

U.K. Insurers: Steering Through A Chaotic World

November 18, 2020

Key Takeaways

- Despite the remaining uncertainty about how the COVID-19 pandemic will evolve, and the potential for an abrupt switch to a bare-bones trade agreement with the EU after Brexit, we see broadly stable trends for the U.K. insurance industry in 2021.
- The industry's strong capital adequacy should be sufficient to help it weather the short-term effect of the insurance or investment losses arising from these events.
- Although we expect insurers' top lines and earnings to recover during 2021-2022, our assumptions remain sensitive to prolonged lockdowns and further disruptions in investment markets. Most U.K. insurers are rated in the 'A' category and have stable outlooks, indicating that we do not expect a rating action within the next two years.

Although S&P Global Ratings anticipates that profitability at rated U.K. insurers will be dented in 2020 (as detailed in table 2 of the appendix) across the industry we expect profitability to normalize in 2021 and that the impact on ratings will be limited. There is still uncertainty regarding the evolution of the pandemic, and the U.K.'s abrupt switch to a bare-bones trade agreement with the EU from Jan. 1, 2021.

In our view, insurers' investment exposure to pandemic-fueled market volatility will remain their main source of loss. We regard insured losses from the pandemic in 2020 and 2021 as an earnings event for the industry, rather than a capital event. In September, the Association of British Insurers (ABI) estimated COVID-19-related industry losses for the U.K. insurance industry (excluding Lloyd's) would be £1.7 billion. Based on this, and ABI's industry data, we estimate that in 2020 pandemic-related claims--for example, for business interruption, travel insurance, and contingency type policies--could add 6%-10% percentage points to the loss ratios of non-life insurers (excluding Lloyd's and the London market).

Life insurers were relatively unaffected by pandemic claims. They received 7,000 COVID-19-related life insurance claims and paid out £90 million; this equates to about 0.04% of the total claims incurred by the life insurance industry in 2018, the latest year for which ABI data is available.

Despite an abundance of downside risks, U.K. insurers have proven their resilience during the first wave of the COVID-19 pandemic. Financial markets have also recovered significantly from the depths they reached in March and April 2020, blunting the impact on profitability and capitalization of their initial plunge. As a result, investment returns and the value of investments

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are unlikely to weigh materially on U.K. insurers' earnings or capitalization levels in 2020 or 2021.

As our key metrics forecasts in table 2 show, we expect top lines and earnings to recover during 2021-2022. That said, our assumptions remain sensitive to prolonged lockdowns and further disruptions in investment markets. S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

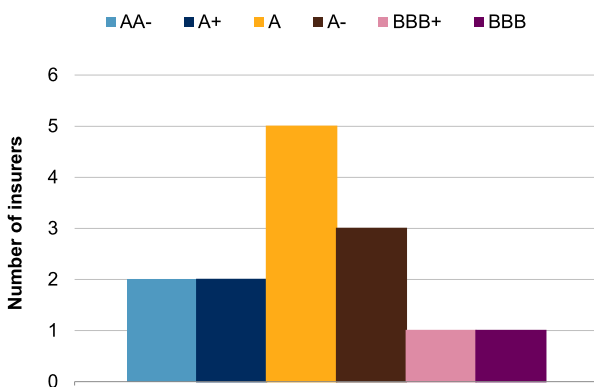
Brexit remains a source of uncertainty--a basic no-tariff deal between the U.K. and the EU after the Brexit transition period ends on Dec. 31, 2020, may weigh on the country's economic recovery. We anticipate that outlook revisions, rather than widespread downgrades, would be more likely to occur within the U.K. insurance sector, in the event of a no-deal or bare-bones deal that may hinder economic recovery.

Material capital buffers and prudent investment exposures have helped insurers to weather the impact of financial market dislocations earlier this year, unexpected claims payouts, and weaker macroeconomic conditions. Discretionary dividend suspensions and debt raises have also helped shore up capital and liquidity positions.

S&P Global Ratings rates 14 U.K.-based insurance groups, of which 12 are rated 'A-' or higher and all but two have a stable outlook. This supports our view that creditworthiness in the market as a whole is stable. Most entities have robust capital buffers and solvency positions.

Chart 1

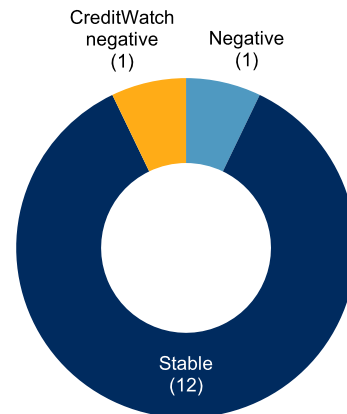
Financial Strength Ratings For U.K. Insurers Are Primarily In The 'A' Range



Data as of Nov. 10, 2020. Source: S&P Global Ratings.
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Chart 2

Most U.K. Insurers Have A Stable Outlook



Data as of Nov. 10, 2020. Source: S&P Global Ratings.
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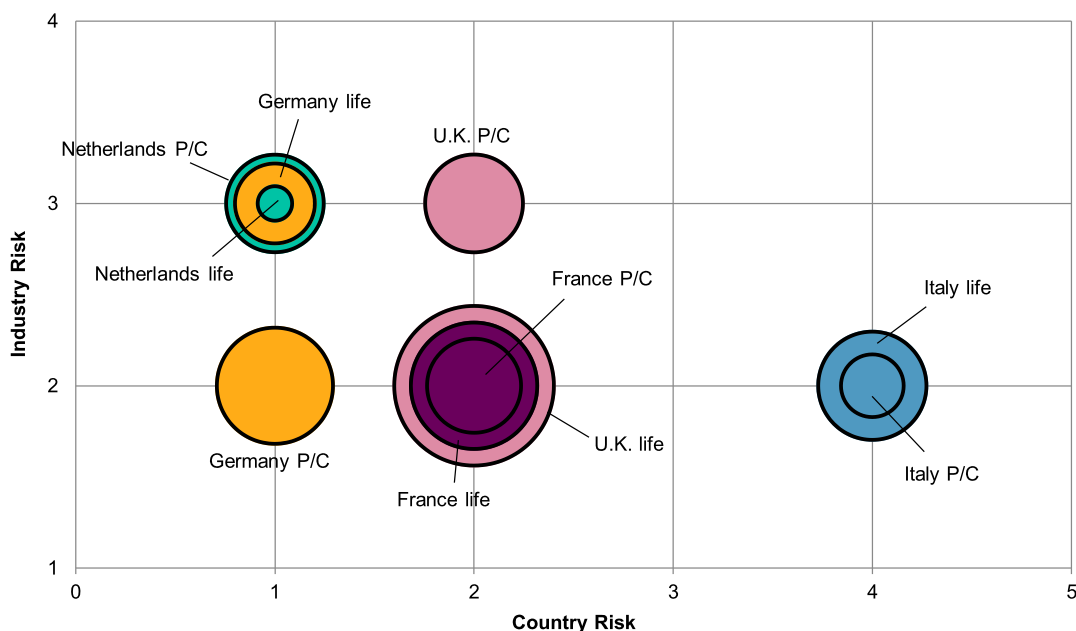
Trial By Storm For Property/Casualty Underwriters

We expect that the U.K. property/casualty (P/C) industry's overall level of profitability will be tested in 2020, undercut by storms, COVID-19 claims, financial markets volatility, and the recessionary environment. Profits in 2021 should be more resilient, despite ongoing uncertainty regarding the pandemic and the changes after Brexit. Insurers are likely to concentrate ever more closely on underwriting profitability.

Early in 2020, three storms occurred in quick succession: Ciara (Feb. 8-9), Dennis (Feb. 15-16), and Jorge (Feb. 28-29). The sustained periods of heavy rainfall caused widespread flooding across much of England and Wales, and flooded about 4,000-5,000 properties. It was a difficult start to the year for insurers, with significant flooding hitting large parts of the country. Early estimates of the claims from these events were around £360 million--we estimate that these events, combined, represent a 1-in-10-year event.

