

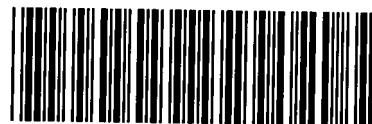
RL Finance Bonds No.2 plc

Annual report and financial statements

for the fourteen months ended 31 December 2014

**Registered Number 8764613**

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# **RL Finance Bonds No.2 plc**

## **Annual report and financial statements**

### **for the fourteen months ended 31 December 2014**

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# **RL Finance Bonds No.2 plc**

## **Directors and independent auditors for the fourteen months ended 31 December 2014**

### **Directors**

Tim Harris (appointed 2 June 2014)

Martin Lewis (appointed 6 November 2013)

Kerr Luscombe (appointed 6 November 2013, resigned 14 May 2014)

Anya O'Reilly (appointed 6 November 2013, resigned 15 August 2014)

### **Company Secretary**

Royal London Management Services Limited

### **Independent Auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

7 More London Riverside

London

SE1 2RT

### **Registered Office**

55 Gracechurch Street

London

EC3V 0RL

### **Registered Number**

8764613

# **RL Finance Bonds No.2 plc**

## **Strategic report for the fourteen months ended 31 December 2014**

### **Review of the business**

The company was incorporated on 6 November 2013 and commenced trading on 20 November 2013. It provides finance to its parent company, The Royal London Mutual Insurance Society Limited. On 29 November 2013, the company issued £400,000,000 6.125% Fixed Rate Reset Callable Guaranteed Subordinated Notes. The proceeds of this issue were lent to the parent company on the same terms as those applicable to the Notes.

The loss for the period after tax was £1,291. The directors do not propose the payment of a dividend and, accordingly, an amount of £1,291 was transferred from reserves.

For the foreseeable future the company is not expected to undertake any activity other than the maintenance of its loan arrangements.

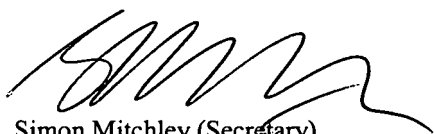
### **Internal control and risk management**

Details of the risk management and internal control objectives and policies of the company are set out in note 12 to the financial statements.

### **Key performance indicators (KPIs)**

The company's directors are of the opinion that an analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

### **By order of the Board**



Simon Mitchley (Secretary)

**For and on behalf of Royal London Management Services Limited**

Company Secretary

19 March 2015

# **RL Finance Bonds No.2 plc**

## **Directors' report for the fourteen months ended 31 December 2014**

The directors present their first report and audited financial statements for the fourteen months ended 31 December 2014.

### **Directors**

The directors who held office during the period and up to the date of signing the financial statements were:

Tim Harris (appointed 2 June 2014)

Martin Lewis (appointed 6 November 2013)

Kerr Luscombe (appointed 6 November 2013, resigned 14 May 2014)

Anya O'Reilly (appointed 6 November 2013, resigned 15 August 2014)

### **Directors' indemnities**

The directors have the benefit of a qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006). This provision was in force throughout the period and as at the date of approval of the financial statements. The company's ultimate parent undertaking, The Royal London Mutual Insurance Society Limited, also maintains Directors' and Officers' liability insurance in respect of the company and its directors.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Independent auditors**

PricewaterhouseCoopers LLP have been appointed as auditors by the directors in accordance with section 485(3) of the Companies Act 2006. A resolution re-appointing them as auditors to the company will be proposed at the Annual General Meeting.

### **Disclosure of information to auditors**

The directors who held office as at the date of approval of this Directors' report confirm that so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and that each director has taken all steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### **Internal controls and risk management**

The board of directors has overall responsibility for the company's systems of risk management and internal controls. The company operates within the risk management framework and under the policies, procedures and internal controls maintained by its parent company, The Royal London Mutual Insurance Society Limited, and does not maintain its own individual risk management or internal controls procedures.

## **RL Finance Bonds No.2 plc**

### **Directors' report for the fourteen months ended 31 December 2014 (continued)**


#### **Internal controls and risk management (continued)**

The Royal London Group's system of risk management and internal control comprises its system of governance, risk appetite, risk policies, internal control and monitoring activities and the internal environment including its philosophy, culture and behaviours. Taken together these elements are designed to:

- Facilitate the effective and efficient operation of the Group by enabling it to respond appropriately to significant business, operational, financial, regulatory and other risks that could impact upon the delivery of its objectives;
- Promote a clear understanding of the risks faced to allow the Group to balance risk, capital and return effectively, enhancing the Group's decision making capacity;
- Promote the preparation of reliable published financial statements and selected financial data; and
- Facilitate compliance with applicable laws, regulations and internal policies.

