

Rothsay MA No.1 Limited

Annual report and accounts 2021



Strategic report

The Directors present their Annual Report and the audited financial statements for Rothsay MA No.1 Limited, registered number 11641166 (the Company or RMA1) for the year ended 31 December 2021. Comparative information has been presented for the year ended 31 December 2020.

1. Principal activities

RMA1's principal activity is to undertake investments in loans secured on the ground rents on properties within the United Kingdom such that these loans can be restructured to make them eligible for inclusion in Rothsay Life Plc's matching adjustment fund. The main assets of the Company consist of the beneficial interests in these ground rent loans.

2. Review of business

RMA1 was incorporated on 24 October 2018 as a private limited company. The Company remained dormant until 10 December 2018. The Company operates as part of the Rothsay Group. Rothsay Limited is the ultimate holding company of the Rothsay Group. During 2019 RMA1's parent company Rothsay Life Plc (RLP), a Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) licensed and regulated insurance company and fellow group undertaking, injected £5.1m ordinary share capital.

The Company generated a result before tax in the year ended 31 December 2021 of £nil (2020: profit before tax of £1). The Company generated a result after tax in the year ended 31 December 2021 of £nil (2020 after tax profit of £442,000). Given the nature of the business, the Company's Directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business. All of the expenses of RMA1 are borne by another Group company. The Company has reported total assets of £1,053.8m (2020: £859.6m).

Strategy

During 2018, RMA1 issued loan notes with the value of £807.5m. RLP subscribed for the notes in exchange for the transfer of the beneficial interest in ground rent loans.

Financial risk management

The Company's risk management objectives and policies, as well as exposures to credit risk and liquidity risk are described in note F of the financial statements.

Principal risk and uncertainties

Given the principal activities of RMA1, the main risk to which it is exposed is in relation to the performance of the ground rent loans.

Operational infrastructure

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

The Company mitigates operational risk through application of the Rothsay Group's risk management framework and, in particular, the regular risk and control self-assessment process which ensures that risks are appropriately captured and controlled. Where the Company outsources some of its responsibilities, it undertakes thorough due diligence in advance of appointment and then maintains a strong programme of oversight.

The Group seeks to mitigate cyber risk through robust processes and controls and has achieved ISO 27001 and ISO 22301 accreditation.

Risk management

The Company, as part of the Rothsay Group has an embedded risk management framework (RMF) which ensures that every member of staff knows how they contribute to the effective management of all types of risks. The RMF informs and is directed by the Group's business strategy. Whilst the Company employs a broad and diversified set of risk monitoring and risk mitigation techniques (through application of the RMF), those

Strategic report

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techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, the Company may, in the course of its activities, incur losses.

The Rothsay Group 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 of the Rothsay Group and looks to ensure that the management of the business is conducted within the delegated risk framework from the main Board.

COVID-19

Throughout the pandemic the Group's priority has been the health and safety of its people and their families, as well as ensuring its policyholders continue to receive their pensions as normal. For much of 2021, most of the Group's employees continued to work from home. Being able to meet and collaborate in person is invaluable, facilitating creativity and learning, and strengthening our culture so we were disappointed about the return to home working and look forward to our operations returning to normal as Government restrictions are lifted.

Future Outlook

The Directors of RMA1 consider that the year end financial position of the Company was satisfactory. No significant change in the Company's principal business activity is expected.

3. Section 172 (1) statement


Given the long-term nature of the business, the Board is very focused on the likely long-term consequences of decisions and believes that it has acted in a way that promotes the success of the Company.

The Company operates under the governance framework of the Rothsay Group and an explanation of how the Rothsay Group Board has considered the matters set out in s172 is detailed within the Stakeholder engagement section of the Group's annual report (which does not form part of this report). The annual report of Rothsay Limited is publicly available on the Companies House website or can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1PB.

4. Date of Authorisation

The financial statements were authorised for issue by the Board of Directors on 19 May 2022.

ON BEHALF OF THE BOARD



Jonathan Sarkar
Director
19 May 2022

Report of the Directors

1. Results

The Company's results for the year are set out in the statement of comprehensive income on page 8.

2. Dividends

The Directors have recommended no payment of interim dividends during the year ended 31 December 2021 (2020: nil). The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2021 (2020: nil).

3. Registered office

The registered office and principal place of business for the Company is The Post Building, 100 Museum Street, London WC1A 1PB, England.