Chart 3

Selected Insurance Industry And Country Risk Assessments Ranging from group '1' (lowest risk) to group '6' (highest risk)



Bubble size shows estimated size of market in 2019, by USD gross premium written. Data as of Oct. 31, 2020.

P/C--Property/casualty. Sources: Swiss Re sigma No 4/2020, "World insurance: riding out the 2020 pandemic storm"; DNB; GDV; S&P Global Ratings.

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Since then, the advent of COVID-19 has brought with it further bad news and additional claims for U.K. P/C writers. Most players have reported manageable short-term losses due to the pandemic. For example, at the end of the first half of the year, reported pandemic-related claims, net of reinsurance, totaled £195 million at Aviva PLC and £110 million at Royal & Sun Alliance Insurance PLC (RSA). Results from the Lloyd's of London insurance market aggregate those of more than 90

syndicate members. The market reported pandemic-related claims of £2.4 billion, adding 18.7% percentage points to its overall combined ratio of 110.4% in the first half of 2020. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Lloyd's estimates that total losses will ultimately reach £3.0 billion, including further losses arising from event cancellation and credit. Hiscox Insurance Co., one of Lloyd's syndicates, reported a \$232 million loss at the end of the first half of 2020.

COVID-19-related losses may lag, affecting more than just the 2020 results, because some policies written before the pandemic will remain on-risk into 2021 and any reported losses will hit insurers' results next year. In addition, the Prudential Regulation Authority's recent review on reserving and exposure management highlighted evidence that reserves were weakening before the pandemic. These factors, combined with the uncertainty and complexity of estimating ultimate losses connected to the pandemic may keep loss ratios for P/C insurers elevated in 2021.

The recent court ruling regarding the Financial Conduct Authority's (FCA) test case presented business interruption underwriters with an additional, if manageable, challenge. As of September 2020, RSA estimated that its extra costs, net of reinsurance, would be less than £85 million, or £104 million on a gross basis; Hiscox estimated that its extra costs, net of reinsurance, would be less than £100 million. The FCA's Supreme Court appeal hearing started on Nov. 16, 2020, and no decision is expected for some weeks. We believe the final ruling in favor of the policyholders will not dent the capitalization of those U.K. players affected.

Conversely, lockdowns and extended periods of working from home and social distancing have reduced car journeys by around two-thirds and are expected to result in lower motor claims. Home and property insurance claims will also decline because the reduction in unattended residential properties has led to lower burglary levels, supporting underwriting results.

The FCA's recent proposal on pricing of motor and home insurance policies may also compress margins, in the short term. The proposal would prevent insurers from gradually increasing renewal pricing to consumers over time (known as "price walking"). The FCA estimates that the policy would save consumers £3.7 billion over 10 years. However, we expect the market will react quickly to the changes by increasing prices on new business. This would limit the impact of the change on underwriting earnings and profitability, in our view. For the groups we rate that write U.K. home and motor business, these lines are part of diversified product offerings, which will reduce the impact on profitability further.

U.K. Life Insurers Will Endure, Despite An Abundance Of Downside Risks

We anticipate that U.K. life insurers will outlast the current environment without a deterioration in their capital and financial positions. That said, the industry could take an economic and financial hit from the combined effect of the COVID-19 pandemic and Brexit. The potential implications prompted us to revise down our estimated growth and profitability for the industry in 2020.

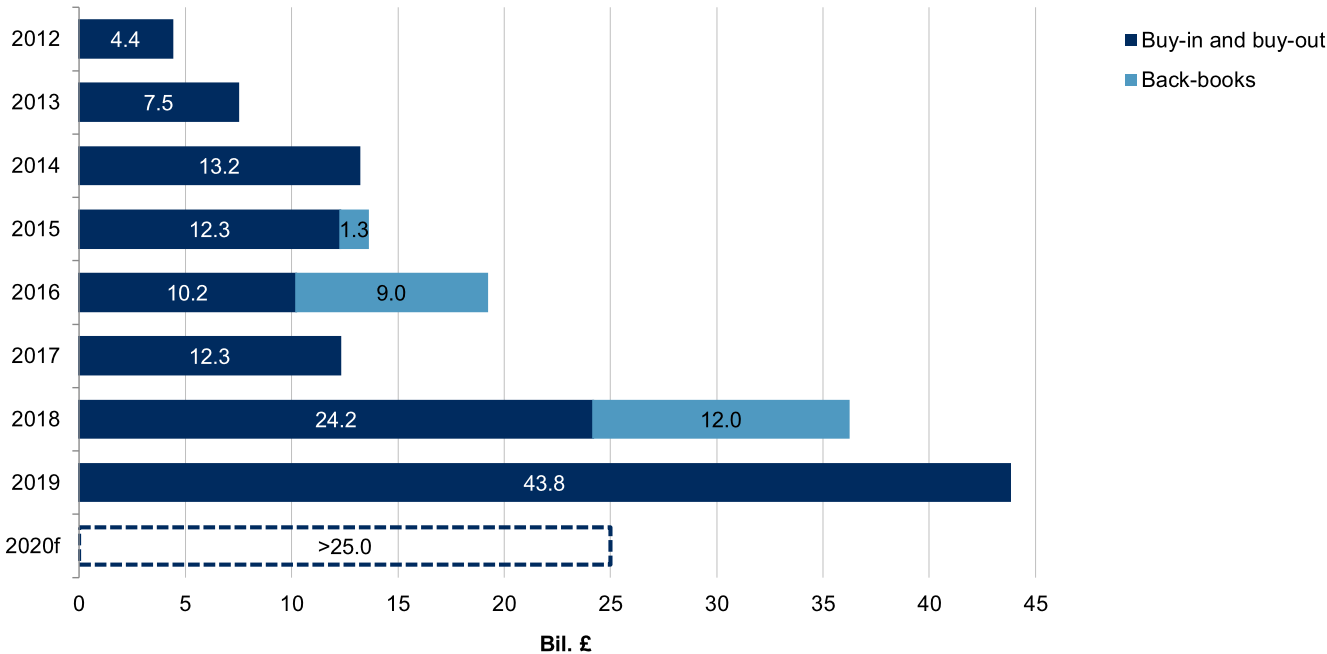
In 2019, the industry reported a record £43.8 billion in bulk annuities deals, after strong years in 2018 (£24.2 billion) and 2017 (£12.3 billion). As of the first half of 2020, buy-in and buy-out deals worth £12.6 billion had been written, mainly from three players: PIC Insurance Group Inc., Aviva PLC, and Legal & General Group PLC (L&G) (source: Lane Clark & Peacock LLP, "Pensions De-Risking Report 2020," October 2020) and we expect deals written by year-end to total more than £25 billion.

Although the U.K. equity release mortgage sector is only a small part of the overall life industry, it has also witnessed a resurgence in recent years. The sector has almost quadrupled in the past

decade. It unlocked value of £3.92 billion in 2019, far higher than the £945.97 million it unlocked in 2009.

