CREDIT OPINION
16 May 2025

Update

Send Your Feedback

Rothesay Limited

Update following A2 financial strength rating affirmation

RATINGS

Rothesay Limited	
Domicile	United Kingdom
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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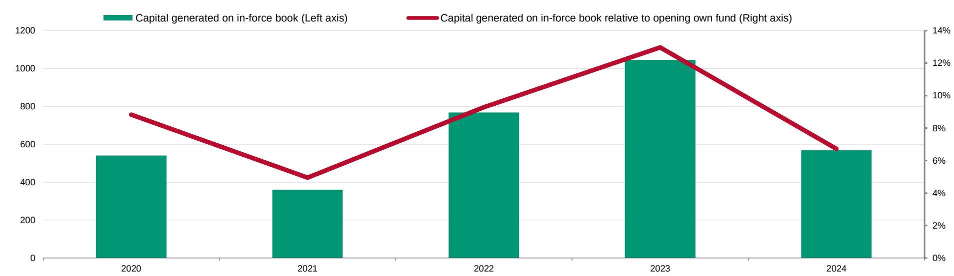
Summary

Rothesay Life Plc's (Rothesay Life) credit profile is supported by the strengths of Rothesay Limited ("Rothesay" or “the Group”) which include: (1) a robust and well established market position in the growing, yet relatively concentrated UK bulk purchase annuity (BPA) market; (2) strong and sustainable operating capital generation (Exhibit 1); (3) a conservative investment portfolio; and (4) superior asset-liability management (ALM) capabilities, coupled with a proven ability to originate the required assets to back long-duration illiquid liabilities.

Exhibit 1
Capital generated on the in-force book (£m) and capital generated % opening own funds (%)



Source: Company's filings and Moody's Ratings

These strengths are somewhat tempered by the Group's limited product and geographic diversity, with its exclusive focus on UK BPAs, which inherently carry longevity risks and elevate pricing, reserving and financial market risks. The Group's reported net income is, and will continue to be, subject to volatility due to the irregular nature of BPA transactions and its sensitivity to financial market fluctuations.

Credit strengths

» A leading player in the growing and relatively concentrated BPA market with a proven ability to acquire and transact substantial annuity portfolios

» Robust capital generating capabilities, coupled with an expanding CSM, indicative of potential future profit reserves

» High quality assets, characterised by a relatively conservative investment portfolio and superior asset-liability management capabilities

Credit challenges

» Limited business and geographic diversification with a focus on UK annuities

» Volatile IFRS17 net earnings and returns on capital

» Regulatory solvency ratio's sensitivity to market movements, particularly a decline in interest rates

» Considerable exposure to longevity risk, albeit partially mitigated through the material use of reinsurance

Rating outlook

The outlook is stable. This reflects Moody's view that Rothesay will continue to transact meaningful BPA volumes over the medium term, generating consistently good levels of operating earnings and capital generation, backed by a conservative investment portfolio and good regulatory capitalisation.

Factors that could lead to an upgrade

» Significant diversification and expansion of the group's position in the UK life insurance market whilst maintaining its good position in the UK BPA sector

» Average operating earnings before tax relative to capital (adjusted on a Moody's basis) above 12%

» Maintaining solvency ratio comfortably above 200% on a sustainable basis

Factors that could lead to a downgrade

» Average operating earnings before tax relative to capital (adjusted on a Moody's basis) consistently below 8%

» A meaningful and sustained increase in adjusted financial leverage

» The group's solvency II ratio falling below 150% on a sustained basis

Key indicators

Exhibit 2
Rothesay Life Plc

Rothesay Life Plc [1][2]	2024	2023	2022
As Reported (Pound Sterling Millions)			
Total Assets	123,557	103,203	94,970
Total Shareholders' Equity	4,215	4,351	4,057
Net Income (Loss) Attributable to Common Shareholders	45	656	(804)
Insurance revenue	4,234	3,127	2,891
Moody's Adjusted Ratios			
High Risk Assets % Shareholders' Equity	139.3%	132.4%	107.9%
Goodwill & Intangibles % Shareholders' Equity	43.9%	39.0%	37.7%
Shareholders' Equity % Total Assets	4.8%	5.7%	5.6%
Return on Average Capital (ROC)	0.5%	8.0%	NA
Sharpe Ratio of ROC (5 yr.)	NA	NA	NA
Financial Leverage	25.9%	23.2%	22.9%
Total Leverage	38.1%	36.0%	33.9%
Earnings Coverage	1.4x	6.4x	-7.6x
Cash Flow Coverage	NA	NA	NA

