

Registration number: 1102517

BlackRock Fund Managers Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

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BlackRock Fund Managers Limited

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BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report for BlackRock Fund Managers Limited (the "company") for the year ended 31 December 2016.

The company's role in the global group

The company is part of BlackRock, Inc. ("BlackRock"), a leading publicly traded investment management firm with \$5.1tn in assets under management ("AUM"), as at 31 December 2016. With approximately 13,000 employees in more than 30 countries who serve clients in over 100 countries across the globe, BlackRock provides a broad range of investment and risk management services to institutional and retail clients worldwide.

There have not been any significant changes in the company's principal activities in the period under review and the directors propose that the principal activities will continue during 2017.

Corporate strategy

Corporate strategy is developed and reviewed at a global and regional level. The company provides investment management, advisory and administrative services to clients and other group companies in support of the corporate strategy. The Strategic Report will therefore focus on both global and regional industry trends and areas of strategic focus, while relating them to the services that the company provides.

Industry Profile

Global

BlackRock's highly diversified multi-product platform was created to meet the needs of its clients in all market environments. BlackRock is positioned to provide active and index investment solutions across asset classes and geographies and leverage *BlackRock Solutions*® ("BRS") world-class risk management, analytics and advisory capabilities on behalf of clients. BlackRock serves a diverse mix of institutional and retail clients across the globe, including investors in *iShares*® ETFs, maintaining differentiated client relationships and a fiduciary focus.

BlackRock's Retail strategy is focused on an outcome-oriented approach to creating client solutions, including active, index and alternative products, enhanced distribution and technology offerings. In the United States, BlackRock is leveraging its integrated wholesaler force to further penetrate distribution platforms and gain share amongst registered investment advisors. Internationally, BlackRock continues to diversify the range of investment solutions available to clients, penetrate new distribution channels and position effectively for regulatory change.

iShares® growth strategy is centred on increasing global *iShares*® market share and driving global market expansion. BlackRock intends to achieve these goals by pursuing global growth themes in client and product segments including core investments, fixed income, smart beta, financial instruments and precision exposures.

BlackRock believes Institutional results will be driven by enhancing BlackRock's solutions-oriented approach; deepening client relationships through product diversification and higher value-add capabilities; and leveraging *BlackRock Solutions*® analytical and risk management expertise.

BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

Regional

On a regional basis, BlackRock in EMEA manages \$1.5tn of AUM for its clients. This generates \$3.1bn of revenue from a diversified client base and product range. Growth in the region has been powered by fixed income net inflows, reflecting strong flows into iShares and liability-driven investment solutions.

In June 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union ("EU"), commonly referred to as "Brexit", which resulted in significant volatility in several international markets. The timing and the outcome of the negotiations between the United Kingdom and the EU in connection with Brexit are highly uncertain and information regarding the long-term consequences of the vote is expected to become clearer over time. The company will continue to monitor the potential impact of Brexit on the results of its operations and financial condition.

Areas of strategic focus

Against the industry profile and key industry trends the company, as part of the global group, will seek to achieve its mission of creating a better financial future for its clients by capitalising on the following factors:

- the company's focus on strong performance;
- the company's diversified product offerings, which enhance its ability to offer a variety of traditional and alternative investment products across the risk spectrum and to tailor single and multi-asset investment solutions to address specific client needs;
- the company's differentiated client relationships and fiduciary focus, which enable effective positioning toward changing client needs and macro trends including the secular shift to passive investing, a focus on income and retirement, and barbell of risk using index and active products, including alternatives; and
- the company's longstanding commitment to technology and risk management.

Specifically the company manages unit trusts, hedge funds, investment trusts and alternative investment funds for which it receives management and performance fees.

Key performance indicators

Assets under management

Net AUM has increased by £14.9bn to £60.9bn as at 31 December 2016 (2015: £46.0bn) primarily due to positive market movements on equity mandated funds.

