



RATING ACTION COMMENTARY

Fitch Affirms Rothesay at IFS 'A+'; Outlook Stable

Fri 12 May, 2023 - 7:04 AM ET

Fitch Ratings - London - 12 May 2023: Fitch Ratings has affirmed Rothesay Life Plc's Insurer Financial Strength (IFS) Rating at 'A+' (Strong) and Long-Term Issuer Default Rating (IDR) at 'A'. Fitch has also affirmed the group's ultimate holding company, Rothesay Limited's (Rothesay), IDR at 'A'. The Outlooks are Stable.

A full list of rating actions is below.

The ratings reflect Fitch's 'very strong' assessment of Rothesay's capitalisation and leverage, financial performance, investment risk and asset-liability management (ALM). In addition, Fitch assesses the group's company profile and debt service capabilities as strong.

KEY RATING DRIVERS

Strong Company Profile: Fitch's assessment of Rothesay's company profile reflects the group's position as one of the leaders of the bulk purchase annuity (BPA) market in the UK, with total assets under management of GBP47.3 billion at end-2022 (end-2021: GBP62.5 billion). The reduction in the assets under management reflects a rise in long-term interest rates that depressed the value of its fixed income portfolio, which offset strong new business volumes in 2022.

Rothesay's new business volumes improved to GBP3.3 billion in 2022 from GBP3 billion in 2021, and we expect its new business to grow over the medium term. This will be supported by the predictable growth trend in the UK bulk annuity market and the group's significant excess capital to write new business.

Very Strong Capitalisation and Leverage: Our assessment of the group's capitalisation is based primarily on an 'Extremely Strong' score in Fitch's Prism Factor-Based Capital Model (Prism FBM) at end-2022, unchanged from end-2021. In addition, Rothesay's Solvency II (S2) capital coverage ratio improved to 255% at end-2022 (end-2021: 226%), which largely benefitted from strong surplus generation from its in-force book and higher interest rates. We expect Rothesay's S2 capital coverage ratio to remain very strong, despite some reduction as business grows.

Rothesay's Fitch-calculated financial leverage ratio (FLR) remained very strong and improved marginally to 18% at end-2022 from 19% at end-2021. We expect Rothesay's GBP500 million tier 2 debt issue in May 2023 to increase its pro-forma FLR to 23%; however, we believe the ratio will remain strong and commensurate with its rating.

Very Strong Financial Performance: We view Rothesay's profitability as very strong, with a reported pre-tax operating profit of GBP1,016 million in 2022 (2021: GBP904 million). This was buoyed mainly by stronger profits generated from its in-force book helped by higher returns on surplus assets as well as improved new business profits.

However, Rothesay's IFRS pre-tax net income fell to GBP170 million (2021: GBP913 million) driven by large economic variances due to wider credit spreads and increased interest rates that resulted in accounting losses on S2 hedges against lower interest rates. However, Fitch expects Rothesay's underlying earnings to remain very strong.

In line with its peers', we expect Rothesay's operating profit recognition to shift to a more back-end loaded profile under the new IFRS17 reporting standard that came into force on 1 January 2023.

Strong Asset Quality: Our assessment of investment risk is driven by the majority of the group's investment portfolio being held in debt securities of a high credit quality, including Rothesay's privately placed investments. Rothesay continues to expand its offshore asset origination capabilities mainly in the US, where around 25% (2021: 18%) of its total assets under management are invested. However, Rothesay continues to hold a concentrated exposure to UK sovereign debt (AA-/Negative), in line with some of its similar-rated peers, although the exposure as a proportion to its total assets under management was reduced at-end 2022.

Strong Fixed-Charge Coverage: Rothesay's fixed-charge coverage (FCC), calculated based on the reported pre-tax operating profit, was strong and remained broadly unchanged at 8x in 2022. Fitch expects Rothesay's FCC to reduce following its recent tier 2 issue but to remain commensurate with its rating, supported by strong operating profitability.

Very Strong ALM: Rothesay has a sophisticated approach to ALM, in line with that required for the business it writes. The group makes extensive use of longevity swaps to hedge longevity risk and the duration of assets and liabilities are closely matched. As a result, the reduction in asset values owing to higher interest rates is broadly matched by a reduction in Rothesay's insurance liabilities.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- A substantial improvement in Fitch's view of Rothesay's company profile

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- A substantial weakening of the group's capitalisation as evident by a sustained fall in the group's Prism FBM to the 'Very Strong' category or a sustained increase in FLR to above 30%

--A sustained weakening in the group's run-rate FCC to below 4x

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit

impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Rothesay Life Plc	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
subordinated	LT	BBB- Affirmed	BBB-
subordinated	LT	BBB+ Affirmed	BBB+
Rothesay Limited	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Rishikesh Sivakumar, CFA

Associate Director

Primary Rating Analyst

+44 20 3530 2565

rishikesh.sivakumar@fitchratings.com

Fitch Ratings Ltd

30 North Colonnade, Canary Wharf London E14 5GN

Willem Loots, FIA

Senior Director

Secondary Rating Analyst

+44 20 3530 1808

willem.loots@fitchratings.com

Federico Faccio

Senior Director

Committee Chairperson

+44 20 3530 1394

federico.faccio@fitchratings.com

MEDIA CONTACTS**Athos Larkou**

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

Endorsement Policy

ENDORSEMENT STATUS

Rothesay Life Plc	UK Issued, EU Endorsed
Rothesay Limited	UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and

other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or

dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Insurance Europe United Kingdom
