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Royal London Mutual Insurance Society's Proposed Guaranteed Subordinated Notes Rated 'BBB+'

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LONDON (Standard & Poor's) Nov. 2, 2015--Standard & Poor's Ratings Services said today that it has assigned its 'BBB+' long-term issue rating to the proposed 13-year subordinated notes to be issued by U.K.-based RL Finance Bonds No. 3 PLC and guaranteed by U.K.-based insurer Royal London Mutual Insurance Society Ltd. (Royal London; A/Stable/--). The rating on the proposed notes is subject to our confirmation following our receipt and review of the final terms and conditions.

The rating is two notches below our counterparty credit rating on Royal London, reflecting our standard notching for subordinated debt issues. We have analyzed and rated the proposed debt issue on the understanding that, when issued, the proposed notes will be subordinated to debt held by senior creditors.

We understand that the proposed notes contain provisions for the mandatory deferral of interest if the company breaches the solvency capital requirement under the EU's Solvency II Directive. Once deferred, unpaid interest is cumulative and does not itself bear interest.

We understand that Royal London will use the proceeds of the proposed notes for general corporate purposes. Taking into account the proposed issue, we anticipate that Royal London's fixed-charge coverage will temporarily decrease during the overlap period from the issuance of these notes to the December 2015 call date of the 2005 issue. Fixed-charge coverage will, however, stay

above 4x, the threshold below which we would take a more negative view of financial flexibility. Coverage will improve further above the threshold after the call date. We do not expect the effect on financial leverage to be material enough to have a ratings impact.

RELATED CRITERIA AND RESEARCH

- Insurers: Rating Methodology, May 7, 2013
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

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