

Research Update:

Legal & General PLC Core Operating Subsidiaries Affirmed At 'AA-'; Outlook Stable

July 29, 2019

Overview

- Legal & General's (L&G)'s leading market positions, earnings, and diversified product portfolio support its favorable business profile in the U.K. life insurance sector.
- The financial profile is constrained by a high reliance on softer forms of capital and potential uncertainty related to Brexit.
- We are affirming our 'AA-' issuer credit and financial strength ratings on L&G's core operating entities and 'A+' rating on one highly strategic subsidiary, and affirming all outstanding issues under our revised criteria (see full ratings list below).
- The stable outlook reflects our view that, over the coming two years, L&G will manage growth in annuity capital requirements at levels commensurate with its capital generation, preserving very strong capital adequacy and delivering profitability better than its peers.

Rating Action

On July 29, 2019, S&P Global Ratings affirmed its 'AA-' long-term insurer financial strength and issuer credit ratings on the core subsidiaries of Legal & General PLC (L&G), as well as our 'A+' rating on its highly strategic subsidiary. The outlook is stable. At the same time, we affirmed our ratings on all outstanding debt issued by the L&G group (see full list below).

Outlook

The stable outlook on L&G reflects our expectation that the group will continue to manage growth in annuity capital requirements at levels commensurate with its capital generation, allowing it to maintain very strong capital adequacy and maintain a balanced dividend policy and outperform its peers over the next two years.

Downside scenario

PRIMARY CREDIT ANALYST

Tatiana Grineva
London
(44) 20-7176-7061
tatiana.grineva
@spglobal.com

SECONDARY CONTACT

David J Masters
London
(44) 20-7176-7047
david.masters
@spglobal.com

RESEARCH CONTRIBUTOR

Ruchika Agrawal
CRISIL Global Analytical Center, an
S&P Global Ratings affiliate, Mumbai
ADDITIONAL CONTACT

Insurance Ratings Europe
insurance_interactive_europe
@spglobal.com

Research Update: Legal & General PLC Core Operating Subsidiaries Affirmed At 'AA-'; Outlook Stable

We may lower the ratings over the next two years if:

- Capital requirements increase materially, outpacing retained earnings and preventing L&G from maintaining capital adequacy at the 'AA' level; or
- L&G's earnings and new business profitability deteriorate consistently below our current expectations of net income of £1.5 billion and if the present value of new business premium new business margin is below 8%, notably if current capacity and pricing conditions for longevity reinsurance worsen significantly.

Upside scenario

We view the possibility of an upgrade as remote over the next two years, because it would likely depend on L&G achieving unexpected, pronounced, and profitable diversification outside of the U.K., alongside an improvement in capital adequacy.

Rationale

L&G's role as a leading annuity, protection, and asset management solutions provider in the U.K. supports our view of its very strong market position. Moreover, L&G's above-market-average operating performance, underpinned by a lower cost base than peers', supports the group's strong profitability. Based on these strengths, and the company's consistent outperformance of its peer group, we believe a 'aa-' anchor appropriately reflects the group profile.

We expect continued organic growth in L&G's core businesses and potential additional mortality reserve releases from its retirement business will generate enough capital to cover the requirements for continued growth in bulk annuities and dividends. We therefore expect L&G to maintain a level of capital consistent with the 'AA' level, and net income in excess of £1.5 billion, on the back of controlled growth and continued extensive use of longevity reinsurance over 2019-2021. Our growth forecast for capital requirements over 2019-2021 is based on our view that L&G will maintain its current market share in bulk annuity transactions for future new business, but moderated by a balanced dividend policy.

That said, in our view, the group's quality of capital includes a material amount of weaker forms of capital like hybrids and value in force. In addition, we believe that the high requirements for longevity risk under the EU's Solvency II directive make L&G somewhat reliant on the reinsurance market to maintain healthy regulatory ratios.

L&G's fixed charge coverage was 10.6x as of year-end 2018 while its financial leverage stood at 37.2%.

In 2018, L&G increased its share of investments in non-publicly-rated (internally-rated) debt securities. We note that these investments are subject to extensive risk analysis on the part of L&G's internal rating process. The increase is in line with our expectations, and results in the overall credit quality of its general account assets remaining in the 'A' range. The investment portfolio remains well diversified by geography, sector, and counterparty. Exposure to speculative-grade bonds remains modest.

L&G has strong governance in place and has followed a consistent strategy over many years that is focused on providing risk and savings solutions to meet global growth drivers, such as aging populations, welfare reforms, digitalization, and the globalization of capital markets. We believe L&G has exceptional liquidity given its available sources.

Ratings Score Snapshot

Business Risk Profile	Very strong
Competitive position	Very strong
IICRA	Low risk
Financial Risk Profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	aa-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	AA-

*The choice of higher anchor is influenced by our view of L&G's resilient competitive position as the result of being the leading annuity, protection, and asset management solutions provider in the U.K and the company's consistent outperformance of its peer group.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Full Analysis: Legal & General Group PLC, June 4, 2019

Ratings List

Research Update: Legal & General PLC Core Operating Subsidiaries Affirmed At 'AA-'; Outlook Stable

Ratings Affirmed

Legal & General Group PLC

Issuer Credit Rating	A/Stable/A-1
----------------------	--------------

Junior Subordinated	BBB+
---------------------	------

Banner Life Insurance Co.

William Penn Life Insurance Co. of NY

Legal & General Assurance Society Ltd.

Issuer Credit Rating	AA-/Stable/--
----------------------	---------------

Financial Strength Rating	AA-/Stable/--
---------------------------	---------------

Legal & General Reinsurance Co Ltd

Financial Strength Rating	A+/Stable/--
---------------------------	--------------

Legal & General Finance PLC

Senior Unsecured[1]	A
---------------------	---

[1]Guaranteed by Legal & General Group PLC.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.