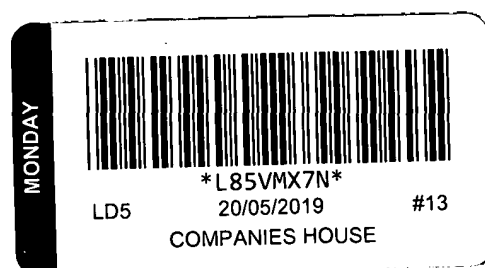


UBS ASSET MANAGEMENT HOLDING LTD

Report and Financial Statements

For the year ended 31 December 2018



UBS ASSET MANAGEMENT HOLDING LTD

Registered No. 2251850

CORPORATE INFORMATION

DIRECTORS

L.R.T. Browne

E.C.S. Byrne

AUDITORS

Ernst & Young LLP

25 Churchill Place

Canary Wharf

London

E14 5EY

REGISTERED OFFICE

5 Broadgate

London

EC2M 2QS

STRATEGIC REPORT

The Directors present their strategic report of UBS Asset Management Holding Ltd (the "Company") for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The principal activity of the Company is to act as a holding and service company providing support functions to its subsidiary undertakings, which carry on investment management business.

REVIEW OF THE BUSINESS

During the year the Company made a loss after taxation of £1,897,000 (2017 – loss £150,000). The Company received dividends of £28,750,000 (2017 - £47,277,000) and £5,400,000 (2017 - £1,882,000) from its subsidiary undertakings UBS Asset Management (UK) Ltd and UBS Asset Management Funds Ltd respectively during the year. A dividend was paid to the Company's immediate parent, UBS Asset Management Holding (No.2) Ltd, during the year of £34,000,000 (2017 – £34,961,000).

The Company's key financial and other performance indicators during the year were as follows:

	2018	2017	Change
	£000	£000	%
Turnover	138,811	135,684	+ 2.3
Administrative expenses	(139,206)	(135,372)	+ 2.8
Operating (loss) / profit	(226)	640	-135.3
Profit for the financial year	32,253	49,009	-34.2
Shareholder's equity	149,483	151,230	-1.2

2018 saw an increase in administrative expenses with an offsetting increase in turnover given the Company's model of recharging administration services provided to the Group.

A high level review of the subsidiaries business, shows that over the last three years Assets Under Management ('AuM') have grown as a result of a combination of market growth of the existing invested assets and inflows of new assets or Net New Money ('NNM') inflows. This trend is expected to continue to drive growth in the future along with the successful execution of the key UBS Asset Management strategic initiatives. However, the Company and its subsidiaries are experiencing industry headwinds, such as a move by investors from high margin active strategies to lower margin passive strategies, as well as fee compression across all product types. This has resulted in some business areas experiencing a decrease in revenues in 2018 compared to 2017.

CAPITAL REQUIREMENTS

The Directors regularly assess the implications of the Capital Requirements Regulation 575/20B ("CRR") in relation to the Company and its business operating model. An Internal Capital Adequacy Assessment Process (ICAAP) report for the Company's immediate parent company, UBS Asset Management Holding (No.2) Ltd and its subsidiaries (the "Group"), in accordance with the Capital Requirement Directive 2013/36/EU ("CRD"), is submitted to the FCA on an annual basis.

The ICAAP is an important tool for the Board of Directors and senior management to manage the capital position of the firm on an ongoing basis throughout the year—it also fulfils our regulatory requirements under the Capital Requirements Directive IV ('CRD IV') and continues to be a significant focus for the Board of Directors who are of the opinion that the process, resulting in the production of the ICAAP report, is robust and reflects the risk and capital requirements of the business adequately.

STRATEGIC REPORT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES

Sound risk management and control is an integral part of creating a sustainable business and delivering ongoing value for stakeholders. Failure to establish and sustain an effective firm-wide risk culture, and to adequately manage and control risks, leads to financial loss and damage to our reputation and to the trust of our stakeholders. The Board of Directors are ultimately responsible for adequate risk management and establishing an integrated and institution-wide risk culture.

The Company is subject to the UBS Risk Management and Control Principles, which apply to the UBS Group, and are designed to support optimal risk-return decisions. Holistic governance together with aligned risk, compliance and finance processes are designed to help protect the Company from unacceptable damage to its financial strength, performance and reputation. Also, the risk management and control processes of the Company help to ensure that risk and return objectives are appropriately balanced in order to achieve sustainable earnings growth within the risk appetite established by the Board of Directors of the Company.