[1] Information based on IFRS17 financial statements as of the fiscal year ended 31 December; previous years' financial statements were prepared under legacy IFRS 4, which are not comparable to IFRS17 and are not included in the exhibit. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Sources: Company filings and Moody's Ratings

Profile

Rothesay, which essentially comprises a holding company (Rothesay Limited) and an insurance operating company (Rothesay Life plc), is currently the largest specialist annuity fund in the UK. The group is focused on de-risking defined benefit pension scheme liabilities and insurance companies via bulk purchase annuities and back-book acquisitions.

Rothesay was established in 2007 and is own by GIC and Massachusetts Mutual Life Insurance Company (MassMutual).

Credit considerations

Moody's rates Rothesay Life A2 for insurance financial strength, which is in line with the adjusted scorecard-indicated outcome as shown in the Moody's scorecard (Exhibit 11).

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

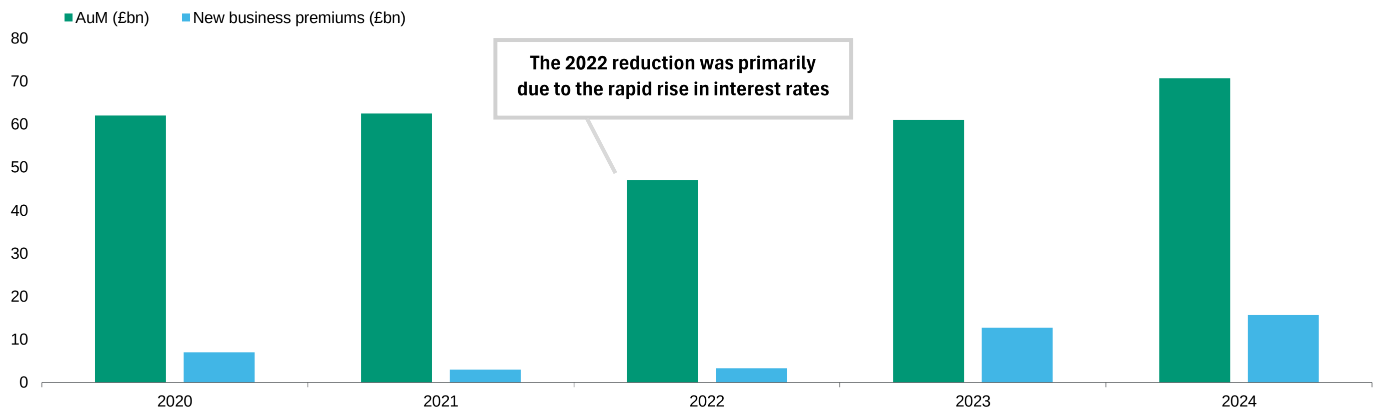
Market Position: A leading position in growing and relatively concentrated BPA market

Rothesay stands as a prominent insurer in the expanding and relatively concentrated UK BPA market, and a top tier acquirer of life insurers' legacy books of business. Rothesay does however remain a relatively moderate player within the context of the overall UK life and savings market.

Rothesay's capacity to execute large-scale deals, a segment marked by high entry barriers and limited active participants, enables the group to fully leverage structurally robust demand for UK BPAs, a sector which we regard as one of the best long-term structural growth opportunities across the European insurance industry. As such, we expect the group to continue to expand its assets under management (AuM) supported by sizeable new business premiums over the coming 12 months (Exhibit 3). This growth trajectory underscores Rothesay's leading position in UK BPAs and its potential for further market penetration.

Exhibit 3

Asset under management and new business premiums continue to grow
£ billions



Source: Company Reports, Moody's Ratings

Distribution: Strong control but diversity restricted by reliance on Employee Benefit Consultants
Rothesay's BPA business is sourced via Employee Benefit Consultants (EBC) which significantly limits its diversity of distribution. However, Rothesay's control of distribution benefits from its specialist nature and proven track record within UK's concentrated BPA market. With regard to the distribution of its equity release mortgage (ERM) products, Rothesay relies on specialist brokers.

