

Registered number: 06345321

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**BODIAM HILL LIMITED**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**BODIAM HILL LIMITED**

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**COMPANY INFORMATION**

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**DIRECTORS**

A. J. Horton  
P. Sood

**COMPANY SECRETARY**

Merrill Lynch Corporate Services Limited

**REGISTERED NUMBER**

06345321

**REGISTERED OFFICE**

2 King Edward Street  
London  
EC1A 1HQ

**INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

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**STRATEGIC REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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The directors present their Strategic Report on Bodiam Hill Limited (the "Company") for the year ended 31 December 2017.

**BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

The principal activity of the Company is acting as an investment holding company within the Bank of America Corporation ("BAC") group of companies. The Company derives income from the investment of funds with an intermediate parent company, Bank of America, National Association ("BANA") and external lending.

There have been no changes in the principal activity of the Company during the year and the directors expect the principal activity to continue in 2018.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Company's risk management objectives and policies, as well as exposures in relation to the seven key risk types (market, credit, operational, liquidity, reputational, strategic and compliance risks) are described in the notes to the financial statements (see note 21).

**FINANCIAL KEY PERFORMANCE INDICATORS**

The profit for the year amounted to £591,000 (2016: £843,000).

Available-for-sale financial assets as at 31 December 2017 was £86,274,000 (2016: £79,234,000).

The Company had net assets at 31 December 2017 of £145,778,000 (2016: £144,423,000).

BAC manages its operations on a divisional basis. For this reason, the Company's directors believe that further key business performance indicators for the Company are not necessary.

This report was approved by the Board on 26 June 2018 and signed on its behalf by:



**A.J. Horton**  
Director

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2017.

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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 IFRSs as adopted by the European Union have 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.

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.

**RESULTS AND DIVIDENDS**

The Company profit for the year after providing for income tax was £591,000 (2016: £843,000).

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £nil).

**DIRECTORS**

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

A.J. Horton (appointed 12/05/2017)  
P. Sood

**DIRECTORS' THIRD PARTY INDEMNITY PROVISIONS**

The directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**MATTERS COVERED IN THE STRATEGIC REPORT**

Details regarding a review of the business, including future developments and principal risks and uncertainties, financial risk management and financial key performance indicators are provided in the Strategic Report on page 1.

**DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

This report was approved by the Board on 26 June 2018 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'A.J. Horton', written over a horizontal line.

**A.J. Horton**  
Director

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BODIAM HILL LIMITED**

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**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**OPINION**

In our opinion, Bodiam Hill Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement for the year ended 31 December 2017, the statement of comprehensive income for the year ended 31 December 2017, the statement of cash flows for the year ended 31 December 2017, the statement of changes in equity for the year ended 31 December 2017; and the notes to the financial statements, which include a description of the significant accounting policies.

**BASIS FOR OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**CONCLUSIONS RELATING TO GOING CONCERN**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BODIAM HILL LIMITED**

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**REPORTING ON OTHER INFORMATION**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

***Strategic Report and Directors' Report***

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 year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

**RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT**

***Responsibilities of the directors for the financial statements***

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BODIAM HILL LIMITED**

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***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

***Use of this report***

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.

**OTHER REQUIRED REPORTING**

**COMPANIES ACT 2006 EXCEPTION REPORTING**

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Simon White (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
26 June 2018

**BODIAM HILL LIMITED****INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £'000	2016 £'000
Interest income	3	2,464	1,718
Interest expense	4	(666)	(701)
Other operating income	5	312	127
<b>Operating profit</b>		<b>2,110</b>	<b>1,144</b>
Administrative expenses	6	(1,167)	(296)
<b>Profit on ordinary activities before taxation</b>		<b>943</b>	<b>848</b>
Tax on profit on ordinary activities	10	(352)	(5)
<b>Profit for the year</b>		<b>591</b>	<b>843</b>

The notes on pages 12 to 24 form part of these financial statements.

**BODIAM HILL LIMITED****STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £'000	2016 £'000
<b>Profit for the year</b>		<b>591</b>	<b>843</b>
<b>Other comprehensive income</b>			
Gain on available-for-sale financial assets	11	919	382
Deferred tax fair value adjustment on available-for-sale financial assets		(156)	(69)
<b>Total comprehensive income for the year</b>		<b>1,354</b>	<b>1,156</b>

The notes on pages 12 to 24 form part of these financial statements.


