Rothesay life

ROTHESAY HOLDCO UK LIMITED & ROTHESAY LIFE PLC SOLVENCY AND FINANCIAL CONDITION REPORT

2019

Who we are

Rothesay Life is a leading provider of regulated insurance solutions in the UK market for pension de-risking. Established in 2007, Rothesay Life has grown to become the third largest annuity provider in the UK market, with over £53bn of assets under management and insuring the annuities of over 800,000 individuals.

Introduction

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 2019;
- 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.

Except as noted, the figures in the SFCR are as at 31 December 2019 and have not been amended to reflect the potential impact of COVID-19.

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 a leading provider of regulated insurance solutions in the UK pension market for de-risking. Established in 2007, Rothesay Life has grown to become the third largest annuity provider in the UK market, with over £53bn of assets under management and insuring the annuities of over 800,000 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 areas;

i) Protect the security of policyholder benefits.
ii) Grow through writing value-driven new business.
iii) Safeguard our brand and culture.

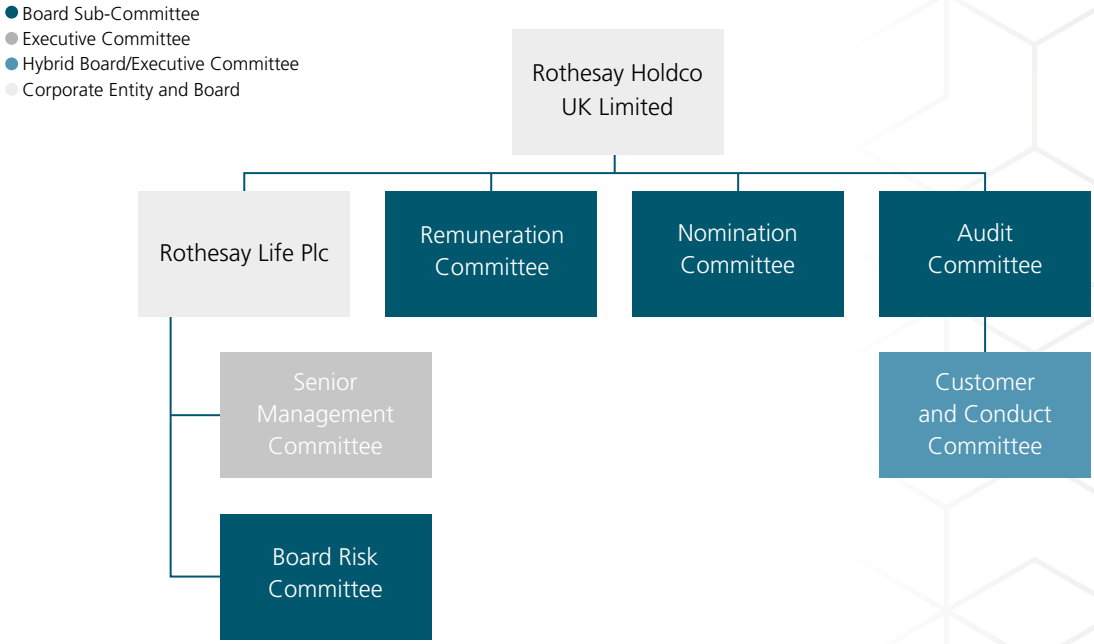
The Group has delivered a strong performance in 2019 which included these key highlights:

- **New business:** During the year the Group wrote £16.3bn of new business, assisting ten pension schemes to de-risk their liabilities, a record for the Group and the market (2018: £13.2bn).
- **IFRS pre-tax profit:** During 2019, the Group was successful in investing the remaining assets from the 2018 Prudential transaction, which was one of the main drivers of Rothesay's record profits before tax of £640m (2018: £102m).
- **Assets under management:** The Group's assets under management increased by 48% to £53.7bn (2018: £36.3bn), driven by new business volumes.
- **Solvency position:** Following the new business written during the year, £700m of new equity has been provided by the Group's institutional shareholders to help finance the transactions. In addition, RLP issued £400m of Tier 3 bonds and £400m of Tier 2 bonds. This has helped ensure that the solvency position of the Group has remained strong with Group SCR coverage of 202% (2018: 181%) and RLP SCR coverage of 201% (2018: 180%).
- **Credit rating:** RLP has maintained an insurance financial strength rating of A3 by Moody's Investors Service and A+ by Fitch Ratings.

Unfortunately the transfer of the annuities acquired from Prudential was not approved by the High Court. Rothesay Life and Prudential were immediately granted leave to appeal by the High Court. If the transfer does not take place then the reinsurance agreement will remain in place so the underlying economic risk transfer would be unaffected, but the policyholders covered by the agreement would continue to be serviced by Prudential.

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.

Executive Summary

CONTINUED

C. Risk profile

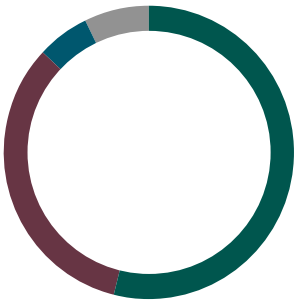
The Group is a wholesale annuity provider whose operations are materially within the United Kingdom. Our strategic approach is to de-risk our business in order to achieve attractive risk-adjusted returns. We aim to protect regulatory surplus and minimise balance sheet volatility by hedging the majority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

2019 saw the Group continue to grow, writing record volumes of new business. We also reinsured £12bn of liabilities ensuring that our reinsurance coverage remained at 78%. The Group now manages assets of over £53bn and insures the pensions of over 800,000 individuals. Although new business has materially increased the size of the Group's balance sheet, the risk profile of the new business is similar to existing business and did not therefore significantly change the Group's risk profile, although the duration of the business written and the inflation-linkage of new liabilities has increased the sensitivity of the balance sheet to changes in interest rates and inflation.

The Group has continued its strategy of investment in a diverse range of assets, including low loan-to-value commercial real estate loans and infrastructure. The Group has continued to fund equity release mortgages and has recently started to fund Dutch mortgages. The significant growth in the Group's assets under management also means that we have increased our investment in corporate bonds. 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.

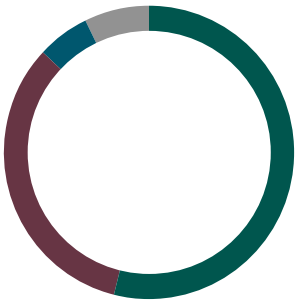
The charts below provide a breakdown of the Group's Solvency Capital Requirement (SCR) post-diversification benefit between modules as at 31 December 2019 and 31 December 2018. Credit and counterparty risk capital for 31 December 2019 has been calculated using the Partial Internal Model (PIM). Life underwriting relates mainly to longevity risk. Market risk is primarily spread risk. The post-diversification percentage split between modules remains unchanged from 2018. Further detail on each risk can be found in Section C.

Breakdown of SCR as at 31 December 2019



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

Breakdown of SCR as at 31 December 2018



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

The management of risk is central to the success of the business. Every employee 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.

Throughout 2019 the Group has continued to strengthen its control functions to ensure that our control environment is commensurate with the scale of the business. We have also strengthened the second and third lines of defence, bringing in additional experts in credit risk and increasing our in-house internal audit capabilities.

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 2019. Transitional solvency relief is calculated using transitional measures on technical provisions. The transitional solvency relief shown for 31 December 2019 allows for the impact of recalculation on that date and for amortisation of 3/16ths of the allowance. The transitional solvency relief shown for 31 December 2018 allows for recalculation on that date and for amortisation of 2/16th of the allowance.

	2019 £m	2018 restated[1] £m
Gross best estimate liabilities	**44,122**	29,691
Reinsurance liabilities	**2,308**	1,724
Risk margin	**2,190**	1,512
Transitional solvency relief (gross of tax impact)	**(1,371)**	(733)
Net technical provisions	**47,249**	32,194

1 Please see note D.2.7 for details of the prior year restatement.

Net technical provisions increased from £32.2bn as at 31 December 2018 to £47.2bn as at 31 December 2019 largely as a result of new business.

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 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 solvency coverage in the range of 130% to 150% of the regulatory minimum requirement. As at 31 December 2019, the Group had an SCR coverage ratio of 202% (31 December 2018: 181%), giving surplus capital for new business opportunities or future dividends.

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 market conditions and seeks to manage both the IFRS and solvency balance sheets should market conditions deteriorate.

During 2019, £700m of equity, £400m of Tier 2 debt and £400m of Tier 3 debt were issued by the Group. This, combined with continuing focus on proactive risk management, has ensured that the solvency position of the Group has remained robust throughout 2019. The Group utilises both debt and equity to optimise our capital structure and improve shareholder return.

During the year the Group converted 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.

Executive Summary

CONTINUED

E. Capital management continued

The Group received approval to use a PIM for the calculation of the SCR from 31 December 2018. During 2019 the PIM was updated to include Dutch mortgages and to address feedback from the PRA on the original PIM. 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 2019, RLP had Own Funds of £6,113m (2018: £3,895m) and RHUK had Own Funds of £6,132m (2018: £3,918m).

Group SCR coverage increased from 181% at 31 December 2018 to 202% at 31 December 2019 and SCR coverage at RLP increased from 180% on 31 December 2018 to 201% on 31 December 2019. The increase in SCR coverage is largely as a result of adoption of the surplus new capital in excess of that required to support new business. Group SCR coverage is higher than RLP SCR coverage because of additional assets held by RHUK as at 31 December 2018 and 31 December 2019. This can be seen in QRT S.23.01 Own Funds. This is summarised in the table below:

	RHUK		RLP	
	2019	2018	**2019**	2018
Tier 1 capital (£m)	**4,677**	3,260	**4,658**	3,237
Tier 2 capital (£m)	**1,059**	658	**1,059**	658
Tier 3 capital (£m)	**396**	–	**396**	–
Total eligible own funds to meet the SCR (£m)	**6,132**	3,918	**6,113**	3,895
SCR (£m)	**3,038**	2,163	**3,038**	2,163
Surplus above SCR (£m)	**3,094**	1,755	**3,075**	1,732
SCR coverage (%)	**202%**	181%	**201%**	180%
SCR coverage without transitional solvency relief (%)	**153%**	153%	**152%**	152%
MCR (£m)	**973**	658	**973**	658
Total eligible own funds to meet the MCR (£m)	**4,871**	3,392	**4,852**	3,368
MCR coverage (%)	**501%**	516%	**499%**	512%

After allowing for amortisation of another 1/16th of transitional solvency relief on 1 January 2020, SCR coverage falls to 197% at RLP and 198% at RHUK. RHUK and RLP have continued to meet both the Minimum Capital Requirement and Solvency Capital Requirement during 2019. Eligible own funds to meet MCR excludes all Tier 3 capital and 80% of Tier 2 Capital.

Events post year end

COVID-19

The Group is closely monitoring the situation resulting from the COVID-19 outbreak, including its potential impact on our investments. We actively manage our balance sheet using real-time solvency information which allows us to hedge and optimise our position on an ongoing basis. Given the market volatility both before and after quarter-end, we continued to take frequent management actions. We estimate that incorporating all of these management actions as if in place on 31 March 2020 would have resulted in pro-forma solvency cover of 204% at both Group and RLP. Excluding post-31 March 2020 management actions, we estimate that the SCR coverage at both Group and RLP was 183% as at 31 March 2020.

We have invoked our business continuity procedures and are taking steps to mitigate the potential impact of COVID-19. We are also working closely with our business partners to ensure that they are doing the same. This has ensured that our policyholders continue to receive excellent customer service.