4. Directors

The Directors of the Company who served throughout the year and to the date of this report, except where noted, were:

Name

J.A. Sarkar

P. Sharma

5. Going concern statement

The Directors have considered the possible impact of COVID-19 on the Company and remain satisfied that the Company has adequate resources to continue in business and to meet its obligations for the foreseeable future. As an internal servicing company, the going concern risks are inherently linked to those of the Group and therefore more detail can be found in the strategic review of the Rothesay Limited Group annual report (which does not form part of this report but which can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1PB). The financial statements have therefore been prepared on a going concern basis.

6. Qualifying third party indemnities

The Articles of Association of the Company provide for the Directors and Officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. The Company also provides certain protections for Directors and senior management against personal financial exposure that they may have incurred in their capacity as such. These include qualifying third party indemnity provisions (as defined under Section 234 of the Companies Act 2006) in force for the benefit of the Directors of the Company during the year and at the date of approval of the financial statements.

7. Disclosure of information to auditors

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

8. Independent auditors

The Company has passed elective resolutions under Section 386 of the Companies Act 1985 to dispense with the holding of annual general meetings, the laying of accounts and reports before general meetings and the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the Company pursuant to Section 487(2) of the Companies Act 2006.

Report of the Directors

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9. Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulation. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards. Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

10. Stakeholder statement

The Company operates under the governance framework of the Rothesay Limited Group and an explanation of how the Rothesay Limited Group board has considered the matters set out in s172 is detailed within the stakeholder engagement section of the Rothesay Limited Group annual report (which does not form part of this report but which can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1PB). The RMA1 Board of Directors has also considered relevant matters where appropriate.

11. Streamline Energy and Carbon Reporting

Rothesay Limited has prepared Streamlined Energy and Carbon Reporting (SECR) for the Rothesay Group. The Rothesay Limited Group SECR can be found in the Environmental, Social and Governance section of the Rothesay Limited Group annual report (which does not form part of this report but which can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1BP).

12. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 19 May 2022.

ON BEHALF OF THE BOARD



Jonathan Sarkar
Director
19 May 2022

Independent auditors' report to the members of Rothsay MA No.1 Limited

Report on the audit of the financial statements

Opinion

In our opinion, Rothsay MA No.1 Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2021 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2021; the Statement of comprehensive income, the Cash flow statement, and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially

Independent auditors' report to the members of Rothesay MA No.1 Limited

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misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements 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 based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 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 economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates such as

Independent auditors' report to the members of Rothsay MA No.1 Limited

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the fair value of deemed receivables and loan notes. Audit procedures performed by the engagement team included:

- discussing with the Board, management, Internal Audit, senior management involved in the Rothsay Limited Group's Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessing any matters reported on the Rothsay Limited Group's whistleblowing register and the results of management's investigation of such matters;
- reviewing relevant meeting minutes including those of the Rothsay Limited Group's Risk Committee and attendance at all Rothsay Limited Group's Audit Committees;
- identifying risk criteria relating to the posting of journals that is susceptible to fraud and analysing the entire population of journals to assess those that meet this criteria;
- designing audit procedures that incorporated unpredictability around the nature, timing or extent of our testing to material financial statement line items;
- engaging our relevant experts to assess the appropriateness of management's valuation methodology in relation to assets and liabilities classified as Level 3 under IFRS 13; and
- understanding the valuation models used by management and obtained evidence to support the model's operation is in line with methodology.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 May 2022

Statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Income			
Investment return	B.1	23,229	10,655
Total revenue		23,229	10,655
Finance costs	B.2	(23,229)	(10,655)
Result on ordinary activities before taxation		—	—
Income tax	B.5	—	442
Result for the year		—	442

All income and expenses are related to continuing operations.

The statement of comprehensive income includes all income and expenses for the year. The Company has no items required to be reported in other comprehensive income, therefore a separate comprehensive income statement has not been presented.

Notes A – F form an integral part of these financial statements.