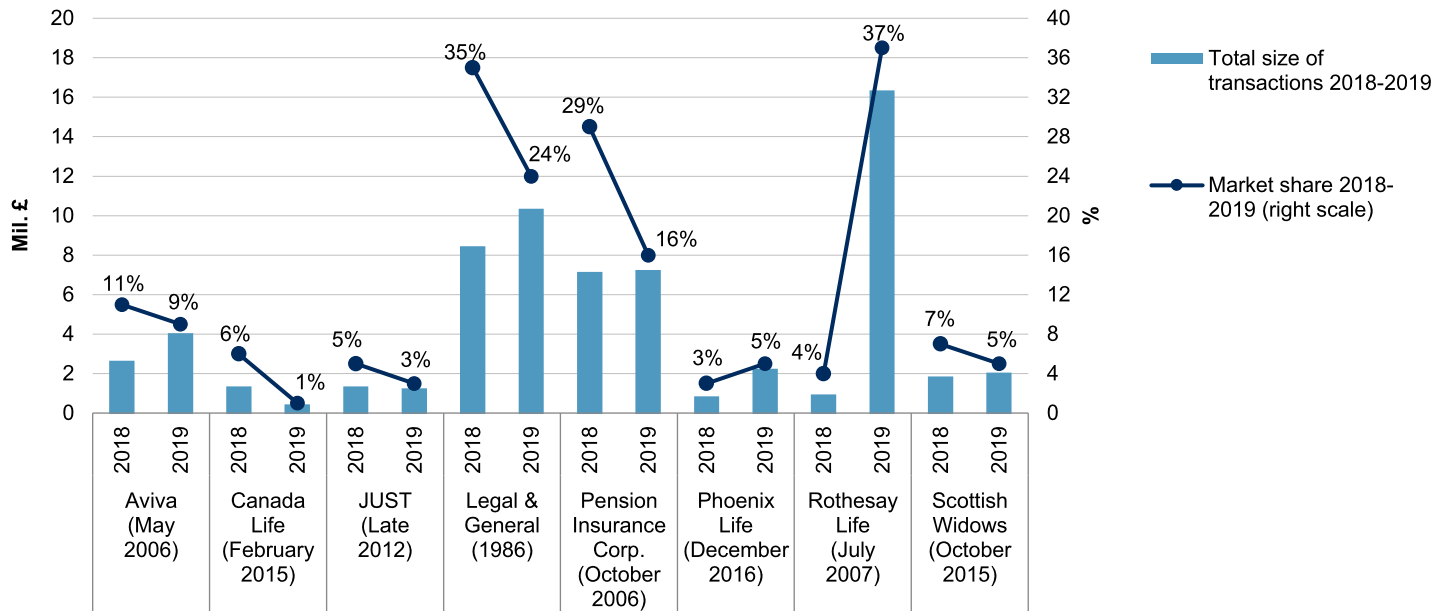
Chart 4

Market Activity: Buy-In, Buy-Out, And Annuity Back-Book Volumes



f--Forecast. Source: "LCP pensions de-risking update" by Lane Clark & Peacock LLP, October 2020.
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Chart 5

Buy-In And Buy-Out Volumes By Insurer

Percentages capture market share. Date in parentheses represents when the issuer began actively participating in bulk annuities business. Source: Lane Clark & Peacock pensions de-risking report, August 2020. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

The U.K. Faces A Steep Climb To Recovery

COVID-19 has thrust world economies into an uncertain and tumultuous environment. The U.K. authorities have deployed a range of fiscal, monetary, and regulatory tools to mitigate the economic fallout of the nation's sharpest recession to date. We project that the U.K. economy will contract by 9.7% in 2020, before growth rebounds to 7.9% in 2021.

Modest growth expectations in 2022-2024 mean that the economy will operate below pre-pandemic levels until at least 2024. However, fresh restrictions to keep the emerging second wave of COVID-19 infections in check, combined with an abrupt switch to a bare-bones trade agreement with the EU in 2021, are likely to curb the recovery's momentum (see "Economic Research: The Second Wave And Brexit Will Test The U.K. Recovery," published on Oct. 1, 2020).

The shift to a new post-Brexit regime will occur when the economic recovery from the pandemic is still fragile. Our base-case assumption is that the EU and U.K. will negotiate a core free trade agreement similar to the one Canada has with the EU, and start trading under this new regime after the transition period ends. However, the onset of the pandemic has presented the U.K. government with more pressing challenges. It is not yet clear whether a favorable U.K.-EU trade deal will be negotiated in time.

Under our base-case scenario, we do not anticipate that U.K. insurers' business risk profiles will

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see major changes after the U.K. leaves the EU. Most insurers have already incorporated subsidiary companies within the European Economic Area (EEA) to facilitate their transitions to a post-Brexit world.

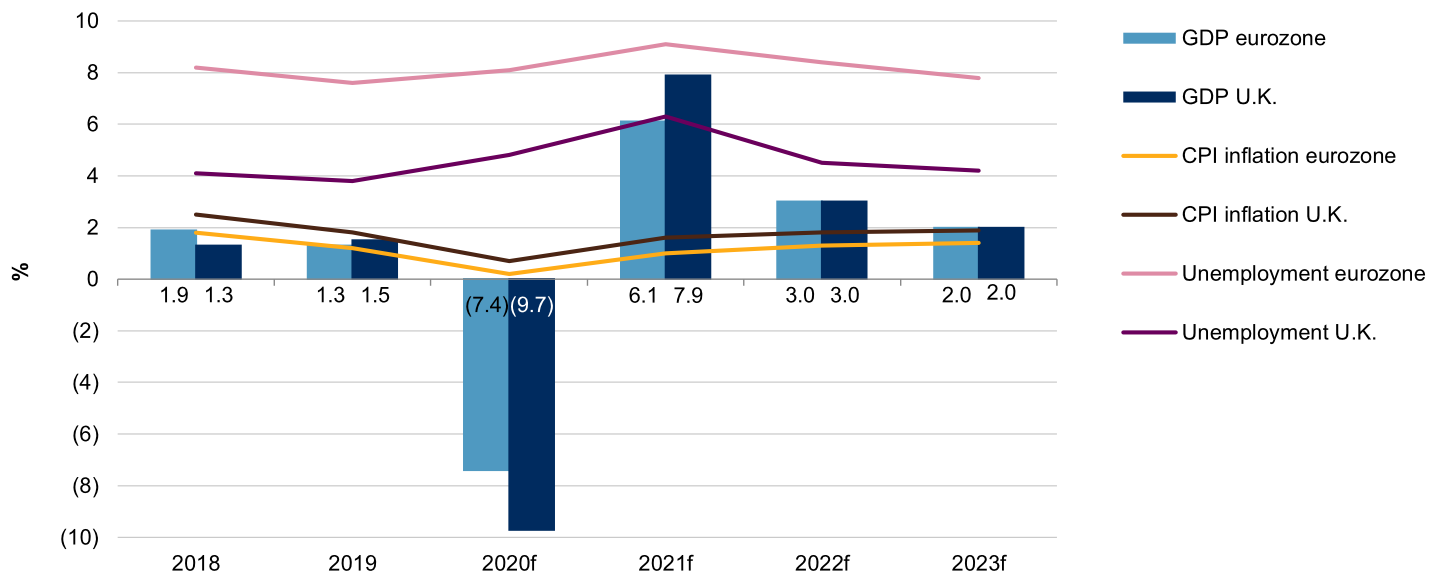
If we lowered the long-term sovereign credit rating on the U.K. then we would review whether the ratings on Aviva PLC, L&G Group PLC, and Prudential PLC were resilient to our sovereign stress scenario. If we lowered the long-term rating on the U.K., we could also impose additional capital requirements in our capital model because of the potential lower credit quality of insurers' bond portfolios. A sovereign downgrade could also have long- and short-term effects on financial markets, such as increased equity volatility and collateral requirements or reduced liquidity.

The U.K.'s FCA is also preparing for all scenarios related to Brexit to minimize disruption, such as allowing firms to continue to access U.K. and EU trading venues in the absence of mutual equivalence. Chancellor of the Exchequer Rishi Sunak announced on Nov. 9, 2020 that the U.K. would be granting a package of equivalence decisions to European Economic Area states, including the EU states. These will allow non-U.K. companies to operate in the U.K. immediately after the transition period--that is, when passporting ends on Dec. 31, 2020--without causing any disruption to their businesses.

That said, if no deal is agreed between the EU and the U.K., the long-term implications for the U.K. economy could threaten income levels, growth prospects, government finances, external financing prospects, and financial markets. These important effects may have ripple effects for the insurance industry, which is correlated with economic developments.

Chart 6

S&P Global Ratings European Economic Forecasts October 2020



CPI--Consumer price index. f--Forecast. Source: S&P Global Ratings

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M&A In The U.K. Insurance Industry Will Continue

The U.K. insurance market remains mature and developed, and most changes to it stem from major merger and acquisition (M&A) activity, or immediate disruptors.

In our view, the ongoing cost pressure, in a competitive environment, combined with the need for technological innovation and the search for synergies and economies of scale, is driving a surge in M&A in the U.K. insurance markets (see table 8 in the appendix).