**BODIAM HILL LIMITED****STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017**

Registered number: 06345321

	Note	2017 £'000	2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Available-for-sale financial assets	11	<u>86,274</u>	<u>79,234</u>
<b>Current assets</b>			
Interest receivable	12	104	40
Cash and cash equivalents	13	<u>146,978</u>	<u>145,033</u>
<b>Total assets</b>		<u>233,356</u>	<u>224,307</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	14	100	100
Capital contribution		140,000	140,000
Retained earnings		<u>5,678</u>	<u>4,323</u>
<b>Total equity</b>		<u>145,778</u>	<u>144,423</u>
<b>Current liabilities</b>			
Amounts due to affiliated undertakings	15	86,486	79,525
Income tax payable		179	179
Deferred income	16	<u>757</u>	<u>180</u>
<b>Non-current liabilities</b>			
Deferred tax	17	<u>156</u>	<u>-</u>
<b>Total liabilities</b>		<u>87,578</u>	<u>79,884</u>
<b>Total equity and liabilities</b>		<u>233,356</u>	<u>224,307</u>

The notes on pages 12 to 24 form part of these financial statements.

The financial statements on pages 7 to 24 were approved and authorised for issue by the Board on 26 June 2018 and signed on its behalf by:



**A. J. Horton**  
Director

**BODIAM HILL LIMITED****STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2016	100	140,000	3,167	143,267
Comprehensive income				
Total comprehensive income for the year	-	-	1,157	1,157
Balance as at 31 December 2016 and 1 January 2017	100	140,000	4,324	144,424
Comprehensive income				
Total comprehensive income for the year	-	-	1,354	1,354
Balance as at 31 December 2017	100	140,000	5,678	145,778

The notes on pages 12 to 24 form part of these financial statements.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>			
Profit on ordinary activities before taxation		943	848
Adjustment for:			
Interest income	3	(2,464)	(1,718)
Interest expense	4	666	701
Fee income	5	(312)	(127)
Administrative expenses	6	1,167	296
		<u>(943)</u>	<u>(848)</u>
<b>Cash used in operations:</b>			
(Origination) / repayment of available-for-sale financial assets	11	(6,121)	11,740
Loan fees received		312	-
Interest received		2,977	1,736
Interest paid		(668)	(704)
Service fees paid		(53)	(292)
Income tax paid		<u>(623)</u>	<u>-</u>
<b>Net cash (used in) / generated from operating activities</b>		<u>(4,176)</u>	<u>12,480</u>
<b>Cash flows from financing activities</b>			
Financing from affiliated undertakings		6,121	(11,740)
<b>Net cash generated from / (used in) financing activities</b>		<u>6,121</u>	<u>(11,740)</u>
<b>Net increase in cash and cash equivalents</b>		<b>1,945</b>	<b>740</b>
Cash and cash equivalents at beginning of year	13	<u>145,033</u>	<u>144,293</u>
<b>Cash and cash equivalents at end of year</b>		<u><b>146,978</b></u>	<u><b>145,033</b></u>

The notes on pages 12 to 24 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1. ACCOUNTING POLICIES**

The principal accounting policies, which have been applied consistently throughout the current and prior year, are set out below.

**1.1 Incorporation and domicile information**

The Company is a limited liability company which is incorporated and domiciled in the United Kingdom.

**1.2 Basis of accounting**

These financial statements have been prepared in accordance with IFRSs as adopted by the European Union ("IFRSs as adopted by the EU"), and the Companies Act 2006 as applicable to companies reporting under IFRS and IFRS Interpretations Committee ("IFRS IC") interpretations. The financial statements have been prepared on a going concern basis. They have been prepared under the historical cost convention as set out in the relevant accounting policies.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies (see note 2 – Critical accounting estimates and judgements).

*(a) New standards, amendments and interpretations*

There are no standards, amendments or interpretations that are effective for the first time for the financial year beginning 1 January 2017 that have had a material impact on the Company.