Statement of financial position

AS AT 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Assets			
Deemed receivables	D.1	984,828	834,933
Deferred tax asset	D.2	40,392	8,664
Accrued interest	D.3	23,491	10,928
Cash and cash equivalents	D.4	5,100	5,100
Total assets		1,053,811	859,625
Equity and liabilities			
Share capital	C.1	5,100	5,100
Retained earnings	C.2	—	—
Total equity		5,100	5,100
Liabilities			
Loan notes	D.7	985,090	835,206
Payables	D.5	40,392	8,664
Accruals and deferred income	D.6	23,229	10,655
Total liabilities		1,048,711	854,525
Total equity and liabilities		1,053,811	859,625

Notes A – F form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 19 May 2022 and signed on its behalf by:



Jonathan Sarkar
Director
19 May 2022

Company number 11641166

Statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2021	5,100	—	5,100
Result for the financial year	—	—	—
31 December 2021	5,100	—	5,100

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
1 January 2020	5,100	(442)	4,658
Profit for the financial year	—	442	442
31 December 2020	5,100	—	5,100

Cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Result for the financial year		—	442
Adjustments for non-cash movements in net profit for the year			
Interest income	B.1	(23,491)	(10,928)
Finance costs	B.2	23,229	10,655
Net (increase)/decrease in operational assets/liabilities			
Deemed receivables	D.1	(149,895)	(27,391)
Accrued interest	D.3	(23,229)	(10,655)
Deferred tax asset	D.2	(31,728)	(4,903)
Loan notes	D.7	149,884	27,664
Accruals and deferred income	D.6	12,574	(4,292)
Payables	D.5	31,728	4,461
Cash used in operations		(10,928)	(14,947)
Interest received		10,928	14,947
Cash flows from operating activities		—	—
Net increase in cash and cash equivalent		—	—
Cash and cash equivalent as at 1 January		5,100	5,100
Cash and cash equivalents at 31 December	D.4	5,100	5,100

Notes to the financial statements

Note A - General information and basis of preparation

A.1 General information

RMA1 is a registered limited company incorporated and domiciled in the United Kingdom. The Company's registered office and principal place of business is The Post Building, 100 Museum Street, London WC1A 1PB.

All accounting policies, where relevant, have been included within the specific note disclosures. Narrative relating to the adoption of new standards has been provided as an Appendix.

A.2 Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted International Accounting Standards in its financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the financial year reported as a result of the change in framework. The financial statements have been prepared on a going concern basis.

The financial statements of the Company are presented in sterling (£) rounded to the nearest thousand (£'000).

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement more than 12 months after the year end is presented in the notes.

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

A.3 Critical accounting policies and the use of estimates

During the preparation of the financial statements the Company selects accounting policies and makes estimates and assumptions that impact on the items reported and their presentation. The Board reviews the reasonableness of these judgements and assumptions as well as the appropriateness of the accounting policies applied.

Judgements are decisions which management has made in the process of applying the Company's accounting policies. Matters of significant judgement are considered to be:

- The accounting for the transfer of Ground rent loans.
- Calculation and recognition of deferred taxes (see note D.2).

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

- Fair value of the deemed receivables where quoted market prices are not available.

In accordance with IAS 1 and published FRC guidance, within each of the relevant notes the Company's has included the following information:

- the assumptions made and the uncertainties around these;
- how sensitive the assets and liabilities are to these assumptions;
- expected resolution of the uncertainty and the range of possible outcomes for the financial year ending 31 December 2022; and
- explanation of any changes made to past assumptions if the uncertainty is unresolved.

A.4 Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the financial statement date. Gains and losses on exchange are recognised in administrative expenses.

Notes to the financial statements (continued)

Note B - Income statement notes

B.1 Investment return

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.

Interest is accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value of investments held at the statement of financial position date of each financial year and their purchase price.

	2021 £'000	2020 £'000
Interest income on deemed receivables	23,491	10,928
Unrealised gains on deemed receivables	152,578	25,501
Realised losses on deemed receivables	(419)	—
Unrealised losses on loan notes	(153,376)	(26,091)
Realised gains on loan notes	955	317
Total investment return	23,229	10,655

B.2 Finance costs

Finance costs consist of finance costs and interest payable on financial liabilities. Finance costs are accounted for on an accruals basis.

	2021 £'000	2020 £'000
Interest payable on loan notes	23,229	10,655
Finance costs	23,229	10,655

B.3 Employee information

All Rothsay Limited Group persons involved in the Company's operations are employed by a wider group undertaking, Rothsay Pensions Management Limited (RPML). The charges made by RPML in relation to wages and salaries, social security costs, and other pension costs for all the services provided (personnel and other) to the Company have been borne by another Group undertaking.

All Directors are remunerated by RPML for their services to the Group as a whole. The Directors were not remunerated directly for their services as Directors of the Company and the amount of time spent performing their role is incidental to their roles across the Group. The Directors were remunerated for their roles as employees across the Group.

