

July 2024

RESOLUTION LIFE New 7yr Tier 2

By Matthew Macreadie

What differentiates Resolution is that it has a conservative approach to risk. Risk management is central to everything they do as a life insurance company. They also have a long track record in the life industry since 2003 (over 20 years). This strong track record, alongside partnerships with Blackstone and Nippon Life, helps Resolution to generate more value from their investments and serve life insurance companies in the marketplace. Under the partnership, Blackstone manages the private asset side of the investment book. The balance sheet and solvency are the last two key pillars that the company manages well. This also allowed the company to pay a dividend of US\$240m in 2023, up from the previous year.

Resolution Life (Resolution) is a global life insurance group focused on reinsurance and the acquisition and management of life insurance policies. Headquarters are in Bermuda, with main customers being primary life insurers in mature markets, including North America, Europe, Australasia, and Asia. There are three core business units:

1. Resolution Re the global reinsurance business.
2. Resolution Life US where they buy/sell existing life and annuity portfolios from US companies, acquiring the assets and liabilities
3. Resolution Life Australasia where they buy/sell existing life and annuity portfolios from Australia/NZ, acquiring the assets and liabilities

Resolution Life currently has US\$85bn (AUM) and has deployed US\$5.7bn of capital across 4.3m policies (as of 31 Dec 2023). By providing reinsurance, Resolution takes on the risks and responsibilities created by life insurance companies. Furthermore, they also acquire portfolios of existing life and annuity portfolios from established insurers, who want to free up capital.

The company is privately owned by a diverse group of global investors. As of 31 Dec 2023, the group had raised US\$8bn of commitments across c.60 investors. In 2023 alone, they raised US\$3bn in equity capital which included a US\$500mn investment from Blackstone and an additional US\$1bn from Nippon Life. In relation to business and financial performance over 2023:

- Risk underwriting, management of capital position/costs, and earnings from the investment book drove underlying earnings. Over the year, cash was generated in line with company expectations, despite not rotating out of assets as fast as expected. Capital markets activity in 2023 was muted due to several factors, including the sustained higher interest rates and the banking crisis that affected the US and Switzerland. This meant that

there were fewer attractive investment opportunities, especially for higher-yielding private assets.

- Operating expenses were slightly higher than anticipated. The separation and digital transformation programmes remain on track for the business. Cost management is a priority area for 2024.
- Capital position is robust. Resolution increased borrowings by US\$1bn to fund our growth, with US\$750m of new bank debt, and an increase in revolving credit facility by a further US\$250m. Under the Bermuda Solvency Capital Requirement, the Group solvency ratio is 181%. Resolution has an investment grade rating from Moody's with an implied A3 notional Insurance Financial Strength for the Group and a Long-Term Issuer Rating of Baa2 for the Issuer, as well as a BBB Long-Term Issuer Default Rating from Fitch for the Issuer.

Heading into 2024, Resolution is seeing more optimism in the capital markets. Inflation is easing and they expect the interest rate cycle to have peaked, which is positive for asset rotation.

The table below shows the group's statutory premiums from its insurance and reinsurance activities and statutory investment return, net of investment expenses and realised gains/losses. Furthermore, the slide below shows the financial review for 2023.

	Resolution Re		RLA		RLUS		Total	
\$m	2023	2022	2023	2022	2023	2022	2023	2022
Direct	-	-	1,088	1,156	9	10	1,097	1,167
Assumed	2,959	1,325	-	-	2,475	754	5,434	2,078
Ceded	-	-	(655)	(655)	(1,044)	(434)	(1,699)	(1,089)
Total net premiums	2,959	1,325	433	501	1,440	330	4,832	2,156

\$m	For the year ended 31 December 2023	For the year ended 31 December 2022
Bonds and debentures	1,544	1,207
Equity securities	157	131
Investment funds	564	441
Commercial mortgage loans	140	88
Funds withheld assets	795	762
Policy loans	112	81
Other investment income	14	6
Net realised gains (losses)	(205)	(3,856)
Investment expenses	(169)	(113)
Total investment return	2,951	(1,253)

Capital requirements are calculated in accordance with Bermuda Solvency Capital Requirement. As of 31 Dec 2023, the capital position was as follows:

Capital position	2023 (\$m)	2022 (\$m)
Available statutory economic capital	5,335	4,726
ECR	2,952	2,624
Surplus	2,383	2,102
Solvency ratio	181%	180%

Adjusted operating earnings

Adjusted operating earnings decreased by 42% to \$262m (2022 \$452m), primarily driven by unfavourable underwriting and mortality experience across the Group. In addition, staff costs increased, to support the growth of the business and build capability. Financing costs increased due to higher interest rates and additional debt, following the \$750m issue of new bank debt.