*(b) New standards, amendments and interpretations not yet adopted*

IFRS 9 - Financial Instruments ("IFRS 9") and IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") became effective for accounting periods beginning on or after 1 January 2018 and the Company has adopted IFRS 9 and IFRS 15 from this date. Neither of these are expected to have a significant effect on the financial statements of the Company.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 - Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

A global project team was established for the implementation of IFRS 9, including senior management from Front Line Units, Risk, Finance and other functions as necessary to review the impact of the changes and revise accounting processes and internal controls. Under the new classification and measurement requirements, the majority of the Company's financial assets and liabilities will continue to be measured on the same bases as currently adopted under IAS 39.

IFRS 9 implements an expected credit loss model that replaces the incurred loss impairment model used in IAS 39. Expected credit losses are recorded on a 12-month or lifetime basis depending on whether there has been a significant increase in the credit risk of the financial instrument. The Company will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of expected credit losses using a variety of economic scenarios aligned to those used for other purposes such as strategic planning and budgeting.

For liabilities designated at fair value through profit or loss, IFRS 9 requires the recognition of changes in own credit risk in other comprehensive income. Classification and measurement of financial liabilities are otherwise unchanged.

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1. ACCOUNTING POLICIES (continued)**

**1.2 Basis of accounting (continued)**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new standard does not impact the timing or measurement of the Company's revenue recognition as it is consistent with the Company's existing accounting for contracts within the scope of the new standard. The Company's presentation of certain costs, which are primarily related to underwriting activities, will be presented as operating expenses under the new standard rather than presented net in investment banking fee income. The new accounting standard is not expected to have a material impact on the Company's income statement or statement of financial position.

**1.3 Going concern**

The directors have a reasonable expectation, based on current and anticipated future performance that the Company will continue in operational existence for the foreseeable future. The financial statements of the Company have, therefore, been prepared on a going concern basis.

**1.4 Translation of foreign currencies**

The financial statements are presented in Pounds Sterling ("GBP") which is the Company's functional currency.

Transactions in foreign currencies are translated into GBP at the rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into GBP at rates of exchange ruling at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Exchange gains and losses are recognised in the statement of comprehensive income.

**1.5 Financial instruments**

The Company classifies its financial assets in the following categories; as loans and receivables and available for sale.

**a) Loans and receivables**

Loans and receivables are initially recognised at fair value including any premiums, and are subsequently carried at amortised cost using the effective interest method less an allowance for any impairment.

**b) Available-for-sale financial assets**

Available-for-sale financial assets are those intended to be held for an undefined period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are initially recognised at fair value including direct and incremental transaction costs and interest calculated using the effective interest method is recognised in the Statement of Comprehensive Income on an accruals basis. Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1. ACCOUNTING POLICIES (continued)**

**1.5 Financial instruments (continued)**

**c) Financial liabilities**

The Company's financial liabilities, consisting of financing from BANA, are measured at amortised cost using the effective interest method.

**d) Deferred income**

Loan facility and arrangement fees are deferred and recognised over the life of the facility.

**1.6 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and short term deposits with maturities of three months or less from the end of the reporting period with affiliated undertakings.

**1.7 Financial reporting by segments**

The Company derives operating revenue from one principal business activity; acting as an investment company. The Company's income is all generated in the United Kingdom. Accordingly, segmental data has not been disclosed.

**1.8 Other operating income**

Other operating income represents income from fees recognised on an accruals basis.

**1.9 Interest income and expense**

Interest income and expense, for all interest bearing financial instruments, are recognised on an accruals basis using the effective interest method.

**1.10 Taxation**

Current tax, including UK corporation tax and foreign taxes, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and is measured at the average tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**
**1. ACCOUNTING POLICIES (continued)**
**1.11 Fair value of financial instruments designated at fair value**

The fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments including as appropriate reference to original execution price. These models incorporate observable, and in some cases unobservable inputs including delinquency ratios, default ratios and payment ratios and correlations between these inputs and spreads in secondary markets.

Where models are used to determine fair values, they are subject to a monthly price testing review by qualified personnel independent of the area that created them. These estimation techniques are necessarily subjective in nature and involve several assumptions.

**2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**a) Loans and receivables**

The Company's accounting policy for losses in relation to the impairment of loans is described in note 1.4. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of loans before the decrease can be identified. Management uses estimates based on historical loss experience and experience of losses that have been incurred but not yet identified for assets with credit risk characteristics and objective evidence of impairment when estimating its future cash flows.