B.4 Auditors' remuneration

Fees paid and payable to the Company's auditors are as follows:

	2021 £'000	2020 £'000
Audit of financial statements	25	23
Total audit	25	23

Auditors' remuneration has been borne by another Group undertaking.

Notes to the financial statements (continued)

Note B - Income statement notes (continued)

B.5 Income tax

Income tax assets and liabilities for the current year and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities or paid or recovered from other group companies. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the financial statement date. Management uses previous experience and the advice of professional firms when assessing tax risks.

The major components of income tax for the years ended 31 December 2021 and 2020 are:

(a) Tax reported in the statement of comprehensive income

	2021 £'000	2020 £'000
Current income tax:		
UK corporation tax	31,728	4,461
Total current income tax	31,728	4,461
Deferred tax:		
Origination and reversal of temporary differences	(31,728)	(4,903)
Total deferred tax	(31,728)	(4,903)
Total tax reported in the statement of comprehensive income	—	(442)

(b) Reconciliation of the total tax charge

The tax reported in the statement of comprehensive income for the year and the standard rate of corporation tax in the UK of 19% (2020: 19%) is reconciled below:

	2021 £'000	2020 £'000
Result on ordinary activities before taxation	—	—
Tax calculated at UK standard rate of corporation tax of 19% (2020: 19%)	—	—
Difference in accounting and tax valuation basis	31,728	2,445
Other adjustments	(31,728)	(2,887)
Total tax reported in the statement of comprehensive income	—	(442)

During May 2021 the UK government enacted an increase to the rate of UK corporation tax from 19% to 25% which will apply from 1 April 2023. As a result of this Rothesay has amended its deferred taxation calculations to take account of the rate increase.

Notes to the financial statements (continued)

Note C - Equity

C.1 Share capital

At 31 December 2021 and 31 December 2020 share capital comprised:

	2021		2020	
	No.	£'000	No.	£'000
Ordinary share capital of £1.00 each	5,100,000	5,100	5,100,000	5,100

C.2 Capital and reserves

The Company is not subject to any externally imposed capital requirements and seeks to maintain relatively low levels of surplus capital. This is achieved by matching the profile of assets and liabilities.

	Share Capital £'000	Retained earnings £'000
1 January 2021	5,100	—
Results for the financial year	—	—
31 December 2021	5,100	—

	Share Capital £'000	Retained earnings/ (accumulated losses) £'000
1 January 2020	5,100	(442)
Profit for the financial year	—	442
31 December 2020	5,100	—

Notes to the financial statements (continued)

Note D - Financial asset and liabilities

D.1 Deemed receivables

Ground rent loans represented by a deemed receivable are classified, at initial recognition, as financial investments at fair value through profit or loss. Fair value is considered consistent with the risk management of the portfolio.

Financial investments at fair value through profit or loss are both financial investments held for trading and financial investments designated upon initial recognition at fair value. Financial investments at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in investment income. Transaction costs, which are incremental costs that are directly attributable to the acquisition of a financial asset, are expensed.

The fair value of a financial instrument is the amount that would be received on the 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. Fair value gains or losses are included in investment income.

Ground rent loans have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used, the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, the Company uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales.

De-recognition

A financial investment (or, where applicable, a part of a financial investment or part of a group of similar financial investments) is primarily de-recognised (i.e. removed from the Company's statement of financial position) when i) the rights to receive cash flows from the investment have expired; or ii) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has transferred control of the investment. Ground rent loans transferred from the immediate parent company, RLP, to the Company cannot be de-recognised from the books of the immediate parent undertaking or recognised by the Company as the immediate parent undertaking effectively maintains control of the loans after securitisations. Accordingly, the ground rent loans transferred to the Company are represented by a deemed receivable.

IFRS 9 Financial instruments

IFRS 9 includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the incurred loss impairment model used previously. As the deemed receivable is held at fair value through profit and loss it does not require an expected credit loss calculation.

The financial assets and liabilities held by the Company include cash and accruals and deferred income. The Company's accounting policy is to hold these assets and liabilities at fair value through profit and loss. There is not considered to be any difference between amortised costs and fair value for these assets and liabilities.

IFRS 9 also introduced expanded disclosure requirements and changes in presentation which have been reflected where relevant in the financial statements.