Moreover, Rothesay's ability to acquire additional back book portfolios is accentuated by its successful execution of large-scale transactions, notably with AEGON, Prudential and most recently, the acquisition of Scottish Widows' BPA portfolio. This approach aligns with Rothesay's specialist nature, further reinforcing its strong control over distribution, albeit with limited diversity.

Product Risk & Diversification: Constrained by focus on UK annuities, reinsurance mitigates product risk
A key credit challenge for Rothesay is that its business and geographic diversification is constrained by its focus on UK annuities, which dominate the Group's liabilities. This focus results in substantial exposure to longevity risk.

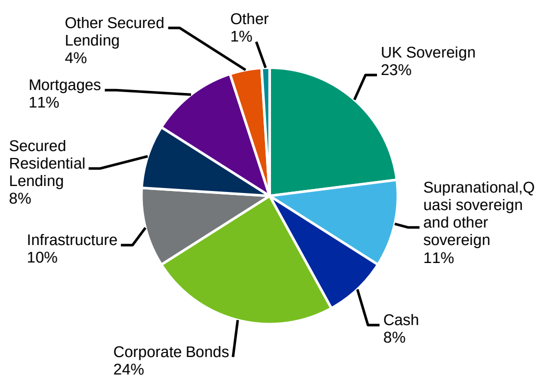
To mitigate this, Rothesay has consistently transferred the majority of its longevity risk (approximately 90%) to reinsurers through the use of unfunded longevity swaps with collateralization features. These features are designed to safeguard against counterparty defaults. This dependence on reinsurance could present a long-term risk. However, over the medium term, we expect a sustained willingness among reinsurers to assume longevity exposure, which bodes well for Rothesay's risk management strategy.

In addition, Rothesay actively hedges against the inflation risk associated with its annuity portfolio. This further underlines its proactive approach to managing product risk, despite the constraints imposed by its focus on UK annuities.

Asset Quality: Conservative investment portfolio despite high asset leverage and rising investment risks
We consider Rothesay's overall asset quality to be very good, supported by a relatively conservative investment portfolio, managed internally the Group. However, given the long duration profile of Rothesay's products and corresponding invested assets, the Group's invested asset leverage is high. This means that relatively minor exposures, in relation to the aggregate investment portfolio, can significantly impact the Group's capital. Rothesay's low risk investment philosophy, high quality portfolio and strong asset management expertise are key mitigating factors.

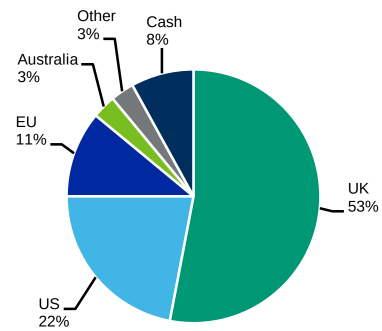
Rothesay's conventional asset strategy aims to minimise credit default risk and secure an illiquidity premium by investing in low risk asset classes, and assets bolstered by collateral security and other structural mitigation. As Rothesay continues to grow its AuM, we expect the Group will maintain a well-diversified investment portfolio both in terms of asset class (Exhibit 4) and geographic distribution (Exhibit 5).