A. Business and performance

A.1 Business

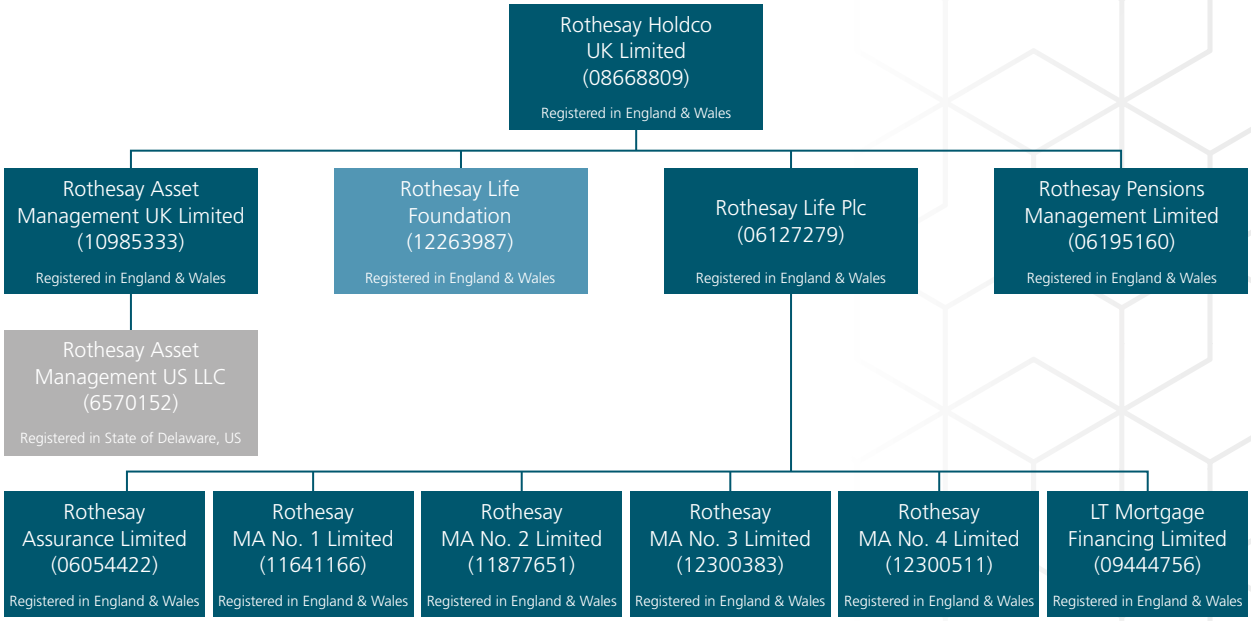
A1.1 Rothesay background and structure

RHUK is the ultimate holding company and is a UK limited company with eleven wholly owned subsidiaries. Rothesay MA No.2 Limited was incorporated during March 2019. Rothesay MA No.3 Limited and Rothesay MA No.4 Limited were incorporated during November 2019. All three entities remain dormant.

During October 2019 Rothesay established a charitable foundation, Rothesay Life Foundation.

The Group issued £700m of new equity and issued £400m of T2 loan notes and £400m of T3 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 (based on IFRS valuations).

Group undertakings	Country of incorporation	Primary business operation	**2019 Value at cost £m**	2018 Value at cost £m	**2019 % equity interest**	2018 % equity interest
Rothesay Pensions Management Limited	UK	Service company	**22**	11	**100%**	100%
Rothesay Life Plc (formerly known as Rothesay Life Limited)	UK	Life insurance	**2,464**	1,764	**100%**	100%
Rothesay Assurance Limited (formerly known as MetLife Assurance Limited)	UK	Service company	**–**	–	**100%**	100%
LT Mortgage Financing Limited	UK	Service company	**5**	1	**100%**	100%
Rothesay MA No.1 Limited	UK	Service company	**5**	–	**100%**	100%
Rothesay MA No.2 Limited	UK	Service company	**–**	–	**100%**	–
Rothesay MA No.3 Limited	UK	Service company	**–**	–	**100%**	–
Rothesay MA No.4 Limited	UK	Service company	**–**	–	**100%**	–
Rothesay Life Foundation	UK	Charitable foundation	**–**	–	**100%**	–
Rothesay Asset Management UK Limited	UK	Service company	**5**	5	**100%**	100%
Rothesay Asset Management US LLC	US	Service company	**5**	5	**100%**	100%

A. Business and performance

CONTINUED

A.1 Business continued

A1.1 Rothesay background and structure continued

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

RLP is the Group's regulated insurance entity.

On 3 October 2016, the PRA granted an application to cancel the permissions of Rothesay Assurance Limited. As it is now no longer needed, steps have been taken to remove it from the Group, and the company was placed into members' voluntary liquidation on 4 June 2019. The company will be dissolved once the liquidation is completed.

LT Mortgage Financing Limited (LTMF) was incorporated as a wholly owned subsidiary of RLP on 17 February 2015. Following the approval of the PIM during 2018, 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 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 and assists RLP in originating US assets.

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 only writes insurance business in the United Kingdom. Rothesay Asset Management US LLC assists the Group in sourcing US assets and around a third of our assets are now invested outside of the UK.

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 2019

The Group's new business premium for the year was £16.3bn (2018YE: £13.2bn), a record for the Group and for the bulk annuity industry. We also reinsured £12bn of liabilities ensuring that our reinsurance coverage remained at 78%. Although new business has materially increased the size of the Group's balance sheet, the profile of the new business is similar to existing business and did not therefore significantly change the Group's risk profile, although the duration of the business written and the inflation-linkage of new liabilities has increased the sensitivity of the balance sheet to changes in interest rates and inflation.

In 2018 Rothesay Life and the Prudential Assurance Company Limited (Prudential) entered into a reinsurance transaction covering a £12bn portfolio of annuities, with the expectation that this would be followed by an insurance business transfer. The terms of the proposed transfer were reviewed by an independent expert, who was appointed to report to the High Court, and who concluded that the transfer would not result in any material adverse effect on policyholders' security or benefits. Additionally, neither the Prudential Regulation Authority (PRA) nor the Financial Conduct Authority (FCA) objected to the transfer.

In August the High Court declined to sanction the transfer. Rothesay Life and Prudential were immediately granted leave to appeal by the High Court. If the transfer does not take place then the reinsurance agreement will remain in place so the underlying economic risk transfer would be unaffected, but the policyholders covered by the agreement would continue to be serviced by Prudential.

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 2019 based on the percentage nominal share capital owned are as follows:

- The Blackstone Group L.P.: 35%
- GIC Private Limited: 35%
- MassMutual Financial Group: 24%

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

RHUK holds 100% of the shares in RLP.

A. Business and performance

CONTINUED

A.1 Business continued

A.1.5 Intra-Group transactions

RHUK has entered into various transactions with fellow Group undertakings. There are no intra-Group reinsurance arrangements or other arrangements intended to transfer risk.

Details of outstanding balances in respect of transactions with RLP are as follows:

	2019 £m	2018 £m
Statement of comprehensive income		
Cost transfer	**(5)**	(3)
Statement of financial position		
Other payables	**13**	6
Capital	**2,464**	1,764
Dividends	**–**	500

All transactions are executed on an arms-length basis and conflicts of interest are avoided by ensuring that relevant Board approvals at RLP and RHUK are received.

On 6 January 2016, RLP loaned £20m to RHUK; the funds were used to establish an Employee Benefit Trust, The Rothesay Employee Share Trust (the Trust). The Trust has been established to purchase and hold shares of RHUK for delivery to employees under employee share schemes. Shares owned by the Trust are included at cost in RHUK's consolidated statements of financial position and are shown as a deduction from shareholder equity. They are disclosed as employee scheme shares until they vest to employees.

On 4 April 2019, the Trust purchased 3,116,366 new B ordinary shares for consideration of £8.8m. A further 984,876 B shares (stapled pre-consolidation, new post-consolidation) were acquired by the Trust during the year from employees leaving employment. The Trust vested 2,414,552 shares to employees of the Group on 31 December 2019.

On 20 June 2019, RHUK issued and allotted to the Trust 20,000,000 H shares and the beneficial interest was sold to eight employees of the Group immediately thereafter.

As noted above, RPML employs all of Rothesay's staff and provides services to the rest of the Group. Details of outstanding balances in respect of transactions with RPML are as follows:

	2019 £m	2018 £m
Statement of financial position		
Other receivables	**8**	8
Other payables	**3**	–
Capital	**22**	11

Transactions with Rothesay Asset Management UK Limited were as follows:

	2019 £m	2018 £m
Capital	**5**	5

Transactions with LTMF

During December 2018, £1.3bn of the equity release mortgage loans were transferred from RLP to its subsidiary LT Mortgage Financing Limited (LTMF). During June 2019 and September 2019, a further £0.4bn and £0.2bn respectively were transferred from RLP to LTMF. LTMF became the beneficial owner in the equity release mortgage loans in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the equity release mortgages. Under IAS 39 the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, this securitisation is ignored.

Transactions with Rothesay MA No.1 Limited

During December 2018, £778m of ground rent loans were transferred from RLP to its subsidiary Rothesay MA No.1 Limited (RMA1). RMA1 became the beneficial owner in the ground rent loans in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the ground rent loans. Under IAS 39 the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the loans after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, this securitisation is ignored.

A.2 Underwriting performance

Since we prepare 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 and which has now been reinsured to Monument Re Limited, pending a Part VII transfer. 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	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Group pension bulk annuities	**263**	263	**16,343**	928
Assumed reinsurance premiums	**–**	–	**–**	12,233
Total gross premiums written	**263**	263	**16,343**	13,161

The Group achieved a profit before tax of £640m (2018: £102m) and an operating profit before tax of £507m (2018: £355m).

IFRS financial performance

	2019 £m	2018 £m
New business profit (assuming assets fully invested)	**958**	361
Impact of temporary investment delay	**(909)**	(273)
Investment profit from prior year	**273**	–
Performance of in-force book	**299**	302
Non-economic assumption changes	**46**	106
Acquisition and Group costs	**(112)**	(105)
Administration expenses	**(48)**	(36)
Operating profit before tax	**507**	355
Borrowing costs	**(87)**	(55)
Project and other one-off expenses	**(24)**	(20)
Economic profits/(losses)	**244**	(178)
IFRS profit before tax	**640**	102

By the middle of 2019, the Group had successfully invested the assets received as part of the Prudential transaction in 2018 according to its long-term business strategy. This was achieved more quickly than assumed in pricing the deal and at the yields assumed.

The second half of 2019 was dominated by record new business volumes, with new business premiums for the year of £16.3bn (2018: £13.2bn). This took the Group's assets under management to £53.7bn (2018: £36.3bn).

Although Rothesay has made good progress with investing the assets received as new premiums, it has been patient in asset origination and anticipates further longer term IFRS gains as the new business premiums are invested according to the Group's long-term business strategy.

A. Business and performance

CONTINUED

A.2 Underwriting performance continued

IFRS financial performance continued

New business profits in the analysis are calculated assuming full investment of premiums and the short-term impact of any under-deployment is reported separately in the table. New business profit for the year assuming full investment of premiums was £958m (2018: £361m).

The temporary impact of the delay in investing assets according to our long-term strategy was a reduction in profits of £909m (2018: a reduction of £273m). We anticipate that this will reverse as assets are invested. Profits for 2019 include the profits of £273m generated on investment of the Prudential assets in the first half of the year (2018: nil).

Profits generated on the in-force book were £299m (2018: £302m). The impact of the change to demographic and expense assumptions was an increase in profit of £46m (2018: a profit of £106m). Demographic assumption changes in 2019 were driven by experience analysis and recent longevity reinsurance transactions and these were partially offset by an increase in expense provisions.

The Group made economic profits of £244m (2018: a loss of £178m) as a result of falling interest rates, rising bond prices and the fall in the value of sterling.

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.