Fee income

Turnover, which consists of management fees, performance fees and other revenue decreased by 19% from £44.0m in 2015 to £35.8m in 2016. Performance fees have decreased by 73% following outperformance on the Hedge Fund Range in 2015. Management fees increased by 6% due to increased AUM, offset by fee-rate decreases across a number of products.

Administrative expenses

Administrative expenses decreased by 26% from £18.6m in 2015 to £13.7m in 2016. This is principally driven by foreign exchange gains in the year of £2.3m compared to a foreign exchange loss in 2015 of (£3.7m).

Profit after tax

Profit after tax increased by 139% from £20.4m in 2015 to £48.7m in 2016 as a result of the gain on disposal of BlackRock Investment Management (Korea) Limited.

Net assets

Net assets increased from £44.8m in 2015 to £73.4m in 2016 as a result of profits made in 2016 less dividends paid of £20m.

BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

The performance of the company is included in the results of BlackRock, Inc. group which are disclosed in the BlackRock, Inc. group annual report and on Form 10-K to the United States Securities and Exchange Commission. BlackRock, Inc. manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason the company's directors believe that providing further performance indicators for the company itself would not enhance an understanding of the development, performance or position of the business of the company.

Principal risks and uncertainties

Principal risks and uncertainties are managed by BlackRock at a global and regional level.

As a leading investment management firm, risk is an inherent part of BlackRock's business. Global markets, by their nature, are prone to uncertainty and subject to a variety of risks. BlackRock devotes significant resources across all of its operations to identifying, measuring, monitoring and managing risks, and invests in personnel and technology accordingly.

The specific risks and uncertainties relevant to the company may be categorised under three broad categories:

- operational risk events, arising from inadequate or failed internal processes, people and systems, or from external events, may result in direct costs and/or subsequent litigation and reputational damage;
- balance sheet risk events, arising from credit risk losses on balance sheet assets or from a lack of liquidity causing the company to be unable to meet payment obligations; and
- market risk events, whereby the company fails to realise the full value of the firm's assets as a result of fluctuations in foreign exchange rates.

Operational risk

One of the major risks faced by the company is operational risk, which is the risk of direct or indirect impacts resulting from inadequate or failed internal processes, people and systems, or from external events. The company has a well-established operational risk management framework that provides appropriate control and oversight over risk management arrangements. The operational risk management framework supports the firm's fiduciary obligations to clients and mitigates the potential impacts of poor customer outcomes. The strong management of risk also ensure that disruptions to delivering client services are at a minimum.

The company operates in a competitive and highly regulated environment and there are a number of factors which could increase the number and severity of operational risks faced by the company. A detailed model approach, based on scenario analysis and statistical modelling, is used to assess the operational risk capital requirement. The company seeks to manage operational risk by means of a variety of controls to prevent or mitigate the occurrence of operational risk events and losses. Escalation procedures are in place and operational risks are regularly monitored and reported to senior management, the Board and relevant internal oversight committees.

Balance sheet risk

Credit risk arises in relation to accounts receivable, surplus cash held in bank accounts or held on account with other BlackRock group companies as part of normal treasury operations, and other asset investments. The risk of default in relation to accounts receivable arising from fee income debtors is considered low. The company minimises exposure to credit risk with respect to accounts receivable by actively pursuing settlement of outstanding management fee invoices and performance fee invoices within the terms and conditions of the underlying agreement and in some circumstances retains the right to offset unpaid invoices against any client assets. Intercompany balances are managed centrally and agreed upon and settled on a regular basis. The company manages its cash through a UK cash-pooling arrangement between BlackRock group entities, with any cash not required for working capital invested in money market instruments or highly rated and liquid sovereign debt.

BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

HSBC is the main cash management service provider. A concentration risk does exist in respect of BlackRock Group Limited's ("BGL") main pan-European bank service provider, HSBC. BlackRock group companies maintain higher credit exposure on its cash with HSBC than with other banks because as HSBC is an AA- rated bank, the risk of default is considered negligible. The creditworthiness of HSBC is continuously monitored by both the Treasury and Risk and Quantitative Analysis departments.