A few smaller, bolt-on transactions have already taken place, or are being completed despite the pandemic and the fragile global economy. In addition, some large-scale transactions could yet take place in 2020, such as those involving Liverpool Victoria Financial Services Ltd., Aviva, and RSA. All these groups are either undergoing a strategic review of their operations or are in transactional talks with potential counterparties. For more information, see:

- Aviva PLC's French Subsidiaries Downgraded To 'A+'; Outlook Negative; All Other Ratings Affirmed With Stable Outlook, published on Sept. 16, 2020
- Bulletin: The Outcome Of U.K. Insurer LVFS' Ongoing Strategic Review Will Be A Significant Rating Consideration, published on Oct. 5, 2020
- RSA Insurance Group PLC Ratings Placed On CreditWatch Negative On Potential Acquisition By Consortium, published on Nov. 9, 2020

Most bolt-on acquisitions or disposals have a neutral effect on our assessment of an insurer's business risk profile and rating. Larger scale transactions are assessed individually.

The Pandemic Proved Capital Buffers Were Resilient

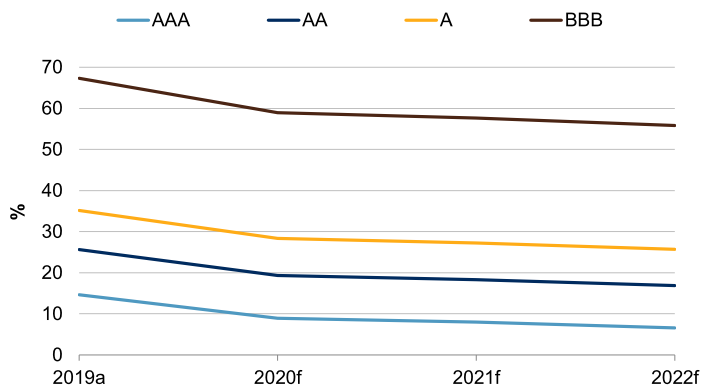
The U.K. insurance sector entered 2020 with healthy technical margins and robust capital positions. On Dec. 31, 2019, overall capital for our rated U.K. portfolio, measured using our capital model, exceeded the expected threshold for the 'AAA' level by 15%, the 'A' level by 35%, and the 'BBB' level by 67%. We forecast that the industry will continue to exceed these thresholds until 2022, but by a sparser margin.

When we compare U.K. life and non-life players, we see stark differences in the capital adequacy levels they maintain. At the 'AAA' level, life insurers held average redundancies of 24%, while non-life players held just 3%. Despite this difference, we consider the sector's capital buffers will be sufficient to withstand the fallout from losses related to the pandemic as well as Brexit and the macroeconomic disruptions resulting from these events over the short-to-medium term.

We applied a stress test to help us judge the resilience of U.K. insurers' capital positions. Under the scenarios we ran, we estimate that 40% of the U.K. insurance industry's capital buffer entering 2020 could be wiped out. Ratings migration was the largest single factor in consuming the buffer (see "Down But Not Out: Insurers' Capital Buffers Are Proving Resilient In The Face Of COVID-19, Sept. 22, 2020).

Chart 7

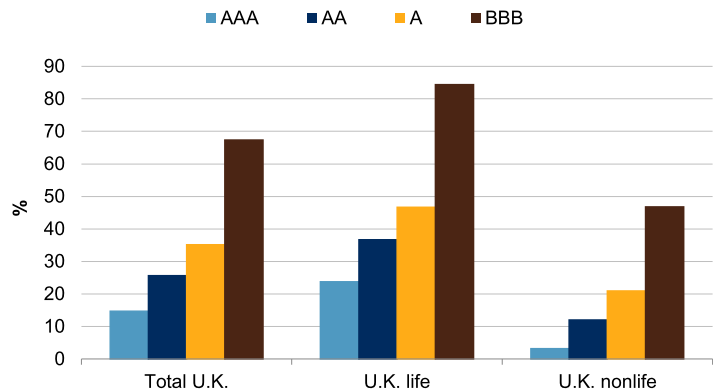
U.K. Rated Insurers' Capital Adequacy By Confidence Level



Data as of year end 2019. a--Actual. f--Forecast. Source: S&P Global Ratings.
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Chart 8

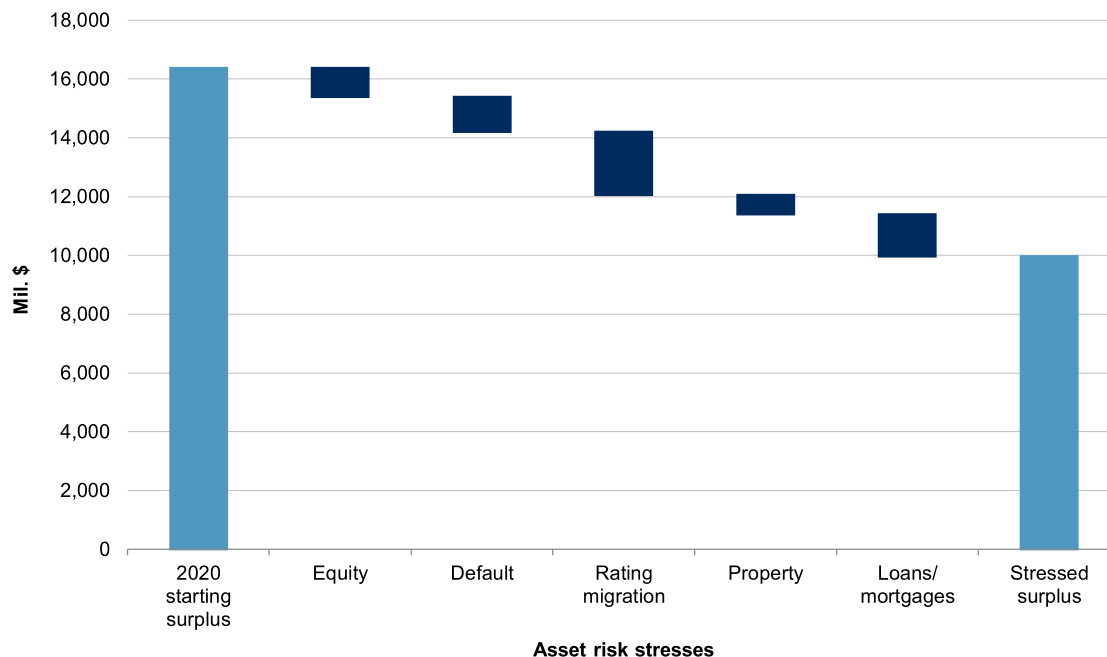
U.K. Insurers' Capital Adequacy By Segment



Data as of year end 2019. Source: S&P Global Ratings.
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Chart 9

U.K. Insurance Industry Stressed Capital Buffers Remain Robust Under Our Stresses Rating migration risk is the most significant



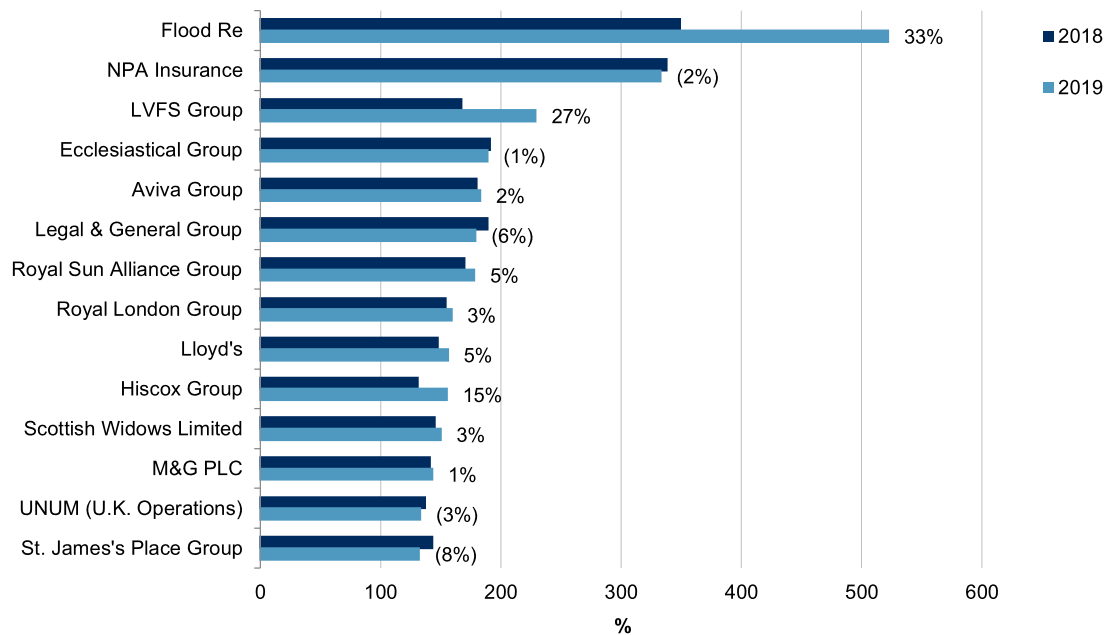
Source: S&P Global Ratings.
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Capitalization Appears Resilient Under Solvency II