	2019 £m	2018 £m
Financial investments		
Collective investment schemes	**5,330**	1,390
Government, sub sovereign and agency obligations	**17,956**	16,047
Corporate bonds and other corporate debt	**20,161**	12,823
Derivative assets	**19,508**	11,451
Collateralised agreements and financing	**1,875**	2,028
Loans secured on property	**6,063**	3,376
Equity release mortgages	**2,669**	1,897
Certificate of deposits	**180**	162
Total financial assets	**73,742**	49,174
Financial liabilities		
Derivative liabilities	**19,944**	11,790
Collateralised financing agreements	**676**	779
Total financial liabilities	**20,620**	12,569
Net financial investments	**53,122**	36,605

Net financial investments increased from £36.6bn at 31 December 2018 to £53.1bn at 31 December 2019, largely as a result of new business.

A.3.1 Investment return

The table below provides an analysis of the investment return:

	2019 £m	2018 £m
Interest income on financial investments at fair value through profit and loss	**1,125**	956
Unrealised profit/(loss) on financial investments	**900**	(686)
Realised gains/(losses) on financial investments	**316**	(93)
Investment management expenses	**(46)**	(36)
Total investment return	**2,295**	141

Interest income has increased due to the growth in assets under management. The profit on financial investments during the period were due to the more favourable market conditions than prior year, with tightening credit spreads, and lower interest rates.

The increase in investment management expenses reflects the growing size of the Group's investment activity.

A.3.2 Information about profit and losses in equity

During 2019 the interest expense on the tier 1 note has been included in interest payable on third party borrowings following a change to the legislation of regulatory capital instruments from 1 January 2019. A prior year restatement in relation to this of £7m has been made to retained earnings.

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

A.3.3 Information about investments in securitisations

The Group holds notes considered as securitisations from five issuing programs. 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.

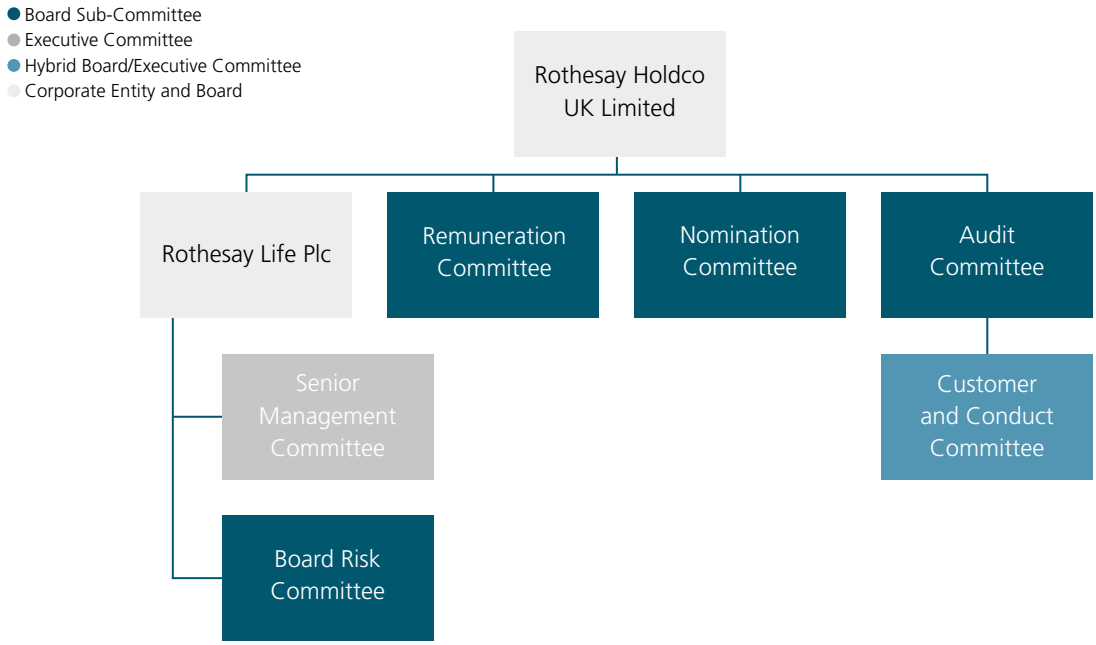
B. System of governance

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 2019 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.

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 2019 is shown in the table below:

	Board Risk Committee	Audit Committee	Nomination Committee	Remuneration Committee
CHAIRMAN	Stan Beckers	Bill Roberston	Naguib Kheraj	Naguib Kheraj
INED MEMBERS	Naguib Kheraj Ray King Simon Morris Charles Pickup Bill Robertson	Charles Pickup Terry Miller Ray King	Terry Miller Charles Pickup Ray King	Terry Miller Stan Beckers
SHAREHOLDER DIRECTOR MEMBERS	Qasim Abbas	Robin Jarratt	Qasim Abbas Robin Jarratt Tim Corbett	Qasim Abbas Robin Jarratt Tim Corbett

Terms of reference for the Committees can be found at www.rothesaylife.com/about-us/governance.

Audit Committee

The Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes and the Group's process for monitoring compliance with laws and regulations and the business principles. The Committee also receives reports from the Customer and Conduct Committee. The Committee has a majority of INEDs with an appropriate mix of expertise and experience.

Board Risk Committee

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 has a majority of INEDs with an appropriate mix of expertise and experience.

The Committee is also responsible for the oversight of the executive level Working Level Risk Committee, and its sub-committees, which are 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 membership consists of 12 members and is chaired by the CRO.

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 policy the Committee is specifically responsible for making recommendations for the remuneration packages of the INEDs, Executive Directors 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 shareholders in order to ensure that remuneration structures have their support. The INEDs form a majority given the Chairman's casting vote.

B. System of governance

CONTINUED

B.1 General information on the system of governance continued

B.1.1 Corporate governance continued

Nomination Committee

The Committee is responsible for monitoring the balance of skills, knowledge, experience, independence 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.

Customer and Conduct Committee

The Customer and 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 and 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 14 members and is chaired by Terry Miller, an INED. Another INED, Charles Pickup, is a member of the Committee and the Chairman of the Board also regularly attends.

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 decided to stand down as an INED of the Group from 28 February 2019.

A new INED, Simon Morris, was appointed to the Board with effect from 14 February 2019. Therese (Terry) Miller assumed Chairmanship of the Customer and 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 (please see page 14 of the Rothesay Group Annual accounts) 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.

B1.4 Material transactions with related parties

During 2019 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:

	2019 £m	2018 £m
Salaries, bonus and other employee benefits	**21**	20
Equity-based compensation payments	**6**	4
Total transactions	**27**	24

On 4 April 2019 members of key management personnel and their families sold new B ordinary shares to the Employee Benefit Trust for consideration of £7.8m.

B1.5 Authority, resourcing and independence of control functions

The operation of the control functions is described in the following sections:

- Risk management – Section B.3
- Compliance – Section B.4.2
- Internal audit function – Section B.5
- Actuarial function – Section B.6

The CRO, Chief Compliance Officer, Chief Auditor and Chief Actuary all have direct access to the relevant governing bodies, including private sessions without management present, which helps ensure that these key function holders have appropriate authority, access to resources and independence.

As noted above, financial metrics are not considered when evaluating the performance of second and third line staff.

B. System of governance

CONTINUED

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 general management;
- governance;
- risk management;
- 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;
5) Annual performance reviews and assessments; and
6) Self-attestation annually.

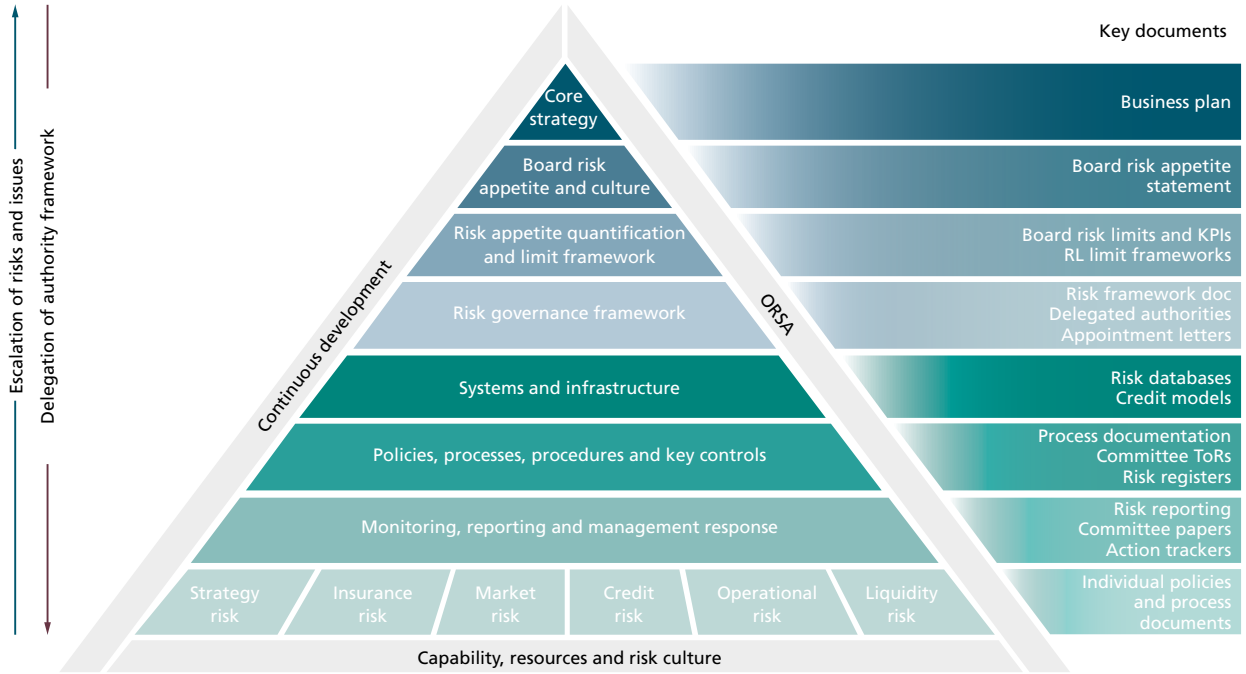
B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management framework

The Group has an embedded risk management framework (RMF) which ensures that every employee knows how they contribute to the effective management of all types of risks. Throughout 2019 the Group has continued to strengthen its control functions and the risk function, bringing in additional experts in credit 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 and other stakeholders. The RMF ensures both clear ownership and strong oversight of all of the Group's risks, both quantifiable and non-quantifiable.

Risk management framework



B. System of governance

CONTINUED

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

B.3.1 Risk management framework continued

Core strategy

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

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

Board risk appetite and culture

Rothesay Life's risk appetite expresses the types of risk that the Group 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 invested into attractive risk-adjusted new business opportunities where the Group believes it has a comparative advantage.

Our risk appetite statement sets out the types of risk that we are willing to be exposed to in order to meet our strategic objectives. They are categorised as:

- Desired – risks that are core to the business model;
- Tolerated – risks that we incur as a result of the business model but try to mitigate or manage in some way; or
- Undesired – risks that we will seek to avoid or fully eliminate where possible.

All possible risks are considered as part of defining the overall risk universe for the Group, with each risk categorised as above and assigned an executive risk owner.

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. This includes conduct risk.	●		

Risk appetite quantification and limit framework

The risk limit framework 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, credit, counterparty, liquidity, demographic and longevity risks and are sized with reference to our overall risk appetite and capital position. Limits apply to standalone risks, in addition to combinations of risks that are stressed through the use of a suite of scenarios. Limits are constantly reviewed and regularly reported against.

Risk governance framework

Rothesay Life's risk governance arrangements strengthen the risk-taking and risk management of the business by adding challenge, oversight and independent assurance. This framework is part of our commitment to compliance with the Senior Managers and Certification Regime (SMCR). Rothesay Life adopts the principles of a 'three lines of defence' model for effective 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 Chief Executive Officer (CEO) and, through a system of delegated authorities, to business managers. The Group 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 Working Level Risk Committee (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:** Internal audit provides the Board and Executive with comprehensive, independent, objective assurance over governance, risk management and internal control.

The Board has overall responsibility for the management of the exposure to risks and is supported by the Board Risk Committee (BRC) 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.

