

Inter Bay Financial II Limited

Directors' Report and Financial Statements
For the Year Ended 31 December 2018
Company Number: 06672384



Inter Bay Financial II Limited

Contents

Company Information	2
Directors' Report	3
Statement of Directors' Responsibilities	5
Independent Auditor's Report	6
Statement of Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12

Inter Bay Financial II Limited

Company Information

DIRECTORS

John Eastgate (Resigned on 31 January 2019)
Clive Kornitzer
Andrew Parkes
Mark Parrett
Richard Wilson (Appointed on 31 January 2019)

SECRETARY

Nickesha Graham-Burrell

REGISTERED OFFICE

Reliance House
Sun Pier
Chatham
Kent
ME4 4ET

REGISTERED NUMBER

06672384 (England and Wales)

AUDITOR

KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Inter Bay Financial II Limited

Directors' Report

For the Year Ended 31 December 2018

The Directors present their Report and the Financial Statements of Inter Bay Financial II Limited ('the Company') for the year ended 31 December 2018.

Principal activity

The Company was incorporated on 13 August 2008. The principal activity of the Company is as a holding company.

Business review

The Company received net interest income of £746k (2017: net interest expense of £36k) during the year. The Company received dividend income of £25.0m during the year (2017: £35.0m) which generated profit before tax for the year of £25.7m (2017: £35.0m). The result for the year after taxation amounted to a profit of £25.6m (2017: £35.2m). This increased the total equity shareholders' funds at 31 December 2018 to £57.2m (2017: £31.6m).

Future developments

The Company will continue as a holding company.

The Company's ultimate parent, OneSavings Bank plc ('OSB'), have considered and planned for potential Brexit implications, both strategically and operationally in expected and stressed conditions, at the OSB Group level. OSB have analysed the potential impact of a range of scenarios such as a 'no-deal' Brexit, including falling property prices, on loan loss provisions, including the Group's IFRS 9 impairment process. OSB have also analysed the potential impact of various Brexit scenarios on different portfolio segments, with a view to coordinating strategic actions across the credit risk lifecycle if a deterioration in the macroeconomic outlook were to occur. This same plan could be deployed should the OSB Group observe credit profile deterioration post a 'no-deal' Brexit.

Directors and their interests

The Directors who served throughout the period and to the date of this report were as follows:

John Eastgate (Resigned on 31 January 2019)
Clive Kornitzer
Andrew Parkes
Mark Parrett
Richard Wilson (Appointed on 31 January 2019)

No Director had any beneficial interest either in the share capital of the Company, or in any material contract or arrangement with the Company at any time during the period under review.

Third parties indemnities

Qualifying third party indemnity provisions for the benefit of the Directors were in force during the period under review and remain in force as at the date of approval of the Directors' Report and Financial Statements.

Post balance sheet events

There were no material post balance sheet events.

Dividends

During the year the Company paid a dividend of £10k (2017: nil).

Inter Bay Financial II Limited

Directors' Report (continued)

For the Year Ended 31 December 2018

Auditor

KPMG LLP has been appointed as auditors of the Company for the year ended 31 December 2018. Following a tender process, the OSB Group of companies have appointed Deloitte LLP as the auditor for the year beginning 1 January 2019.

This report was approved by the Board on 13 June 2019 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Clive Kornitzer', is written over the printed name and title.

Clive Kornitzer
Director

Inter Bay Financial II Limited

Statement of Directors' Responsibilities in respect of the Directors' Report and Financial Statements

For the Year Ended 31 December 2018

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

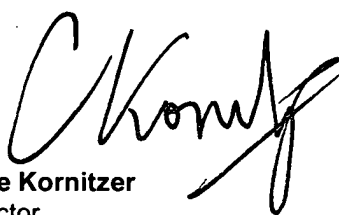
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Approved by the Board and signed on its behalf by:


Clive Kornitzer
Director
13 June 2019

Independent Auditor's Report to the Members of Inter Bay Financial II Limited

Opinion

We have audited the Financial Statements of Inter Bay Financial II Limited ('the Company') for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard, and the provisions available for small entities, in the circumstances set out in note 1 to the Financial Statements. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the Financial Statements. All audits assess and challenge the reasonableness of estimates made by the Directors, and related disclosures and the appropriateness of the going concern basis of preparation of the Financial Statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Financial Statements ('the going concern period').