The unprecedented turmoil in investment markets in 2020 had a knock-on effect on U.K. insurers' solvency positions. They remedied the impact, in part, by raising debt (see chart 11), and suspending dividend payments. In addition, global financial markets have seen a general recovery since March 2020.

Chart 10

Regulatory Solvency Ratios Of Selected U.K. Insurers



Solvency ratios on a regulatory basis. Percentages represent percentage change from 2018-2019. Source: S&P Global Ratings.

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As the U.K.'s transition period comes to an end, the U.K. government has launched a review of the regulation: "Solvency II: Call For Evidence." It is soliciting industry participants' views on various areas of potential reform. This first stage of the process opened in October 2020 and will last until Jan. 19, 2021. We believe the U.K.'s ability to retain full equivalency with Solvency II will depend on how closely aligned the future U.K. regulatory regime will remain with the current framework and on the characteristics of the post-Brexit relationship between the U.K. and the EU.

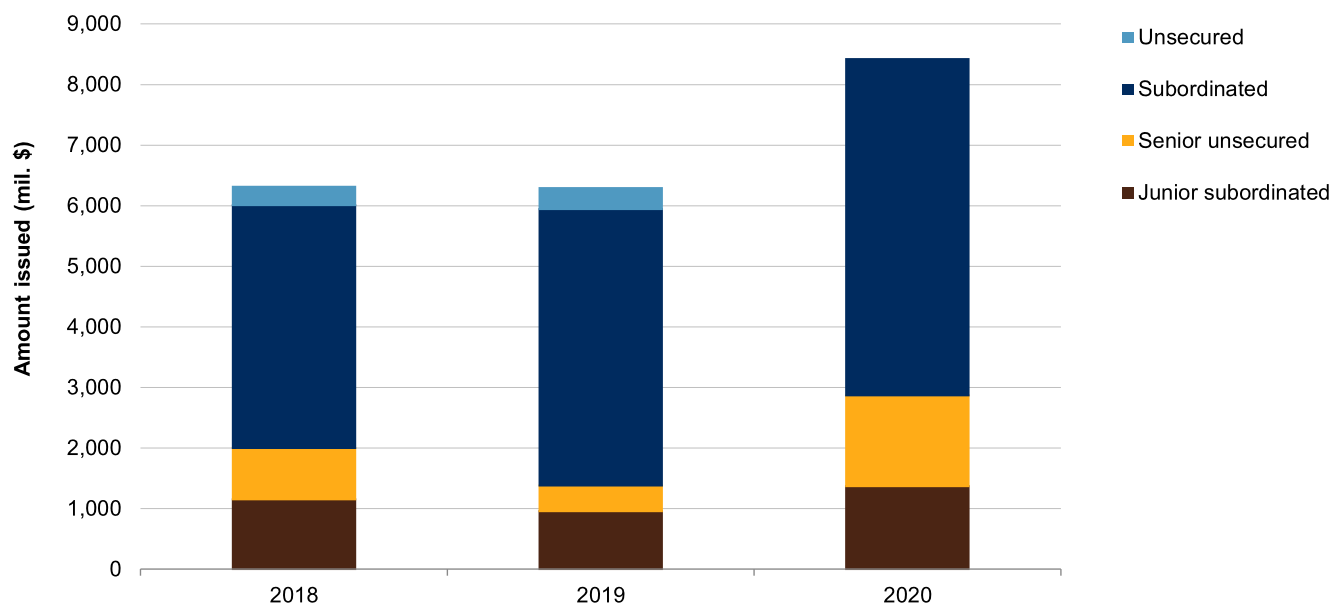
Strong Credit Quality Preserves Insurers' Access To Debt Markets

U.K. insurers accelerated their issuance in 2020, partly to strengthen their levels of capital and liquidity in an uncertain environment. U.K. insurers issued £8.4 billion in debt between Jan. 1 and Oct. 31, 2020, up from £6.2 billion issued in 2019. Insurers in general benefit from high credit

quality--only a few of our rated European insurers have outstanding debt rated 'BBB-' or below.

Chart 11

U.K. Insurers' Debt Outstanding Has Increased By One Third Since 2018



Source: S&P Global Ratings; Bloomberg.

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Appendix

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Table 1

U.K. Insurers Rating Snapshot

	Business Risk Profile							Financial Risk Profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Weak	Vulnerable	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
	Aviva Group		Ecclesiastical Insurance Group		Flood Re Ltd.		Hiscox Insurance Group		Legal & General Group PLC		Liverpool Victoria Friendly Society Group		Lloyd's		
Sector	Life insurance		P/C insurance		Reinsurance		Reinsurance		Life insurance		Multiline insurer		Reinsurance		
Financial strength rating	AA-/Stable		A-/Stable		A/Stable		A/Stable		AA-/Stable		BBB+/Stable		A+/Stable		
Holding company rating	A/Stable		N/A		N/A		BBB+/Stable		A/Stable		N/A		N/A		
Business risk profile	Very strong		Satisfactory		Satisfactory		Strong		Very strong		Satisfactory		Very strong		
IICRA score	Low risk		Intermediate risk		Intermediate risk		Intermediate risk		Low risk		Low risk		Intermediate risk		
Competitive position score	Very strong		Satisfactory		Satisfactory		Strong		Very strong		Satisfactory		Very strong		
Financial risk profile score	Strong		Strong		Strong		Satisfactory		Strong		Strong		Strong		
Capital and earnings score	Strong		Very strong		Very strong		Satisfactory		Strong		Excellent		Excellent		
Risk exposure score	Moderately Low		Moderately high		Moderately high		Moderately low		Moderately Low		Moderately high		High risk		
Funding structure score	Neutral		Neutral		Neutral		Neutral		Neutral		Moderately negative		Neutral		
SACP/GCP	aa-		a-		a-		a-		aa-		bbb+		a+		
Governance score	Neutral		Neutral		Neutral		Neutral		Neutral		Neutral		Neutral		
Liquidity score	Exceptional		Exceptional		Exceptional		Exceptional		Exceptional		Exceptional		Adequate		
Comparable ratings analysis	0		0		1		1		0		0		0		
Support	0		0		0		0		0		0		0		
	M&G Group		NPA Insurance Ltd.		Royal London Mutual Insurance Society Group		RSA Insurance Group		Scottish Widows Ltd.		St. James's Place PLC		UNUM Ltd.		
Sector	Multiline insurer		P/C insurance		Life insurance		P/C insurance		Life insurance		Life insurance		Life insurance		
Financial strength rating	A+/Stable*		BBB/Stable		A/Stable		A/Watch Neg		A/Negative		A-/Stable		A-/Stable		
Holding company rating	A/Stable		N/A		N/A		BBB+/Watch Neg		N/A		N/A		N/A		
Business risk profile	Strong		Fair		Strong		Very strong		Strong		Satisfactory		Satisfactory		
IICRA score	Low risk		Intermediate risk		Low risk		Intermediate risk		Low risk		Low risk		Low risk		
Competitive position score	Strong		Fair		Strong		Very strong		Strong		Satisfactory		Satisfactory		
Financial risk profile score	Very strong		Satisfactory		Strong		Satisfactory		Strong		Strong		Satisfactory		
Capital and earnings score	Very strong		Satisfactory		Very strong		Satisfactory		Strong		Strong		Satisfactory		
Risk exposure score	Moderately low		Moderately low		Moderately high		Moderately low		Moderately Low		Moderately low		Moderately Low		
Funding structure score	Neutral		Neutral		Neutral		Neutral		Neutral		Neutral		Neutral		
SACP/GCP	a+		bbb		a		a		a		a-		bbb+		
Governance score	Neutral		Neutral		Neutral		Neutral		Neutral		Neutral		Neutral		
Liquidity score	Exceptional		Exceptional		Exceptional		Exceptional		Exceptional		Exceptional		Exceptional		
Comparable ratings analysis	0		0		0		0		0		0		0		
Support	0		0		0		0		0		0		1		

*FSR shown is for Prudential Assurance Co. Ltd. FSR--Financial strength rating. GCP--Group credit profile.

