Financial review

“2023 was a year of execution. Alongside delivering our strategic agenda, business performance was robust.”

Simon Woods
Group Chief Financial Officer

Financial review continued

Our underlying business perfomance was largely in line with expectations. Our transformation and deal on-boarding programmes delivered in-line with budget. The quality of our investment portfolio remained very high but the pace of asset rotation was slower than expected. Our balance sheet is well-capitalised, we expanded our business, and we remain confident about our opportunities for further growth in our target markets. Our strong financial position enabled us to pay a dividend of $240m, up from $165m in 2022.

$6.75bn adjusted book value

$3bn capital raised

$240m dividend

A solid financial performance

Risk underwriting, managing our capital position and our costs and earnings from our active investment rotation programme drive the Group's underlying performance. Over the year we generated cash in line with our plans, despite not rotating our assets into new asset classes as fast as we had 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 there were fewer attractive investment opportunities, especially for higher-yielding private assets; we remain focused on this for the year ahead.

Our operating expenses were slightly higher than anticipated. Our separation and digitial transformation programmes remain on track and we continue to invest in growing our business. Cost management is a priority area for 2024.

Our capital position is robust. We increased our borrowings by $1bn to fund our growth, with $750m of new bank debt, and raised our revolving credit facility by a further $250m. Under the Bermuda Solvency Capital Requirement, our Group solvency ratio is 181%. We have 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.

Our new dividend policy

With our new shareholder structure in place, we changed our dividend policy in 2023. We now pay out 50% of cash generated. This will significantly increase the dividend we are able to return to our shareholders, while still providing the Group with capital to grow.

Outlook

Heading into 2024, we are seeing more optimism in the capital markets. Inflation is easing and we expect the interest rate cycle to have peaked, which is positive for our asset rotation. Continued regulatory change, particularly in Bermuda, is likely to present a slight headwind to the business, but overall, we are confident about our financial prospects.

Simon Woods, Group Chief Financial Officer

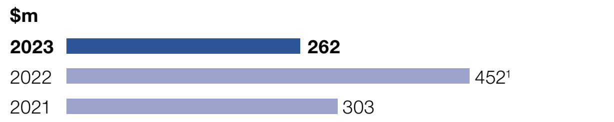
Accounting changes following the Blackstone partnership

From an accounting perspective, the partnership with Blackstone was a 'change-in-control event', requiring the establishment of new bases for our assets and liabilities, based on their fair values. The step-up to fair value is known as Purchase GAAP accounting. Applying purchase accounting had a positive effect on our shareholder's equity position, taking it from $(3.5)bn to $6.1bn on the date of the transaction.

Financial review continued

Adjusted operating earnings

Adjusted operating earnings decreased by 42% to $262m (2022 $452m[1]), 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[1]). 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.

28% 2023

27% 2022

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.

181% 2023

180% 2022

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.

Our approach to investing

Actively managing our investments in an efficient and responsible way is a crucial part of our business model. It ensures that we fulfil our purpose of protecting financial futures, paying out claims to our customers in their time of need.

It also enables us to maintain our high solvency levels, and provide sustainable returns to our policyholders and investors. This year we enhanced our ability to do this through our new asset management partnership with Blackstone, which leverages our global scale.

Our investment approach centres on a programme of active rotation. When completing a reinsurance transaction or acquiring a portfolio of policies, we acquire the related investment assets and liabilities. We then sell the assets, which usually comprise publicly traded corporate debt, and reinvest them on a staggered basis in a broader range of assets that offer increased returns. Our liabilities are predictable over time, so we can diversify our holdings by matching longer duration liabilities with longer duration, higher yielding assets.

Rather than doing the investments ourselves, we partner with world-class asset managers, including Blackstone, giving us greater flexibility and access to the best investment opportunities and ideas in the markets in which we operate. These investments include structured lending to people, companies and funds, and provide the capital that supports businesses and helps economies grow.

> *"We've already seen the first benefits of our partnership with Blackstone and we expect to see more as we continue the asset rotation programme in 2024."*
>
> **Karl Happe**, Group Chief Investment Officer

Our year

A key focus this year was rotating a portion of the assets in each of our three businesses to Blackstone, under the terms of our new partnership. By the end of 2023 we had made good progress, transferring $12.9bn out of an initial target of $16bn to Blackstone, and we have started to see the benefits of increased returns in certain asset classes. However, the rotation has taken slightly longer than we had planned because of the challenging macroeconomic environment. High interest rates meant that M&A and private equity activity was tepid in 2023, resulting in fewer suitable investment opportunities, especially in private assets. In the last quarter, we started to see more market activity, and with interest rates likely to have peaked, we expect to complete the initial Blackstone investment rotation plan by the end of 2024.

