

Aside from this adjustment, no further adjustment is made to the tax position from that presented in the Group's IFRS accounts.

D.3.4 Accruals and deferred Income

Accruals and deferred income are carried at amortised cost for IFRS purposes. The Group consider that there are no material differences between an amortised cost and mark-to-market valuation for these balances and therefore there are no differences between the IFRS and Solvency II valuation but accrued interest on financial liabilities under Solvency II is disclosed with the liability.

D.3.5 Contingent liabilities

The IFRS valuation (prescribed by IAS 37) defines a contingent liability as:

a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) A present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability will be disclosed under IFRS but not recognised unless there is a greater than 50% probability of it materialising. The Solvency II Directive states that contingent liabilities should be recognised if considered "material".

The Group does not consider that it has any contingent liabilities.

D.3.6 Operating lease commitments

Payments made under operating leases, net of any investments received from the lessor, are charged to profit and loss on a straight-line basis under IFRS over the term of the lease. When the lease includes a rent free period, the lessee recognises the aggregate benefit of the incentive as a reduction of rental expense over the lease term on a systematic basis. There is no difference between the Solvency II valuation and the IFRS valuation.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Not later than one year	2	2
Later than one year and no later than five years	18	8
Later than five years	37	4
Total minimum lease payments	**57**	14

The Group plans to re-locate its UK-based operations to The Post Building during 2019 in order to accommodate the growth of the business. As a result:

- The Group has entered into a lease for space in The Post Building.
- The Group has exercised its break clause under the lease for Level 25 of The Leadenhall Building.
- The Group has identified a potential new tenant for Level 32 of The Leadenhall Building and is in negotiations to terminate the lease.

The lease payments shown in the table above include all payments under the lease for Level 32 and the new lease for space in The Post Building.

D.4 Alternative methods for valuation

The Group uses alternative methods of valuation for Level 3 assets where one or more inputs to valuation techniques are significant and unobservable. Further details on the Group's accounting policy for the valuation of Level 3 assets, including assumptions used, sensitivity to material inputs, and comparison of the valuations against experience, can be found in Note 12 of the Annual report and accounts.

The Group also uses alternative methods of valuation for collateralised agreements and financing. These trades are marked at par on day one and the valuation moves in line with market conditions thereafter. For IFRS purposes these assets are considered Level 2 because the level of valuation uncertainty arising from the method used is not material. In addition, were the valuation to change then there would be a corresponding change in the valuation of the liabilities since the collateralised agreements are held in the matching adjustment fund. These trades have all performed in line with expectations.

D.5 Any other information

There is no additional material information on the valuation for solvency purposes to disclose.

E. Capital management

E.1 Own Funds

E.1.1 Capital management objectives

The Group's capital resources are of critical importance. The Group's capital management framework and associated policies and processes are designed to the meet the following objectives:

- To maintain financial strength in adverse conditions;
- To give customers long-term confidence in the Group;
- To satisfy our regulatory obligations;
- To match the profile of our 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.

Under the Solvency II regime, the Group is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under our own economic capital models, Solvency II Pillar 2.

The Group also ensures that our insurance company subsidiary, RLP, is capitalised to the greater of the economic capital requirement and the regulatory Pillar 1 position. In practice, it is the Pillar 1 requirement which is more onerous and the Group aims to maintain at least 130% of the regulatory minimum requirement in RLP. If solvency coverage exceeds 150% of SCR, the Board will consider the requirement for excess Own Funds to meet future opportunities or consider returning capital to shareholders. The Board has considered this during 2018 and no distribution has been made.

The Group has implemented a dynamic capital management framework which uses interest rate and other hedging to target stability of the IFRS balance sheet under normal conditions and seeks to manage both the IFRS and solvency balance sheets as conditions deteriorate.

The Group holds both debt and equity to optimise our capital structure and improve shareholder return. The ORSA considers a five-year time horizon and projections include consideration of future capital requirements.

The reconciliation reserves disclosed on form S.23.01.21 for RLP of £1.1bn (2017: £1.4bn) consist of the excess of assets over liabilities adjusted by ordinary share capital, share premium and foreseeable charges. The reconciliation reserves disclosed on form S.23.01.22 for Group of £2.1bn (2017: £1.8bn) consist of the excess of assets over liabilities adjusted by ordinary share capital, share premium on ordinary shares, preference and restricted shares, own shares held and foreseeable charges. The capital relating to the preference and restricted shares does not meet the criteria to be classified as Solvency II Own Funds and is therefore included in R0220 for Group solvency purposes.

There are no fungibility or transferability restrictions across the Group.

The amounts relating to risk margin, transitional relief and SCR in this section are unaudited.

E.1.2 Tiering of Own Funds

Please refer to QRT S.23.01

As at 31 December 2018, RLP had assets of £36,089m (2017: £23,980m) giving Own Funds of £3,895m (2017: £2,844m).

RLP's capital structure as at the 2018 year end consisted of the following capital instruments:

Capital Instrument	Details	2018 £m	2017 £m
Tier One			
Common Equity	• Held by RHUK • Composed of share capital, share premium and other reserves	2,887	2,180
RT1 Loan Note £350 million	• £350m issued through public debt markets in September 2018 • Qualifies as restricted Tier 1 capital • Callable on 5 September 2028 or every 5 years thereafter • Coupon = 6.875% with fixed reset on 5 September 2028 • Optional and mandatory cancellation of coupons • Permanent write down in the event that: (i) eligible Own Fund Items ≤ 75% of the SCR; (ii) eligible Own Fund Items ≤ 100% of the MCR; or (iii) breach of the SCR has occurred and has not been remedied within 3 months	350	–
Tier Two			
Hybrid Note £100 million	• £100m issued to a related party in December 2012 • PerpNC5 Upper Tier 2 instrument • Qualifies as Tier 2 Capital under Solvency II • Callable on 21 December 2017 or any coupon payment date thereafter • The lender has the option to convert to equity from 21 December 2022 • Coupon = 6m£Libor + 425bps • Optional and mandatory deferral of coupons	101	101
Loan Note £250 million	• £250m issued through public debt markets in October 2015 • Lower Tier 2 instrument • Matures in 2025 • Qualifies as Tier 2 Capital under Solvency II • Coupon = 8% paid annually	257	262
Loan Note £300 million	• £300m issued to a related party in September 2017 • Qualifies as Tier 2 Capital under Solvency II • Callable on 19 September 2023 • Matures in 2028 • Coupon = 3m£Libor + 595bps	300	301