IICRA--Insurance Industry And Country Risk Assessment. N/A--Not applicable. P/C--Property/casualty.

SACP--Stand-alone credit profile. Data as of Oct. 31, 2020.

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Table 2

Key Metric Trends At A Glance

Reported performance for 2018 and 2019 and S&P Global Ratings' forecasts for 2020 and 2021

	2021f	2020f	2019a	2018a
Aviva Group				
Gross premium written (mil. £)	>28,000.0	>28,000.0	31,243.0	28,659.0
Net income (mil. £)	>1,500.0	>1,500.0	2,663.0	1,687.0
Net combined ratio non-life (%)	97.0-99.0	97.0-99.0	97.5	97.2
EBITDA fixed charge coverage (x)	>5.0	>5.0	9.4	6.1
Financial leverage (%)	30.0-32.0	32.0-34.0	33.6	35.0
S&P Global Ratings capital adequacy	Very strong	Very strong	Excellent	Very strong
Ecclesiastical Group				
Gross premium written (mil. £)	~460.0	~430.0	425.9	393.9
Net combined ratio non-life (%)	92.0-94.0	94.0-96.0	87.9	84.6
EBITDA Fixed charge coverage (x)	~4.0	~0.0	3.3	4.7
Return on revenue (%)	~8.0	~0.0	9.6	16.4
Return on shareholders' equity (%)	~2.0	~0.0	9.5	2.5
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Flood Re Group				
Gross premium written (mil. £)	~36.0	~35.0	34.0	32.0
Main levy income (mil. £)	180.0	180.0	180.0	180.0
Net income (mil. £)	80.0-90.0	80.0-90.0	110.0	110.0
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Extremely strong
Hiscox Group				
Gross premium written (mil. \$)	~4,400.0	~4,200.0	4,031.0	3,778.0
Net income (mil. \$)	150.0-200.0	(200.0)-(50.0)	48.9	117.9
Net combined ratio non-life (%)	95.0-97.0	100.0-105.0	105.7	94.8
Fixed charge coverage (x)	>4.0	~(5.0)	0.8	6.1
Financial leverage (%)	~30.0	~30.0	26.9	27.6
Return on revenue (%)	>6.0	(7.0)-(2.0)	(0.6)	8.9
Return on shareholders' equity (%)	>6.0	(9.0)-(4.0)	2.2	5.1
S&P Global Ratings capital adequacy	BBB	BBB	BBB	AA
Legal & General Group				
Gross premium written (mil. £)	>12,000.0	>12,000.0	15,203.0	13,253.0
Net income (mil. £)	>1,400.0	>1,400.0	1,810.0	1,808.0
EBITDA fixed charge coverage (x)	>8.0	>8.0	11.6	10.6
Financial leverage (%)	<40.0	<40.0	36.7	38.7

Table 2

Key Metric Trends At A Glance (cont.)

Reported performance for 2018 and 2019 and S&P Global Ratings' forecasts for 2020 and 2021

	2021f	2020f	2019a	2018a
Return on shareholders' equity (%)	>15.0	>15.0	20.4	22.7
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Liverpool Victoria Group				
Life: PVNBP new business margin (%)	>1.0	>1.0	1.0	1.0
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Return on shareholders' equity (%)	<1.0	<1.0	12.7	(0.2)
Net income (mil. £)	<0.0	<0.0	151.0	(2.0)
Lloyd's				
Gross premium written (mil. £)	~39,000.0	~37,000.0	35,905.0	35,527.0
Net income (mil. £)	~2,000.0	~0.0	2,532.0	(1,001.0)
Net combined ratio non-life (%)	~95	~105	102.1	104.5
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Very strong
Fixed charge coverage (x)	~25.0	<0.0	27.5	(12.1)
Financial leverage (%)	~3.0	~3.0	3.1	2.8
M&G Group				
Fixed charge coverage (x)	>8.0	>8.0	9.0	14.0
Financial leverage (%)	~41.0	~41.0	41.0	5.0
Return on shareholders' equity (%)	>10.0	>10.0	16.0	N/A
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Extremely Strong
NPA Insurance				
Gross premium written (000s £)	12,360.0	12,000.0	6,427.6	6,555.6
Net income (000s £)	1,000.0	(1,500.0)	1,073.9	554.3
Return on shareholders' equity (%)	5.0	(7.0)	5.7	3.0
Net combined ratio non-life (%)	95.0	125.0	104.7	78.3
RSA Group				
Net premium written (mil. £)	~6,400.0	~6,300.0	6,417.0	6,470.0
Net combined ratio non-life (%)	94.0-96.0	93.0-96.0	96.7	98.3
EBITDA fixed charge coverage (x)	~10.0	~10.0	9.1	10.1
Return on revenue (%)	~8.0	~5.0	5.0	8.8
Return on shareholders' equity (%)	~8.0	~5.0	3.9	8.9
S&P Global Ratings capital adequacy	BBB	BBB	BBB	BBB

Table 2

Key Metric Trends At A Glance (cont.)

Reported performance for 2018 and 2019 and S&P Global Ratings' forecasts for 2020 and 2021

	2021f	2020f	2019a	2018a
Royal London Mutual Group				
Net income (mil. £)	100.0-150.0	<0.0	225.0	(48.0)
Life new business margin (%)	~2.0	~2.0	2.5	2.5
Total new business Margin (%)	>1.5	>1.5	1.7	1.8
Fixed charge coverage (x)	>4.0	<4.0	10.8	N.M.
St James's Place Group				
Net income (mil. £)	>140.0	>50.0	147.0	174.0
Reported surrender rates (%)	~4.0	~4.0	4.0	4.0
Fixed charge coverage (x)	>18.0	>4.0	19.0	22.0
Financial leverage (%)	~40.0	~40.0	38.0	34.0
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Scottish Widows Group				
Gross premium written (mil. £)	N/A	>9,500.0	9,320.0	8,794.0
Net income (mil. £)	400.0	260.0	(21.0)	389.0
EBITDA fixed charge coverage (x)	5.9	4.3	1.8	5.1
Financial leverage (%)	38.3	39.5	37.1	34.5
Return on shareholders' equity (%)	N/A	>20.0	(0.7)	9.6
S&P Global Ratings capital adequacy	N/A	Excellent	Very Strong	Excellent
Unum Group (U.K. operations only)				
Gross premium written (mil. £)	480.0	480.0	483.0	456.0
Net income (mil. £)	>30.0	>15.0	75.0	14.0
Return on Equity (%)	>6.0	>3.0	15.7	2.7
S&P Global Ratings capital adequacy	Very Strong	Very Strong	N/A	Very Strong

a--Actual. f--Forecast. N/A--Not applicable. N.M.--Not meaningful. Data as of Oct. 31, 2020. 2018 capital adequacy is as per old criteria nomenclature. Based on most recently published full analysis.