The principal risks and uncertainties facing the Company and its subsidiaries are broadly grouped as primary & related and operational risk.

Primary & Related Risks

Primary Risk	Risk Description
Market risk	Whilst the Company does not actively take Market Risk to achieve its objectives, Market Risk arises on assets, when the Company receives fees in non GBP currencies. This results in FX risk between those fees accruing and being received (and immediately transferred to GBP)
Credit risk	Whilst the Company does not actively take Credit Risk to achieve its objectives, Credit Risk arises on assets from the risk that the entities where cash is kept (JP Morgan and Barclays) default and the funds cannot be accessed. This risk has been greatly reduced by the reduction in these balances in favour of Gilt holdings. The Company therefore now faces the risk that the UK Government defaults on the Gilts.
Concentration risk	With the holding of cash at only 2 entities, the Company faces potential Concentration Risk. However this has been greatly reduced by the moving of cash from JP Morgan and Barclays into holdings in UK Gilts
Interest Rate Risk in the Banking Book	The Company positions in Gilts are held to maturity. The interest rate risk that is taken is therefore not reflected as a Market Risk, and so is considered as Interest Rate Risk in the Banking Book for regulatory capital purposes.
Liquidity and Funding risk	<p>The Company faces the risk of becoming unable to meet liabilities as they become due for payment. Most payments made by the Company are matched by incoming cash flows, and would be suspended if the inflow were not received. This significantly reduces the Liquidity Risk</p> <p>The Company faces delayed settlement risk where the entity would need to fund settlement from clients that is not received in a timely manner</p>
Related Risk	Risk Description
Group Risk	Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the UBS group or by risks which may affect the financial position of the whole group (e.g. reputational contagion)

STRATEGIC REPORT (CONTINUED)

Operational Risk

The Operational Risk Framework defines the universe of material compliance, conduct and operational risks, which can arise as consequences of our business activities and through external factors. All taxonomies of the Operational Risk Framework were identified as being relevant for the Company.

A key underlying risk driver for the Company is the overall risk culture, which comprises aspects such as staff behaviour and mindset, accountability, resourcing, delineation of roles and responsibilities as well as supervision. This includes Conduct Risk, which is the risk that the conduct of the firm or its individuals unfairly impacts clients or counterparties, undermines the integrity of the financial system, or impairs effective competition to the detriment of consumers. Because risk culture and conduct risk are firm-wide considerations, touching every function and each of our management and control frameworks, these risks are incorporated into our Operational Risk Framework.

IMPACT OF BREXIT ON THE COMPANY

Delegation and Portfolio Management

The Asset Management industry as a whole welcomed the execution of the Memoranda of Understanding between the FCA and various National Competent Authorities. This will avoid the need to relocate a number of portfolio management staff to EU, Swiss and US locations.

Funds/Clients

Steps have been taken to relocate the Alternative Investment Fund Manager ("AIFM") from the UK to Luxembourg for a number of funds where continued distribution to the EU27 is required. Consequently some revenues attributable to the Group will cease and revenue will instead be booked in the Luxembourg entity. Although revenues will be attributable to the Company's subsidiary, UBS Asset Management (UK) Ltd, due to investment management activities being delegated there from the new AIFM.

FUTURE DEVELOPMENTS

The Directors intend to continue to assess relevant opportunities to develop or expand the Company's activities provided these are consistent with the UBS Group AG business strategy and direction.

By order of the board



E.C.S. Byrne

Director

1 May 2019

UBS ASSET MANAGEMENT HOLDING LTD

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of UBS Asset Management Holding Ltd (the "Company") for the year ended 31 December 2018.

DIVIDENDS

A dividend of £34,000,000 (2017 – £34,961,000) was paid to the Company's immediate parent, UBS Asset Management Holding (No.2) Ltd during the year. The Directors do not recommend payment of a final dividend (2017 – £nil).

The Company received dividends of £28,750,000 (2017 - £47,277,000) and £5,400,000 (2017 - £1,882,000) from its subsidiary undertakings UBS Asset Management (UK) Ltd and UBS Asset Management Funds Ltd respectively during the year.