Notes to the financial statements (continued)

Note D - Financial asset and liabilities (continued)

D.1 Deemed receivables (continued)

The Company's financial investments are grouped in a single category:

	2021 £'000	2020 £'000
Deemed receivables carried at fair value	984,828	834,933

Determination of fair value and fair value hierarchy

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

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

The deemed receivables of £985m (2020: £835m) is valued based on the underlying ground rent loans. Given the various assumptions used in valuing the ground rent loans they are recorded as Level 3 assets. The table below provides an analysis of the movement in the value of ground rent loans.

	2021 £'000	2020 £'000
1 January	834,933	807,542
Value of deemed receivables partially redeemed	(2,600)	1,937
Change in economic conditions	152,495	25,454
Closing balance at 31 December	984,828	834,933

Notes to the financial statements (continued)

Note D - Financial asset and liabilities (continued)

D.1 Deemed receivables (continued)

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

The following table shows the impact on the fair value (FV) of Level 3 instruments of using reasonably possible alternative assumptions by class of instrument, assuming that all other pricing inputs remain constant. Any changes in the valuation of deemed receivables will have an equal and offsetting impact on loan notes secured by ground rents (note D.7), which results in net nil impact on both profit before tax and retained earnings.

			2021			
Financial assets	Main assumptions	Sensitivity	Current FV £'000	(Decrease)/ Increase in FV £'000	(Decrease)/ Increase in PBT and retained earnings ¹ £'000	(Decrease)/ Increase in Equity £'000
Deemed receivables	Liquidity premium	+25bps yield to maturity	984,828	(70,979)	—	—
		-25bps yield to maturity	984,828	76,592	—	—
Deemed receivables	Property prices	+10% change in property prices	984,828	3,625	—	—
		-10% change in property prices	984,828	(8,525)	—	—

			2020			
Financial assets	Main assumptions	Sensitivity	Current FV £'000	(Decrease)/ Increase in FV £'000	(Decrease)/ Increase in PBT and retained earnings ¹ £'000	(Decrease)/ Increase in Equity £'000
Deemed receivables	Liquidity premium	+25bps yield to maturity	834,933	(57,821)	—	—
		-25bps yield to maturity	834,933	63,021	—	—
Deemed receivables	Property prices	+10% change in property prices	834,933	1,465	—	—
		-10% change in property prices	834,933	(5,979)	—	—

¹ Net impact across deemed receivables and loan notes secured by mortgages.

Notes to the financial statements (continued)

Note D - Financial asset and liabilities (continued)

D.2 Deferred tax asset

Deferred income tax is provided using the liability method on temporary differences at the financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax and liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and*
- in respect of taxable temporary differences associated with investments in subsidiary undertakings, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.*

The carrying amount of deferred income tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each financial reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date.

Deferred income tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relates to the same taxable entity and the same taxation authority.

Deferred tax assets are only recognised to the extent that based on management's assessment, they are regarded as recoverable. On the basis of all available evidence, management regard as likely there will be suitable taxable profits from which the future reversal of the underlying temporary differences, including unrecovered tax losses, can be deducted.

Recognised deferred tax balances comprise:

	2021 £'000	2020 £'000
Other temporary differences	40,392	8,664
Total temporary differences	40,392	8,664

The movements in the deferred tax balances were as follows:

	2021 £'000	2020 £'000
1 January	8,664	3,761
Current period charge	31,728	4,903
At 31 December	40,392	8,664

During May 2021 the UK government enacted an increase to the rate of UK corporation tax from 19% to 25% which will apply from 1 April 2023. As a result of this Rothsay has amended its deferred taxation calculations to take account of the rate increase.

Notes to the financial statements (continued)

Note D - Financial asset and liabilities (continued)

D.3 Accrued interest

The Company's accounting policy is to hold accrued interest at fair value through profit and loss. There is not considered to be any difference between amortised costs and fair value for these assets.

	2021 £'000	2020 £'000
Accrued interest	23,491	10,928
Total accrued interest	23,491	10,928

D.4 Cash and cash equivalents

The Company's accounting policy is to hold cash at fair value through profit and loss. There is not considered to be any difference between amortised costs and fair value for this asset.

The cash at bank and in hand of the Company at the year end is as follows:

	2021 £'000	2020 £'000
Cash at bank and in hand	5,100	5,100
Total cash and cash equivalents	5,100	5,100

D.5 Payables

The Company's accounting policy is to hold payables at fair value through profit and loss. There is not considered to be any difference between amortised costs and fair value for these liabilities.