B. System of governance

CONTINUED

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

B.3.1 Risk management framework continued

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 our people 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. A single Group-wide ORSA is prepared covering both the Group and RLP. The report 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, including stress testing, 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 is responsible for the external reporting of the internal model results.

The CRO has overall responsibility for running the model, ensuring that it is appropriate for its purpose, functions as 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 internal model governance

The PIM was approved for use as at 31 December 2018 and so the approach to internal model governance was changed to that described above, no material changes to the internal model governance have been made since then.

Validation approach

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

- To provide the management and 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 used 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. Where required, external resources are used to provide additional independent validation capabilities.

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 above for a description of the internal control system relating to the risk function.

B.4.2 Compliance

The Compliance Function's overall vision is to support and protect the business by ensuring:

- A compliance framework that is risk-based, forward-looking, proportionate and cost effective.
- The business is supported in delivering its strategic objectives and managing conduct and regulatory risks.
- Leadership has assurance the Group maintains compliance with legal and regulatory requirements and operates within appetite.
- Compliance activities are aligned and coordinated with other control functions.
- A strong compliance culture that advances the Group's business and is committed to maintaining the highest ethical standards in the conduct of our business.
- Open and transparent relations with regulators.

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. Following the resignation of the Chief Compliance Officer in the second half of 2019, the CRO took on these responsibilities supported by staff from Grant Thornton. The Audit Committee approved these interim arrangements for managing the Compliance function.

The Group's Compliance Function operates independently from the business and reports to the Chief Risk Officer. The CRO also has direct access to the Board and the Audit Committee (in his compliance role), in order to assist management with possible conflicts of interest.

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. In summary, the function's operational objectives are as follows:

i) Compliance advice – provide pragmatic, timely and accurate advice to all RL business areas;
ii) Regulatory change – effectively communicate and support upcoming regulatory change across all impacted business areas;
iii) Assurance – provide assurance to senior management that RL is compliant with relevant regulatory requirements and within appetite for regulatory, conduct and compliance risk;
iv) Regulatory relationships – manage and support open and constructive relationships with our regulators; and
v) Financial crime – oversee compliance with legal and regulatory obligations regarding financial crime matters.

A Board-approved Compliance Manual and policy framework sets Group standards and expectations as well as individuals' personal obligations to support a positive compliance culture at all levels of the business. Policies are reviewed and updated on an annual basis or as a result of regulatory change.

B.5 Internal audit function

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. The Internal Audit function also assists the Audit Committee in fulfilling its oversight responsibilities.

The Chief Auditor's (CA) 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 also reviews and approves recommendations made by the Audit Committee in relation to the CA's annual compensation and salary adjustment.

Rothesay's Internal Audit Charter 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 approach and judgement, 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.

Although the Group has been strengthening our in-house internal audit capabilities, we continue to operate a co-sourcing approach to internal audit using external advisers 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

The Chief Actuary reports to the CRO and also has responsibility for the oversight of insurance risk. The Chief Actuary and the wider 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 fifteen people 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. System of governance

CONTINUED

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 Mercer, 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 UK or the EU (with the exception of the US payroll provider).

The Group has adopted a Third Party Oversight 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 life-cycle, from identifying the need for outsourcing through relationship management and oversight to providing processes to effectively manage risk associated with outsourcing relationships.

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 2019.

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.
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.
7 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.
	5083260	Permission to recalculate the transitional deduction as at 31 December 2018 to reflect the impact of the PIM.
10 July 2019	5180551	Permission to modify the definition of gross written premium for regulatory fee purposes.
18 October 2019	5246647	Renewal of the decision to allow the Group to produce a single Group-wide SFCR (previously 3184816 which expired).
19 December 2019	5274984	Permission to make changes to the PIM, in particular to include Dutch mortgages.
	5278094	Permission to apply a matching adjustment as per a revised application and addendum covering Dutch mortgages and other changes.
24 December 2019	5434906	Permission to recalculate the transitional deduction as at 31 December 2019.

As part of the approval to apply a revised matching adjustment, an earlier matching adjustment approval (reference 5206017) 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 2019 and 31 December 2018. Credit and counterparty risk capital for both years have 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 2019

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

Breakdown of SCR as at 31 December 2018

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

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.

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

2019 saw the Group continue to grow, writing record volumes of new business. The Group now manages assets of over £53bn and insures the pensions of over 800,000 individuals.

The Group has continued its strategy of investment in a diverse range of assets, including low loan-to-value commercial real estate loans and infrastructure. The Group has continued to fund equity release mortgages and has recently started to invest in Dutch mortgages. The significant growth in the Group's assets under management also means that we have increased our investment in corporate bonds. The Group sources assets globally in order to achieve its target 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 uncertainty over future life expectancy, has meant that the Group's proactive approach to risk management has continued to be crucial in delivering the Group's strategic objectives and ensuring continued financial security for our policyholders.

The Group has continued to strengthen its control functions to ensure that our control environment is commensurate with the scale of the business. We have also strengthened the second and third lines of defence, bringing in additional experts in credit risk and increasing our in-house internal audit capabilities.

There continue to be changes in accounting regulation, asset trading markets, pensions and tax, the effects of which are highly uncertain.

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 did have a small portfolio of Irish annuities which we sold to Laguna Life DAC (since renamed Monument Life Insurance DAC) in March 2019. The transaction is structured initially as a reinsurance contract with Monument Re Limited (part of the Monument Life Group) and we are now seeking approval for a Part VII transfer of the business. 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 we will look to take alternative steps to ensure continuity of pension payments.

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 adverse financial impact on the Group 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, as well as 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, with the exception of the reinsurance contract with Monument Re Limited which is a pre-cursor to a proposed Part VII transfer and where assets have been passed across as part of the transaction. 78% of longevity risk on an IFRS basis was hedged as at 31 December 2019 (2018: 78%).

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

As at 31 December 2019, the required capital for underwriting risk pre-diversification, based on the standard formula (classified as underwriting risk), is £1,628m (2018: £1,114m). Please refer to QRT S.25.02. Insurance risk increased over the year as a result of new business. This was partly offset by reinsurance of the new business written. Information on risk exposures and concentration on an IFRS basis is included in notes E and F of the annual report and accounts.

C. Risk profile

CONTINUED

C.2 Market risk

Market risk is the risk of changes in the value of the Group's net 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 liabilities and assets. Profits and losses are generated through changes to the level, slope and curvature of inflation curves. The risk is hedged by closely matching assets and liabilities and by using inflation swaps.
- Currency rate risk results from mismatches in the denomination of liabilities 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, consideration of the potential impact of climate change, aggregated risk monitoring 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 tables below show sensitivities on an IFRS basis to movements in interest rates and inflation. The interest rate sensitivities have increased by more than the increase in the size of the balance sheet because of the long duration of the new business. However, the risk remains closely monitored and hedged as seen through the impact of the sensitivity on equity. Inflation sensitivities have increased from 2018 to 2019 because all of the schemes insured in 2019 have inflation-linked benefits.

Interest rate risk sensitivity analysis

2019	Change in assumptions	(Decrease)/ increase in net liabilities £m	Increase/ (decrease) in profit before tax £m	Impact on equity £m
Interest rate	**+100bps**	**(6,149)**	**241**	**195**
Interest rate	**-100bps**	**7,719**	**(85)**	**(69)**
Inflation	**+100bps**	**3,234**	**(242)**	**(196)**
Inflation	**-100bps**	**(2,968)**	**382**	**309**

2018	Change in assumptions	(Decrease)/ increase in net liabilities £m	Increase/ (decrease) in profit before tax £m	Impact on equity £m
Interest rate	+100bps	(3,752)	26	21
Interest rate	-100bps	4,661	292	236
Inflation	+100bps	1,320	26	21
Inflation	-100bps	(1,256)	82	66

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

As at 31 December 2019 the required capital for market risk (including spread risk and concentration risk) pre-diversification is £2,205m (2018: £1,451m). For 2019, and 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.

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 one investment position (2018: two) leads to holding capital against concentration risk and the impact of this on the Group's SCR is not significant.

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);
- The risks associated with the investment are well understood, can be modelled in our risk systems and are appropriately captured in our capital models;
- Can be suitably valued. Where relevant, valuation uncertainty for new investments is considered;
- Appropriately match liabilities by duration, currency and index-linkage;
- Take account of the liquidity needs of the Group;
- Meet concentration limits for individual assets and sector; and
- Appropriate resources are in place to manage the investment over time.

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 and the financial impact of ESG factors, before investments are made. This assessment, along with consideration of prudent person principles, is captured within the investment memos that are presented to the Transaction Approval 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;
- When investing in unsecured bonds such as certain corporate bonds, focusing on lower risk sectors, higher ratings and diversifying single name exposures;
- 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;
- Consideration of the potential risks from climate change; 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 based on external and internal ratings to be consistent with management's view of credit. 2018 comparatives have been restated accordingly. The external rating is generally based on the median of the ratings assigned by Standard & Poor's, Moody's and Fitch. For the purpose of Solvency II, certain assets are internally rated by the Group's independent credit risk function under a framework which has been externally validated.

Net credit exposure is predominately arising from strong investment grade assets. AAA rated assets include supranational bonds, sub sovereigns, covered bonds, US not-for-profit private universities and certificates of deposit. AA rated assets include gilts. Other net credit exposures rated A and BBB include investments in regulated infrastructure assets and commercial real estate loans, as well as unsecured corporate bonds.

A vast majority of the unrated assets relate to residential mortgages that are not individually rated.

Other than a small number of equity release mortgages, as of the current and prior year end there were no financial assets past due.

C. Risk profile

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C.3 Credit risk continued

	2019 Related amounts not offset				
	Net amount of financial assets presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral and charges £m	Net credit exposures £m
Exposure to credit risk by rating					
AAA	**14,727**	**–**	**–**	**(2,660)**	**12,067**
AA	**20,296**	**(1,855)**	**(49)**	**(2,046)**	**16,346**
A	**28,386**	**(13,738)**	**(490)**	**(2,285)**	**11,873**
BBB	**9,254**	**(407)**	**(23)**	**(3,762)**	**5,062**
BB	**–**	**–**	**–**	**–**	**–**
B	**–**	**–**	**–**	**–**	**–**
Unrated	**3,438**	**–**	**(3)**	**(3,013)**	**422**
Total	**76,101**	**(16,000)**	**(565)**	**(13,766)**	**45,770**

	2018 restated Related amounts not offset				
	Amounts of financial assets presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral and charges £m	Net credit exposures £m
Exposure to credit risk by rating					
AAA	10,402	–	–	(2,646)	7,756
AA	15,558	(891)	(13)	(1,780)	12,874
A	15,190	(6,319)	(389)	(644)	7,838
BBB	6,937	(939)	(178)	(2,975)	2,845
BB	–	–	–	–	–
B	–	–	–	–	–
Unrated	2,146	–	–	(1,974)	172
Total	50,233	(8,149)	(580)	(10,019)	31,485

As at 31 December 2019, the required capital for counterparty default risk pre-diversification is £319m (2018: £197m). For both 2019 and 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 increase in longevity reinsurance associated with new business. 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 note F of the annual report and accounts.

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. 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 £764m (2018: £776m). Future premiums are 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 is included in note F of the annual report and accounts.

C. Risk profile

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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. The Group manages operational risk through the development and maintenance of an effective risk management framework which ensures that a comprehensive internal control environment is in place. This is supported by regular risk and control self-assessments coordinated, challenged and reported by the second line, which allow risk levels to be measured and control enhancements to be developed in line with the Group's risk appetite.

The Group also uses scenario analysis to explore key areas of operational risk, ensuring that the implications of adverse operational risk events crystallising are well understood and that, where appropriate, additional controls or contingency plans are introduced to improve operational resilience. Improvement of operational resilience is a particular focus for 2020.