Common equity increased from £2,180m as at 31 December 2017 to £2,887m as at 31 December 2018, partly as a result of a capital injection from RHUK. On 5 September 2018, RLP issued RT1 loan notes of £350m in the public markets. A full analysis of the movement in Own Funds can be found in section E.1.3.

As at 31 December 2018, RHUK had assets of £36,112m (2017: £24,080m), giving Own Funds of £3,918m (2017: £2,944m). The Group's capital structure as at the 2018 year end was the same as that of RLP (amended for intragroup transactions) except that the equity was privately held by shareholders rather than by RHUK.

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E. Capital management continued

Capital Instrument	Details	2018 £m	2017 £m
Tier One			
Common Equity	• Privately held by shareholders • Composed of share capital, share premium and other reserves	2,911	2,280
RT1 Loan £350 million	• £350m issued through public debt markets in September 2018 • Qualifies as restricted Tier 1 capital • Callable on 5 September 2028 or every 5 years thereafter • Coupon = 6.875% with fixed reset on 5 September 2028 • Optional and mandatory cancellation of coupons • Permanent write down in the event that: (i) eligible Own Fund Items ≤ 75% of the SCR; (ii) eligible Own Fund Items ≤ 100% of the MCR; or (iii) breach of the SCR has occurred and has not been remedied within 3 months	350	–
Tier Two			
Hybrid Note £100 million	• 100m issued to a related party in December 2012 from RLP • PerpNC5 Upper Tier 2 instrument • Qualifies as Tier 2 Capital under Solvency II • Callable on 21 December 2017 or any coupon payment date thereafter • The lender has the option to convert to equity from 21 December 2022 • Coupon = 6m£Libor + 425bps • Optional and mandatory deferral of coupons	101	101
Loan Note £250 million	• £250m issued through public debt markets in October 2015 from RLP • Lower Tier 2 instrument • Matures in 2025 • Qualifies as Tier 2 Capital under Solvency II • Coupon = 8% paid annually	257	262
Loan Note £300 million	• £300m issued to a related party in September 2017 from RLP • Qualifies as Tier 2 Capital under Solvency II • Callable on 19 September 2023 • Matures 2028 • Coupon = 3m£Libor+595bps	300	301

Common equity increased from £2,280m as at 31 December 2017 to £2,911m as at 31 December 2018, partly as a result of the issuance of £380m of new equity and the increase in reserves. On 5 September 2018, RLP issued RT1 loan notes of £350m in the public markets. A full analysis of the movement in Own Funds can be found in section E.1.3.

For further information on borrowings please refer to section D.3.2.

There are no material deductions from either the Own Funds of RLP or the Own Funds of RHUK.

The notional SCR for the matching adjustment fund is greater than the excess of assets over liabilities in the matching adjustment fund, as such there is no restriction to the assets held within the matching adjustment fund.

As at 31 December 2018, the SCR for RLP and RHUK calculated using the PIM was £2,163m (2017: £1,743m). Please refer to QRT S.23.01. The solvency position is summarised in the table below:

	RHUK		RLP	
	2018	2017	2018	2017
Tier 1 capital	£3,260m	£2,280m	£3,237m	£2,180m
Tier 2 capital	£658m	£664m	£658m	£664m
Own Funds available to meet SCR	£3,918m	£2,944m	£3,895m	£2,844m
SCR	£2,163m	£1,745m	£2,163m	£1,743m
Surplus above SCR	£1,755m	£1,199m	£1,732m	£1,101m
SCR coverage (%)	181%	169%	180%	163%
MCR	£658m	£442m	£658m	£442m
Own Funds available to meet MCR	£3,392m	£2,369m	£3,368m	£2,268m
MCR coverage (%)	516%	535%	512%	513%

At least 80% of the MCR must be covered by Tier 1 capital and hence eligible Tier 2 capital to meet MCR requirements is restricted, reducing the overall Own Funds available to meet the MCR by £526m at 31 December 2018 (2017: £575m).

E.1.3 Movement in Own Funds

The table below provides an analysis of the movement in Own Funds net of tax under Solvency II for 2018 and 2017 for both RLP and the Group. All numbers are shown net of tax and allow for the impact of matching adjustment and changes in transitional solvency relief (where applicable).