Exhibit 4
Breakdown of asset classes of YE24



Source: Company Reports, Moody's Ratings

Exhibit 5
Breakdown of total invested asset by geography as of YE24



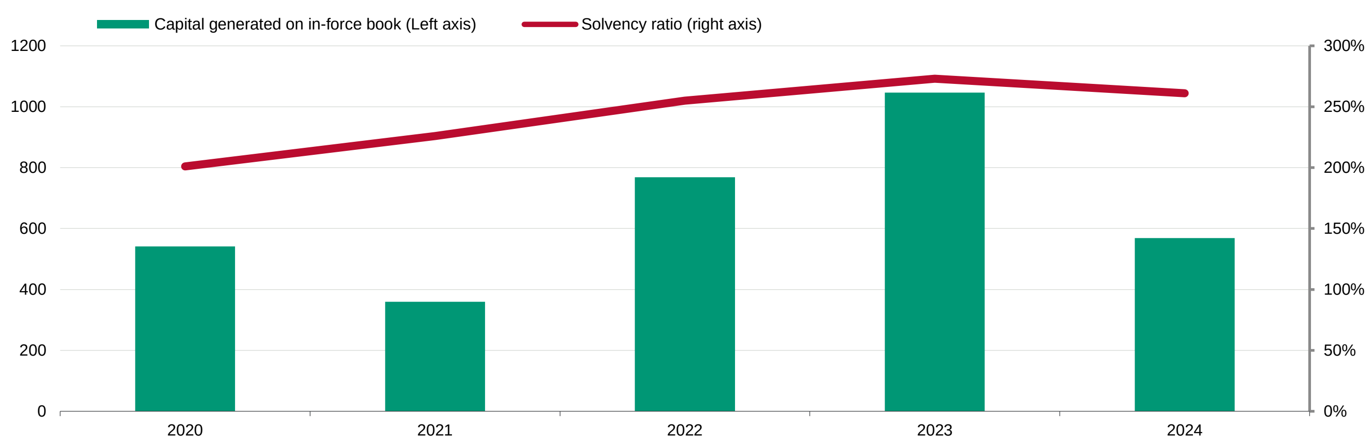
Source: Company Reports, Moody's Ratings

Owing to their effective match with the Group's illiquid annuity liabilities, a significant portion of Rothesay's asset portfolio is allocated to more complex and illiquid investments. A large portion of assets are also not externally rated, which is reflected in the group's high-risk assets (HRA) as a percentage of shareholders' equity ratio, which stands above 100%. However, we note that stripping out the group's UK and European residential mortgages, which we consider to be of a strong quality, the HRA ratio would fall to around 5%

As Rothesay continues to write new BPA deals, the Group's investment in such non-traded assets will continue to grow, although we expect the proportion to remain relatively stable in the coming years. Given Rothesay's liability nature, its ability to source new assets and manage its existing portfolio, we continue to view the group's illiquid investments as overall credit positive overall.

Capital Adequacy: Very strong solvency ratio, but gradual reduction expected with capital deployment
We view Rothesay's capital adequacy as very good, demonstrated by the group's historically strong solvency ratio and strong capital generation capabilities (Exhibit 6). As the group deploys its surplus capital toward underwriting new BPA deals in the coming years, we anticipate a gradual reduction in the coverage ratio. However, we anticipate it to remain significantly above the group's upper target range of 140-160% over the medium term.

Exhibit 6
Solvency ratio (%) and capital generated on in-force book (£m)

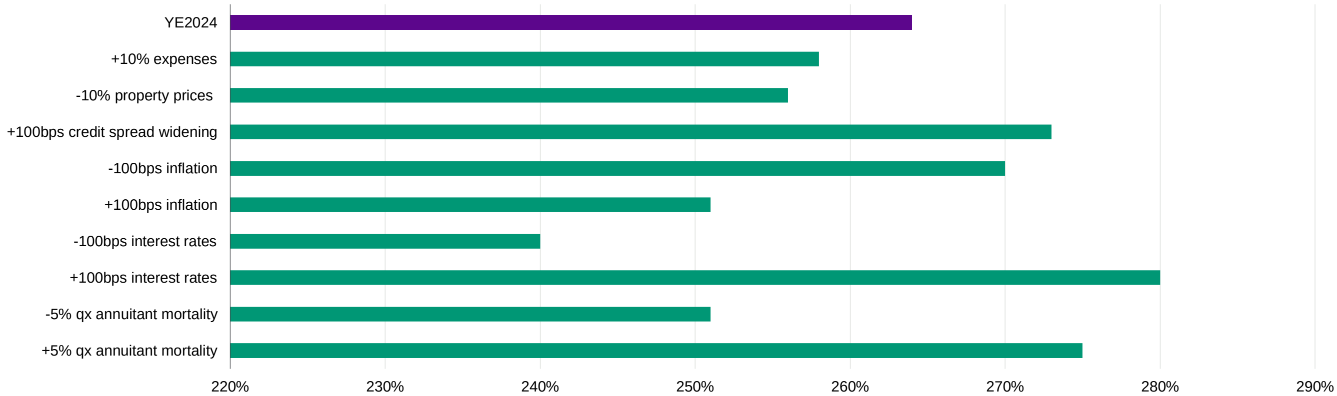


Source: Company Reports, Moody's Ratings

Despite the overall close matching of the Group's assets and liabilities, and use of interest rate hedging, the group's solvency ratio - not accounting for potential management actions - is relatively sensitive to market movements, primarily a decrease in interest rates

(Exhibit 7). However, we believe Rothesay's capital would be resilient under a range of stress scenarios, bolstered by the substantial level of capital consistently generated by its in-force book. Moreover, the wholesale nature of Rothesay's business affords the group with considerable flexibility in adjusting its new business volumes to manage its capital position effectively. The group's private ownership structure also allows for greater flexibility regarding future dividend payments.