The Group has significant outsourcing arrangements in place, which are subject to extensive due diligence at the point of entering into them, but also to ongoing review, with oversight provided by the Third Party Oversight Committee. Oversight of these arrangements considers the information security risk that the Group is exposed to, the performance of the third party with respect to service level agreements, and other relevant information (e.g. their ongoing credit-worthiness, and where relevant their readiness to accommodate the Group's growth).

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.

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 ISO 27001 and ISO 22301 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 2019, the required capital for operational risk based on the standard formula is £236m (2018: £178m). 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 exit from the EU means that there is significant uncertainty about the future regulatory framework for UK insurers. The Group maintains contingency plans for adverse outcomes such as a "Hard Brexit" at the end of the transition period 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 insures the pensions of over 800,000 individual policyholders and is therefore exposed to conduct risk associated with unfair treatment of customers.

A sub-committee of the Board, the Customer and 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 COVID-19

The Group is closely monitoring the situation resulting from the COVID-19 outbreak. Given the nature of our insurance liabilities, increased annuitant mortality would result in a reduction in liabilities and hence it is the operational risks associated with COVID-19 that present the bigger direct challenge to the Group. We have invoked our business continuity procedures and are taking steps to mitigate the potential impact of COVID-19. We are also working closely with our business partners to ensure that they are doing the same. This has ensured that our policyholders continue to receive excellent customer service.

The Group is also exposed to the impact of COVID-19 on our investments but regular stress testing of the balance sheet shows that the financial and solvency impacts of COVID-19 are likely to remain within our risk tolerances because of the Group's cautious investment strategy and approach to risk management.

Given the market volatility both before and after quarter-end, we continued to take frequent management actions. We estimate that incorporating all of these management actions as if in place on 31 March 2020 would have resulted in pro-forma solvency cover of 204% at both Group and RLP. Excluding post-31 March 2020 management actions, we estimate that the SCR coverage at both Group and RLP was 183% as at 31 March 2020. The table below shows the estimated solvency position as at 31 March 2020. This includes the impact of the amortisation of 1/16th of transitional solvency relief on 1 January 2020 and is shown with and without the recent management actions:

	Group			RLP		
Solvency position of the Group and RLP	**31/3/2020 Pro-forma £m**	**31/3/2020 Excluding recent actions £m**	31/12/2019 Actual £m	**31/3/2020 Pro-forma £m**	**31/3/2020 Excluding recent actions £m**	31/12/2019 Actual £m
Own funds available to meet SCR	**6,805**	**6,805**	6,132	**6,810**	**6,810**	6,113
SCR	**3,335**	**3,723**	3,038	**3,335**	**3,723**	3,038
Surplus above SCR	**3,470**	**3,082**	3,094	**3,475**	**3,087**	3,075
SCR coverage	**204%**	**183%**	202%	**204%**	**183%**	201%

C.7.2 Solvency II sensitivities

Given the change in economic conditions between 31 December 2019 and 31 March 2020, sensitivities calculated as at 31 March 2020 provide a more representative view of the potential impact of future changes in economic conditions. We have therefore chosen not to show sensitivities as at 31 December 2019 and instead the table below provides a range of estimated sensitivities as at 31 March 2020 not allowing for management actions post-31 March 2020. 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 is adjusted accordingly:

31 March 2020	**Change in assumptions**	**Impact on Own Funds £m**	**Impact on SCR £m**	**Impact on RHUK coverage ratio %**
Annuitant mortality	**+5% qx**	**196**	**73**	**9%**
Annuitant mortality	**-5% qx**	**(208)**	**(75)**	**(9)%**
Interest rate	**+100bps**	**(360)**	**621**	**24%**
Interest rate	**-100bps**	**591**	**(1,236)**	**(32)%**
Inflation	**+100bps**	**(66)**	**(459)**	**(21)%**
Inflation	**-100bps**	**159**	**199**	**15%**
Credit spread widening (all non-government guaranteed assets)	**+100bps**	**(323)**	**130**	**(2)%**
Property value	**-10%**	**(69)**	**(143)**	**(8)%**
Expenses	**+10%**	**(76)**	**(20)**	**(3)%**

31 December 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)%

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

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 2019	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	5,330	3	5,333
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	38,117	321	38,438
	Derivative assets	19,508	–	19,508
	Collateralised agreements and financing	1,875	9	1,884
	Loans secured on property	6,063	66	6,129
	Equity release mortgages	2,669	–	2,669
	Certificates of deposit	180	–	180
D1.1	**Total investments**	73,742	399	74,141
D1.3	Property, plant and equipment	9	(9)	–
D3.5	Lease – right of use asset	37	–	37
D1.4	Accrued interest and prepayments	755	(400)	355
D1.4	Receivables	905	–	905
D1.5	Cash and cash equivalents	263	–	263
D2.1	Reinsurance assets	388	(2,696)	(2,308)
D3.3	Deferred tax asset	2	(2)	–
	Own shares (held directly)	–	30	30
	Total assets	76,101	(2,678)	73,423
D1.1	Derivative and collateralised financing liabilities	(20,620)	(3)	(20,623)
D2.1	Insurance contract liabilities	(47,932)	2,991	(44,941)
D2.1	Reinsurance liabilities	(848)	848	–
D3.1	Payables	(1,379)	(89)	(1,468)
D3.2	Borrowings	(1,427)	(391)	(1,818)
D3.3	Deferred tax liabilities	–	(190)	(190)
D3.4	Accruals and deferred income	(80)	80	–
D3.5	Leasehold liabilities	(39)	–	(39)
	Total liabilities	(72,325)	3,246	(69,079)
	Net assets	3,776	568	4,344

	RHUK – Reconciliation IFRS balance sheet to SII balance sheet 2018 restated[1]	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 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**	49,174	347	49,521
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	(1,767)	(1,724)
D3.3	Deferred tax asset	1	(1)	–
	Own shares (held directly)	–	19	19
	Total assets	50,233	(1,750)	48,483
D1.1	Derivative and collateralised financing liabilities	(12,569)	(2)	(12,571)
D2.1	Insurance contract liabilities	(32,559)	2,089	(30,470)
D2.1	Reinsurance liabilities	(549)	549	–
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)	2,119	(45,543)
	Net assets	2,571	369	2,940

1 Please see note D.2.7 for details of the prior year restatement.

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 2019	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	5,329	3	5,332
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	38,117	321	38,438
	Derivative assets	19,508	–	19,508
	Collateralised agreements and financing	1,875	9	1,884
	Loans secured on property	6,063	66	6,129
	Equity release mortgages	2,669	–	2,669
	Certificates of deposit	180	–	180
D1.1	**Total investments**	73,741	399	74,140
D1.2	Investments in subsidiaries	11	–	11
D1.3	Property, plant and equipment	9	(9)	–
D3.5	Lease – right of use asset	37	–	37
D1.4	Accrued interest and prepayments	755	(400)	355
D1.4	Receivables	947	–	947
D1.5	Cash and cash equivalents	234	–	234
D2.1	Reinsurance assets	388	(2,696)	(2,308)
	Total assets	76,122	(2,706)	73,416
D1.1	Derivative and collateralised financing liabilities	(20,620)	(3)	(20,623)
D2.1	Insurance contract liabilities	(47,932)	2,991	(44,941)
D2.1	Reinsurance liabilities	(848)	848	–
D3.1	Payables	(1,390)	(87)	(1,477)
D3.2	Borrowings	(1,427)	(391)	(1,818)
D3.3	Deferred tax liabilities	(31)	(193)	(224)
D3.4	Accruals and deferred income	(79)	79	–
D3.5	Leasehold liabilities	(39)	–	(39)
D3.5	**Total liabilities**	(72,366)	3,244	(69,122)
	Net assets	3,756	538	4,294

	RLP – Reconciliation IFRS balance sheet to SII balance sheet 2018 restated[2]	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	1,353	4,729
	Equity release mortgages	1,897	(1,303)	594
	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	(1,767)	(1,724)
	Total assets	50,214	(1,769)	48,445
D1.1	Derivative and collateralised financing liabilities	(12,569)	(3)	(12,572)
D2.1	Insurance contract liabilities	(32,559)	2,089	(30,470)
D2.1	Reinsurance liabilities	(549)	549	–
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)	2,119	(45,550)
	Net assets	2,545	350	2,895

2 Please see note D.2.7 for details of the prior year restatement.

D. Valuation for solvency purposes

CONTINUED

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 noted during prior year, 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. During 2019 a further £0.6bn of equity release mortgages were transferred from RLP to LTMF. During 2018, loans secured on ground rents were transferred to RMA1 and notes issued to RLP, no further transfers were made in 2019. For the purposes 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 was 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.

For the purposes of calculating Group solvency all of the subsidiaries' assets and liabilities are fully consolidated in the Group's Own Funds and the SCR is calculated on consolidated data.

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 considers 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 2019, other receivables at RHUK also include £27m 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.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 2019 allows for the impact of recalculation on that date and for amortisation of 3/16ths of the allowance (2018: 2/16ths of the allowance):

	2019 £m	2018 restated[1] £m
Gross best estimate liabilities	**44,122**	29,691
Risk margin (unaudited)	**2,190**	1,512
Transitional solvency relief (gross of tax impact) (unaudited)	**(1,371)**	(733)
Insurance contract liabilities	**44,941**	**30,470**
Reinsurance liabilities	**2,308**	1,724
Net technical provisions	**47,249**	**32,194**

1 Please see note D.2.7 for details of the prior year restatement.

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 regard 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.

No allowance for future management action is made in the valuation of technical provisions.

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:

	2019		2018	
	Pensions originated	**Insurance originated**	Pensions originated	Insurance originated
Males	**97.9% S2PMA**	**92.9% S2PMA**	94.8% S2PMA	100.2% PMA08
Females	**97.9% S2PFA**	**92.9% S2PFA**	94.8% S2PFA	100.2% PFA08

	Future mortality improvements 2019	2018
Males	**CMI_2018_M [1.73%; SK=7.3]**	CMI_2017_M [1.73%; SK=6.75]
Females	**CMI_2018_F [1.73%; SK=7.3]**	CMI_2017_F [1.73%; SK=6.75]

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 2019. 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 2019 reflect the inclusion of new business along with the results of the experience investigations.

D. Valuation for solvency purposes

CONTINUED

D.2 Technical provisions continued

D.2.1 Best estimate and reinsurance liabilities continued

Mortality assumptions continued

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 of pensions schemes.

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 2019 the mortality improvement assumptions were updated to reflect the latest mortality improvement model as released by the CMI, CMI_2018. This model allows the user to choose the level of smoothing applied to historic mortality improvements (Sk parameter). During 2019 the Sk factor has been increased to 7.3 in order to ensure that initial improvements remain at a level reflective of our expectation of near-term improvements after adopting CMI 2018. 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.

The changes to the demographic assumptions led to an increase in Own Funds of £59m prior to recalculation of transitional solvency relief, £143m after 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. Ceded 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 2019, the matching adjustment was approximately equal to 93 basis points (2018: 123 bps). The decrease 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 assets received as premiums, 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% (2018: 14%).

Losing matching adjustment approval is a remote risk for the business as we have appropriate controls in place to ensure ongoing matching adjustment compliance and have regular dialogue with the PRA about our approach to matching. However, 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 £6.1bn (2018: £4.9bn), although this would be offset by an increase in transitional solvency relief leaving Own Funds £1.5bn lower (unaudited) as at 31 December 2019 (2018: £0.2bn lower (unaudited)).

However, as can be seen in S.22, the SCR would also increase by around 180% (2018: 190%). This would lead to SCR coverage at RHUK of 54% (2018: 60%) and 53% (2018: 60%) at RLP. The MCR would also increase by around 225% (2018: 235%). This would lead to MCR coverage for both RLP and RHUK above 200% (2018: both RLP and RHUK above 200%). 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 (2018: 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 third party administrator expenses (2018: 0.25% p.a.). On average, an allowance of £33 per policy per annum (2018: £27 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.