	RHUK		RLP	
	2018 £m	2017 £m	2018 £m	2017 £m
Opening Solvency II balance as at 31 December	2,944	2,626	2,844	2,887
Amortisation of 1/16th of transitional on 1 January	(67)	(57)	(67)	(57)
New business (on a fully deployed basis)	659	78	659	78
Management of in-force book	415	100	415	100
Acquisition costs and administration expenses	(120)	(88)	(117)	(87)
Demographic experience variance	2	(1)	2	(1)
Economic (losses)/profits	(217)	74	(217)	74
Non-recurring expenses	(17)	(40)	(17)	(34)
Finance costs	(48)	(30)	(38)	(25)
Share issuance	380	–	950	–
Dividends paid	–	–	(500)	(370)
Debt issuance	350	300	350	300
PIM (including change in transitional)	(381)	–	(381)	–
Capital contribution	–	5	–	–
Other	18	(23)	12	(21)
Closing balance as at 31 December	3,918	2,944	3,895	2,844

E. Capital management continued

E.1.4 Reconciliation of IFRS equity to Solvency II Own Funds

The following table provides a reconciliation of Own Funds to the equity capital as reported in the financial statements:

	RHUK		RLP	
	2018 £m	2017 £m	2018 £m	2017 £m
IFRS equity capital	**2,571**	1,753	**2,545**	1,651
Inadmissible assets	**(14)**	(7)	**(11)**	(6)
Reserving differences	**703**	534	**703**	535
SII net assets	**3,260**	2,280	**3,237**	2,180
Debt	**658**	664	**658**	664
Own Funds	**3,918**	2,944	**3,895**	2,844

E.2 SCR and MCR

This section is not subject to audit. The consolidated SCR is calculated as set out in Article 336 of the Delegated Acts, i.e., as the sum of:

- The SCR on consolidated data for all wholly owned insurance subsidiaries of RHUK and all wholly owned service subsidiaries of RHUK; and
- Capital requirements with respect to other relevant undertakings (RPML) as defined in Article 336 of the SII Delegated Acts.

As at 31 December 2018, the SCR for RLP and RHUK calculated using the PIM for credit and counterparty risk capital and the standard formula for other risk components and for aggregation across risk components was £2,163m (2017: £1,743m using the standard formula). The table below provides a breakdown of the SCR by risk module for RLP (Please refer to QRT S.25.01.21 and S.28.01.01):

	2018 £m	2017 £m
Total market risk	**1,451**	1,404
Total underwriting risk	**1,114**	799
Total counterparty default risk	**197**	80
Total operational risk	**178**	100
Total pre-diversification	**2,940**	**2,383**
Diversification	**(521)**	(476)
Capital add-on	**37**	Not disclosed[1]
Loss absorbing capacity of deferred taxes	**(293)**	(164)
Total SCR	**2,163**	**1,743**
Total MCR	**658**	**443**

In determining the operational risk capital, gross earned life premiums have been determined from gross written life premiums using an amortisation schedule that has been agreed with the PRA. Standard formula appropriateness has been assessed by the Group and a voluntary capital add-on of £37m has been agreed with the PRA (2017: £28m). The capital add-on captures risks not covered by the standard formula, predominantly the risk that a higher proportion of pensioners than assumed have dependants and the inflation risk associated with inflation-linked liabilities.

Diversification predominantly arises between the market risk and underwriting risk modules. There is no benefit from Group diversification.

There have been no simplifications or undertaking specific parameters used in the calculation of the SCR results. The Minimum Capital Requirement (MCR) has been calculated using the linear MCR calculation. The MCR cap and floor do not bite as at 31 December 2018 (2017: the MCR cap and floor did not bite). The Minimum Consolidated Group SCR for RHUK is equal to the MCR for RLP.

As at 31 December 2018, RLP had SCR coverage of 180% (2017: 163%) with coverage at RHUK of 181% (2017: 169%).

1 In 2017 the PRA permitted insures not to disclose the capital add-on. Instead the add-on was included in the relevant risk modules.

E.2.1 Movement in SCR

The table below provides an analysis of the movement in SCR for 2018 and 2017 for RLP.

	2018 £m	2017 £m
Opening SCR as at 31 December	**1,743**	1,603
New business	**880**	107
Management of in-force book	**65**	9
Economic (losses)/profits	**(127)**	28
PIM	**(411)**	–
Other	**13**	(3)
Closing SCR as at 31 December	**2,163**	1,743

E.3 Use of equity risk sub-module

The equity risk sub-module is not applicable to Rothesay Life. This section is not subject to audit.

E.4 Differences between standard formula and internal model

This section is not subject to audit. As noted above, the Group received approval to use a PIM for the calculation of the SCR relating to credit and counterparty risk from 31 December 2018. The standard formula is used to calculate the SCR for all other risk components. The internal model and standard formula components of the SCR are integrated using Integration Technique 3, as detailed in Annexe XVIII of the Delegated Acts.

As well as using the PIM for calculation of the SCR, use of the PIM is integrated into the capital management of the business, and output from the PIM is used wherever consideration of the SCR has a material impact on the decision making process, for example in:

- Business planning and strategic decision making;
- Assessing potential new investments;
- Pricing of new business; and
- Monitoring, reporting and management of Rothesay Life's Solvency II position.

E.4.1 Calculation methodology

The PIM has been calibrated consistent with the confidence level used in the standard formula calibration, i.e. to a 1-in-200 year loss in basic Own Funds over a one-year horizon.

The spread risk module captures the impact of spread widening, rating migrations and defaults on the portfolio of bonds and loans, as well as the risk mitigating impact of any credit hedges held. Spread widening stresses are calibrated based on historical analyses of bond spreads and rating migrations on indices relevant to the Group's portfolio.

Separate calibrations have been performed for different asset classes within the scope of the spread risk module to ensure the calibration accurately reflects the differentiated risk profile of the assets held and risk mitigants such as underlying collateral and high levels of security. This provides a level of granularity not provided by the standard formula. This also means that capital is held against assets which the standard formula considers to be risk free, such as gilts.

For some asset classes, for example securitisations of ERMs, credit stresses are instead derived using a bespoke model that captures the granular risks impacting timing and quantum of the cash flows under stress.

The dynamics of the matching adjustment are explicitly captured within the internal model. This includes recalculation of the fundamental spreads following a sustained period of stress, the requirement to re-establish a compliant matching adjustment portfolio post stress (for example, passing the PRA's three cash flow matching tests) and subsequent recalculation of the matching adjustment.