The company adheres to all the practices noted above through a robust system of timely preparation of management and financial accounts, internal review of the accounts within finance and through the regular review of accounting regulations and law.

**By order of the Board**



Simon Mitchley (Secretary)

**For and on behalf of Royal London Management Services Limited**

Company Secretary

19 March 2015

# **RL Finance Bonds No.2 plc**

## **Independent auditors' report to the members of RL Finance Bonds No.2 plc**

### **Report on the financial statements**

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#### **Our opinion**

In our opinion, RL Finance Bonds No.2 plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the period then ended;
  - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
- 

#### **What we have audited**

RL Finance Bonds No.2 plc's financial statements comprise:

- the Balance sheet as at 31 December 2014;
- the Profit and loss account for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the Strategic Report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

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#### **Other matters on which we are required to report by exception**

##### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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##### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# **RL Finance Bonds No.2 plc**

## **Independent auditors' report to the members of RL Finance Bonds No.2 plc (continued)**

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### **Responsibilities for the financial statements and the audit**

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#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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#### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Gavin Phillips (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
19 March 2015



## RL Finance Bonds No.2 plc

### Profit and loss account for the fourteen months ended 31 December 2014

	Note	2014 £
Administrative expenses	2	(4,812)
Interest receivable and similar income	3	27,011,469
Interest payable and similar charges	4	(27,011,469)
<b>Loss on ordinary activities before tax</b>		<b>(4,812)</b>
Tax on loss on ordinary activities	5	3,521
<b>Loss for the financial period</b>	<b>11</b>	<b>(1,291)</b>

All of the above amounts are in respect of continuing operations.

The company has no recognised gains or losses other than the loss for the period and accordingly no statement of total recognised gains and losses has been prepared.

There is no material difference between the loss on ordinary activities before tax and the loss for the financial period stated above and their historical cost equivalents.

The accounting policies and notes on pages 9 to 13 form an integral part of these financial statements.

# RL Finance Bonds No.2 plc

## Balance sheet as at 31 December 2014

	Note	2014 £
<b>Fixed asset investments</b>		
Loan to parent company	6	397,560,400
<b>Current assets</b>		
Debtors	7	2,162,220
		2,162,220
<b>Creditors: amounts falling due within one year</b>	8	(2,151,011)
<b>Net current assets</b>		11,209
<b>Total assets less current liabilities</b>		397,571,609
<b>Creditors: amounts falling due after more than one year</b>		
Subordinated liabilities	9	(397,560,400)
<b>Total assets less total liabilities</b>		11,209
<b>Capital and reserves</b>		
Called up share capital	10,11(ii)	12,500
Profit and loss account	11	(1,291)
<b>Total shareholders' funds</b>	11(ii)	11,209

The financial statements on pages 7 to 13 were approved by the board of directors on 19 March 2015 and signed on its behalf by:



**Tim Harris**  
Director  
RL Finance Bonds No.2 plc  
Registered Number: 8764613

The accounting policies and notes on pages 9 to 13 form an integral part of these financial statements.

# **RL Finance Bonds No.2 plc**

## **Notes to the financial statements for the fourteen months ended 31 December 2014**

### **1 Accounting policies**

#### **(i) Basis of preparation**

These financial statements are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the period, are set out below.

The company is a wholly owned subsidiary of The Royal London Mutual Insurance Society Limited and is included in the consolidated accounts of that company, which are publicly available. Consequently, the company has taken advantage of the exemption within Financial Reporting Standard 1 (Revised 1996), 'Cash Flow Statements' from preparing a cash flow statement and the exemption within Financial Reporting Standard 8, 'Related Party Disclosures', not to disclose related party transactions entered into between two or more members of the group, provided that any subsidiary undertaking which is a party to the transaction is wholly owned by a member of that group.

