



RATING ACTION COMMENTARY

Fitch Affirms Wilton Re's Ratings; Outlook Stable

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Fitch Ratings - New York - 24 Sep 2020: Fitch Ratings has affirmed its 'A+' (Strong) Insurer Financial Strength (IFS) ratings of Wilton Reassurance Company, Wilton Reinsurance Bermuda Limited (WREB), Wilton Re Overseas Limited, Wilton Reassurance Life Company of New York, Texas Life Insurance Company, Wilco Life Insurance Company and ivari (collectively referred to as "Wilton Re"). Fitch has also affirmed its Long-Term Issuer Default Rating (IDR) of Wilton Re Ltd. at 'A-'. The Rating Outlook is Stable.

KEY RATING DRIVERS

The affirmation with a Stable Rating Outlook reflects Fitch's expectation that Wilton Re will continue to perform in line with rating expectations despite pressures from the economic fallout stemming from the coronavirus pandemic.

Wilton Re's ratings continue to reflect its moderate business profile and strong capitalization. Fitch's view of the company's business profile considers Wilton Re's strength in the administrative reinsurance market. In recent years, the company's capitalization and financial results have generally been strong and in line with rating expectations.

Fitch views CPP Investments (CPPI) ownership of Wilton Re positively; as such, it assigns to Wilton Re's IFS rating two notches of uplift from its stand-alone credit profile of 'A-'. The ownership uplift considers the defined linkage to CPPI as a result of Wilton Re's bank credit

facilities, including change in control provisions. Additionally, Fitch believes that CPPI improves the company's financial flexibility and has demonstrated its willingness to support growth, contributing significant equity capital to finance the purchase of ivari and previously to refinance Wilton Re's excess reserve financing arrangement. Fitch views Wilton Re as a noncore subsidiary of CPPI but an important platform investment. In recent years, given its excess capital position compared to target levels, Wilton Re has returned material amounts of capital to CPPI.

Fitch views Wilton Re's capital position as strong. As of YE19, the company's Prism score was 'Very Strong', which exceeds expectations for the current rating level. As of 2Q20, capital levels in the company's U.S., Bermuda and Canadian operations remained in excess of target levels, which include a 300% RBC target in the U.S. ivari's capital levels are sensitive to equity market movements, but it is well in excess of its Canadian Life Insurance Capital Adequacy Test target due to the rebound in equity markets and a \$175 million capital contribution in 1Q20. Fitch expects degradation in Wilton Re's capital metrics over the coming periods due to downgrades in the investment portfolio but for capital to remain in line with rating expectations. Consolidated operating leverage was 15x as of YE19, which is considered high given the company's liability mix.

As of 1H20, Wilton Re's financial leverage ratio was 23%, and it declined to 21% pro forma for the repayment of \$75 million on its 364-day revolver. Holding company liquidity is strong, supported by a \$400 million dividend from WREB in 1Q20. The company entered into a fixed-rate swap that reduced its annual interest expense on its revolving credit facility, which expires in 2023. Additionally, the company's senior notes convert from fixed to floating in 2023. Annual interest expense currently totals \$24 million, and fixed-charge coverage is viewed as strong.

Fitch ranks Wilton Re's business profile as moderate compared with those of all other life insurance companies, which considers its experience and strong position in acquiring runoff blocks and moderate diversification. Given this ranking, Fitch scores Wilton Re's business profile at 'a-' under its credit factor scoring guidelines. While the company is smaller than most peers, it possesses a strong competitive position and solid track record in its core market of acquiring runoff blocks.

Fitch considers Wilton Re's profitability to be strong. Return metrics deteriorated in 2019 yoy due to less favorable mortality and increased long-term plan incentive compensation expense, with an ROE of 8%. Returns are expected to decline in 2020 as a result of less favorable investment returns and elevated mortality, which are expected to be somewhat offset by favorable morbidity and longevity experience. ivari's reported earnings have been

volatile due to the mark-to-market Canadian accounting regime and assumption updates. ivari's expected pre-tax run-rate earnings are approximately CAD110 million. ivari recorded a loss in 1H20, driven by the adverse equity markets in March and resulting increases in reserves.

Wilton Re's investment risk has increased in recent years and exceeds similarly rated peers. Risk asset levels are expected to increase further in 2020 and beyond, reflecting downgrades in the portfolio and the company's continued strategic asset allocation program that includes further increases in its high-yield allocation and private equity exposure. Bond portfolio quality is considered average in the U.S., with 95% of bonds rated investment grade as of 1H20. At 5% of invested assets, the company's collateralized loan obligation (CLO) exposure is considered above-average, a material proportion of which are below investment grade. Fitch's coronavirus rating case analysis suggests material investment losses within the company's portfolio, but this is viewed as manageable in the context of the company's capital position.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's rating case assumptions with respect to the coronavirus pandemic. Periodic updates to the agency's assumptions are possible given the rapid pace of changes in government actions in response to the pandemic and the pace with which new information is emerging on the medical aspects of the coronavirus.

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

--A material adverse change in Fitch's rating case assumptions with respect to the coronavirus impact.

--Material transactions that further alter the company's risk profile.

--A sustained drop in the company's risk-adjusted capital position that results in a Prism score below the high end of 'Adequate'.

--An increase in financial leverage to above 30%.

--A sustained decline in earnings resulting in an ROE below 7%.

--A decline in fixed-charge coverage to below 5x;

--A material decline in shareholders' equity exceeding 20% related to investment losses and market impacts.

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

--A material positive change Fitch's rating case assumptions with respect to the coronavirus impact.

--Positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profiles of both the U.S. life insurance industry and Wilton Re.

--A change in Fitch's view of Wilton Re's strategic importance to CPPI.

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>]

SUMMARY OF FINANCIAL ADJUSTMENTS

Based on information available, in several metrics, Fitch's calculations reflect financial statements prepared under U.S. GAAP for Wilton Re's U.S. and Bermuda entities and the equity method using IFRS financials for its Canadian business. The company does not produce consolidated financial statements on a single accounting basis.

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

The highest level of environmental, social and governance (ESG) credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either 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
Wilton Re Ltd.	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
Wilton Reassurance Company	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Wilton Reinsurance Bermuda	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Wilton Re Overseas Limited	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Wilton	Ins	A+ Rating Outlook Stable	Affirmed	A+ Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 25 Aug 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism U.S. Life Insurance Capital Model, v1.2.1-2019 ([1](#))

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

ivari	EU Endorsed
Texas Life Insurance Company	EU Endorsed
Wilco Life Insurance Company	EU Endorsed
Wilton Re Finance LLC	EU Endorsed
Wilton Re Ltd.	EU Endorsed
Wilton Re Overseas Limited	EU Endorsed
Wilton Reassurance Company	EU Endorsed
Wilton Reassurance Life Company of New York	EU Endorsed
Wilton Reinsurance Bermuda	EU Endorsed

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