The counterparty default risk module calculates the loss to Own Funds following the default of a derivative or reinsurance counterparty. The model assumes that the Group will seek to re-establish any risk mitigating contracts it held with a defaulted counterparty but that this replacement will not be immediate, particularly following a stressed event. Prior to re-establishing the defaulted contracts with an alternative counterparty, the underlying market variables hedged by the defaulted contract, the value of collateral posted in respect of the defaulted contract, and market pricing may all move adversely, resulting in a replacement cost for the defaulted contracts which is captured within the internal model. In contrast, the standard formula counterparty risk module assumes the defaulted exposure is not replaced and captures the impact from the loss of the risk mitigating effect of the defaulted contracts.

E. Capital management continued

Spread and counterparty default risks are modelled stochastically within the internal model, which produces a full loss distribution of the Own Funds over a one-year horizon. In contrast, the standard formula calculates a standalone capital requirement for each risk sub-module and does not produce a full loss distribution. The dependency structure between internal model risks is modelled under a copula framework. Repeated sampling from the resulting joint distribution generates a scenario set, for which the change in Own Funds is evaluated and the scenarios ranked in order of increasing loss. The internal model component of the SCR is derived directly from this loss distribution, and is consistent with a 1-in-200 year loss over a one-year horizon.

E.4.2 Nature and appropriateness of the data used within the internal model

A significant volume of data is used in the calibration of the stresses at an individual asset class level and in the calibration of the dependency structure.

Market data sources from providers such as Merrill Lynch and Standard & Poors have been used in the calibration of the spread widening and ratings migration elements of the spread calibration, and time series of spreads on CDS indices are used to calibrate the risk mitigating impact of credit hedges under stress, as well as the stressed default probabilities of derivative and reinsurance counterparties.

Market data has in some cases been supplemented by internally sourced data where appropriate. In all cases the credibility and relevance of the data was considered and documented during the calibration process, and where multiple credible data sources were available these alternatives were analysed and compared during the calibration process.

Expert judgement has informed some areas of the calibration where the available data was judged to be incomplete, lacking relevance or credibility, or otherwise unreliable, and the Group maintains a log documenting the nature and materiality of any expert judgements.

E.5 Non-compliance with the MCR and SCR

RHUK and RLP have continued to meet both the Minimum Capital Requirement and Solvency Capital Requirement during 2018.

E.6 Any other information

This section is not subject to audit.

E.6.1 Amortisation of transitional solvency relief

Transitional solvency relief amortises linearly to zero, falling by another 1/16th on 1 January 2019. The MCR and SCR are not impacted by the amortisation of transitional solvency relief as the associated tax impact is also reflected in the calculation of Own Funds.

The table below shows the impact of allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2019:

1 January 2019 (after amortisation)	RHUK	RLP
Assets (£m)	36,122	36,098
Technical provisions (£m)	(32,247)	(32,247)
Own Funds (£m)	3,875	3,851
SCR (£m)	2,163	2,163
Surplus above SCR	1,712	1,688
SCR coverage (%)	179%	178%
SCR coverage without transitional solvency relief (%)	153%	152%
MCR (£m)	658	658
Own Funds available to meet MCR (£m)	3,349	3,325
MCR coverage (%)	509%	506%

Quantitative Reporting Templates

The following QRTs are required for the SFCR:

QRT reference	QRT Template name
Group QRTs	
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.01	Premiums, claims and expenses by country
S.22.01.22	Impact of long-term guarantees, measures and transitionals
S.23.01.22	Own Funds
S.25.02.22	Solvency Capital Requirement – for undertakings using the standard formula and partial internal model
S.32.01.22	Undertakings in the scope of the Group
Solo QRTs	
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and Health SLT Technical Provisions
S.22.01.21	Impact of long-term guarantees, measures and transitionals
S.23.01.01	Own Funds
S.25.02.21	Solvency Capital Requirement – for undertakings using the standard formula and partial internal model.
S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

The templates are included as an appendix to this report. Rounding in the QRTs is in thousands.

F. Statement of Director's responsibilities in respect of the SFCR

We acknowledge our responsibility for preparing the Group SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2018, the Group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable at the level of the Group; and
b) it is reasonable to believe that the Group has continued so to comply subsequently and will continue so to comply for the remainder of the financial year to 31 December 2019.

The SFCR was approved by the Board of Directors on 27 March 2019 and was signed on its behalf by:

Andrew Stoker
Chief Financial Officer

G. External auditors' report

Report of the external independent auditors to the Directors of Rothesay Holdco UK Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2018, ('**the Narrative Disclosures subject to audit**'); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22 and S.32.01.22 ('**the Group Templates subject to audit**').
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01 and S.28.01.01 in respect of Rothesay Life Plc ('the Group members') ('**the Company Templates subject to audit**').

The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the '**relevant elements of the Single Group-Wide Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- Information contained within the relevant elements of the Single Group-Wide Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Group templates S.05.01.02, S.05.02.01 and S.25.02.22;
- Company templates S.05.01.02, S.05.02.01, and S.25.02.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report ('**the Responsibility Statement**');

To the extent the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations detailed in section 'B.8.1 PRA waivers & discretions' in the Single Group-Wide Solvency and Financial Condition Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Single Group-Wide Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Single Group-Wide Solvency and Financial Condition Report is not appropriate; or
- the Directors have not disclosed in the Single Group-Wide Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Single Group-Wide Solvency and Financial Condition Report is authorised for issue.