**b) Available-for-sale financial assets**

The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. These models incorporate observable, and in some cases unobservable inputs.

**3. INTEREST INCOME**

	2017 £'000	2016 £'000
Interest receivable from cash deposit with BANA	321	508
Interest receivable from available-for-sale financial assets	2,143	1,210
	<u>2,464</u>	<u>1,718</u>
Amounts relating to affiliated entities	<u>321</u>	<u>508</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**4. INTEREST EXPENSE**

	2017 £'000	2016 £'000
Interest payable on loans from affiliated entities (note 16)	666	701

**5. OTHER OPERATING INCOME**

	2017 £'000	2016 £'000
Loan fees received from external counterparty	312	127

**6. ADMINISTRATIVE EXPENSES**

	2017 £'000	2016 £'000
Service fees payable to affiliated undertakings	1,167	296

**7. REMUNERATION OF AUDITORS**

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of Company's financial statements	20	7

Audit fees are paid by the Company's parent company. The auditors did not receive any other fees in respect of their audit or other services (2016: £nil).

**8. EMPLOYEES**

The Company has no employees other than the directors, who did not receive any remuneration (2016: no remuneration) for their services to the Company.

**9. DIRECTORS' REMUNERATION**

No director received any remuneration for services as a director of the Company during the year ended 31 December 2017 (2016: no remuneration).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**
**10. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	2017 £'000	2016 £'000
<b>Current tax:</b>		
UK corporation tax on profits of the year	359	93
Adjustments to tax charge in respect of previous periods	(7)	(88)
<b>Tax on profit</b>	<b>352</b>	<b>5</b>

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK applicable to the Company at 19.25% (2016: 20.00%). The differences are explained below:

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	947	848
Tax calculated at UK tax rates applicable of 19.25% (2016: 20.00%)	182	170
Tax effects of:		
Adjustments to tax charge in respect of previous periods	(7)	(89)
Movement of temporary differences	177	(76)
<b>Total tax charge for the year</b>	<b>352</b>	<b>5</b>

**11. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	2017 £'000	2016 £'000
<b>At 1 January</b>	<b>79,234</b>	<b>90,592</b>
Repayment / (draw down)	6,121	(11,740)
Gain from changes in fair value	919	382
<b>At 31 December</b>	<b>86,274</b>	<b>79,234</b>
Less non-current portion	(86,274)	(79,234)
<b>Current portion</b>	<b>-</b>	<b>-</b>

Available-for-sale financial assets consist of a term note for £25,000,000 and a variable funding note ("VFN") that at 31 December 2017 had a notional of £85,355,000 (2016: £47,234,000) to an external counterparty. The term note and the VFN both have a maturity date of 10 August 2020. None of the financial assets are past due. Interest on the available-for-sale assets is earned at a rate of one month GBP LIBOR rate plus 0.90% (2016: LIBOR rate plus 1.00%). During 2017 the agreement with the external counterparty was restructured and extended.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**
**12. INTEREST RECEIVABLE**

	2017 £'000	2016 £'000
Interest receivable on deposit with BANA	18	10
Interest receivable on term note and VFN	86	30
	<u>104</u>	<u>40</u>
Amounts relating to affiliated entities	<u>18</u>	<u>10</u>

**13. CASH AND CASH EQUIVALENTS**

	2017 £'000	2016 £'000
Cash at bank	4,725	3,094
Short term deposit with BANA	<u>142,253</u>	<u>141,939</u>
	<u>146,978</u>	<u>145,033</u>

Interest on the short term interest bearing deposit with BANA is based on one month GBP LIBOR rate. At the end of the reporting year the interest rate of the deposit was 0.45% (2016: 0.2%).

**14. SHARE CAPITAL**

	2017 £'000	2016 £'000
Allotted, called up and fully paid 100,000 (2016: 100,000) ordinary shares £1 each	<u>100</u>	<u>100</u>

**15. AMOUNTS DUE TO AFFILIATED UNDERTAKINGS**

	2017 £'000	2016 £'000
Loan from BANA London Branch	85,364	79,234
Amounts due to other affiliated undertakings	<u>1,122</u>	<u>291</u>
	<u>86,486</u>	<u>79,525</u>

The Company has a revolving facility with BANA London Branch which is drawn upon as and when required. Interest is based on one month GBP LIBOR plus 47 basis points. The interest rate on the loan at 31 December 2017 was 0.52781% (2016: 0.71031%). Fair value is deemed to be the book value due to the short term nature.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**
**16. DEFERRED INCOME**

	2017 £'000	2016 £'000
Deferred income	<u>757</u>	<u>180</u>

Deferred income represents unamortised loan fees received.