Exhibit 7
Solvency sensitivities as of YE24



Source: Company Reports, Moody's Ratings

Profitability and Efficiency: Continued strong economic performance, but IFRS17 earnings expected to be volatile
We believe Rothesay's profitability and capital generating capabilities are very good, bolstered by consistently robust margin on BPA transactions.

However, owing to Rothesay's rapidly expanding annuity portfolio and the sensitivity of annuity earnings to financial market movements under IFRS17, we expect the group's reported net income, and consequently return on capital, to exhibit some volatility in the years ahead. Furthermore, the group's focus on lumpy annuity business, coupled with the tendency to source matching assets post-execution of BPA deals, can lead to an initial negative impact on operating profitability.

In evaluating the Group's profitability, we also consider the Group's Contractual Service Margin (CSM), a measure of Rothesay's future earnings reserves, and capital generation capabilities under the UK's solvency regime. Thanks to the Group's already substantial annuity book, we expect capital generation, relative to Solvency own funds, to remain robust (Exhibit 1).

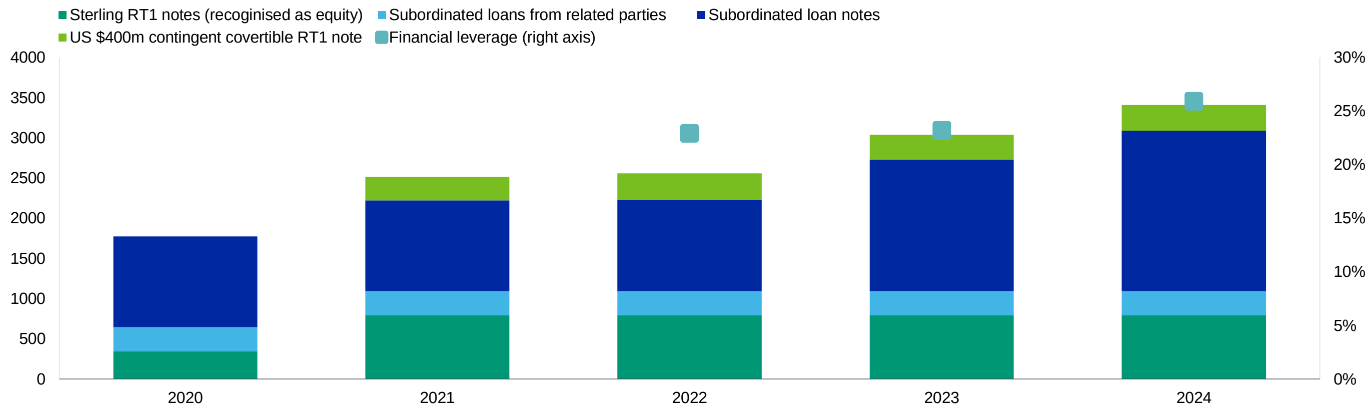
Liquidity and Asset-Liability Management: Very strong liquidity and ALM capabilities
Rothesay's liquidity benefits from its illiquid annuity liabilities and sources of liquidity such as money market funds, liquid government and corporate bonds, and its committed revolving credit facility. The use of derivatives and resulting collateral calls is the most material driver of liquidity risk for Rothesay but the Group has a robust liquidity management framework and maintains liquidity buffers to withstand stress sensitivities.

The Group's ALM benefits from its holistic and fully integrated ALM technology, which enables it to monitor its key financial metrics on a real-time basis and interest rate risk is reduced by the very close matching of assets and liabilities in the Group's annuity portfolio and the use of swaps and swaptions.