G. External auditors' report continued

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and 'B.8.1 PRA waivers & discretions' sections of the Single Group-Wide Solvency and Financial Condition Report, which describe the basis of accounting. The Single Group-Wide Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Single Group-Wide Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Single Group-Wide Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Single Group-Wide Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Single Group-Wide Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Single Group-Wide Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Single Group-Wide Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed in 'B.8.1 PRA waivers & discretions' section of the Single Group-Wide Solvency and Financial Condition Report.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Single Group-Wide Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Single Group-Wide Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Single Group-Wide Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Other Matter

The Company has authority to calculate its Group Solvency Capital Requirement using a partial internal model ('the Group Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. The Group members have authority to calculate their Solvency Capital Requirements using the Group Model approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Group Model, or whether the Group Model is being applied in accordance with the Company's and the Group members' application or approval order.

Report on Other Legal and Regulatory Requirements

Other Information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT
27 March 2019

H. Appendix: QRTs

Appendix – relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of Group template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

- The following elements of Group template S.22.01.22
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement

- The following elements of Group template S.23.01.22
  - Row R0020: Non-available called but not paid in ordinary share capital at Group level
  - Row R0060: Non-available subordinated mutual member accounts at Group level
  - Row R0080: Non-available surplus at Group level
  - Row R0100: Non-available preference shares at Group level
  - Row R0120: Non-available share premium account related to preference shares at Group level
  - Row R0150: Non-available subordinated liabilities at Group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the Group level
  - Row R0190: Non-available Own Funds related to other Own Funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at Group level
  - Row R0380: Non-available ancillary Own Funds at Group level
  - Row R0680: Group SCR
  - Row R0740: Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds
  - Row R0750: Other non available Own Funds

- The following elements of Company template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

- The following elements of Company template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM – risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- The following elements of Company template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement

- The following elements of Company template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds

- The following elements of Company template S.28.01.01
  - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

H. Appendix: Rothesay Holdco UK Limited QRTs

General information

Participating undertaking name	Rothesay Holdco UK Limited
Group identification code	2138004AIGF3ZBEQAF22
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2018
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the group SCR	Partial internal model
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	Use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates

S.02.01.02 – Balance sheet
S.05.01.02 – Premiums, claims and expenses by line of business
S.05.02.01 – Premiums, claims and expenses by country
S.22.01.22 – Impact of long term guarantees measures and transitionals
S.23.01.22 – Own Funds
S.25.02.22 – Solvency Capital Requirement – for groups using the standard formula and partial internal model
S.25.02.22 – Solvency Capital Requirement – for groups using the standard formula and partial internal model
S.32.01.22 – Undertakings in the scope of the group

H. Appendix: Rothesay Holdco UK Limited QRTs continued

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	42,159,350
R0080	Property (other than for own use)	
R0090	Holdings in related undertakings, including participations	
R0100	Equities	0
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	29,154,554
R0140	Government Bonds	16,158,174
R0150	Corporate Bonds	12,576,688
R0160	Structured notes	0
R0170	Collateralised securities	419,691
R0180	Collective Investments Undertakings	1,391,267
R0190	Derivatives	11,451,759
R0200	Deposits other than cash equivalents	161,770
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	7,361,599
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	1,897,336
R0260	Other loans and mortgages	5,464,263
R0270	Reinsurance recoverables from:	-2,198,086
R0280	Non-life and health similar to non-life	0
R0290	Non-life excluding health	
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding index-linked and unit-linked	-2,198,086
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	-2,198,086
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	352,502
R0390	Own shares (held directly)	19,484
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	162,651
R0420	Any other assets, not elsewhere shown	151,380
R0500	**Total assets**	**48,008,880**

Balance sheet continued

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	0
R0520	Technical provisions – non-life (excluding health)	0
R0530	TP calculated as a whole	
R0540	Best Estimate	
R0550	Risk margin	
R0560	Technical provisions – health (similar to non-life)	0
R0570	TP calculated as a whole	
R0580	Best Estimate	
R0590	Risk margin	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	29,996,519
R0610	Technical provisions – health (similar to life)	0
R0620	TP calculated as a whole	
R0630	Best Estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	29,996,519
R0660	TP calculated as a whole	
R0670	Best Estimate	29,121,429
R0680	Risk margin	875,090
R0690	Technical provisions – index-linked and unit-linked	0
R0700	TP calculated as a whole	
R0710	Best Estimate	
R0720	Risk margin	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	144,790
R0790	Derivatives	11,790,425
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	781,243
R0820	Insurance & intermediaries payables	13,306
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	1,336,037
R0850	Subordinated liabilities	1,007,889
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	1,007,889
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	45,070,209
R1000	**Excess of assets over liabilities**	**2,938,671**

H. Appendix: Rothesay Holdco UK Limited QRTs continued

S.05.01.02
Premiums, claims and expenses by line of business
Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross				1,191,450				12,232,391	13,423,841
R1420	Reinsurers' share				1,114,308				254,693	1,369,001
R1500	Net				77,142				11,977,698	12,054,840
	Premiums earned									
R1510	Gross				1,702,362				1,760,628	3,462,989
R1520	Reinsurers' share				1,114,308				254,693	1,369,001
R1600	Net				588,054				1,505,934	2,093,988
	Claims incurred									
R1610	Gross				1,471,347				404,788	1,876,135
R1620	Reinsurers' share				1,029,586				244,997	1,274,583
R1700	Net				441,761				159,791	601,552
	Changes in other technical provisions									
R1710	Gross				993,540				-11,687,097	-10,693,557
R1720	Reinsurers' share				443,043				123,651	566,694
R1800	Net				550,497				-11,810,748	-11,260,251
R1900	**Expenses incurred**				130,858				18,096	148,954
R2500	**Other expenses**									8,551
R2600	**Total expenses**									157,505