The Company does not produce consolidated financial statements, being exempt from this requirement under s401 of the Companies Act (2006). The Company was, at the end of the year, a wholly-owned subsidiary of UBS Group AG, a company incorporated in Switzerland. This is the largest group company preparing consolidated financial statements which include the Company's financial statements.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out within this report. The financial position of the Company and its liquidity position are reflected on the balance sheet. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the 12 months from the date on which the financial statements are approved. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS

The Directors who served during the year and up to the date of signing the financial statements were as follows:

L.R.T. Browne
E.C.S. Byrne

INSURANCE OF DIRECTORS

UBS AG, a UBS Group company, maintains a third party indemnity provision in favour of all of its Directors against liability in respect of proceedings brought by third parties. This is for its Directors in respect of their duties as Directors of the Company.

CREDITOR PAYMENT POLICY AND PRACTICE

The Company's normal practice in the UK is to agree the terms of payment with suppliers at the time of contract and to make payment within the agreed credit term subject to satisfactory performance.

CHARITABLE DONATIONS

During the year the Company made charitable donations of £13,130 (2017 - £4,750).

EMPLOYEES

Information on the Company's activities and consultation with staff is provided regularly through various management communication channels. These include circulation of notices and presentations by senior management.

The Company encourages the involvement of employees in the Company's performance through a number of compensation schemes which are based on UBS Group AG's shares.

DIRECTORS' REPORT (CONTINUED)

EMPLOYEES (CONTINUED)

The Company's human resource policies and processes have global coverage and outline its commitment to a non-discriminating, harassment-free workplace with equal opportunities for all employees. In addition to our strategic initiatives, every year we sponsor numerous activities to promote inclusiveness. For example, this year we became a supporter of the UN Standards of Conduct for Business, a set of anti-discrimination guidelines. Additionally, our employee networks regularly host events regarding gender, culture, ethnicity, LGBTI / Pride, disability, veterans, parenting, elder care and other topics. In 2018, we sponsored 43 employee networks globally.

The Company gives full consideration to applications for employment from disabled persons where the candidates' particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the Directors at the date of approval of this report and audited financial statements have confirmed that:

- so far as he/she is aware, there was no relevant audit information of which the Auditors were unaware; and
- he/she has taken all the steps necessary as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Auditors have been made aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act (2006).

RE-APPOINTMENT OF AUDITORS

Ernst & Young LLP, Chartered Accountants and Registered Auditor, have indicated their willingness to continue in the office and, as the Company has dispensed with the holding of annual general meetings permitted by the Companies Act (2006), shall continue in office in accordance with Section 487 of the Companies Act (2006) or, if annual general meetings are re-introduced, until the conclusion of the next annual general meeting and their re-appointment will be proposed by order of the board.



E.C.S. Byrne

Director
1 May 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 judgments 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; 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UBS ASSET MANAGEMENT HOLDING LTD

Opinion

We have audited the financial statements of UBS Asset Management Holding Ltd for the year ended 31 December 2018 which comprises the Profit and Loss Account, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view 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 United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UBS ASSET MANAGEMENT HOLDING LTD (CONTINUED)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UBS ASSET
MANAGEMENT HOLDING LTD (CONTINUED)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

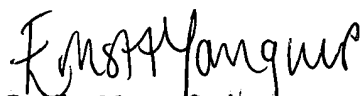
Auditor's responsibilities for the audit of the financial statements

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 auditor's 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 Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



Caroline Mercer (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

2 May 2019

UBS ASSET MANAGEMENT HOLDING LTD

Registered No. 2251850

INCOME STATEMENT

for the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>£000</i>	<i>2017</i> <i>£000</i>
TURNOVER	2	138,811	135,684
Administrative expenses		(139,206)	(135,372)
Other operating income		169	328
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(226)	640
Taxation on profit on ordinary activities	7	(1,671)	(790)
LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		(1,897)	(150)
Dividends received from subsidiary undertakings		34,150	49,159
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		32,253	49,009

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

The notes on pages 14 to 25 form an integral part of these financial statements.