Other financial information

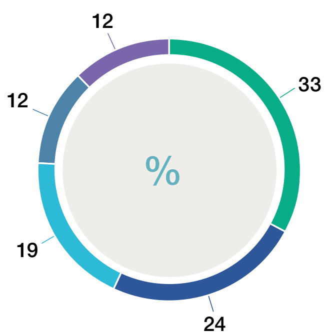
Equity

$7.6bn from c.60 investors

In 2023 we closed a $3bn equity capital raise, in partnership with Blackstone. By the end of the year, the Group had $7.6bn of commitments from c.60 investors, of which 25% were new investors.

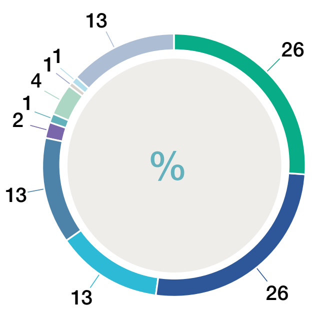
Our investor base is global and includes our partners, Blackstone and Nippon Life, as well as sovereign investment funds, superannuation funds, pension funds, asset managers, family offices, financial institutions and insurers.

Investors by geography



Region
- Asia
- Australasia
- North America
- Middle East
- Europe

Investors by type



Investor type
- Insurance Company
- Sovereign Investment Fund
- Superannuation Fund
- Govt/Public Sector
- Bank
- Asset Manager
- Family Office
- Endowment
- Fund of Funds
- Other

Source: Resolution Life Group Services

Borrowings

In 2023 the Group carried out several issuances and redemptions of regulatory capital and debt instruments:

- In March 2023, the issuance of $500m ancillary Tier 1 perpetual non-cumulative subordinated notes. In October 2023, these were subsequently converted to common equity, effected by a contribution of the note in exchange for an issuance of common equity to the new controlling entities in the transaction with Blackstone.
- In September 2023, the execution of a $1.5bn debt facility at RLGH Finance Bermuda Ltd., comprising:
  - a $750m senior unsecured term loan maturing in September 2028
  - a $750m committed revolving credit facility maturing in September 2028 (currently undrawn), which replaced the existing $500m RLGH Finance Bermuda Ltd. revolving credit facility maturing in December 2026
- In October 2023, the redemption of $125m preference shares (of which $100m was treated as regulatory capital) at Resolution Life U.S. Intermediate Holdings Ltd as a result of the transaction with Blackstone.

Other financial information continued

As a result, we have the following regulatory capital and debt instruments outstanding:

Regulatory Capital:

- A$300m Tier 2 instrument issued by Resolution Life Australasia with a legal maturity of 2035 and a first call in 2025
- $123m Surplus Notes issued by Security Life of Denver Insurance Company with a legal maturity of 2036 and a first call in 2026

Debt Instruments:

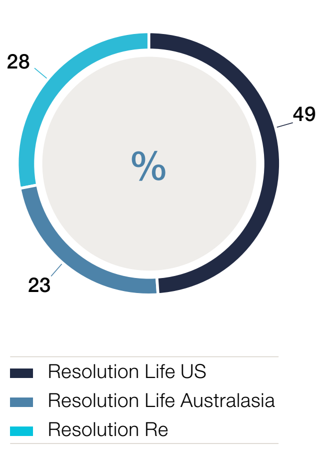
- $750m senior unsecured term loan at RLGH Finance Bermuda Ltd maturing in December 2025
- $750m senior unsecured term loan at RLGH Finance Bermuda Ltd maturing in December 2026
- $750m senior unsecured term loan at RLGH Finance Bermuda Ltd maturing in September 2028
- $750m committed revolving credit facility at RLGH Finance Bermuda Ltd maturing in September 2028 (currently undrawn)
- A$100m committed revolving credit facility at Resolution Life NOHC Pty Ltd maturing in December 2024 (as of 31 December 2023 it was $A35m drawn)

Current trading

In February 2024, we announced that Resolution Re had entered into a flow reinsurance agreement with a new cedant: a Japanese insurer. The transaction is the first flow reinsurance arrangement for the cedant and aims to provide increased capacity and greater product competitiveness, enhancing the offering to the cedant's fixed annuity policyholders. This is a solution that Resolution Life is well placed to scale further in response to the needs of the primary life insurance industry in Asia and the US.

In April 2024, Resolution Life Australasia entered into an agreement with Suncorp Group to acquire its New Zealand life insurance company (subject to regulatory approvals), Asteron Life New Zealand. This gives us significant scale and capability in the New Zealand market, and increases our market presence.

Reserves by platform



Reserves by product type