	2021 £'000	2020 £'000
Amounts due to group undertakings	40,392	8,664
Total payables	40,392	8,664

Amounts due to group undertakings represent the Company's corporation tax liability which has been paid by RLP on behalf of RMA1.

All payables are due within one year. Payables are recorded at fair value.

D.6 Accruals and deferred income

The Company's accounting policy is to hold accruals and deferred income at fair value through profit and loss. There is not considered to be any difference between amortised costs and fair value for these liabilities.

	2021 £'000	2020 £'000
Accrued interest due to group undertakings	23,229	10,655
Total accrued interest	23,229	10,655

Notes to the financial statements (continued)

Note D - Financial asset and liabilities (continued)

D.7 Loan notes

Loan notes are designated at fair value through profit and loss, as presentation at fair value provides more relevant information and ensures that any accounting mismatch is minimised. Please see note D.1 in relation to the determination of fair value. All borrowing costs are expensed as they are incurred.

The Company's loan notes are as follows:

	2021 £'000	2020 £'000
Loan notes secured by ground rents	985,090	835,206
Total loan notes	985,090	835,206

On 10 December 2018, RMA1 issued senior mortgage backed fixed rate notes at a cost of £585m, with a notional of £494m, to RLP. The fixed rate notes pay fixed amounts of interest on an annual basis in accordance with a payment schedule and will also be redeemed in pre-defined amounts in accordance with a redemption schedule, commencing 10 December 2018 and ending on the final maturity date of 3 January 2063.

On 10 December 2018, RMA1 also issued senior mortgage backed fixed rate notes at a cost of £179m, with a notional of £151m, to RLP. The fixed rate notes pay fixed amounts of interest on an annual basis in accordance with a payment schedule and will also be redeemed in pre-defined amounts in accordance with a redemption schedule, commencing 10 December 2018 and ending on the final maturity date 3 January 2080.

At 31 December 2021 the notes were held at a fair value of £985m (2020: £835m).

None of the notes issued by RMA1 have been externally rated.

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

	1 January 2021 £'000	Cash flows £'000	Non-cash flows £'000	31 December 2021 £'000
Loan notes secured by ground rents	835,206	(2,538)	152,422	985,090
Total loan notes	835,206	(2,538)	152,422	985,090

	1 January 2020 £'000	Cash flows £'000	Non-cash flows £'000	31 December 2020 £'000
Loan notes secured by ground rents	807,542	—	27,664	835,206
Total loan notes	807,542	—	27,664	835,206

Notes to the financial statements (continued)

Note E - Other notes

E.1 Related parties disclosures

Ultimate holding company

At the financial statement date, the immediate parent company was RLP and the ultimate parent company was Rothesay Limited, which is incorporated in the United Kingdom. Group consolidated financial statements are prepared for Rothesay, copies of which can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London, WC1A 1PB.

Related party transactions

The tables below represent transactions between the Company and its parent, RLP.

	2021 £'000	2020 £'000
Statement of financial position		
Accrued interest due to group undertakings	(23,229)	(10,655)
Other payables	(40,392)	(8,664)
Capital	5,100	5,100

Transactions with RLP

On 10 December 2018 £645m of ground rent loans were transferred from RLP to the Company. The Company became the beneficial owner of 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 29 the loans cannot be de-recognised from RLP as RLP effectively maintains all the risk and rewards and controls of the loans after the securitisations through the loan notes.

E.2 Financial commitments and contingencies

There are no commitments and contingencies outstanding at the year end (2020: £nil).

Notes to the financial statements (continued)

Note F - Risk and capital management

Given the principal activities of RMA1, the main risk to which it is exposed is in relation to the performance of the ground rent loans. The Company is not subject to any externally imposed capital requirements.

The Company's exposure to market risk is mitigated because changes in market conditions will impact the values of financial assets and liabilities similarly.

F.1 Credit risk

The Company has limited credit risk because the deemed receivables are backed by ground rent loans which are in turn secured on residential property ground rents. The Company has received total security collateral and charges of £985.1m (2020: £834.9m) of which £985.1m (2020: £834.9m) has been applied against net exposure, leaving excess of £nil (2020: £nil).

Credit risk also arises from cash placed with banks.

F.2 Liquidity risk

The Company has limited exposure to liquidity risk because the loan notes are structured in a way which ensures that payments due on the loan notes can be met from payments received on the deemed receivables.