Table 3

Peer Group 1: U.K. Life Insurance Peers With Strongest FSRs Without Support

Company Name	Legal & General Group PLC	Aviva Group	M&G Group	Scottish Widows Ltd.
Sector	Life insurance	Life insurance	Multiline insurer	Life insurance
Financial strength rating	AA-/Stable	AA-/Stable	A+/Stable*	A/Negative
Holding company rating	A/Stable	A/Stable	A/Stable	N/A
Business risk profile	Very strong	Very strong	Strong	Strong

Table 3

Peer Group 1: U.K. Life Insurance Peers With Strongest FSRs Without Support (cont.)

Company Name	Legal & General Group PLC	Aviva Group	M&G Group	Scottish Widows Ltd.
IICRA score	Low risk	Low risk	Low risk	Low risk
Competitive position score	Very strong	Very strong	Strong	Strong
Financial risk profile score	Strong	Strong	Very strong	Strong
Capital and earnings score	Strong	Strong	Very strong	Strong
Risk exposure score	Moderately Low	Moderately Low	Moderately low	Moderately Low
Funding structure score	Neutral	Neutral	Neutral	Neutral
SACP/GCP	aa-	aa-	a+	a
Governance score	Neutral	Neutral	Neutral	Neutral
Liquidity score	Exceptional	Exceptional	Exceptional	Exceptional
Comparable ratings analysis	0	0	0	0
Support	0	0	0	0

*FSR shown is for Prudential Assurance Co. Ltd. FSR--Financial strength rating. GCP--Group credit profile. IICRA--Insurance Industry And Country Risk Assessment. N/A--Not applicable. SACP--Stand-alone credit profile. Data as of Oct. 31, 2020.

Table 4

Peer Group 2: U.K. Life Insurance Peers That Are Part Of Larger Groups And Have FSRs That May Benefit From Group Support

Company Name	Scottish Widows Ltd.	UNUM Ltd.
Sector	Life insurance	Life insurance
Financial strength rating	A/Negative	A-/Stable
Holding company rating	N/A	N/A
Business risk profile	Strong	Satisfactory
IICRA score	Low risk	Low risk
Competitive position score	Strong	Satisfactory
Financial risk profile score	Strong	Satisfactory
Capital and earnings score	Strong	Satisfactory
Risk exposure score	Moderately Low	Moderately Low
Funding structure score	Neutral	Neutral
SACP/GCP	a	bbb+
Governance score	Neutral	Neutral
Liquidity score	Exceptional	Exceptional
Comparable ratings analysis	0	0

Table 4

Peer Group 2: U.K. Life Insurance Peers That Are Part Of Larger Groups And Have FSRs That May Benefit From Group Support (cont.)

Company Name	Scottish Widows Ltd.	UNUM Ltd.
Support	0	1

FSR--Financial strength rating. GCP--Group credit profile. IICRA--Insurance Industry And Country Risk Assessment. N/A--Not applicable.
SACP--Stand-alone credit profile. Data as of Oct. 31, 2020.

Table 5

Peer Group 3: U.K. P/C Insurance Peers With Strongest FSRs Without Support

Company Name	Lloyd's	Hiscox Insurance Group	RSA Insurance Group
Sector	Reinsurance	Reinsurance	P/C insurance
Financial strength rating	A+/Stable	A/Stable	A/Watch Neg
Holding company rating	N/A	BBB+/Stable	BBB+/Watch Neg
Business risk profile	Very strong	Strong	Very strong
IICRA score	Intermediate risk	Intermediate risk	Intermediate risk
Competitive position score	Very strong	Strong	Very strong
Financial risk profile score	Strong	Satisfactory	Satisfactory
Capital and earnings score	Excellent	Satisfactory	Satisfactory
Risk exposure score	High risk	Moderately low	Moderately low
Funding structure score	Neutral	Neutral	Neutral
SACP/GCP	a+	a-	a
Governance score	Neutral	Neutral	Neutral
Liquidity score	Adequate	Exceptional	Exceptional
Comparable ratings analysis	0	1	0
Support	0	0	0

FSR--Financial strength rating. GCP--Group credit profile. IICRA--Insurance Industry And Country Risk Assessment. N/A--Not applicable.
P/C--Property/casualty. SACP--Stand-alone credit profile. Data as of Oct. 31, 2020.

Table 6

Peer Group 4: U.K. Life Insurance Peers With Less Diversified Or Specialized Business Risk Profile

Company Name	Royal London Mutual Insurance Society Group	St. James's Place PLC	Liverpool Victoria Friendly Society Group
Sector	Life insurance	Life insurance	Multiline insurer
Financial strength rating	A/Stable	A-/Stable	BBB+/Stable
Holding company rating	N/A	N/A	N/A
Business risk profile	Strong	Satisfactory	Satisfactory
IICRA score	Low risk	Low risk	Low risk
Competitive position score	Strong	Satisfactory	Satisfactory

Table 6

Peer Group 4: U.K. Life Insurance Peers With Less Diversified Or Specialized Business Risk Profile (cont.)

Company Name	Royal London Mutual Insurance Society Group	St. James's Place PLC	Liverpool Victoria Friendly Society Group
Financial risk profile score	Strong	Strong	Strong
Capital and earnings score	Very strong	Strong	Excellent
Risk exposure score	Moderately high	Moderately low	Moderately high
Funding structure score	Neutral	Neutral	Moderately negative
SACP/GCP	a	a-	bbb+
Governance score	Neutral	Neutral	Neutral
Liquidity score	Exceptional	Exceptional	Exceptional
Comparable ratings analysis	0	0	0
Support	0	0	0

FSR--Financial strength rating. GCP--Group credit profile. IICRA--Insurance Industry And Country Risk Assessment. N/A--Not applicable. SACP--Stand-alone credit profile. Data as of Oct. 31, 2020.

Table 7

Peer Group 5: U.K. P/C Specialized Insurance Peer Group

Company Name	Ecclesiastical Insurance Group	Flood Re Ltd.	NPA Insurance Ltd.
Sector	P/C insurance	Reinsurance	P/C insurance
Financial strength rating	A-/Stable	A/Stable	BBB/Stable
Holding company rating	N/A	N/A	N/A
Business risk profile	Satisfactory	Satisfactory	Fair
IICRA score	Intermediate risk	Intermediate risk	Intermediate risk
Competitive position score	Satisfactory	Satisfactory	Fair
Financial risk profile score	Strong	Strong	Satisfactory
Capital and earnings score	Very strong	Very strong	Satisfactory
Risk exposure score	Moderately high	Moderately high	Moderately low
Funding structure score	Neutral	Neutral	Neutral
SACP/GCP	a-	a-	bbb
Governance score	Neutral	Neutral	Neutral
Liquidity score	Exceptional	Exceptional	Exceptional
Comparable ratings analysis	0	1	0
Support	0	0	0

FSR--Financial strength rating. GCP--Group credit profile. IICRA--Insurance Industry And Country Risk Assessment. N/A--Not applicable. P/C--Property/casualty. SACP--Stand-alone credit profile. Data as of Oct. 31, 2020.