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, the 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.

The modelling of member options allows for the probability that deferred annuitants choose to transfer their benefits each year. The cash flow profile resulting from the assumed take-up of member options impacts the composition of the basket of assets used to derive the valuation rate of interest. The ability of deferred annuitants to convert all or part of their pension to cash represents the only options available to policyholders and as such is the only modelled policyholder behaviour.

When deferred annuitants have passed the scheme normal retirement date and have been subject to an in-depth tracing exercise and yet remain untraced, a prudent allowance has been made for the probability of them taking their benefits in the future. All other individuals who have passed the scheme normal retirement date are assumed to start receiving pension payments 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 both 2019 and 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 2019, transitional solvency relief was £1,371m gross of the impact of tax after allowing for amortisation of 3/16ths on 1 January 2019 (2018: £733m allowing for amortisation of 2/16ths on 1 January 2018). 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 recalculated the transitional on 31 December 2019 through the biennial recalculation process.

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 £1,138m after allowing for the associated impact of tax on Own Funds (2018: £609m). There is a second order effect on the SCR from removal of transitional measures due to tax effects. Without allowance for transitional solvency relief the Group coverage would be 153% (2018: 153%) and RLP's coverage would be 152% (2018: 152%).

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. Valuation for solvency purposes

CONTINUED

D.2 Technical provisions continued

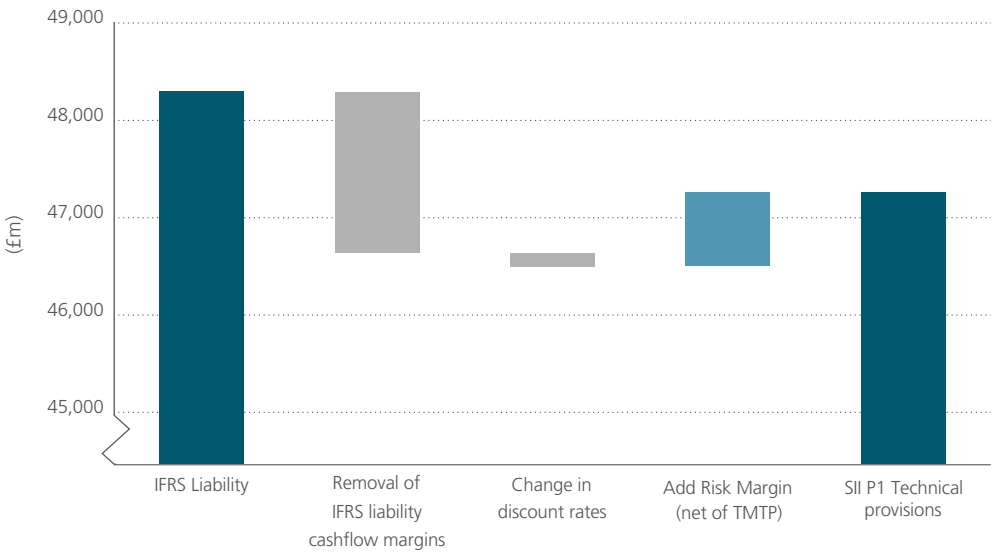
D.2.5 Comparison of Solvency II technical provisions and IFRS liabilities

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; and
- Inclusion of the risk margin (net of transitional measures) under Solvency II.

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 2019



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.2.7 Accounting treatment of reinsurance

For 2019 we have changed the way in which we present reinsurance and have re-stated the 2018 results for both RLP and RHUK accordingly. This has not impacted net assets. We are now showing insurance liabilities excluding third party reinsurance arrangements. On an IFRS basis, 2018 reinsurance contract liabilities have decreased from £673m to £549m and insurance contract liabilities have increased from £32,435m to £32,559m. On a Solvency II basis, 2018 reinsurance assets have reduced from £(2,198)m to £(1,724)m and insurance contract liabilities have increased from £29,997m to £30,470m.

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 considers 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

Under IFRS borrowings are held at amortised cost whereas 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 2019 this leads to differences in valuation under Solvency II of £28m (2018: £11m).

Under IFRS, the £350m of RT1 notes 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 £363m (2018: £350m).

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 considers 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. Valuation for solvency purposes

CONTINUED

D.3 Other liabilities continued

D.3.5 Leasehold liabilities and right of use asset

From 1 January 2019, IFRS 16 'Leases' became effective. IFRS 16 replaced the guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The new standard has affected the balance sheet and related ratios.

On adoption of IFRS 16, the Group recognised lease liabilities on the lease on the new premises entered into during May 2019, which would previously have been classified as 'operating leases' under the principles of IAS 17 Leases.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees;
- payments of penalties for terminating the lease; and
- lease payments to be made under reasonably certain extension options.

Lease payments are discounted using the Group's incremental borrowing rate as at 31 December 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities is 3.374%. The incremental borrowing rate represents the cost of funding to the Group at that date.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the statement of income over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- amount of any initial measurement of lease liability;
- leased payments made before the commencement date less any lease incentives received;
- initial direct costs; and
- restoration costs.

Right of use assets are depreciated over the lease term on a straight-line basis.

The Group did not have any leases previously classified as finance leases that would be impacted by measurement adjustments for adoption of IFRS 16.

Additions to the right of use asset recognised by the Group relate to the lease on the new UK office which was executed in May 2019, therefore there was a nil balance at 1 January 2019. The lease for The Post Building has a duration of 17 years with a break clause at 12 years which we have assumed is exercised. The Group's right of use asset also includes a lease on our US office which was executed in May 2019. The Group was not a lessor during the period.

There is no difference between the Solvency II valuation and the IFRS valuation.

D.3.6 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 will not be 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.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 D.1 of the Annual report and accounts.

The Group uses derivative contracts for the purposes of efficient portfolio management and to mitigate the risk of adverse market movements. The Group's derivative contracts consist primarily of OTC derivatives. Such derivatives are not quoted in an active market and are generally valued using market transactions and other market evidence, including market-based inputs to models, calibration to market clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. For IFRS purposes these assets are considered Level 2 because the level of valuation uncertainty arising from the valuation methods used is not material.

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.

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 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 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 2019 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.

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.

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.

All of the Group's Own Funds have been assessed as basic Own Funds. The structure and quality of the Group's Own Funds by tier is as follows:

As at 31 December 2019 (£m)	Ref	Total	Unrestricted tier 1	Restricted tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	**3**	**3**	**–**	**–**	**–**
Share premium account	E.1.2.1	**1,545**	**1,545**	**–**	**–**	**–**
Reconciliation reserve (adjusted)	E.1.2.2	**2,766**	**2,766**	**–**	**–**	**–**
Subordinated liabilities	E.1.2.3	**1,818**	**–**	**363**	**1,059**	**396**
Total basic Own Funds		**6,132**	**4,314**	**363**	**1,059**	**396**
Total eligible Own Funds available to meet the SCR		**6,132**	**4,314**	**363**	**1,059**	**396**
Total eligible Own Funds available to meet the MCR		**4,871**	**4,314**	**363**	**195**	**–**

Tier 2 funds eligible to meet the MCR are capped at 20% of the MCR.

As at 31 December 2018 (£m)	Ref	Total	Unrestricted tier 1	Restricted tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	1	1	–	–	–
Share premium account related to ordinary share capital	E.1.2.1	845	845	–	–	–
Reconciliation reserve (adjusted)	E.1.2.2	2,064	2,064	–	–	–
Subordinated liabilities	E.1.2.3	1,008	–	350	658	–
Total basic Own Funds		3,918	2,910	350	658	–
Total eligible Own Funds available to meet the SCR		3,918	2,910	350	658	–
Total eligible Own Funds available to meet the MCR		3,392	2,910	350	132	–

Tier 2 funds eligible to meet the MCR are capped at 20% of the MCR.

The structure and quality of RLP's Own Funds by tier is as follows:

As at 31 December 2019 (£m)	Ref	Total	Unrestricted tier 1	Restricted tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	**511**	**511**	**–**	**–**	**–**
Share premium account	E.1.2.1	**1,953**	**1,953**	**–**	**–**	**–**
Reconciliation reserve (adjusted)	E.1.2.2	**1,831**	**1,831**	**–**	**–**	**–**
Subordinated liabilities	E.1.2.3	**1,818**	**–**	**363**	**1,059**	**396**
Total basic Own Funds		**6,113**	**4,295**	**363**	**1,059**	**396**
Total eligible Own Funds available to meet the SCR		**6,113**	**4,295**	**363**	**1,059**	**396**
Total eligible Own Funds available to meet the MCR		**4,852**	**4,295**	**363**	**195**	**–**

As at 31 December 2018 (£m)	Ref	Total	Unrestricted tier 1	Restricted tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	410	410	–	–	–
Share premium account related to ordinary share capital	E.1.2.1	1,354	1,354	–	–	–
Reconciliation reserve (adjusted)	E.1.2.2	1,123	1,123	–	–	–
Subordinated liabilities	E.1.2.3	1,008	–	350	658	–
Total basic Own Funds		3,895	2,887	350	658	–
Total eligible Own Funds available to meet the SCR		3,895	2,887	350	658	–
Total eligible Own Funds available to meet the MCR		3,369	2,887	350	132	–

Tier 2 funds eligible to meet the MCR are capped at 20% of the MCR.

E. Capital management

CONTINUED

E.1 Own Funds continued

E.1.2.1 Ordinary share capital and share premium

As at 31 December 2019 the Group had an aggregate issued and paid up ordinary share capital of £3.0m (2018: £1.2m) and share premium of £1,545m (2018: £845m). Ordinary share capital and share premium increased during 2019 as a result of the conversion of ordinary and preference shares to new ordinary shares and the injection of £700m of new equity.

E.1.2.2 Reconciliation reserve

The reconciliation reserves disclosed on form S.23.01.21 for RLP of £1.8bn (2018: £1.1bn) consists 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 the Group of £2.7bn (2018: £2.1bn) consists 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.

In the table on the previous page the reconciliation reserve has been adjusted to allow for the fact that the capital relating to the restricted shares does not meet the criteria to be classified as Solvency II Own Funds. It is therefore included in R0220 for Group solvency purposes.

E.1.2.3 Subordinated liabilities

The Group's subordinated liabilities are summarised in the following table. In each case, RLP is the borrower.

Solvency II classification	Public/private	Coupon	Issue date	Maturity date	Call date	Issue amount (£m)	Solvency II value 2019 (£m)	Solvency II value 2018 (£m)
Tier 2	Private	6m£L plus 4.25%	21/12/12	Lender has option to convert to equity from 21/12/22	21/12/17 and every 6 months thereafter	100	**101**	101
Tier 2	Public	8%	22/10/15	22/10/25	No call option	250	**263**	257
Tier 2	Private	3m£L plus 5.95%	19/09/17	19/09/28	19/09/23 and annually thereafter	300	**301**	300
Restricted tier 1	Public	6.875%	05/09/18	Perpetual	05/09/28 and every 5 years thereafter	350	**363**	350
Tier 3	Public	3.375%	12/07/19	12/7/2026	No call option	300 and 100	**396**	–
Tier 2	Public	5.5%	17/09/19	17/09/29	17/09/24	400	**394**	–

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 2019 and 2018 for both RLP and the Group. The impact of the implementation of the PIM at the end of 2018 is shown in changes to internal model. 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	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Opening Solvency II balance as at 31 December	**3,918**	2,944	**3,895**	2,844
Amortisation of 1/16th of transitional on 1 January	**(43)**	(67)	**(43)**	(67)
New business (on a fully invested basis)	**732**	659	**732**	659
Short-term impact of delayed investment	**(606)**	(271)	**(606)**	(271)
Investment impact from prior year	**271**	–	**271**	–
Performance of in-force book	**124**	616	**122**	610
Non-economic assumption changes	**35**	93	**35**	93
Acquisition costs and administration expenses	**(160)**	(120)	**(156)**	(117)
Borrowing costs	**(86)**	(48)	**(84)**	(38)
Non-recurring and project expenditure	**(24)**	(20)	**(24)**	(20)
Economic conditions	**446**	(217)	**446**	(217)
New capital issuance	**1,479**	730	**1,479**	800
Changes to internal model	**46**	(381)	**46**	(381)
Closing balance as at 31 December	**6,132**	3,918	**6,113**	3,895

In the table above, we have amended the 2019 movement analysis (compared to that provided in the 2019 annual report and accounts) to remove the impact of writing new business on the financial resources requirement limit when re-calculating transitional solvency relief as we believe that this impact distorts the analysis. This has led to a reduction in the impact of writing new business (on a fully invested basis) and a corresponding reduction in the short-term impact of delayed deployment compared to that shown in the 2019 annual report and accounts.