S.05.02.01
Premiums, claims and expenses by country
Life

R1400		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			Top 5 countries (by amount of gross premiums written) – life obligations			Top 5 countries (by amount of gross premiums written) – life obligations		
		Home Country	IE					Total Top 5 and home country
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	13,423,841						13,423,841
R1420	Reinsurers' share	1,369,001						1,369,001
R1500	Net	12,054,840	0	0	0	0	0	12,054,840
	Premiums earned							
R1510	Gross	3,462,989						3,462,989
R1520	Reinsurers' share	1,369,001						1,369,001
R1600	Net	2,093,988	0	0	0	0	0	2,093,988
	Claims incurred							
R1610	Gross	1,868,578	7,557					1,876,135
R1620	Reinsurers' share	1,274,325	258					1,274,583
R1700	Net	594,253	7,299	0	0	0	0	601,552
	Changes in other technical provisions							
R1710	Gross	-10,698,158	4,601					-10,693,557
R1720	Reinsurers' share	564,573	2,121					566,694
R1800	Net	-11,262,731	2,480	0	0	0	0	-11,260,251
R1900	**Expenses incurred**	148,398	556					148,954
R2500	**Other expenses**							8,551
R2600	**Total expenses**							157,505

S.22.01.22
Impact of long-term guarantees measures and transitionals

		Amount with Long-term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching a djustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	29,996,519	733,620	0	0	4,919,005
R0020	**Basic own funds**	3,918,473	-608,905	0	0	-4,640,784
R0050	**Eligible own funds to meet Solvency Capital Requirement**	3,918,473	-608,905	0	0	-4,640,784
R0090	**Solvency Capital Requirement**	2,163,446	0	0	0	4,088,073

H. Appendix: Rothesay Holdco UK Limited QRTs continued

S.23.01.22
Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	1,215	1,215		0	
R0020	Non-available called but not paid in ordinary share capital at group level	0				
R0030	Share premium account related to ordinary share capital	845,159	845,159		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	Non-available subordinated mutual member accounts at group level	0				
R0070	Surplus funds	0	0			
R0080	Non-available surplus funds at group level	0	0			
R0090	Preference shares	0		0	0	0
R0100	Non-available preference shares at group level	0				
R0110	Share premium account related to preference shares	0		0	0	0
R0120	Non-available share premium account related to preference shares at group level	0				
R0130	Reconciliation reserve	2,065,495	2,065,495			
R0140	Subordinated liabilities	1,007,889		349,795	658,094	0
R0150	Non-available subordinated liabilities at group level	0				
R0160	An amount equal to the value of net deferred tax assets	0				0
R0170	The amount equal to the value of net deferred tax assets not available at the group level	0				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190	Non available own funds related to other own funds items approved by supervisory authority	0				
R0200	Minority interests (if not reported as part of a specific own fund item)	0				
R0210	Non-available minority interests at group level	0				
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	1,285				
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	0				
R0240	whereof deducted according to art 228 of the Directive 2009/138/EC	0				
R0250	Deductions for participations where there is non-availability of information (Article 229)	0				
R0260	Deduction for participations included by using D&A when a combination of methods is used	0				
R0270	**Total of non-available own fund items**	0	0	0	0	0
R0280	**Total deductions**	0	0	0	0	0
R0290	**Total basic own funds after deductions**	3,918,473	2,910,585	349,795	658,094	0

S.23.01.22
Own Funds continued

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0380	Non available ancillary own funds at group level	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	0				
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	0	0	0	0	0

H. Appendix: Rothesay Holdco UK Limited QRTs continued

S.23.01.22
Own Funds continued

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Own funds when using the D&A, exclusively or in combination of method 1	C0010	C0020	C0030	C0040	C0050
R0450	Own funds aggregated when using the D&A and combination of method	0				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	0				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	3,918,473	2,910,585	349,795	658,094	0
R0530	Total available own funds to meet the minimum consolidated group SCR	3,918,473	2,910,585	349,795	658,094	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	3,918,473	2,910,585	349,795	658,094	0
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	3,391,922	2,910,585	349,795	131,542	
R0610	**Minimum consolidated Group SCR**	657,710				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	515.72%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	3,918,473	2,910,585	349,795	658,094	0
R0680	**Group SCR**	2,163,446				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	181.12%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	2,938,671				
R0710	Own shares (held directly and indirectly)	19,484				
R0720	Forseeable dividends, distributions and charges	7,318				
R0730	Other basic own fund items	846,374				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0750	Other non available own funds					
R0760	**Reconciliation reserve**	2,065,495				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) – Life business	776,125				
R0780	Expected profits included in future premiums (EPIFP) – Non – life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	776,125				

S.25.02.22
Solvency Capital Requirement – for groups using the standard formula and partial internal model

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
10000I	Market Risk	1,450,628	1,400,790	9	
20000I	Counterparty risk	196,844	196,844	9	
30000I	Life underwriting risk	1,113,944	0	9	
70100I	Operational risk	178,325	0	9	
80300I	Loss-absorbing capacity of deferred tax	-292,768	0	9	

USP Key

For life underwriting risk:

1 – Increase in the amount of annuity benefits
9 – None

For health underwriting risk:

1 – Increase in the amount of annuity benefits
2 – Standard deviation for NSLT health premium risk
3 – Standard deviation for NSLT health gross premium risk
4 – Adjustment factor for non – proportional reinsurance
5 – Standard deviation for NSLT health reserve risk
9 – None

For non-life underwriting risk:

4 – Adjustment factor for non – proportional reinsurance
6 – Standard deviation for non-life premium risk
7 – Standard deviation for non-life gross premium risk
8 – Standard deviation for non-life reserve risk
9 – None

H. Appendix: Rothesay Holdco UK Limited QRTs continued

S.25.02.22

Solvency Capital Requirement – for groups using the standard formula and partial internal model