Adjusted book value

On an adjusted basis the Group continues to accrete shareholder's equity, with an adjusted book value of \$6,750m (2022 \$5,669m). The adjusted book value reflects the \$6,087m fair value established on the Purchase GAAP exercise following the completion of the Blackstone transaction on 2 October 2023, additional capital contributions from investors of \$796m, and accretion of positive underlying earnings in Q4, less Group dividends.



Platform cash generation

Platform cash generation is defined as the excess above target capital ratios and collateral requirements in each platform.

The cash generation of \$765m in 2023 was higher than 2022 (\$642m), reflecting tax outcomes over the year mainly from asset rotations in Australasia and the positive impact of improved macroeconomic conditions on the market based Bermuda economic balance sheet. Cash generation in the US reflected the completion of the reinsurance transaction with Farmers New World Life Insurance Company in Q3 offset by higher realised capital losses due to portfolio rotation, which provides higher investment returns going forward.



Group leverage ratio

Our financial leverage ratio definition is consistent with the Fitch Rating Methodology and uses our adjusted measure of book value. We have a financial leverage target of 25%-30%, which is consistent with our 'A' range financial strength rating target. We manage the financial leverage ratio carefully given its influence on our credit rating, funding costs and ability to maintain financial flexibility.

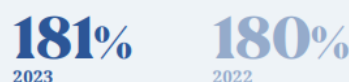
The leverage ratio increased slightly to 28% (2022 27%). This mainly reflects higher borrowings following the issue of \$750m of new bank debt, which was largely offset by higher adjusted book value following the Purchase GAAP exercise on completion of the Blackstone transaction, and additional capital contributions from investors.



Group Bermuda Solvency Capital Requirement (BSCR) ratio

Group solvency capital is calculated in line with the requirements of the Bermuda insurance regulatory framework. We seek to maintain a strong Group solvency position, in line with our risk appetite.

The ratio remained stable over the year, after reflecting additional equity capital and M&A activity, the repayment of two debt facilities which counted as regulatory capital and economic and business variances.



Platform solvency ratios

Local solvency ratios are presented in line with the regulatory regimes in territories in which each of our platforms operate.

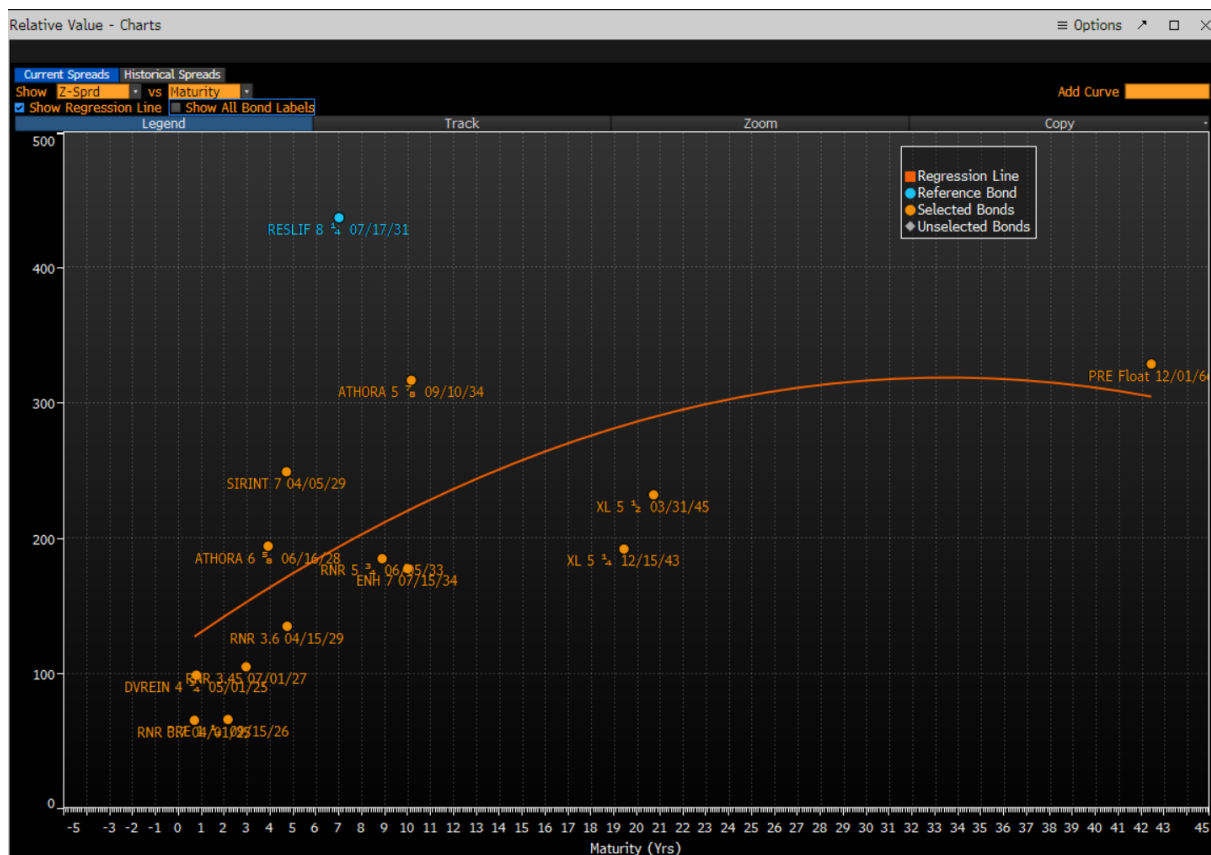
The ratios have remained very strong throughout the year, in the face of significant market volatility, with all our business well above target levels of capitalisation.