Financial Flexibility: Established access to capital markets, bolstered by long-term institutional shareholders
Although the Group is not listed, Rothesay has proven its effective access to external debt markets, having successfully issued Tier 2, Tier 3 and Restricted Tier 1 notes in recent years. We expect Rothesay will continue to benefit from the sustained and long-term support from its two primary institutional shareholders, both of which have substantial financial resources and in our view are ready to commit additional capital to support business growth as they have done over recent years.

Since 2020, the group's financial debt obligations have increased materially (Exhibit 8). However, this has been largely counterbalanced by a considerable expansion in the group's equity base. We expect that the group will maintain comfortable financial leverage levels going forward. In our view, Rothesay's repayment/refinancing schedule is also manageable, including the refinancing of group's £250 million Tier 2 subordinated loan, which matures in 2025.

Exhibit 8
Breakdown of financial debt (incl Sterling RT1) development (£m)



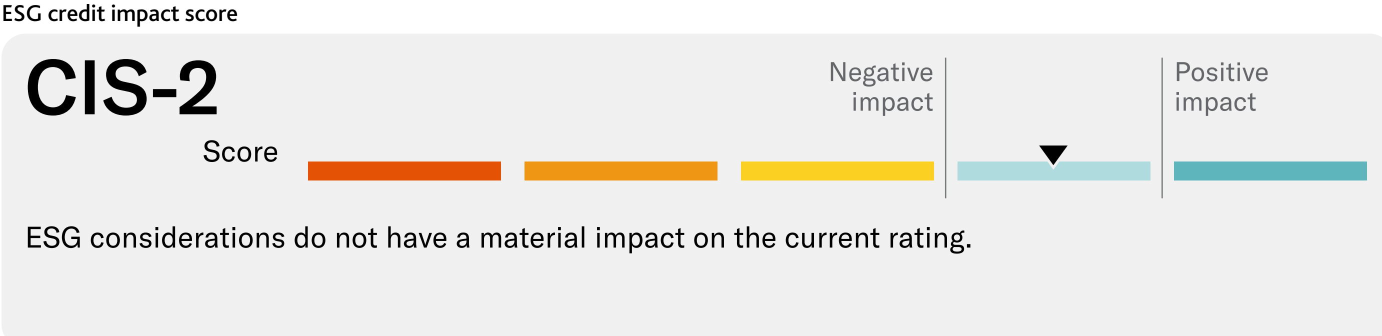
Source: Company Reports, Moody's Ratings

Given the volatility in the group's reported earnings, we believe that Rothesay's earnings coverage of interest may not fully encapsulated its capacity to service its debt obligations. Consequently, we also consider interest expenses relative to the capital generated by the group's in-force book, which has been, and is expected to remain, robust.

ESG considerations

Rothesay Limited's ESG credit impact score is CIS-2

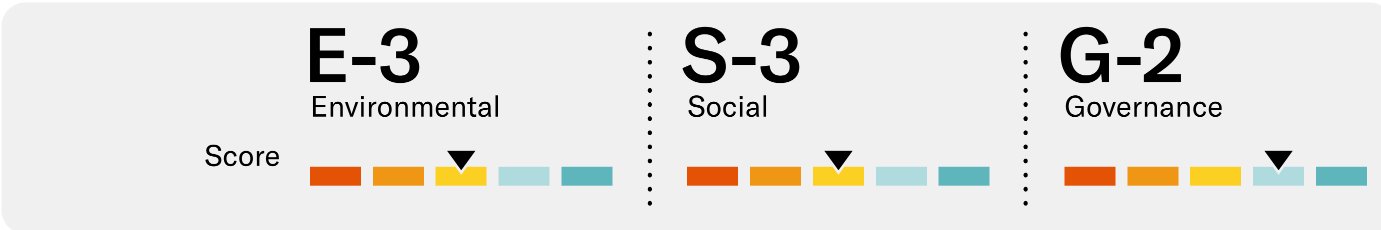
Exhibit 9
ESG credit impact score



Source: Moody's Ratings

Rothesay's **CIS-2** indicates no material impact of environmental social and governance factors on the rating. The group's strong risk management, effective governance and strong capitalization partially mitigate its environmental and social risks, in particular carbon transition and customer relations risks.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental
Consistent with most life insurers, Rothesay faces moderate exposures to carbon transition risk through the long-duration assets held in its investment portfolio and inherent asset leverage. Stakeholder focus on environmental stewardship in its investment portfolio also gives rise to strategic and reputational risks. Rothesay is actively engaging in further developing its comprehensive risk management and climate risk reporting frameworks, and increasing the alignment of its business with the transition to a low-carbon economy. Rothesay has a small indirect exposure to physical climate risks with its real estate investment portfolio, including equity release mortgages, exposed to natural catastrophe risks.