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	2,646,972
R0060	Diversification	-520,526
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	2,126,446
R0210	Capital add-ons already set	37,000
R0220	**Solvency capital requirement for undertakings under consolidated method**	2,163,446
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	0
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-292,768
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	524,549
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	1,650,734
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0470	Minimum consolidated group solvency capital requirement	657,710
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	
R0520	Institutions for occupational retirement provisions	
R0530	Capital requirement for non – regulated entities carrying out financial activities	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	
	Overall SCR	
R0560	SCR for undertakings included via D and A	
R0570	**Solvency capital requirement**	2,163,446

S.32.01.22
Undertakings in the scope of the group

								Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	2138004AIGF3ZBEQAF22	LEI	Rothesay Holdco UK Limited	Insurance holding company as defined in Article 212(1)(f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual								Included in the scope		Method 1: Full consolidation
GB	RTCEKCVNBGTNCXT1JZ92	LEI	Rothesay Pensions Management Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	MFQO711J5UPYBWXSPG12	LEI	Rothesay Life Plc	Life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	549300QS0T6J1US4PS25	LEI	Rothesay Assurance Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800VJ8SB2HZ9DS845	LEI	LT Mortgage Financing Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
JE	2138004AIGF3ZBEQAF22JE00001	Specific code	The Rothesay Employee Share Trust	Other	Trust	Non-mutual			100.00%		Principal Company	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800TVD5OHC11UAL06	LEI	Rothesay Asset Management (UK) Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
US	2138004AIGF3ZBEQAF22US00003	Specific code	Rothesay Asset Management (US) LLC	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800AAE8JLMGCMCO35	Specific code	Rothesay MA No.1 Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation

H. Appendix: Rothesay Life Plc QRTs

General information

Participating undertaking name	Rothesay Life PLC
Group identification code	MFQO711J5UPYBWXSPG12
Type of code of group	LEI
Country of the group supervisor	Life undertakings
Language of reporting	GB
Reporting reference date	en
Currency used for reporting	31 December 2018
Accounting standards	GBP
Method of Calculation of the group SCR	IFRS
Method of group solvency calculation	Partial internal model
Matching adjustment	Use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates

S.02.01.02 – Balance sheet
S.05.01.02 – Premiums, claims and expenses by line of business
S.05.02.01 – Premiums, claims and expenses by country
S.12.01.02 – Life and Health SLT Technical Provisions
S.22.01.21 – Impact of long term guarantees measures and transitionals
S.23.01.01 – Own Funds
S.25.02.21 – Solvency Capital Requirement – for undertakings using the standard formula and partial internal model
S.25.02.21 – Solvency Capital Requirement – for undertakings using the standard formula and partial internal model
S.28.01.01 – Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	42,148,434
R0080	Property (other than for own use)	
R0090	Holdings in related undertakings, including participations	500
R0100	Equities	0
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	29,154,554
R0140	Government Bonds	16,158,174
R0150	Corporate Bonds	12,576,688
R0160	Structured notes	
R0170	Collateralised securities	419,691
R0180	Collective Investments Undertakings	1,379,851
R0190	Derivatives	11,451,759
R0200	Deposits other than cash equivalents	161,770
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	7,361,599
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	1,897,336
R0260	Other loans and mortgages	5,464,263
R0270	Reinsurance recoverables from:	-2,198,086
R0280	Non-life and health similar to non-life	0
R0290	Non-life excluding health	
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding index-linked and unit-linked	-2,198,086
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	-2,198,086
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	356,831
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	150,536
R0420	Any other assets, not elsewhere shown	151,380
R0500	**Total assets**	**47,970,694**

H. Appendix: Rothesay Life Plc QRTs continued

S.02.01.02
Balance sheet continued

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	0
R0520	Technical provisions – non-life (excluding health)	0
R0530	TP calculated as a whole	
R0540	Best Estimate	
R0550	Risk margin	
R0560	Technical provisions – health (similar to non-life)	0
R0570	TP calculated as a whole	
R0580	Best Estimate	
R0590	Risk margin	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	29,996,519
R0610	Technical provisions – health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	29,996,519
R0660	TP calculated as a whole	0
R0670	Best Estimate	29,121,429
R0680	Risk margin	875,090
R0690	Technical provisions – index-linked and unit-linked	0
R0700	TP calculated as a whole	0
R0710	Best Estimate	0
R0720	Risk margin	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	147,159
R0790	Derivatives	11,790,425
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	781,243
R0820	Insurance & intermediaries payables	13,306
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,340,138
R0850	Subordinated liabilities	1,007,889
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	1,007,889
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**45,076,679**
R1000	**Excess of assets over liabilities**	**2,894,016**

S.05.01.02
Premiums, claims and expenses by line of business
Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	"Other life insurance"	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	"Health reinsurance"	"Life reinsurance"	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross				1,191,450				12,232,391	13,423,841
R1420	Reinsurers' share				1,114,308				254,693	1,369,001
R1500	Net				77,142				11,977,698	12,054,840
	Premiums earned									
R1510	Gross				1,702,362				1,760,628	3,462,989
R1520	Reinsurers' share				1,114,308				254,693	1,369,001
R1600	Net				588,054				1,505,934	2,093,988
	Claims incurred									
R1610	Gross				1,471,347				404,788	1,876,135
R1620	Reinsurers' share				1,029,586				244,997	1,274,583
R1700	Net				441,761				159,791	601,552
	Changes in other technical provisions									
R1710	Gross				993,540				-11,687,097	-10,693,557
R1720	Reinsurers' share				443,043				123,651	566,694
R1800	Net				**550,497**				-11,810,748	-11,260,251
R1900	**Expenses incurred**				**130,858**				**18,096**	**148,954**
R2500	**Other expenses**									**8,551**
R2600	**Total expenses**									**157,505**