Liquidity risk is the risk that the company is unable to meet financial obligations as they fall due without adversely affecting its financial position, the normal course of its business or its reputation. The liquidity risk management framework ensures that the company shall remain solvent in any reasonably foreseeable stress scenarios, factoring unlikely but plausible events. The governance framework and liquidity policy of the company are designed to: identify, quantify and monitor the liquidity needs, risks and requirements; maintain liquidity resources in excess of liquidity requirements; and maintain an appropriate governance and controls framework for the measurement, monitoring, forecasting, stress testing, usage and allocation of corporate liquidity.

Market risk

Market risk can be defined as the risk of loss resulting from fluctuations in the market value of positions and asset values attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness. Fluctuations in markets could cause the value of AUM to decline, which would result in lower investment advisory and administration fees.

As the company does not undertake trading on its own account, market risk is the risk associated with failure to realise the full value of the firm's assets as a result of fluctuations in foreign exchange rates.

The company is exposed to foreign exchange risk on all income, all expenditure and all transfer pricing (both income and expenditure) that arise in currencies other than sterling. The company is also exposed to foreign exchange risk on the revaluation of any non-sterling net assets.

Capital management

The company's objectives when managing capital are:

- to safeguard the company's ability to continue as a going concern;
- to satisfy the requirements of its regulators; and
- to maintain financial strength to support new business growth.

The company is subject to a minimum regulatory capital requirement imposed by the Financial Conduct Authority ("FCA"). In order to ensure compliance with this requirement throughout the year and to fund continued business expansion and development, a surplus was maintained throughout the year as deemed appropriate by the board of directors (the "Board").

The company takes into account the amount of its distributable reserves and its cash flow position when making any decision to pay a dividend, thus ensuring that the company is able to continue as a going concern and has a sufficient capital surplus to meet the regulatory requirement at all times during the year.

BlackRock Fund Managers Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

Regulatory Capital Requirement

The company's regulatory capital requirement is established by reference to the Alternative Investment Fund Managers Directive that was published in the Official Journal of the European Union on 1 July 2011 and transposed into UK law on 22 July 2013.

Approved by the Board on 16 March 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'R Hayes', is written over a dotted line.

R Hayes
Director

BlackRock Fund Managers Limited

Directors' Report for the Year Ended 31 December 2016

The board of directors (the "Board") present their report together with the audited Financial Statements of BlackRock Fund Managers Limited (registered number: 1102517) for the year ended 31 December 2016.

Principal activity

The principal activity of the company is the provision of investment management, advisory and administrative services.

The company is authorised and regulated by the FCA.

Dividends

Dividends of £20m were paid in 2016 (2015: £10m). The directors recommend an interim dividend payment of £50m be made in respect of the financial year ended 31 December 2016 (2015: £20m).

Directors and officers of the company

The directors, who held office during the year, were as follows:

G Bamping - Chairman

R Damm

N Hall

R Hayes

A Lawrence

A Stenning (resigned 13 December 2016)

E Tracey

T Zemek

Officers:

BlackRock Company Secretarial Services (UK) Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and 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 elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ("FRS 101"). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

BlackRock Fund Managers Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

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.

Going concern

The directors believe that the company is well placed to manage its business risks successfully despite the current economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Directors' third-party indemnity provisions

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were accordingly in force during the course of the financial year ended 31 December 2016 for the benefit of the then directors and, at the date of this report, are in force for the benefit of the directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties, powers or office.