**17. DEFERRED TAX**

	2017 £'000	2016 £'000
<b>Non-current tax:</b>		
Fair value adjustment in relation to available-for-sale assets	<u>(156)</u>	<u>-</u>

	2017 £'000	2016 £'000
Deferred tax asset / (liability) at 1 January	-	69
Deferred tax charged to equity	<u>(156)</u>	<u>(69)</u>
Deferred tax asset / (liability) at 31 December	<u>(156)</u>	<u>-</u>

Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income.

**18. OTHER FINANCIAL COMMITMENTS**

At the year ended 31 December 2017 the Company has undrawn commitments to external counterparties of £260,245,000 (2016: £20,765,000).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**
**19. FINANCIAL INSTRUMENTS BY CATEGORY**

The following table analyses the carrying amount of the Company's financial assets and liabilities by category and by balance sheet heading:

**Summary of financial instruments at 31 December 2017**

	Note	Available- for-sale £'000	Loans and receivables £'000	Other financial liabilities at amortised cost £'000
<b>Non-current assets</b>				
Available-for-sale financial assets	11	86,274	-	-
<b>Current assets</b>				
Interest receivable	12	-	104	-
Cash and cash equivalents	13	-	146,978	-
<b>Liabilities</b>				
Loans from affiliated undertakings	15	-	-	86,486

**Summary of financial instruments at 31 December 2016**

	Note	Available- for-sale £'000	Loans and receivables £'000	Other financial liabilities at amortised cost £'000
<b>Non-current assets</b>				
Available-for-sale financial assets	11	79,234	-	-
<b>Current assets</b>				
Interest receivable	12	-	40	-
Cash and cash equivalents	13	-	145,033	-
<b>Liabilities</b>				
Loans from affiliated undertakings	15	-	-	79,525

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**20. FAIR VALUE MEASUREMENTS**

Financial instruments carried at fair value have been categorised into levels based on the observability of pricing information.

Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

The table below presents the carrying value of financial instruments held at fair value across the three levels of the fair value hierarchy.

**As at 31 December 2017**

	Note	Level 2 £'000
<b>Non-current assets</b>		
Available-for-sale financial assets	11	86,274

**As at 31 December 2016**

	Note	Level 2 £'000
<b>Non-current assets</b>		
Available-for-sale financial assets	11	79,234

**21. FINANCIAL RISK MANAGEMENT**

BAC has established a risk governance framework (the "Risk Framework") which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries (including the Company). The Risk Framework applies to all the employees. It provides an understanding of the Company's approach to risk management and each employee's responsibilities for managing risk. All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Company. The following are the five components of the Company's risk management approach:

- Risk Culture;
- Risk Appetite;
- Risk Management Processes;
- Risk Data Aggregation and Reporting; and
- Risk Governance

The seven key types of risk faced by BAC Businesses as defined in the Risk Framework are market, credit, operational, liquidity, reputational, strategic and compliance risks.

Set out below is a summary of the Company's approach to its key risk types.



**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**21. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk**

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities or otherwise negatively impact earnings.

**Interest rate risk**

Interest rate risk is the potential for loss due to adverse changes in interest rates.

The Company's main exposure to interest rate risk is through deposits placed with BANA and external lending.

Interest income on the time deposits is based on the British Bankers' Association interest rate fixings. As at 31 December 2017, a 0.5% movement in the interest rate would result in a £735,000 (2016: £725,000) movement in the Company's profit before income tax for the year on the time deposit. A 0.5% movement on the external lending would result in a £427,000 (2016: £399,000) movement in the Company's profit before income tax for the year.

**Credit risk**

BAC defines credit risk as the loss arising from the inability or failure of a borrower or counterparty to meet its obligations. The Company defines the credit exposure to a counterparty as the loss potential arising from product classifications, including loans, leases, derivatives and other extensions of credit.