RLP provides liquidity to meet tax payments as they fall due.

The following table details the Company's financial liabilities and assets by maturity. For year end 2021, cash flows arising from financial investments and liabilities have been disclosed using undiscounted expected contractual cash flows. The cash flows have been adjusted for credit risk. Historically, Rothsay disclosed discounted cash flows from financial assets and liabilities, and therefore 2020 comparatives have been restated to better comply with IFRS 7: Financial Instruments. The 2020 comparative numbers in the less than one year bucket have also been adjusted for the deemed receivables and the loan notes to exclude the accrued interests due to the Company and the accrued interests due from the Company respectively, as their maturities have been disclosed separately.

	2021			Total £'000
	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	
Financial assets				
Deemed receivables	(9,933)	58,248	2,232,092	2,280,407
Accrued interest	23,491	—	—	23,491
Cash and cash equivalents	5,100	—	—	5,100
	18,658	58,248	2,232,092	2,308,998
Financial liabilities				
Loan notes	(9,671)	58,248	2,232,092	2,280,669
Payables	40,392	—	—	40,392
Accruals and deferred income	23,229	—	—	23,229
	53,950	58,248	2,232,092	2,344,290

Notes to the financial statements (continued)

Note F - Risk and capital management (continued)

F.2 Liquidity risk (continued)

	2020 unaudited/restated			
	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Financial assets				
Deemed receivables	2,264	56,404	1,981,673	2,040,341
Accrued interest	10,928	—	—	10,928
Cash and cash equivalents	5,100	—	—	5,100
	18,292	56,404	1,981,673	2,056,369
Financial liabilities				
Loan notes	2,538	56,404	1,981,673	2,040,615
Payables	8,664	—	—	8,664
Accruals and deferred income	10,655	—	—	10,655
	21,857	56,404	1,981,673	2,059,934

F.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company manages operational risk through the Group's 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 residual risk levels to be measured and control enhancements to be developed in line with the Group's risk appetite.

The Group 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.

The Company has important 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 Rothesay Group's Business Controls Committee. Oversight of these arrangements considers the information security risk that Rothesay is exposed to, the performance of the third party with respect to service level agreements, and other relevant information (e.g. their ongoing creditworthiness, and where relevant, their readiness to accommodate Rothesay's growth).

Notes to the financial statements (continued)

Appendix - Changes in IFRSs (unaudited)

The Company has considered the following new standards and changes to existing standards which are relevant to its operations, and became effective for financial years beginning on or after 1 January 2021. These amendments have all been endorsed by the UK.

Amendment to IFRS 16, 'Leases' - COVID-19 related rent concessions Extension of the practical expedient:

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The Company does not have a lease and therefore this amendment is not relevant to Rothestay.

Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark reform - Phase 2:

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Company does not have any hedging relationships affected by IBOR reform and therefore this amendment is not relevant.

Amendments to IFRS 4 insurance contracts - deferral of IFRS 9 (issued on 25 June 2020):

These amendments defer the date of application of IFRS 17 by two years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instruments until 1 January 2023. The Company is not an insurance company and therefore is not affected by this amendment.

Amendments to UK and Republic of Ireland accounting standards UK exit from the European Union:

In January 2020 the UK exited the European Union. These amendments reflect the changes required to UK company law to ensure that it continues to operate effectively.

The following standards have not yet been endorsed and are effective for annual periods on or after 1 January 2022:

Amendments to IFRS 3, 'Business combinations':

The amendment updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16, 'Property, plant and equipment':

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the assets of its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets':

The amendment specifies which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements:

Make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the illustrative Examples accompanying IFRS 16, 'Leases'.

The following standards have not yet been endorsed and are effective for annual periods on or after 1 January 2023:

IFRS 17, 'insurance contracts', as amended in June 2020:

The standard has been delayed until 1 January 2023. The Company is not an insurance company and therefore the statement is not relevant.

Notes to the financial statements (continued)

Appendix - Changes in IFRSs (unaudited) (continued)

Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities:

These narrow-scope amendments to IAS1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The amendment is expected to have no impact on the Company.

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8:

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The amendment is expected to have no impact on the Company.

Amendments to IAS 12- deferred tax related to assets and liabilities arising from a single transaction:

These amendments require companies to recognise deferred tax on transactions, that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

None of these amendment are expected to impact the Company.