Solvency ratio	31 December 2023	31 December 2022	Target
Resolution Re BSCR	219%	216%	>195%
Australasia PCA (Life Co)	237%	308%	>175-200%
USA RBC (RLCO)	522%	465%	435%

¹ Adjusted book value and adjusted earnings for the year ended 31 December 2022 were previously reported as \$5,729m and \$521m respectively and have since been updated to reflect updates to methodology.

Relative Value (Z-Spread Basis vs USD Insurance Comps)

The relative value of RESLIF versus other USD insurance comps is quite attractive. Although life insurers tend to price at a discount vs insurer, RESLIF prices well outside other USD insurance comps. Compared to AUD Tier 2 banking comps, there is around a 250bps discount in valuation (160bps for AUD Tier 2 paper). The rating differential (BB+ to A-) or four notches, implies some discount. However, 250bps seems well wider than fair would suggest. If you factor in 25bps for 3 notches (A- to BBB-) and then an equivalent 100bps by dropping (BBB- to BB+ or high-yield) this would imply a fair value spread differential of 175bps. Thus, we would expect at least 75bps of spread compression over the near term.



Spread Analysis Bond Data

Spread Type Z-Spd Date Range 07/11/24 - 07/11/24

Comparable Bonds View

Security	Price	Yield	Spread	Diff	Low	Range	High	Avg +/-	#SDs
Avg of Comparables		5.74	180	256	256		256	256	0 0.0
12) RESLIF 8 3/4 07/17/31	100.36	8.18	436						
13) PRE Float 12/01/66	90.25	8.76	328	108	108		108	108	0 0.0
14) ATHORA 5 7/8 09/10/34	99.87	5.89	316	120	120		120	120	0 0.0
15) SIRINT 7 04/05/29	102.42	6.39	248	188	188		188	188	0 0.0
16) XL 5 1/2 03/31/45	92.85	6.11	231	205	205		205	205	0 0.0
17) ATHORA 6 5/8 06/16/28	106.06	4.79	193	243	243		243	243	0 0.0
18) XL 5 1/4 12/15/43	94.49	5.72	191	245	245		245	245	0 0.0
19) RNR 5 3/4 06/05/33	100.77	5.64	184	252	252		252	252	0 0.0
20) ENH 7 07/15/34	110.90	5.57	177	259	259		259	259	0 0.0
21) RNR 3.6 04/15/29	93.25	5.22	134	302	302		302	302	0 0.0
22) RNR 3.45 07/01/27	95.42	5.13	104	332	332		332	332	0 0.0
23) DVREIN 4 3/4 05/01/25	99.03	5.99	98	338	338		338	338	0 0.0
24) RNR 3.7 04/01/25	98.58	5.73	65	371	371		371	371	0 0.0
25) PRE 1 3/4 09/15/26	95.02	3.68	65	371	371		371	371	0 0.0

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