In line with the BAC Risk Framework, credit risk to a borrower or counterparty is managed based on the risk profile of the borrower or counterparty, which includes repayment sources, underlying collateral (if any), and the expected impacts of the current and forward-looking economic environment on these borrowers or counterparties. Underwriting, credit management and credit risk limits are proactively reassessed as a borrower's or counterparty's risk profile changes.

Credit management includes the following processes:

- Credit origination
- Portfolio management
- Loss mitigation activities

Managing through these processes creates a comprehensive and consolidated view of our enterprise wide credit risk activities, thus providing executive management the information required to guide or redirect strategic plans.

The main source of credit risk for the Company arises from its deposits with affiliates and external lending. The directors consider this risk to be minimal due to the fact that the cash is with an affiliated entity, who has a short term credit rating of A-1 (2016: A-1) from Standard & Poor's and available-for-sale loans has a credit rating of AAA (2016: AAA) from Standard & Poor's.

At 31 December 2017 there was a gain arising from changes in the fair value of available-for-sale financial assets gross of deferred tax £919,000 (2016: £382,000).

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017****21. FINANCIAL RISK MANAGEMENT (continued)****Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, which is the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of the Company to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of the Company's business. Although operational risk excludes strategic and reputational risks, operational risk may impact or be impacted by these risks.

**Liquidity risk**

Liquidity risk is the inability to meet expected or unexpected cash flow and collateral needs while continuing to support the businesses and customers, under a range of economic conditions.

**Reputational risk**

Reputational Risk is the potential risk that negative perceptions of BAC's conduct or business practices will adversely affect its profitability or operations through an inability to establish new or maintain existing customer / client relationships or otherwise impact relationships with key stakeholders, such as investors, regulators, employees and the community.

**Strategic risk**

Strategic Risk is the risk that results from incorrect assumptions about external and/or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic and competitive environments.

**Compliance risk**

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of BAC arising from the failure of BAC to comply with requirements of applicable laws, rules and regulations and related self-regulatory organizations' standards and codes of conduct.

**Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for its immediate parent and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may pay dividends to its immediate parent, return capital to its immediate parent, or issue new shares.

The Company's capital consists of share capital, capital contribution and audited retained earnings. At 31 December 2017, the Company's total capital was £145,778,000 (2016 £144,423,000). The capitalisation ratio of 168.56% (2016: 181.61%) allows sufficient headroom for future funding requirements.

**Capitalisation ratio:**

	2017 £'000	2016 £'000
Equity	145,778	144,423
Issued debt	86,486	79,525
Capitalisation ratio	<u>168.56%</u>	<u>181.61%</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**22. RELATED PARTY INFORMATION**

**(a) Group entities**

A party or a close member of the family of any individual is related to the Company if directly or indirectly through one or more intermediaries, they; control, is controlled or under common control, has a significant interest or joint control of the Company. A party is also related if it is an associate, joint venture, post-employment benefit plan, member of key management personnel and or a close member of the family of key management personnel.

**(b) Key management personnel**

The board of directors represents key management personnel. A list of directors who served throughout the year is set out in the directors' report on page 2.

**(c) Transactions with related parties**

BANA, the Company's immediate parent is the holder of all 100,000 ordinary shares (£100,000). The Company has entered into a loan contract with BANA which at 31 December 2017 amounted to £86,486,000 (2016: £79,525,000). Details are disclosed in note 15 to these financial statements.

The Company has a short term deposit with BANA, which at 31 December 2017 amounted to £142,253,000 (2016: £141,939,000). The short term deposit is interest bearing, generating interest income in 2017 of £321,000 (2016: £508,000). Interest receivable on this balance at 31 December 2017 was £18,000 (2016: £10,000). Details are disclosed in notes 3, 12 and 13 to these financial statements.

BAC, the ultimate controlling party, has the power to govern the Company.

**23. ULTIMATE CONTROLLING PARTY**

The Company's immediate parent company is BANA, organised and existing under the laws of the State of Delaware in the U.S.A, and the ultimate parent company and controlling party is BAC, which is organised and existing under the laws of the State of Delaware in the United States of America ("U.S.A.").

The parent company of the smallest and largest group that includes the Company and for which group financial statements are prepared is BAC. Copies of BAC's financial statements can be obtained from either of the following website locations: <http://investor.bankofamerica.com> or [www.sec.gov/](http://www.sec.gov/).