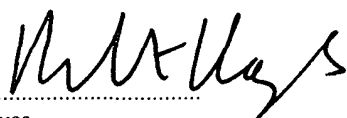
Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors

The auditors Deloitte LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 16 March 2017 and signed on its behalf by:



.....
R Hayes
Director

BlackRock Fund Managers Limited

Independent Auditor's Report to the Members of BlackRock Fund Managers Limited

We have audited the financial statements of BlackRock Fund Managers Limited for the year ended 31 December 2016, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes set out on pages 13 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities (set out on page 6), 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. 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.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

BlackRock Fund Managers Limited

Independent Auditor's Report to the Members of BlackRock Fund Managers Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit



Stuart McLaren (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London
United Kingdom

16 March 2017

BlackRock Fund Managers Limited

Profit and Loss Account for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Turnover	4	35,757	43,950
Administrative expenses		<u>(13,707)</u>	<u>(18,550)</u>
Operating profit	6	<u>22,050</u>	<u>25,400</u>
Interest receivable and similar income	9	42	145
Other gains	5	<u>31,002</u>	<u>-</u>
		<u>31,044</u>	<u>145</u>
Profit before tax		53,094	25,545
Tax on profit on ordinary activities	10	<u>(4,417)</u>	<u>(5,172)</u>
Profit for the year		<u><u>48,677</u></u>	<u><u>20,373</u></u>

Turnover and operating profit derive wholly from continuing operations.

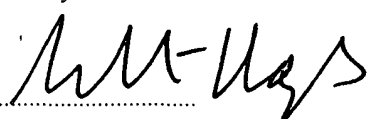
The company has no other comprehensive income for the year other than the results above.

BlackRock Fund Managers Limited

(Registration number: 1102517)
Balance Sheet as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Fixed assets			
Investments	11	-	7,490
Current assets			
Debtors: amounts falling due within one year	13	271,333	209,349
Cash and cash equivalents		<u>118,926</u>	<u>76,033</u>
		390,259	285,382
Creditors: amounts falling due within one year	14	<u>(316,826)</u>	<u>(248,116)</u>
Net current assets		<u>73,433</u>	<u>37,266</u>
Net assets		<u>73,433</u>	<u>44,756</u>
Capital and reserves			
Called up share capital	15	18,100	18,100
Profit and loss account		<u>55,333</u>	<u>26,656</u>
Shareholders' funds		<u>73,433</u>	<u>44,756</u>

Approved by the Board on 16 March 2017 and signed on its behalf by:



R Hayes

Director

BlackRock Fund Managers Limited

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2016	18,100	26,656	44,756
Profit for the year	-	48,677	48,677
Dividends	-	(20,000)	(20,000)
At 31 December 2016	<u>18,100</u>	<u>55,333</u>	<u>73,433</u>

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2015	18,100	16,283	34,383
Profit for the year	-	20,373	20,373
Dividends	-	(10,000)	(10,000)
At 31 December 2015	<u>18,100</u>	<u>26,656</u>	<u>44,756</u>

The notes on pages 13 to 24 form an integral part of these financial statements.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

1 General information

The company is a private company limited by share capital incorporated and domiciled in the UK.

The address of its registered office is:

12 Throgmorton Avenue

London

EC2N 2DL

These financial statements were authorised for issue by the Board on 16 March 2017.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The company meets the definition of a qualifying entity under Application of Financial Reporting Requirements 100 ("FRS 100") as issued by the Financial Reporting Council ("FRC"). Accordingly, in the year ended 31 December 2016 the company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") issued by the FRC incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes, and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

Summary of disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash flow statement, standards not yet effective, impairment of assets, share-based payments and related party transactions.

Where required, equivalent disclosures are given in the group accounts of BlackRock, Inc. These accounts are available to the public and can be obtained as set out in note 20.

Exemption from preparing group accounts

The financial statements contain information about BlackRock Fund Managers Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, BlackRock, Inc., a company incorporated in United States of America.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 5, along with key risks facing the company.