H. Appendix: Rothesay Life Plc QRTs continued

S.05.02.01
Premiums, claims and expenses by country
Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			Top 5 countries (by amount of gross premiums written) – life obligations			Top 5 countries (by amount of gross premiums written) – life obligations		
R1400		Home Country	IE					Total Top 5 and home country
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	13,423,841						13,423,841
R1420	Reinsurers' share	1,369,001						1,369,001
R1500	Net	12,054,840	0	0	0	0	0	12,054,840
	Premiums earned							
R1510	Gross	3,462,989						3,462,989
R1520	Reinsurers' share	1,369,001						1,369,001
R1600	Net	2,093,988	0	0	0	0	0	2,093,988
	Claims incurred							
R1610	Gross	1,868,578	7,557					1,876,135
R1620	Reinsurers' share	1,274,325	258					1,274,583
R1700	Net	594,253	7,299	0	0	0	0	601,552
	Changes in other technical provisions							
R1710	Gross	-10,698,158	4,601					-10,693,557
R1720	Reinsurers' share	564,573	2,121					566,694
R1800	Net	-11,262,731	2,480	0	0	0	0	-11,260,251
R1900	**Expenses incurred**	148,398	556					148,954
R2500	**Other expenses**							8,551
R2600	**Total expenses**							157,505

S.12.01.02
Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligation	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**																
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**						5,523,191	12,827,342		10,867,481	29,218,013						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-393,901	-1,330,514		-473,671	-2,198,086						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re						5,917,092	14,157,856		11,341,152	31,416,100						
R0100	**Risk margin**					1,058,544				453,582	1,512,125						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate						0	-96,584			-96,584						
R0130	Risk margin					-469,193				-167,843	-637,035						
R0200	**Technical provisions – total**				18,843,299				11,153,220	29,996,519							

H. Appendix: Rothesay Life Plc QRTs continued

S.22.01.21
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	"Impact of volatility adjustment set to zero"	"Impact of matching adjustment set to zero"
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	29,996,519	733,620	0	0	4,919,005
R0020	Basic own funds	3,894,587	-608,905	0	0	-4,640,784
R0050	Eligible own funds to meet Solvency Capital Requirement	3,894,587	-608,905	0	0	-4,640,784
R0090	Solvency Capital Requirement	2,163,446	0	0	0	4,088,073
R0100	Eligible own funds to meet Minimum Capital Requirement	3,368,035	-608,828	0	0	-4,114,309
R0110	Minimum Capital Requirement	657,710	2,028	0	0	903,142

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	410,323	410,323		0	
R0030	Share premium account related to ordinary share capital	1,353,432	1,353,432		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	1,122,944	1,122,944			
R0140	Subordinated liabilities	1,007,889		349,795	658,094	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	3,894,587	2,886,698	349,795	658,094	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0

H. Appendix: Rothesay Life Plc QRTs continued

S.23.01.01
Own Funds continued

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	3,894,587	2,886,698	349,795	658,094	0
R0510	Total available own funds to meet the MCR	3,894,587	2,886,698	349,795	658,094	
R0540	Total eligible own funds to meet the SCR	3,894,587	2,886,698	349,795	658,094	0
R0550	Total eligible own funds to meet the MCR	3,368,035	2,886,698	349,795	131,542	
R0580	**SCR**	2,163,446				
R0600	**MCR**	657,710				
R0620	**Ratio of Eligible own funds to SCR**	180.02%				
R0640	**Ratio of Eligible own funds to MCR**	512.09%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	2,894,016				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges	7,318				
R0730	Other basic own fund items	1,763,754				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	1,122,944				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) – Life business	776,125				
R0780	Expected profits included in future premiums (EPIFP) – Non – life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	776,125				

S.25.02.21
Solvency Capital Requirement – for undertakings using the standard formula and partial internal model

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
10000I	Market Risk	1,450,628	1,400,790	9	
20000I	Counterparty risk	196,844	196,844	9	
30000I	Life underwriting risk	1,113,944		9	
70100I	Operational risk	178,325		9	
80300I	Loss-absorbing capacity of deferred tax	-292,768		9	

USP Key

For life underwriting risk:

1 – Increase in the amount of annuity benefits
9 – None

For health underwriting risk:

1 – Increase in the amount of annuity benefits
2 – Standard deviation for NSLT health premium risk
3 – Standard deviation for NSLT health gross premium risk
4 – Adjustment factor for non – proportional reinsurance
5 – Standard deviation for NSLT health reserve risk
9 – None

For non-life underwriting risk:

4 – Adjustment factor for non – proportional reinsurance
6 – Standard deviation for non-life premium risk
7 – Standard deviation for non-life gross premium risk
8 – Standard deviation for non-life reserve risk
9 – None

H. Appendix: Rothesay Life Plc QRTs continued

S.25.02.21
Solvency Capital Requirement – for undertakings using the standard formula and partial internal model

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	2,646,972
R0060	Diversification	-520,526
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	2,126,446
R0210	Capital add-ons already set	37,000
R0220	**Solvency capital requirement**	2,163,446
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	0
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-292,768
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	524,549
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	1,650,734
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01
Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCRNL Result	0

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		
	Linear formula component for life insurance and reinsurance obligations	C0040	
R0200	MCRL Result	657,710	

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation – guaranteed benefits		
R0220	Obligations with profit participation – future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	31,319,515	
R0250	Total capital at risk for all life (re)insurance obligations		
	Overall MCR calculation	C0070	
R0300	Linear MCR	657,710	
R0310	SCR	2,163,446	
R0320	MCR cap	973,551	
R0330	MCR floor	540,862	
R0340	Combined MCR	657,710	
R0350	Absolute floor of the MCR	3,288	
R0400	**Minimum Capital Requirement**	657,710	

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