#### **(ii) Financial instruments**

The company has applied FRS 26, 'Financial Instruments: Recognition and Measurement' in preparing these financial statements. All of the company's financial assets meet the definition of 'loans and receivables' and are therefore carried at amortised cost. All of the company's financial liabilities are also carried at amortised cost. None of the company's financial instruments are carried at fair value. More detailed accounting policies for specific financial instruments are given in policies (iv), (v) and (vi) below.

#### **(iii) Interest receivable and similar income**

Interest receivable and similar income is accounted for on an accruals basis.

#### **(iv) Interest payable and similar charges**

Interest payable is accounted for on an accruals basis.

#### **(v) Taxation**

Provision is made for taxation at current rates on the appropriate adjusted trading profit and relief for overseas taxation is taken where appropriate. Credit is taken for trading and investment losses that can be surrendered as group relief to other group companies. Deferred taxation is provided on all untaxed gains and other timing differences, between their recognition in the financial statements and their recognition in the tax computations, except that overall assets are only recognised if, on the basis of all available evidence, it is regarded as more likely than not that the timing differences will reverse in the foreseeable future. The value of the resultant deferred tax assets and liabilities has been calculated on a discounted basis reflecting the fact that the timing differences are projected to reverse over several years. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities.

#### **(vi) Loan to parent company**

The loan to the company's parent company was initially recognised at the fair value of the consideration paid net of any discount. Subsequently it is measured at amortised cost. The discount is amortised over the expected life of the loan on an effective interest rate basis. The amortisation is included within interest receivable and similar income. An equivalent amount is added to the carrying value of the asset such that at the redemption date the value of the asset equals the redemption value.

#### **(vii) Debtors**

Debtors are initially recognised at fair value. Subsequently they are measured at amortised cost.

#### **(viii) Subordinated liabilities**

Financial instruments that contain an obligation to make interest payments or repayments of principal are classified as liabilities. Subordinated liabilities are recognised initially at the fair value of the proceeds received net of any discount. Subsequent to initial recognition, they are stated at amortised cost. The discount is amortised over the expected life of the loan on an effective interest rate basis. The amortisation charge is included within interest payable. An equivalent amount is added to the carrying value of the liability such that at redemption the value of the liability equals the redemption value.

# RL Finance Bonds No.2 plc

## Notes to the financial statements for the fourteen months ended 31 December 2014 (continued)

### 2 Administrative expenses including directors', employees' and auditors' remuneration

Administrative expenses of £4,812 include charges for the remuneration of the auditors and the provision of services made under a management services agreement by Royal London Management Services Limited. The company has no employees.

The directors received no remuneration in respect of their services to the company.

The remuneration of the auditors, PricewaterhouseCoopers LLP, for the period was £1,200 in respect of the audit of the company's financial statements.

### 3 Interest receivable and similar income

	2014 £
Interest receivable on loan to parent undertaking	26,715,069
Amortisation of discount on loan to parent undertaking	296,400
	<u>27,011,469</u>

### 4 Interest payable and similar charges

	2014 £
Interest payable on subordinated liabilities	26,715,069
Amortisation of discount on subordinated liabilities	296,400
	<u>27,011,469</u>

### 5 Tax on loss on ordinary activities

#### (i) Tax credited in the profit and loss account

	2014 £
UK corporation tax credit at 21.62% on the loss for the period	<u>(3,521)</u>

# RL Finance Bonds No.2 plc

## Notes to the financial statements for the fourteen months ended 31 December 2014 (continued)

### 5 Tax on loss on ordinary activities (continued)

#### (ii) Factors affecting the tax credit

The tax credit for the period is different from the standard rate of corporation tax in the UK of 21.5% applied to the loss before tax. The differences are explained below:

	2014 £
Loss on ordinary activities before tax	(4,812)
Loss multiplied by the standard rate of UK corporation tax of 21.62%	(1,040)
Effects of:	
Tax adjustments and other timing differences	(2,481)
Current tax credit for the period	(3,521)

During the period, as a result of a change in the UK main corporation tax rate to 21%, which was substantively enacted on 3 July 2012 and was effective from 1 April 2014, the company's profit for this accounting period is taxed at an effective rate of 21.62%.

A further reduction to the UK corporation tax rate has been announced. The tax rate will reduce to 20% from 1 April 2015; this change was substantively enacted on 17 July 2013 and, therefore, is recognised in these financial statements.

#### (iii) Deferred taxation

There is no unprovided deferred tax liability or unrecognised deferred tax asset in these financial statements.