In assessing the company's going concern status, the directors have taken into account the above factors, including the financial position of the company and in particular the significant net-cash position. The company has, at the date of this report, sufficient existing finances available for its estimated requirements for the next twelve months. This, together with its proven ability to generate cash from operations, provides the directors with the confidence that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Foreign currency transactions and balances

The financial statements are presented in sterling, which is the currency of the primary economic environment in which the company operates (its functional currency).

Transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of VAT or trade discounts.

Investment advisory and administration fees are recognised as the services are performed. Such fees are primarily based on pre-determined percentages of the market value of AUM.

The company contracts with third parties and related parties for various fund distribution and shareholder servicing to be performed on behalf of certain funds managed by the company. Such arrangements generally are priced as a portion of the management fee paid by the fund. In certain cases, the fund takes on the primary responsibility for payment for services such that BlackRock bears no credit risk to the third party. The company accounts for such retrocession arrangements in accordance with IAS 18 Revenue and records its management fees net of retrocessions.

The company receives performance fees or incentive allocations from alternative investment products and certain separately managed accounts. These are earned upon exceeding specified relative and/or absolute investment return thresholds. Such fees are recorded upon completion of the measurement period, which varies by product or account, and could be monthly, quarterly, annually or longer.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Tax

Income tax expense represents the sum of the tax currently payable.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Investments

Investments are equity holdings in subsidiaries. They are measured at cost less any provision for impairment.

Investments are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Dividends

Dividends payable are included in the financial statements in the period in which they are approved by the directors.

Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities

Classification

Financial assets are classified as:

- "loans and receivables".

Financial liabilities are classified as "other financial liabilities".

Debt and equity instruments are classified as financial liabilities in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Recognition and measurement

This classification depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets or liabilities are recognised and derecognised on a trade date basis. Regular way purchases or sales are those that require delivery of assets within the time frame established by regulation or convention of market place.

Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the profit or loss.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income or expense is recognised on an effective interest basis for financial assets or liabilities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting date. Financial assets are impaired when there is any objective evidence that, as a result of one or more events that occurred after the initial recognition of a financial asset, the estimate of the future cash flows of the investment have been impacted.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risk and reward of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risk and reward of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had previously been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or they expire. The difference between carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The following are the critical judgements that the directors have made.

Disclosure of interests in other entities

Management's judgement has been exercised when applying the principles of IFRS 12 Disclosure of Interests in Other Entities to the disclosure of interests in other entities.

Full details are set out in note 12.

4 Turnover

The analysis of the company's turnover for the year from continuing operations is as follows:

	2016 £ 000	2015 £ 000
Management fees	31,823	30,098
Performance fees	3,483	12,848
Other revenue	451	1,004
	<u>35,757</u>	<u>43,950</u>

Turnover includes net management fee expenses to other group companies of £171,083,000 (2015: £214,124,000).

5 Other gains and losses

The analysis of the company's other gains and losses for the year is as follows:

	2016 £ 000
Gain from disposals of investments	<u>31,002</u>

Further detail on the disposal of investments is provided in note 11.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

6 Operating profit

Arrived at after crediting/(charging)

	2016 £ 000	2015 £ 000
Foreign exchange gains/(losses)	<u>2,296</u>	<u>(3,725)</u>

7 Directors' remuneration

The directors' remuneration for the year was as follows:

	2016 £ 000	2015 £ 000
Aggregate emoluments	804	834
Company contributions in respect of defined contribution pension schemes	<u>12</u>	<u>26</u>
	<u>816</u>	<u>860</u>

Of the 8 (2015: 8) directors that served during the year, no directors were remunerated by the company (2015: no directors). The amounts included above relate to their service as directors of the company based on an estimated time allocation basis except 3 (2015: 2) directors, who were paid an agreed fee.

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2016 No.	2015 No.
Received or were entitled to receive shares under service condition based schemes	5	6
Accruing benefits under defined contribution pension scheme	<u>3</u>	<u>3</u>

During the year, no directors (2015: no directors) exercised BlackRock, Inc. share options.

