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Research Update:

Legal & General America Group Ratings Raised To 'AA-' From 'A+' On Revision Of Group Status To Core; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

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Overview

- We consider Maryland-based life insurer Legal & General America Group as core to its parent company under Standard & Poor's group methodology, based on improved operating performance and importance to the group.
- LGA reported favorable operating performance and sales in the first half of 2011, continuing a trend of improvements over recent years, and there is evidence of a stronger link between the group and its parent.
- As a result, we raised the counterparty credit and financial strength ratings on the operating entities of LGA to 'AA-' from 'A+'.
- The stable outlook reflects that of the parent, and we expect LGA's strong competitive position, conservative investment portfolio, and strong liquidity to continue.

Rating Action

On Dec. 9, 2011, Standard & Poor's Ratings Services raised its counterparty credit and financial strength ratings on Banner Life Insurance Co. and William Penn Life Insurance Co. of NY, the operating entities of Legal & General America Group (LGA), to 'AA-' from 'A+'. The outlook is stable.

Rationale

The upgrade reflects a change in our view of LGA's group status to its ultimate parent, Legal & General Group PLC (A/Stable/A-1; L&G), given sustained convergence to core status under Standard & Poor's group methodology. The recent rebranding of LGA to establish ties to the parent and the implementation of internal solutions for funding LGA's Triple-X reserve strain support the core status. These actions provide greater clarity over L&G's ambitions in the U.S. life market. In particular, these solutions have resulted in improvements in capital efficiency and a stronger link between LGA and the group's lead operating company, Legal & General Assurance Society Ltd. (AA-/Stable/--; LGAS). In addition, the contribution of LGA to its parent in terms of both dividend payments and overall International Financial Reporting Standards (IFRS) operating profits has become significant over recent years. New business margins from LGA (on an embedded value basis) as of June 30, 2011, are the highest of the different product lines across the entire group. On a stand-alone basis, we consider that LGA has a strong competitive position, conservative investment portfolio, and strong liquidity.

We now consider LGA to be a core operation under our group methodology criteria, whereas we had previously considered it to be strategically important. As a core subsidiary of L&G, we raised the financial strength ratings on LGA by one notch to be equal with the financial strength rating on LGAS.

We consider LGA's competitive position to be strong and supportive of its stand-alone credit profile. The group has a long history and leadership position in the term life sales market in the U.S. LGA is one of the top 10 providers of term life insurance in the U.S., and a top 10 provider of ordinary life insurance. Moreover, the company is now extending its expertise to the universal life market. LGA is flexible and responsive to pricing changes, but has also maintained disciplined underwriting. In addition, it is able to fund term insurance reserve strain in a more cost-effective manner than its competitors because of its very low cost structure (essential in a commoditized product landscape).

LGA's strengths in investments, capitalization, and liquidity highlight its financial profile, which supports the core status. The group's balance sheet strength remains adequate for the rating. Its capital adequacy is redundant at the 'AAA' level, based on Standard & Poor's capital model, and the group's liquidity remains very strong because of its conservative investment portfolio. In the first half of 2011, LGA's pretax operating profits (on an IFRS basis) grew to \$81.2 million versus \$67.3 million the year before. The increase is primarily due to increased premium income and net investment income.

Outlook

The stable outlook is aligned with the outlook on L&G. The ratings on LGA are likely to reflect any change in the rating or outlook on L&G. Adverse developments in relation to Solvency II or Triple-X regulation that materially change the competitive environment or return prospects for L&G in the U.S., or a shift in L&G's U.S. strategy could prompt a change in group status and lead to a downgrade.

We expect LGA will maintain its strong competitive position, conservative investment portfolio, and strong liquidity. We expect pretax operating profits (on an IFRS basis) to increase 3% to 5% for the next two years. We also anticipate that the company will maintain its competitive position in term life product sales. We expect LGA's capitalization to remain redundant at the rating level per Standard & Poor's capital model at year-end 2011 and to remain at sustainable levels adequate for the rating in 2012, consistent with our criteria for core companies.

Related Criteria And Research

- Group Methodology, April 22, 2009

Ratings List

Upgraded

	To	From
Banner Life Insurance Co.		
William Penn Life Insurance Co. of NY		
Counterparty Credit Rating		
Local Currency	AA-/Stable/--	A+/Stable/--
Financial Strength Rating		
Local Currency	AA-/Stable/--	A+/Stable/--

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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