Rothesaylife

5 September 2018

Rothesay Life has delivered strong first half performance

Rothesay Life Plc today updates on its H1 2018 trading performance and announces its intention to raise further debt financing.

The first half of 2018 was dominated by the previously-announced acquisition of £12bn of annuities from Prudential plc (Prudential) – initially by way of a reinsurance contract. In addition to the Prudential transaction, the Group[1] insured the defined benefit liabilities of the Toshiba Pension and Assurance Scheme, taking new business premiums to £12.4bn for HY2018.

The Prudential transaction takes the Group's assets under management to £36.7bn as at 30 June 2018 and has led to market consistent embedded value of the Group growing to £3.2bn as at 30 June 2018.

The Group's solvency position remains robust with a Solvency Capital Requirement (SCR) coverage ratio of 177 per cent. at the level of the Group's operating company, Rothesay Life Plc (RLP), and 157 per cent. at Group level as at 30 June 2018 as shown in the table below:

	Group	**RLP**
Own Funds available to meet SCR	£3,687m	£4,158m
SCR	£2,351m	£2,351m
Surplus above SCR	£1,336m	£1,807m
SCR coverage (%)[2]	**157 per cent.**	**177 per cent.**
MCR	£673m	£673m
Own Funds available to meet MCR	£3,159m	£3,631m
MCR coverage (%)	**469 per cent.**	**540 per cent.**

SCR coverage at Group level is lower than at the operating company level because senior bank debt owed at Group level counts only as a liability and not as regulatory capital for solvency purposes. Although the Prudential transaction materially increased the size of the Group's balance sheet, the overall risk profile of the acquired business is similar to the rest of the business. As a result, in percentage terms, the risk sensitivities as at 30 June 2018 are broadly similar to those disclosed as at 31 December 2017. However due to the additional exposure to corporate bonds received as part of the Prudential transaction, the sensitivity to credit spread widening has increased moderately.

Following entry into the Prudential transaction, we have chosen to de-risk the underlying assets and continue to be cautious about reinvesting the premium given market conditions. Given this approach, we have generated new business strain resulting in first half pre-tax losses as anticipated when underwriting the transaction. First half pre-tax losses for the Group were £257m[3] on a consolidated basis which we expect to reverse into generating IFRS profits as we invest the assets (which are currently held largely in lower-yielding assets) into new higher-yielding assets, in-line with our long-term investment strategy.

Work has begun on a scheme under Part VII of the Financial Services and Markets Act 2000 in relation to the transfer of the underlying assets and policy liabilities from Prudential to RLP and we anticipate that the transfer will take place in 2019, subject to regulatory and court approval. The transfer will not materially impact the financial position of the Group as the Group already has full financial exposure to the underlying assets and liabilities.

[1] References to the "Group" in this announcement mean Rothesay Holdco UK Limited and its subsidiaries and subsidiary undertakings.

[2] We estimate that were we to recalculate transitional solvency relief as at 30 June 2018 then SCR coverage would fall by 7.5% at both levels.

[3] The loss figure has been calculated in accordance with IFRS accounting policies of the Group and in a manner consistent with its audited financial statements for the year ended 31 December 2017.

The Group notes the publication by the Prudential Regulation Authority (PRA) of consultation paper CP13/18 "Solvency II: equity release mortgages"[4]. We do not believe that the outcome of the consultation will have a material impact on the Group's financial position or prospects, assuming that the final policy statement is consistent with such proposals. New business is written on terms and assumptions that allow us to comply with the proposals as set out in CP13/18.

The Group has recently made a formal application to the PRA to use its own model for calculating the SCR in relation to credit and counterparty risk but, if such application were to be successful, intends to continue to use the standard formula for all other risks (a 'partial internal model'). The Group has applied for approval to use a partial internal model to ensure that the allocation of capital to investments is consistent with the low risk inherent in the types of highly-collateralised investments which are core to the Group's investment strategy. Approval of the partial internal model would also allow the Group to restructure our holding of equity release mortgages to make them eligible for inclusion in the matching adjustment fund.

As previously announced, Rothesay's main operating company, Rothesay Life Plc, has received an Insurer Financial Strength rating of A+ from Fitch and an Insurer Financial Strength rating of A3 from Moody's.

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About Rothesay Life

Rothesay Life was established in 2007 and has become one of the leading providers of regulated insurance solutions in the U.K. market for pensions de-risking, with c. £37bn assets under management and over 750,000 end customers. This strong growth has been achieved through the steady accumulation of pension scheme clients, significant strategic acquisitions and the reinsurance of annuity portfolios.

Existing Rothesay Life clients include the pension schemes, members and/or policyholders associated with such names as Prudential, Aegon, Zurich, RSA, British Airways, Rank, Uniq, General Motors, the MNOPF (Merchant Navy Officers Pension Fund), InterContinental Hotels, Philips, GKN, the Post Office, Lehman Brothers and the Civil Aviation Authority.

Rothesay Life was founded on several core pillars:

- Clear and disciplined business strategy;
- Prudent underwriting;
- Meticulous management of risk and cautious investment strategy offering absolute customer security;
- Excellence in execution; and
- Robust operational processes underpinning excellent customer service

Rothesay Life has three substantial institutional shareholders, Blackstone, GIC and Massachusetts Mutual Life Insurance Company (MassMutual), which provide the company with long term support for its growth and development.

[4] The consultation paper sets out further proposed detail on the PRA's expectations in respect of firms investing in equity release mortgage portfolios.