In respect of the highest paid director:

	2016 £ 000	2015 £ 000
Aggregate emoluments	274	323
Company contributions to defined benefit schemes	<u>8</u>	<u>15</u>
	<u>282</u>	<u>338</u>

During the year the highest paid director received or was entitled to receive shares under a long term incentive scheme.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

8 Auditors' remuneration

	2016 £ 000	2015 £ 000
Audit of the financial statements	<u>230</u>	<u>245</u>
Other fees to auditors		
The auditing of accounts of any associate of the company	-	48
Audit-related assurance services	<u>116</u>	<u>24</u>
	<u>116</u>	<u>72</u>

Audit remuneration has been borne by another group company in the current and preceding years.

9 Interest receivable and similar income

	2016 £ 000	2015 £ 000
Interest income on bank deposits	<u>42</u>	<u>145</u>

Interest receivable principally relates to interest received on cash and the UK cash-pooling arrangement. See note 14.

10 Income tax

Tax charged/(credited) in the profit and loss account:

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax	4,418	5,173
UK corporation tax adjustment to prior periods	<u>(1)</u>	<u>(1)</u>
Total current income tax	<u>4,417</u>	<u>5,172</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2015: lower than the standard rate of corporation tax in the UK) of 20% (2015: 20.25%).

The differences are reconciled below:

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

10 Income tax (continued)

	2016 £ 000	2015 £ 000
Profit before tax	53,094	25,545
Corporation tax at standard rate	10,619	5,173
Decrease in current tax from adjustment for prior periods	(1)	(1)
Decrease from effect of revenues exempt from taxation	(6,201)	-
Total tax charge	4,417	5,172

During the year, group relief previously claimed by another group company was reallocated to the Company for nil payment. The group company surrendering this relief has an ongoing open matter with Her Majesty's Revenue and Customs. If this open matter is resolved in favour of the group company, then the Company's tax liability will decrease by approximately £2,900,000.

11 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2015	7,490
At 31 December 2015	7,490
At 1 January 2016	7,490
Disposals	(7,490)
At 31 December 2016	-

Details of the subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2016	2015
BlackRock Investment Management (Korea) Limited	Provider of investment management, investment advisory services and discretionary investment business	Republic of Korea	0%	100%

BlackRock Investment Management (Korea) Limited was sold to BlackRock (Singapore) Holdco Pte. Ltd on 27 October 2016 for consideration of £38.5m.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Interests in unconsolidated structured entities

The company manages several investment funds, some of which are considered to be structured entities within the definition of IFRS 12, and which are not consolidated. The company receives an interest in these unconsolidated structured entities through the receipt of management fees, performance fees and revenue from related parties. The unconsolidated structured entities are constituted as open-ended and closed-ended investment companies, limited partnerships and investment trusts. These unconsolidated structured entities invest in a range of asset classes as detailed in the table below which also sets out the carrying values of the company's interest in these unconsolidated structured entities as recognised in the balance sheets as at 31 December 2015 and 31 December 2016 and the management fee, performance fee and revenue from related parties recognised in the company's profit and loss accounts for the years ended 31 December 2015 and 31 December 2016. The total AUM for these funds amounts to £60.9bn (2015: £46.0bn) which primarily includes AUM for which the company is the legally contracted entity.

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest capital primarily from third-party investors in a portfolio of assets in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, they are susceptible to market price risk arising from uncertainties about future values of the assets they hold.

The unconsolidated structured entities are financed through equity capital provided by investors.

The following table summarises the company's maximum exposure to loss by activity, from its interests in unconsolidated structured entities as at 31 December 2016.

Asset class	Net revenues £ 000	Fees paid in arrears £ 000
Alternative mandates	12,562	15,626
Cash management mandates	979	3,182
Equity mandates	15,563	193,650
Fixed income mandates	2,635	44,353
Multi-asset class mandates	4,018	13,345
	<u>35,757</u>	<u>270,156</u>

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Interests in unconsolidated structured entities (continued)

The following table summarises the company's maximum exposure to loss by activity, from its interests in unconsolidated structured entities as at 31 December 2015.