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	
	2019 £m	2018 £m	**2019 £m**	2018 £m
IFRS equity capital	**3,776**	2,571	**3,756**	2,545
Inadmissible assets	**(27)**	(14)	**(26)**	(11)
Reserving differences	**928**	703	**928**	703
Tier 1 restricted and other capital adjustments	**(333)**	(320)	**(363)**	(342)
SII excess of assets over liabilities	**4,344**	**2,940**	**4,295**	**2,895**
Tier 1 restricted, tier 2 and tier 3 debt	**1,818**	1,008	**1,818**	1,008
Other capital adjustments	**(30)**	(30)	**–**	(8)
Own Funds	**6,132**	**3,918**	**6,113**	**3,895**

Other capital adjustments shown includes own shares and foreseeable dividends as shown on S.23.

E. Capital management

CONTINUED

E.2 SCR and MCR

This section is not subject to audit.

E.2.1 Solvency Capital Requirement (SCR)

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 2019, 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 £3,038m (2018: £2,163m). The table below provides a breakdown of the SCR by risk module for RLP (Please refer to QRT S.25.02.21 and S.28.01.01):

	2019 £m	2018 £m
Total market risk	**2,204**	1,451
Total underwriting risk	**1,628**	1,114
Total counterparty default risk	**319**	197
Total operational risk	**236**	178
Total pre-diversification	**4,387**	2,940
Diversification	**(849)**	(521)
Capital add-on	**69**	37
Loss absorbing capacity of deferred taxes	**(569)**	(293)
Total SCR	**3,038**	2,163

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 £69m has been agreed with the PRA (2018: £37m). 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.

E.2.2 Movement in SCR

The table below provides an analysis of the movement in SCR for 2019 and 2018 for RLP. The impact of the implementation of the PIM at the end of 2018 is shown in changes to internal model:

	2019 £m	2018 £m
Opening SCR	**2,163**	1,743
New business	**750**	880
Management of in-force book	**(228)**	65
Economic conditions	**307**	(127)
Changes to internal model	**46**	(411)
Other	**–**	13
Closing SCR	**3,038**	2,163

E.2.3 Minimum Capital Requirement (MCR)

RLP's MCR as at 31 December 2019 was £973m (2018: £658m). The MCR has been calculated using the linear MCR calculation. The MCR cap and floor did not bite as at 31 December 2019 (2018: the MCR cap and floor did not bite). The Minimum Consolidated Group SCR for RHUK is equal to the MCR for RLP.

E.2.4 Solvency coverage ratios

The solvency position is summarised in the table below:

	RHUK		RLP	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Tier 1 capital (£m)	**4,677**	3,260	**4,658**	3,237
Tier 2 capital (£m)	**1,059**	658	**1,059**	658
Tier 3 capital (£m)	**396**	–	**396**	–
Own Funds eligible to meet SCR	**6,132**	3,918	**6,113**	3,895
SCR (£m)	**3,038**	2,163	**3,038**	2,163
Surplus above SCR (£m)	**3,094**	1,755	**3,075**	1,732
SCR coverage (%)	**202%**	181%	**201%**	180%
MCR (£m)	**973**	658	**973**	658
Own Funds eligible to meet MCR (£m)	**4,871**	3,392	**4,852**	3,368
MCR coverage (%)	**501%**	516%	**499%**	512%

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.

The Group received approval to use a PIM for the calculation of the SCR relating to credit and counterparty risk from 31 December 2018. Changes to the PIM were subsequently approved for use from 31 December 2019. 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. Capital management

CONTINUED

E.4 Differences between standard formula and internal model continued

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, meeting 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.

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 sourced from providers such as Merrill Lynch and Standard & Poor has 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 were 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 2019 and to the date of signing.

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 2020. As it does so, there is a second order effect on the SCR as a result of tax. The MCR is not impacted by the amortisation of transitional solvency relief.

The table below shows the impact of allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2020:

1 January 2020 (after amortisation)	RHUK	RLP
Assets (£m)	**53,399**	**53,380**
Technical provisions (£m)	**(47,354)**	**(47,354)**
Own Funds (£m)	**6,045**	**6,026**
SCR (£m)	**3,056**	**3,056**
Surplus above SCR	**2,989**	**2,970**
SCR coverage (%)	**198%**	**197%**
SCR coverage without transitional solvency relief (%)	**153%**	**152%**
MCR (£m)	**973**	**973**
Own Funds eligible to meet MCR (£m)	**4,784**	**4,765**
MCR coverage (%)	**492%**	**490%**

E.6.2 Events post year end

The Group is closely monitoring the COVID-19 situation, particularly its potential impact on our investments. We are also taking steps to mitigate the potential operational impact. Further information can be found in Section C.7.

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.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.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.

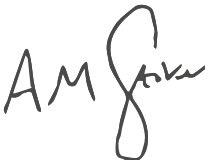
F. Statement of Directors' responsibilities in respect of the SFCR

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 2019, 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 in future.

The SFCR was approved by the Board of Directors on 14 May 2020 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 2019:

- 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 2019, ('**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, and S.25.02.22;
- Company templates S.05.01.02, 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 2019 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.

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.

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.

G. External auditors' report

CONTINUED

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.

The engagement partner on the audit resulting in this independent auditors' report is Lee Clarke.

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT
14 May 2020

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 2019
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.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.32.01.22 – Undertakings in the scope of the group

2.02.01.02
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	37,155
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	63,459,434
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	38,438,177
R0140	Government Bonds	18,047,119
R0150	Corporate Bonds	19,952,420
R0160	Structured notes	
R0170	Collateralised securities	438,638
R0180	Collective Investments Undertakings	5,333,138
R0190	Derivatives	19,508,062
R0200	Deposits other than cash equivalents	180,057
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	10,681,779
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	2,727,482
R0260	Other loans and mortgages	7,954,297
R0270	Reinsurance recoverables from:	-2,308,282
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	-2,308,282
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	-2,308,282
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	905,197
R0390	Own shares (held directly)	29,856
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	262,964
R0420	Any other assets, not elsewhere shown	354,840
R0500	**Total assets**	**73,422,942**

H. Appendix: Rothesay Holdco UK Limited QRTs

CONTINUED

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)	44,941,467
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)	44,941,467
R0660	TP calculated as a whole	
R0670	Best Estimate	44,028,665
R0680	Risk margin	912,803
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	190,245
R0790	Derivatives	19,944,259
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	717,714
R0820	Insurance & intermediaries payables	11,424
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,455,841
R0850	Subordinated liabilities	1,818,371
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	1,818,371
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	69,079,322
R1000	**Excess of assets over liabilities**	**4,343,621**

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				16,605,593				0	16,605,593
R1420	Reinsurers' share				1,240,638				4,873	1,245,510
R1500	Net				15,364,955				-4,873	15,360,082
	Premiums earned									
R1510	Gross				3,093,316				1,905,644	4,998,961
R1520	Reinsurers' share				1,240,638				4,873	1,245,510
R1600	Net				1,852,679				1,900,772	3,753,450
	Claims incurred									
R1610	Gross				1,694,305				746,989	2,441,294
R1620	Reinsurers' share				1,060,643				-14,747	1,045,896
R1700	Net				633,662				761,736	1,395,398
	Changes in other technical provisions									
R1710	Gross				-16,232,898				859,649	-15,373,249
R1720	Reinsurers' share				-46,031				0	-46,031
R1800	Net				-16,186,866				859,649	-15,327,217
R1900	**Expenses incurred**				148,119				29,430	177,549
R2500	**Other expenses**									2,523
R2600	**Total expenses**									180,072

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 adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
R0010	**Technical provisions**	44,941,467	1,370,550	0	0	6,095,622
R0020	**Basic own funds**	6,132,046	-1,137,463	0	0	-5,723,233
R0050	**Eligible own funds to meet Solvency Capital Requirement**	6,132,046	-1,137,463	0	0	-5,723,323
R0090	**Solvency Capital Requirement**	3,037,930	232,994	0	0	5,504,717

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)	**3,096**	3,096		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	**1,544,493**	1,544,493		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	**2,766,176**	2,766,176			
R0140	Subordinated liabilities	**1,818,371**		363,145	1,059,186	396,040
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**	**90**				
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**	**6,132,046**	4,313,675	363,145	1,059,186	396,040

	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
		C0010	C0020	C0030	C0040	C0050
	Own funds when using the D&A, exclusively or in combination of method 1					
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)	6,132,046	4,313,675	363,145	1,059,186	396,040
R0530	Total available own funds to meet the minimum consolidated group SCR	5,736,006	4,313,675	363,145	1,059,186	
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)	6,132,046	4,313,675	363,145	1,059,186	396,040
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	4,871,435	4,313,675	363,145	194,615	
R0610	**Minimum consolidated Group SCR**	973,076				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	500.62%				
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)**	6,132,046	4,313,675	363,145	1,059,186	396,040
R0680	**Group SCR**	3,037,930				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	201.85%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	4,343,621				
R0710	Own shares (held directly and indirectly)	29,856				
R0720	Forseeable dividends, distributions and charges					
R0730	Other basic own fund items	1,547,589				
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**	2,766,176				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) – Life business	764,498				
R0780	Expected profits included in future premiums (EPIFP) – Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	764,498				

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	2,204,668	2,060,832	9	
20000I	Counterparty risk	318,729	318,729	9	
30000I	Life underwriting risk	1,627,778		9	
70100I	Operational risk	235,670		9	
80300I	Loss-absorbing capacity of deferred tax	-568,678		9	

USP Key

For life underwriting risk:

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

USP Key

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

USP Key

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	3,818,167
R0060	Diversification	-849,236
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	2,968,930
R0210	Capital add-ons already set	69,000
R0220	**Solvency capital requirement for undertakings under consolidated method**	3,037,930
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-568,678
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	306,076
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	2,767,104
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0470	Minimum consolidated group solvency capital requirement	973,076
	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**	3,037,930

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	LEI	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
GB	213800ET6FAMYMO6UD20	LEI	Rothesay MA No.2 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	MFQO711J5UPYBWXSPG12GB00004	Specific code	Rothesay MA No.3 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	MFQO711J5UPYBWXSPG12GB00005	Specific code	Rothesay MA No.4 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	2138004AIGF3ZBEQAF22GB00006	Specific code	Rothesay Life Foundation	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

Undertaking name	Rothesay Life PLC
Undertaking identification code	MFQO711J5UPYBWXSPG12
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	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.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

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	36,769
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	63,468,798
R0080	Property (other than for own use)	
R0090	Holdings in related undertakings, including participations	10,600
R0100	Equities	0
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	38,438,177
R0140	Government Bonds	18,047,119
R0150	Corporate Bonds	19,952,420
R0160	Structured notes	
R0170	Collateralised securities	438,638
R0180	Collective Investments Undertakings	5,331,902
R0190	Derivatives	19,508,062
R0200	Deposits other than cash equivalents	180,057
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	10,681,779
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	2,727,482
R0260	Other loans and mortgages	7,954,297
R0270	Reinsurance recoverables from:	-2,308,282
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	-2,308,282
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	-2,308,282
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)	947,318
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	234,444
R0420	Any other assets, not elsewhere shown	356,084
R0500	**Total assets**	**73,416,909**