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Financial Statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

Independent Auditor's Report to the Members of Inter Bay Financial II Limited (continued)

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this Auditor's Report is not a guarantee that the Company will continue in operation.

Directors' Report

The Directors are responsible for the Directors' Report. Our opinion on the Financial Statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the Directors' Report and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Directors' Report;
- in our opinion the information given in that report for the financial year is consistent with the Financial Statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006

Matters on which we are required to report by exception

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the Financial Statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

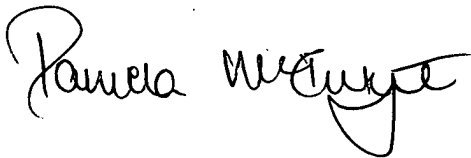
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

Independent Auditor's Report to the Members of Inter Bay Financial II Limited (continued)

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Pamela McIntyre (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

17 June 2019

Inter Bay Financial II Limited

Statement of Comprehensive Income

For the Year Ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest receivable and similar income	2	1,080	1,000
Interest payable and similar charges	3	(334)	(1,036)
Net interest income/(expense)		746	(36)
Dividends received		25,000	35,000
Profit before tax		25,746	34,964
Taxation	6	(142)	234
Profit for the financial year		25,604	35,198

There were no recognised gains and losses for 2018 or 2017 other than those included in the statement of comprehensive income.

There was no other comprehensive income for 2018 (2017: nil).

The notes on pages 12 to 16 form part of these Financial Statements.

Inter Bay Financial II Limited

Statement of Financial Position

As at 31 December 2018

	Note	2018 £'000	2017 £'000
Current assets			
Debtors: Amounts falling due within one year	8	65,002	64,076
Cash at bank and in hand		-	4
		65,002	64,080
Creditors: Amounts falling due within one year	10	(7,848)	(32,520)
Net current assets		57,154	31,560
Net assets		57,154	31,560
Capital and reserves			
Share capital	11	-	-
Share premium		5,600	5,600
Retained earnings		51,554	25,960
Equity shareholders' funds		57,154	31,560

The notes on pages 12 to 16 form part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 13 June 2019 and were signed on its behalf by:



Clive Kornitzer
Director

Company registered number: 06672384

Inter Bay Financial II Limited

Statement of Changes in Equity

For the Year Ended 31 December 2018

	Share capital ¹ £'000	Share premium £'000	Retained earnings £'000	Total shareholders ' funds £'000
At 1 January 2017	-	5,600	(9,238)	(3,638)
Profit for the year	-	-	35,198	35,198
At 31 December 2017	-	5,600	25,960	31,560
Profit for the year	-	-	25,604	25,604
Dividends Paid	-	-	(10)	(10)
At 31 December 2018	-	5,600	51,554	57,154

¹ The Company's share capital of £100 is further disclosed in note 11.

Inter Bay Financial II Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

1. Accounting policies

a) Basis of preparation

These Financial Statements have been prepared in accordance with applicable UK accounting standards, including Financial Reporting Standard 102: The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland ('FRS 102'), and with the Companies Act 2006. The Financial Statements have been prepared on the historical cost basis. The presentation currency of these Financial Statements is Pounds Sterling. All amounts in the Financial Statements have been rounded to the nearest thousand ('£'000').

The Company's ultimate parent undertaking, OSB, includes the Company in its consolidated financial statements. The consolidated financial statements of OSB are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and are available to the public and may be obtained from the Bank's registered office: Reliance House, Sun Pier, Chatham, Kent, ME4 4ET. In these Financial Statements, the Company is considered to be a qualifying entity for the purposes of FRS 102 and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- The requirements of Section 3 Financial Statements Presentation paragraph 3.17(d).
- The requirements of Section 7 Statement of Cash Flows.

As the consolidated financial statements of OSB include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- The requirements of Section 33 Related party Disclosures paragraph 33.7.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

There were no significant judgements made by the Directors, in the application of these accounting policies that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year.

b) Going Concern

The Directors believe, having considered the Company's financial position following the dividend received during the current and prior year that it is appropriate to prepare these accounts on a going concern basis.

c) Interest income and expense

Interest income and interest expense represents interest on intercompany balances with OSB group companies. Interest is calculated in-line with the OSB Group transfer pricing policy and is accounted for on an accruals basis.

d) Dividends

Dividends are recognised on a cash basis when received or paid.

e) Taxation

Tax is recognised in profit or loss, other comprehensive income or directly in equity, consistently with the recognition of items it relates to.