Asset class	Net revenues £ 000	Fees paid in arrears £ 000
Alternative mandates	18,023	9,677
Cash management mandates	278	1,634
Equity mandates	21,287	163,414
Fixed income mandates	3,360	19,928
Multi-asset class mandates	1,002	14,571
	<u>43,950</u>	<u>209,224</u>

Maximum exposure to loss

The company's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount of accrued income shown in the table above.

Financial support

The company has not provided financial support to any of its unconsolidated structured entities during the year, and has no contractual obligations or current intention of providing financial support in the future.

Other information

There are no differences to the economic or voting rights attaching to the equity held by the company from those held by other investors. There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the company's interest in the unconsolidated structured entities.

13 Debtors: amounts falling due within one year

	2016 £ 000	2015 £ 000
Trade debtors	220,468	155,436
Amounts due from group companies	1,055	3
Accrued income	49,688	53,788
Prepayments	122	122
	<u>271,333</u>	<u>209,349</u>

Following a review of asset classifications, £53,788,000 has been reclassified from trade debtors to accrued income in the 2015 comparatives in order to more accurately reflect the nature of the balances.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

14 Creditors: amounts falling due within one year

	2016 £ 000	2015 £ 000
Trade creditors	211,198	144,809
Accrued expenses	6,429	3,329
Other taxes	426	941
Corporation tax liability	4,418	5,173
Amounts due to group companies	94,355	93,864
	<u>316,826</u>	<u>248,116</u>

Following a review of liability classifications, £3,329,000 has been reclassified from other creditors to accrued expenses in the 2015 comparatives in order to more accurately reflect the nature of the balances.

Cash management within the BlackRock group is governed by a UK cash pooling arrangement. Surplus cash from BlackRock group companies is swept into HSBC accounts held by BlackRock Investment Management (UK) Limited ("BIM"). Any amounts contributed by the company are treated as an intercompany loan receivable from BIM. The balance receivable from BIM of £63,931,000 (2015: £25,099,000) in relation to this arrangement is netted against the liability due to BIM and included within amounts due to group companies.

All amounts due to group companies are unsecured and repayable on demand.

15 Share capital

Allotted, called up and fully paid shares

	No. 000	2016 £ 000	No. 000	2015 £ 000
Ordinary shares of £1 each	<u>18,100</u>	<u>18,100</u>	<u>18,100</u>	<u>18,100</u>

16 Dividends

The directors are proposing a final dividend of £2.76 (2015: £1.10) per share totalling £50,000,000 (2015: £20,000,000). This dividend has not been accrued in the balance sheet.

17 Contingent liabilities

The company is an authorised institution and operates in the UK or overseas within the regulatory framework established by the FCA or overseas by local regulatory bodies.

In the normal course of business, the company may, from time to time, be subject to claims, actions or proceedings. While there can be no assurances, the directors believe, based on information currently available to them, that the likelihood of a material outflow of economic benefits is not probable.

BlackRock Fund Managers Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

18 Financial instruments

The company has no financial assets or liabilities measured at fair value.

19 Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

Details of Directors' emoluments are set out in note 7. There are no personnel other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the company.

20 Parent and ultimate parent undertaking

The company's immediate holding company is BlackRock Investment Management (UK) Limited and the ultimate parent company and controlling party is BlackRock, Inc. a company incorporated in the State of Delaware in the United States of America. The parent company of the largest and smallest group that includes the company and for which group accounts are prepared is BlackRock, Inc. Copies of the group financial statements are available upon request from the Investor Relations website at www.blackrock.com or requests may be addressed to Investor Relations at 55 East 52nd Street, New York, NY 10055, USA or by email at invrel@blackrock.com.