Social
Rothesay faces moderate social risks. Rothesay's exposure to customer relations risk is somewhat lower compared with more diverse life insurance peers given that it does not sell insurance products directly to retail customers, although it does interact with, and provides services to individuals. Demographic and societal trends can make the operating environment more difficult, however aging populations and social issues are also creating business and investment opportunities for Rothesay. Cyber and personal data risks are high for the sector but mitigated by the group's strong technology framework.

Governance
Rothesay faces low governance risks. Its risk management, policies and procedures are in line with industry best practices and the group has a clear financial strategy and well defined risk management framework. There are risks, associated with the concentration of ownership. Concentrated ownership has not so far translated into governance concerns due to Rothesay's robust risk management, and a stable, seasoned and independent Board. The strong and diversified Board has also supported the management team, which has steadily grown the company and established Rothesay as a leading UK bulk annuity specialist. Rothesay operates within a strong regulatory environment, being overseen by the UK's PRA, and has a good track record of regulatory compliance.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Structural considerations
Tier 2 and Tier 3 subordinate instruments - Baa1(hyb)
The Baa1(hyb) ratings on the group's dated subordinated notes is aligned with Moody's standard notching practice for subordinate instruments issued by an insurance operating company. The notching reflects: (i) the subordination of the notes; (ii) the weak mandatory (based on breach of regulatory capital requirements) coupon skip and redemption deferral mechanisms; and (iii) the cumulative nature of deferred coupons, in case of deferral.

Rothesay Life's Tier 2 subordinated instruments rank pari passu with one another and any future subordinated instruments issued that qualify as Tier 2 capital, and one notch below the A3 issuer rating. While the group's Tier 3 instrument is also rated Baa1(hyb), we note that it ranks in priority to all existing and future Tier 2 notes issued by Rothesay Life in case of liquidation.

Rating methodology and scorecard factors

Exhibit 11
Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Ba	Baa
Market Position and Brand (15%)								Baa	A
-Relative Market Share Ratio				X					
Distribution (10%)								Baa	Baa
-Distribution Control				X					
-Diversity of Distribution				X					
Product Focus and Diversification (10%)								B	Baa
-Product Risk						X			
-Life Insurance Product Diversification						X			
Financial Profile								Baa	A
Asset Quality (10%)								Baa	A
-High Risk Assets % Shareholders' Equity				139.3%					
-Goodwill & Intangibles % Shareholders' Equity				43.9%					
Capital Adequacy (15%)								Baa	A
-Shareholders' Equity % Total Assets				4.8%					
Profitability (15%)								A	A
-Return on Capital (5 yr. avg.)			4.3%						
-Sharpe Ratio of ROC (5 yr.)									
Liquidity and Asset/Liability Management (10%)								Aaa	Aa
-Liquid Assets % Liquid Liabilities	X								
Financial Flexibility (15%)								Ba	A
-Financial Leverage			25.9%						
-Total Leverage				38.1%					
-Earnings Coverage (5 yr. avg.)					0.1x				
-Cash Flow Coverage (5 yr. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								Baa2	A2
Other Considerations									
Management, Governance and Risk Management									
Accounting Policy & Disclosures									
Sovereign & Regulatory Environment									
Standalone Scorecard-indicated Outcome									A2
Support									
Nature and Terms of Explicit Support									
Nature and Terms of Implicit Support									
Scorecard-indicated Outcome									A2

[1] Information based on IFRS17 financial statements as of fiscal year ended December 31, 2024. 5-year ratios calculated using only those years for which IFRS17 data are available. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: Moody's Ratings

Ratings

Exhibit 12

Category	Moody's Rating
ROTHESAY LIMITED	
Rating Outlook	STA
LT Issuer Rating	Baa1
ROTHESAY LIFE PLC	
Rating Outlook	STA
Insurance Financial Strength	A2
LT Issuer Rating	A3
Subordinate	Baa1(hyb)
Senior Subordinate	Baa1(hyb)

Source: Moody's Ratings

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