Table 8

Examples Of Merger And Acquisition Type Transactions In The U.K. Insurance Market In 2020

	Deal Type	Announced Date	Target Name	Acquirer Name	Seller Name	Announced Total Value (mil. £)	Payment Type	Deal Status	Target Country ISO Code	Acquirer Country ISO Code	Seller Country ISO Code
1	M&A	Oct. 23, 2020	Retail investment & personal investing business	Fidelity International Ltd	Legal & General Group PLC	N/A	Cash	Pending		GB	GB
2	M&A	Oct. 19, 2020	Central St Giles General Partner Ltd	Alphabet Inc	Legal & General Group PLC, Mitsubishi Estate Co Ltd	N/A	Undisclosed	Proposed	GB	US	
3	M&A	Oct. 14, 2020	Tesco Underwriting Ltd	Tesco PLC	Ageas SA/NV	102.96	Cash	Pending	GB	GB	BE
4	M&A	Oct. 14, 2020	Spectrum Communications Ltd	M&G PLC		N/A	Undisclosed	Pending	GB	GB	
5	INV	Oct. 13, 2020	Bernicia Group Ltd	Legal & General Group PLC		75.42	Cash	Completed	GB	GB	
6	M&A	Oct. 2, 2020	RSA Insurance Group plc	Intact Financial Corporation and Tryg A/S		7,200	Cash	Proposed	GB	CA & DE	
7	INV	Sep. 30, 2020	Pension Insurance Corp Group Ltd	MP 2019 K2 Aggregator LP	Swiss Re AG, IFS IV Ltd, Crest Success Ltd	472.12	Cash	Pending	GB	KY	
8	M&A	Sep. 30, 2020	Rothsay Life PLC	Massachusetts Mutual Life Insurance Co, GIC Pte Ltd	Blackstone Group Inc/The	N/A	Cash	Pending	GB		US
9	M&A	Sep. 14, 2020	Three office properties/UK	CLS Holdings PLC	Aviva PLC	59.51	Cash	Pending		GB	GB
10	M&A	Sep. 11, 2020	Aviva Ltd	Sumitomo Life Insurance Co, IPGL Holdings Ltd, TPG Capital LP/US (Fund: TPG Strategic Capital Fund LP)	Aviva PLC	1,543.38	Cash, stock, and debt	Pending	SG		GB
11	M&A	Sep. 8, 2020	Aviva France SA	Potential Buyer	Aviva PLC	2,712.76	Undisclosed	Proposed	FR		GB
12	INV	Sep. 8, 2020	Grab Holdings Inc	Prudential PLC, Private Investor, AIA Group Ltd		279.79	Cash	Proposed	SG		
13	M&A	Aug. 20, 2020	World Marine & General Insurance PLC/The	Randall & Quilter Investment Holdings Ltd	BHP Group Ltd	N/A	Undisclosed	Pending	GB	BM	AU
14	M&A	Aug. 19, 2020	Inceptum Insurance Co Ltd	Randall & Quilter Investment Holdings Ltd	Syndicate Holding Corp	N/A	Undisclosed	Pending	GB	BM	PR

Table 8

Examples Of Merger And Acquisition Type Transactions In The U.K. Insurance Market In 2020 (cont.)

	Deal Type	Announced Date	Target Name	Acquirer Name	Seller Name	Announced Total Value (mil. £)	Payment Type	Deal Status	Target Country ISO Code	Acquirer Country ISO Code	Seller Country ISO Code
15	M&A	Aug. 13, 2020	Britannia Consultants Services Ltd	Global Risk Partners Ltd		N/A	Undisclosed	Completed	GB	GB	
16	M&A	Aug. 5, 2020	Hastings Group Holdings PLC	Sampo Oyj,Rand Merchant Investment Holdings Ltd		1,246.96	Cash	Pending	GB		
17	M&A	Aug. 4, 2020	Civil Service Healthcare Society Ltd	Bupa Insurance Ltd		N/A	Undisclosed	Proposed	GB	GB	
18	M&A	Jul. 22, 2020	Aegon office building/Edinburgh	Mugunghwa Trust Co Ltd,Roebuck Asset Management Ltd	M&G PLC	133	Cash	Completed			GB
19	M&A	Jul. 16, 2020	Friends Provident International Services Ltd	International Financial Group Ltd	Aviva PLC	258.18	Cash	Completed	IM	GB	GB
20	M&A	Jul. 16, 2020	Brolly UK Technology Ltd	Direct Line Insurance Group PLC		N/A	Undisclosed	Completed	GB	GB	
21	M&A	Jul. 1, 2020	Architas Multi-Manager Ltd,Architas Advisory Services Ltd	Liontrust Asset Management PLC	AXA SA	75	Undisclosed	Pending		GB	FR
22	M&A	Jun. 22, 2020	UK General Insurance Group Ltd	Primary Group Ltd	JC Flowers & Co LLC	N/A	Cash	Pending	GB	BM	US
23	M&A	Jun. 19, 2020	Financial Guaranty Uk Ltd	Unnamed Buyer	FGIC Corp	N/A	Undisclosed	Completed	GB		US
24	M&A	Jun. 12, 2020	Liverpool Victoria Friendly Society Ltd	Bain Capital LP		1,000	Cash	Proposed	GB	US	
25	M&A	Jun. 12, 2020	Penguin Portals Ltd	Potential Buyer	Admiral Group PLC	500	Undisclosed	Proposed	GB		GB
26	M&A	Jun. 8, 2020	Fleet Place House	M&G PLC	Beijing State-owned Capital Operation and Manageme	100	Cash	Proposed		GB	CN
27	M&A	May. 27, 2020	Ascentrics Consulting Group Inc	M&G PLC	Royal London Group	N/A	Cash	Completed	US	GB	GB
28	M&A	May. 26, 2020	36-46 St John's Road/Clapham Junction	Unnamed Buyer	Legal & General Group PLC	24.96	Cash	Completed			GB
29	INV	May. 19, 2020	Bikmo Ltd	Hiscox Ltd,Private Investor,Development Bank of Wales Plc		1.8	Cash	Completed	GB		
30	INV	May. 19, 2020	Pinnacle Financial Services Ltd/UK	AmeriLife Group LLC		N/A	Undisclosed	Completed	GB	US	

Table 8

Examples Of Merger And Acquisition Type Transactions In The U.K. Insurance Market In 2020 (cont.)

	Deal Type	Announced Date	Target Name	Acquirer Name	Seller Name	Announced Total Value (mil. £)	Payment Type	Deal Status	Target Country ISO Code	Acquirer Country ISO Code	Seller Country ISO Code
31	M&A	May. 1, 2020	Three logistics warehouses	Aviva PLC	Next PLC	107	Cash	Completed		GB	GB
32	M&A	Apr. 27, 2020	400,000 square meter logistics warehouse/Dutch	Aviva PLC	Euro-Rijn International BV	N/A	Cash	Completed		GB	NL
33	INV	Apr. 17, 2020	Kensa Group Ltd	Legal & General Group PLC		N/A	Undisclosed	Completed	GB	GB	
34	M&A	Mar. 27, 2020	GreyCastle Holdings Ltd	Monument RE Ltd		N/A	Undisclosed	Completed	GB	BM	
35	M&A	Mar. 23, 2020	Kingsbridge Group Ltd	White Mountains Insurance Group Ltd		N/A	Undisclosed	Pending	GB	US	
36	M&A	Mar. 20, 2020	Portfolio of six commercial assets/Netherland	Aviva PLC	Anbang Insurance Group Co Ltd	642.2	Cash	Completed		GB	CN
37	M&A	Mar. 18, 2020	Motor Gap Ltd	Axia Capital Partners LP		N/A	Cash	Completed	GB	US	
38	M&A	Mar. 12, 2020	20 Churchill Place/London	Brookfield Asset Management Inc	M&G PLC	300	Cash	Proposed		CA	GB
39	M&A	Mar. 6, 2020	Astra Aviva Life PT	Astra International Tbk PT	Aviva PLC	N/A	Undisclosed	Pending	ID	ID	GB
40	M&A	Feb. 19, 2020	Sainsbury's supermarket/Hessle	Supermarket Income Reit PLC	ReAssure Ltd	34.21	Cash	Completed		GB	GB
41	M&A	Feb. 12, 2020	37,414 square foot building/Mayfair	Hines Interests LP	Aviva PLC	N/A	Cash	Completed		US	GB
42	M&A	Jan. 28, 2020	Office building 33 Colston Avenue/Bristol	Topland Group Holdings International Ltd	Royal London Mutual Insurance Society Ltd/The	9.79	Cash	Completed		GB	GB
43	M&A	Jan. 20, 2020	Sanctuary Buildings / London	Legal & General Group PLC	Hana Financial Group Inc	300	Cash	Proposed		GB	KR
44	INV	Jan. 8, 2020	ITS Technology Group Ltd	Aviva PLC		45	Cash	Completed	GB	GB	
45	M&A	Jan. 8, 2020	WMS Group	Aviva PLC		N/A	Undisclosed	Completed	GB	GB	

M&A--Mergers and investments. INV--Investment. N/A--Not applicable. Source: Bloomberg.

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