### 6 Loan to parent company

On 29 November 2013, the company entered into an agreement to loan to its parent company the proceeds of the issue of Fixed Rate Reset Callable Guaranteed Subordinated Notes (note 9) on the same interest, repayment and subordination terms as the Notes. The loan was granted at a value of 99.316% of the principal amount of £400,000,000. The discount of £2,736,000 has been deducted from the carrying value of the loan and is being amortised on an effective interest basis over the period to the first possible redemption date.

The loan is carried at the amortised cost of £397,560,400. Its fair value as at 31 December 2014 was £433,696,000.

### 7 Debtors

	2014 £
Group relief receivable	1,772
Accrued interest receivable	2,160,448
	2,162,220

Debtors are carried at amortised cost. Their fair value is not materially different from the value shown above.

## RL Finance Bonds No.2 plc

### Notes to the financial statements for the fourteen months ended 31 December 2014 (continued)

#### 8 Creditors: amounts falling due within one year

	2014 £
Accrued interest payable	2,147,948
Amounts owed to Group undertakings	3,063
	<b>2,151,011</b>

Creditors are carried at amortised cost. Their fair value is not materially different from the value shown above. The amounts owed to Group undertakings are repayable on demand and are unsecured.

#### 9 Subordinated liabilities

On 29 November 2013, the company issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes. The issue price of the Notes was 99.316% of the principal amount of £400,000,000. The discount of £2,736,000 has been capitalised as part of the carrying value and is being amortised on an effective interest basis over the period to the first possible redemption date.

The Notes are guaranteed by the parent company. The proceeds of the issue were loaned to the parent company on the same interest, repayment and subordination terms as those applicable to the Notes (note 6).

The Notes mature on 30 November 2043. The issuer has the option to redeem all of the Notes at their principal amount on 30 November 2023 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 6.125% per annum for the period to 30 November 2023, payable annually in arrears on 30 November each year. If the Notes are not redeemed on 30 November 2023 the interest rate will be re-set on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 4.321%.

The Notes are carried at the amortised cost of £397,560,400. Their fair value at 31 December 2014 was £433,696,000.

#### 10 Called up share capital

	2014 £
<b>Issued and partly paid</b>	
50,000 ordinary shares of £1 each (£0.25 of each paid up)	<b>12,500</b>

#### 11 Reserves

(i) Profit and loss account	2014 £
On incorporation	-
Loss for period	<b>(1,291)</b>
<b>At 31 December</b>	<b>(1,291)</b>

# RL Finance Bonds No.2 plc

## Notes to the financial statements for the fourteen months ended 31 December 2014 (continued)

### 11 Reserves (continued)

#### (ii) Reconciliation of movements in total shareholders' funds

	Called up share capital £	Profit and loss account £	Total £
On incorporation	-	-	-
Issue of share capital	12,500	-	12,500
Loss for the period	-	(1,291)	(1,291)
<b>At 31 December 2014</b>	<b>12,500</b>	<b>(1,291)</b>	<b>11,209</b>

### 12 Risk management

#### Credit risk

Credit risk is the risk of a potential loss in fair value resulting from adverse changes in a counterparty's ability to repay amounts in full as they fall due. All of the company's material financial assets are receivables from other group companies, the most significant item being the loan to the company's parent. As such the credit risk is managed within the group.

#### Liquidity risk

Liquidity risk is the risk that adequate funds are not available to settle liabilities as they fall due. The company is not exposed to material liquidity risk as the redemption terms of the loan to its parent are identical to those of the subordinated liabilities.

#### Price risk

Price risk is the risk that asset values change as market prices fluctuate. The company does not hold any financial assets that are subject to market price risk.

#### Interest rate risk

The company's interest bearing assets (the loan to its parent) have the same fixed rate interest terms as its interest bearing liabilities (the subordinated liabilities). Hence, the company is not exposed to interest rate risk.

#### Currency risk

The company has no exposure to currency risk, as all of its financial instruments are denominated in pounds sterling.

### 13 Ultimate parent undertaking and controlling party

The Royal London Mutual Insurance Society Limited, a company registered in England and Wales, is the immediate and ultimate parent undertaking and controlling party.

The Royal London Mutual Insurance Society Limited is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements. Copies of the financial statements of The Royal London Mutual Insurance Society Limited are available from the company's registered office.