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)	44,941,467
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)	44,941,467
R0660	TP calculated as a whole	0
R0670	Best Estimate	44,028,665
R0680	Risk margin	912,803
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	223,742
R0790	Derivatives	19,944,259
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	717,714
R0820	Insurance & intermediaries payables	11,424
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,465,213
R0850	Subordinated liabilities	1,818,371
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	1,818,371
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	69,122,191
R1000	**Excess of assets over liabilities**	**4,294,718**

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				16,605,593				0	16,605,593
R1420	Reinsurers' share				1,240,638				4,873	1,245,510
R1500	Net				15,364,955				-4,873	15,360,082
	Premiums earned									
R1510	Gross				3,093,316				1,905,644	4,998,961
R1520	Reinsurers' share				1,240,638				4,873	1,245,510
R1600	Net				1,852,679				1,900,772	3,753,450
	Claims incurred									
R1610	Gross				1,694,305				746,989	2,441,294
R1620	Reinsurers' share				1,060,643				-14,747	1,045,896
R1700	Net				633,662				761,736	1,395,398
	Changes in other technical provisions									
R1710	Gross				-16,232,898				859,649	-15,373,249
R1720	Reinsurers' share				-46,031				0	-46,031
R1800	Net				-16,186,866				859,649	-15,327,217
R1900	**Expenses incurred**				148,119				29,430	177,549
R2500	**Other expenses**									2,523
R2600	**Total expenses**									180,072

H. Appendix: Rothesay Life Plc QRTs

CONTINUED

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 obligations	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**									0	0						
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									0	0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**						5,397,043	27,439,655		11,285,533	44,122,231						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-473,594	-1,834,687		0	-2,308,282						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re						5,870,637	29,274,342		11,285,533	46,430,512						
R0100	**Risk margin**					1,728,986				460,801	2,189,787						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole					0				0	0						
R0120	Best estimate						0	-93,566		0	-93,566						
R0130	Risk margin					-1,021,259				-255,725	-1,276,984						
R0200	**Technical provisions – total**					33,450,859				11,490,608	44,941,467						

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**	44,941,467	1,370,550	0	0	6,095,622
R0020	**Basic own funds**	6,113,089	-1,137,553	0	0	-5,723,143
R0050	**Eligible own funds to meet Solvency Capital Requirement**	6,113,089	-1,137,553	0	0	-5,723,143
R0090	**Solvency Capital Requirement**	3,037,930	232,994	0	0	5,504,717
R0100	**Eligible own funds to meet Minimum Capital Requirement**	4,852,478	-1,137,160	0	0	-4,462,925
R0110	**Minimum Capital Requirement**	973,076	1,965	0	0	1,218,869

H. Appendix: Rothesay Life Plc QRTs

CONTINUED

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)	**510,529**	510,529		0	
R0030	Share premium account related to ordinary share capital	**1,953,226**	1,953,226		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	**1,830,964**	1,830,964			
R0140	Subordinated liabilities	**1,818,371**		363,145	1,059,186	396,040
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**	**6,113,089**	4,294,718	363,145	1,059,186	396,040
	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**				

	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
R0400	**Total ancillary own funds**	**0**			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	**6,113,089**	4,294,718	363,145	1,059,186	396,040
R0510	Total available own funds to meet the MCR	**5,717,049**	4,294,718	363,145	1,059,186	
R0540	Total eligible own funds to meet the SCR	**6,113,089**	4,294,718	363,145	1,059,186	396,040
R0550	Total eligible own funds to meet the MCR	**4,852,478**	4,294,718	363,145	194,615	
R0580	**SCR**	**3,037,930**				
R0600	**MCR**	**973,076**				
R0620	**Ratio of Eligible own funds to SCR**	**201.23%**				
R0640	**Ratio of Eligible own funds to MCR**	**498.67%**				
	Reconcilliation reserve	**C0060**				
R0700	Excess of assets over liabilities	**4,294,718**				
R0710	Own shares (held directly and indirectly)	**0**				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	**2,463,754**				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**0**				
R0760	**Reconciliation reserve**	**1,830,964**				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) – Life business	**764,498**				
R0780	Expected profits included in future premiums (EPIFP) – Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	**764,498**				

H. Appendix: Rothesay Life Plc QRTs

CONTINUED

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	2,204,668	2,060,832	9	
20000I	Counterparty risk	318,729	318,729	9	
30000I	Life underwriting risk	1,627,778		9	
70100I	Operational risk	235,670		9	
80300I	Loss-absorbing capacity of deferred tax	-568,678		9	

USP Key

For life underwriting risk:

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

USP Key

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

USP Key

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

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	3,818,167
R0060	Diversification	-849,236
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	2,968,930
R0210	Capital add-ons already set	69,000
R0220	**Solvency capital requirement**	3,037,930
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-568,678
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	306,076
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	2,767,104
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
	Approach to tax rate	**C0109**
R0590	Approach based on average tax rate	
	Calculation of loss absorbing capacity of deferred taxes	**LAC DT**
R0640	Amount/estimate of LAC DT	**C0130**
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	0
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	
R0670	Amount/estimate of AC DT justified by carry back, current year	
R0680	Amount/estimate of LAC DT justified by carry back, future years	
R0690	Amount/estimate of Maximum LAC DT	

H. Appendix: Rothesay Life Plc QRTs

CONTINUED

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		C0100
			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	973,076		

			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		46,336,946	
R0250	Total capital at risk for all life (re)insurance obligations			
	Overall MCR calculation	**C0070**		
R0300	Linear MCR	973,076		
R0310	SCR	3,037,930		
R0320	MCR cap	1,367,069		
R0330	MCR floor	759,483		
R0340	Combined MCR	973,076		
R0350	Absolute floor of the MCR	3,187		
R0400	**Minimum Capital Requirement**	973,076		

I. Glossary of Terms

Acquisition costs	Acquisition costs comprise the expenses associated with the origination of new business, including annual compensation for employees.
Administration expenses	Administration costs represent the cost of administering the in-force book of business. They include both outsourcing costs and other costs incurred by the Group.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	Assets being managed by the Group. Can be derived by taking total assets and adjusting for reinsurance assets, derivative liabilities and collateralised liabilities.
Assumed reinsurance premiums	Premiums received by the Group in respect of reinsurance inwards, i.e. a policy where RLP is acting as the reinsurer.
Best estimate liability (BEL)	The liabilities of the Group calculated on a best estimate basis under Solvency II, i.e. where all the assumptions made in the calculation are best estimate.
Bid price	A bid price is the price a buyer is willing to pay for a security.
Borrowing costs	Interest payable on borrowings.
Brexit	The UK's exit from the European Union.
Bulk annuity	A bulk annuity, sometimes referred to as a bulk purchase annuity, is a contract between a defined benefit pension scheme and an insurance company, whereby an insurance company insures some or all of the annuities being paid by the pension scheme.
Buy-in	Held as an asset of the pension scheme, a bulk annuity buy-in is a contract that covers all or some of the benefits for a subset of scheme members. The scheme retains responsibility for paying pensions to members but the contract protects the scheme against all risks relating to the insured benefits, for example longevity risk and inflation risk.
Buy-out	The bulk annuity buy-out is a contract that covers all of the benefits for all or a subset of scheme members. The insurer issues individual policies to members under which pensions are paid. Once all benefits are covered, the pension scheme can be wound up.
Collateralised agreements/ investments	Loans secured on property or other collateral.
Collective investment schemes	A way of investing money alongside other investors.
Corporate bonds and other corporate debt	These are debt securities issued by corporations which are not guaranteed by governments.
Covered bonds	Covered bonds are debt securities issued by a bank or mortgage institution and collateralised against a pool of assets.
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.
Currency rate risk	The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.
Deferred annuities	Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.
Economic capital	Represents management's internal risk-based calculation of the capital required to remain solvent for a 99.5% confidence level over a one-year period.
Equity release mortgages	Mortgages extended to older customers (aged 55 and over) against their residential property at low loan to value percentage. Unlike a typical residential mortgage, no interest is paid monthly by the customer. Instead, the interest is simply added to the principal loan amount with the loan only repayable on death or entry into long-term care of the last remaining homeowner.
Fair value	Amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance costs	Represent interest payable on borrowings.

I. Glossary of Terms

CONTINUED

Government, sub sovereign and agency obligations	A bond issued by a country's government or corporate debt which is guaranteed by a government to repay borrowed money at a specific time.
Gross premiums written	Premiums received by RLP on new business and generated through regular premiums.
In-force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Infrastructure	Investments in infrastructure such as water, energy and transportation.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
International Financial Reporting Standards (IFRS)	Accounting standards that are applied in preparing the Group's consolidated financial statements.
Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the year.
Liquidity premium	An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.
Liquidity risk	The risk of being unable to realised investments and other assets in order to settle financial obligations when they fall due.
LTMF	LT Mortgage Financing Limited.
Longevity reinsurance (%)	The longevity reinsurance percentage provides an indication of the extent to which the Group is protected from fluctuations in longevity through reinsurance. It is derived from the IFRS sensitivity analysis.
Longevity risk	The risk that a company could be exposed to a higher payout as a result of increasing life expectancy.
Market risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
Matching adjustment	The matching adjustment, a concept in Solvency II, is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities.
Mortality tables	A table which shows for each age, what the probability is that a person of that age and gender will die before their next birthday.
New business	New insurance contracts and reinsurance inwards sold during the period. Includes business acquired through purchase of companies.
New business premium	Premium paid on new business transacted during the period and (from 2018 onwards) adjustments to new business premiums from prior periods. New business premiums and regular premium income make up gross premiums written.
Non-recurring expenditure	Administration – project and other one-off expenses.
Offer price	Price at which a market maker is prepared to sell a specific security.
Operating profit before tax	Gross IFRS profit less the impact of market fluctuations, exceptional expenses and financing costs.
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events.
Own Funds	Available capital under the Solvency II regime.
Own risk and solvency assessment (ORSA)	An assessment of the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise the Group's business plans.
Partial internal model (PIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.

Part VII transfers	Court-approved transfer of a portfolio of contracts from one entity to another.
Pillar I	Under Solvency II, represents the solvency capital requirement calculated using a standard formula or (partial) internal model.
Policyholders	The Company generally uses the term policyholder to refer to the individual annuitants whose benefits are insured by the Group regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
Prudential Regulation Authority (PRA)	The PRA is a UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
qx	qx is actuarial notation used to represent the probability of a life aged x dying during the year.
RAL	Rothesay Assurance Limited. Now being wound up.
Regular premiums	Payments of premium made regularly over the duration of the policy.
Reinsurance	Protection sold to or purchased from another insurance company.
RHUK	Rothesay Holdco UK Limited.
Risk margin	Under Solvency II, the cost of transferring non-hedgeable risks.
RLP	Rothesay Life Plc, the Group's regulated life company.
RMAL	Rothesay MA No.1 Limited.
RMA2	Rothesay MA No.2 Limited.
RMA3	Rothesay MA No.3 Limited.
RMA4	Rothesay MA No.4 Limited.
RPML	Rothesay Pensions Management Limited, the Group's service company.
Secured investments	Bespoke investments where very high levels of collateral have been negotiated and returns are generated through illiquidity premium.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
Solvency capital requirement (SCR)	Under Solvency II, capital requirement to withstand a 1-in-200 year event.
SCR coverage ratio	Own Funds divided by SCR. Measure of surplus above capital requirement.
Solvency II	The solvency regime applicable from 1 January 2016. Under Solvency II, 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.
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.
Subordinated loan	A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency with limitations.
Surrender	The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.
Third party administration (TPA) agreement	Contract with pensions administrator to process claims and payroll on behalf of RLP.
Yield	A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

Rothesaylife

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