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Legal & General Group PLC Core Entities 'AA-' Ratings Affirmed As Capital Position Improves Further; Outlook Stable

- Legal & General Group PLC's capital position has further strengthened under our model. We expect the group to maintain a clear excess of capital at our 99.99% confidence level over the next two years.
- The group has a high proportion of other equity-like reserves (new IFRS 17 items like the contractual service margin and risk adjustment) and hybrids in our calculation of its total adjusted capital, so we adjust its capital and earnings score down one notch. This is in line with our previous approach, when the group reported its insurance business under IFRS 4.
- We affirmed our 'AA-' long-term issuer credit and financial strength ratings on the group's core subsidiaries, our 'A' long-term issuer credit rating on holding company Legal & General Group and our ratings on the group's debt instruments.
- We also assigned our 'AA-' long-term foreign currency financial strength and issuer credit ratings to the group's core subsidiary, Legal and General Assurance Society Ltd.
- The stable outlook reflects our expectation that the group will continue to maintain capital adequacy well above our 99.95% confidence level and maintain its robust earnings performance in recent years.

LONDON (S&P Global Ratings) Sept. 25, 2024-- S&P Global Ratings today affirmed its 'AA-' long-term issuer credit and financial strength ratings on Legal & General Group PLC's (L&G's) core subsidiaries and its 'A' long-term issuer credit rating on L&G. We also assigned our 'AA-' long-term foreign currency financial strength and issuer credit ratings to the group's core subsidiary, Legal and General Assurance Society Ltd. The outlook is stable.

We expect L&G will maintain capital above our 99.99% confidence level in our risk-based capital model over 2024-2026. We expect earnings in the core businesses will generate enough capital to cover the group's continued growth in bulk annuities while increasing dividend payments

and potential share buybacks. We expect that even if the group's capital were to fall below the 99.99% confidence level, we would likely retain the 'AA-' rating provided it had a reasonable level of excess capital at the 99.95% confidence level.

While under our capital model, L&G's indicative capital position sits comfortably above the extreme stress requirement, we adjust the group's capital and earnings score negatively by one notch. This reflects L&G's reliance on forms of capital such as other equity like reserves (the contractual service margin and risk adjustment) and hybrids that we consider less strong than shareholder equity. Altogether, these types of capital make up over 80% of our calculation of the group's total adjusted capital, which is significantly higher than the majority of its Europe, Middle East and Africa-based peers.

The 'AA-' foreign currency ratings we assigned to Legal and General Assurance Society Ltd. are the same rating level as the long-term local currency ratings on the entity. We do not think there is a difference between the likelihood of L&G meeting its foreign currency obligations and its pound-denominated obligations.

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. This will allow the group to maintain significant excess of capital over our 99.95% confidence level along with a balanced dividend policy. We expect L&G will continue to outperform its peer group average over the next two years.

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

- Capital requirements increase materially, outpacing retained earnings and preventing L&G from maintaining capital adequacy above the 99.95% confidence level; or
- The company's earnings deteriorate consistently below its peers rated at the same level.

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 the U.K.

Related Criteria

- [Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy-- Methodology And Assumptions](#), Nov. 15, 2023
- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), March 2, 2022
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Insurance | General: Insurers Rating Methodology](#), 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: Principles Of Credit Ratings](#), Feb. 16, 2011

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.spglobal.com/ratings for further information. A description of each of

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[Regulatory Disclosures For Each Credit Rating Including Ratings List Table](#)

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- Models Applied, Loss, And Cash Flow Analysis Performed
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