The current tax charge is the expected tax or credit on the taxable income or loss in the period and any adjustments in respect of previous years.

Inter Bay Financial II Limited

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

1. Accounting policies (continued)

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax, except that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Statement of Financial Position date.

f) Investments in subsidiary undertakings

Investments in subsidiaries are measured at cost less accumulated impairment.

g) Basic financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like amounts owed to group undertakings which are recognised at transaction price.

2. Interest receivable and similar income

	2018 £'000	2017 £'000
On loans to group undertakings	1,080	1,000

3. Interest payable and similar charges

	2018 £'000	2017 £'000
On loans from group undertakings	334	1,036

4. Operating Profit

The audit fee for the year of £6k (2017: £6k) was borne and paid by Interbay Funding, Ltd.

Inter Bay Financial II Limited

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

5. Information regarding Directors and employees

OSB, the ultimate parent company of Inter Bay Financial II Limited, provides the Company with employee services. The Company will continue to have no employees.

The Directors were employed and remunerated as Directors or executives of OSB and its subsidiaries ('the Group') in respect of their services to the Group as a whole, and it is considered that there is no appropriate basis on which they can apportion part of their remuneration for their services to the Company.

6. Taxation

	2018 £'000	2017 £'000
Corporation tax on profit for the year	-	(13)
Adjustments in respect of previous periods	-	7
Deferred tax	142	(228)
	142	(234)

Factors affecting tax charge for the year

Tax is charged at the weighted average rate of corporation tax for the period of 19% (2017: 19.25%). The tax reconciliation is presented below:

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	25,746	34,964
Profit multiplied by the weighted average rate of corporation taxation in the UK	4,892	6,731
Adjustments in respect of previous periods	-	7
Dividends from UK companies	(4,750)	(6,744)
Impact of tax losses carried forward	-	(228)
	142	(234)

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and a further reduction to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly.

Inter Bay Financial II Limited

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

7. Investments in subsidiaries

The Company's cost and net book value of investments in subsidiary undertakings as at 31 December 2018 was £2 (2017: £2).

The Company had the following investments in subsidiary undertakings at 31 December 2018:

Name	Class of shares	Holding	Principal activity	Aggregate of share capital and reserves £'000	Profit / (loss) £'000
Direct subsidiaries					
Interbay Funding, Ltd	Ordinary	100%	Origination and servicing of mortgage loans	35,240	29,991
Indirect subsidiaries					
Interbay ML, Ltd	Ordinary	100%	Lending on mortgage loans	35,556	32,543
				70,796	62,534

All subsidiaries have a registered office of Reliance House, Sun Pier, Chatham, Kent, ME4 4ET.

8. Debtors : Amounts falling due within one year

	2018 £'000	2017 £'000
Amounts owed by group undertakings	64,916	63,835
Corporation tax receivable	-	13
Deferred tax asset (see note 9)	86	228
	65,002	64,076

9. Deferred tax

	2018 £'000	2017 £'000
At 1 January	228	-
(Charge)/credit to profit or loss	(142)	228
At 31 December	86	228

Inter Bay Financial II Limited

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

9. Deferred tax (continued)

The deferred tax asset is made up as follows:

	2018 £'000	2017 £'000
Tax losses carried forward	86	228

10. Creditors: Amounts falling due within one year

	2018 £'000	2017 £'000
Amounts owed to group undertakings	7,848	32,520
	<u>7,848</u>	<u>32,520</u>

11. Share capital

	2018 £	2017 £
Allotted, called-up and fully paid		
100 ordinary share of £1 each	100	100

12. Ultimate parent undertaking

At the Statement of Financial Position date Inter Bay Financial II Limited was a wholly owned subsidiary of Interbay Holdings Ltd whose ultimate parent company is OSB, which has included the Company in its Group accounts. This is the smallest and largest Group in which the Company's accounts are consolidated. Copies of these accounts are available from OSB's registered office: Reliance House, Sun Pier, Chatham, Kent, ME4 4ET.

13. Events after the reporting date

There are no material events after the reporting date.