UBS ASSET MANAGEMENT HOLDING LTD

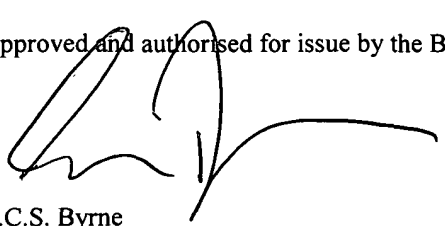
Registered No. 2251850

BALANCE SHEET

at 31 December 2018

	Notes	2018 £000	2017 £000
FIXED ASSETS			
Tangible fixed assets	8	1,673	2,075
Investments	9a	172,729	172,729
		<u>174,402</u>	<u>174,804</u>
CURRENT ASSETS			
Cash at bank		10,803	173
Debtors	10	8,547	6,277
Income tax receivable		9,235	9,545
Deferred tax assets		4,370	6,827
Investments	9b	1	150
		<u>32,956</u>	<u>22,972</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(55,758)	(44,202)
NET CURRENT ASSETS		<u>(22,802)</u>	<u>(21,230)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		151,600	153,574
Provisions for liabilities and other charges	12	(2,117)	(2,344)
TOTAL NET ASSETS		<u>149,483</u>	<u>151,230</u>
CAPITAL AND RESERVES			
Called up share capital	13	151,380	151,380
Profit and loss account		(1,897)	(150)
EQUITY SHAREHOLDERS' FUNDS		<u>149,483</u>	<u>151,230</u>

Approved and authorised for issue by the Board of Directors on 1 May 2019 and signed on its behalf by:


E.C.S. Byrne
Director

The notes on pages 14 to 25 form an integral part of these financial statements.

UBS ASSET MANAGEMENT HOLDING LTD

Registered No. 2251850

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share Capital	Accumulated losses	Total Equity
	£000	£000	£000
At 1 January 2017	151,380	(14,198)	137,182
Profit for the financial year	-	49,009	49,009
Dividends paid		(34,961)	(34,961)
	<hr/>	<hr/>	<hr/>
At 31 December 2017	151,380	(150)	151,230
Profit for the financial year	-	32,253	32,253
Dividends paid	-	(34,000)	(34,000)
	<hr/>	<hr/>	<hr/>
At 31 December 2018	151,380	(1,897)	149,483
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical convention and in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) for all periods presented.

The Company has taken advantage of the following exemptions under FRS 101:

- (a) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1
- (b) the requirements of paragraphs 10(d), 10(f), 16, 38A-38D, 40A-40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- (c) the requirements of IAS 7 Statement of Cash Flows
- (d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- (e) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- (f) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Foreign currencies

The Company's financial statements are presented in sterling, which is also the Company's functional currency. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account. Tax charges and credits attributable to exchange differences on those borrowings are also accounted for in reserves.

Turnover

Turnover comprises of recharges for administration services provided to the Group, accounted for on an accruals basis.

Interest Income

Interest income on cash balances are recognised on an accrual basis.

Administrative expenses

Administrative expenses incurred have been recognised on accrual basis.

Tangible fixed assets and depreciation

Tangible fixed assets are shown at cost less depreciation, which is calculated using the straight line method over the assets' useful lives as follows:

Computer equipment	36 to 120 months
Office machines	60 months
Office furniture	120 months
Leasehold improvements	shorter of 120 months or the life of the lease

Investments

Investments in subsidiary undertakings are valued at cost less impairment. All resulting increases / (decreases) in value are accounted for through the profit and loss account. The sale of investments are accounted for based on their net book value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

1. ACCOUNTING POLICIES (CONTINUED)

Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Debtors

Debtors are amounts due in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Debtors are measured at fair value upon initial recognition. At each balance sheet date debtors are reviewed to determine whether there is an indication of impairment. If such indication exists, the recoverable amount is estimated.

Creditors

Creditors are obligations to pay for services that have been acquired in the ordinary course of business. Creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Creditors are recognised initially at fair value and subsequently measured at amortised cost.

Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Deferred taxation

Deferred tax assets are recognised for temporary differences that will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates at the balance sheet date.

Deferred tax assets and liabilities are offset when they arise from the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realised simultaneously.

Deferred taxes are recognised as a tax benefit or expense in the income statement except for deferred taxes recognised on items recognised in equity, where such taxes are recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

1. ACCOUNTING POLICIES (CONTINUED)

Pensions

UBS operates a defined benefit scheme and a defined contribution scheme. All defined benefit accruals in the UK ceased from 1 July 2013. The cost of providing pension benefits in the defined benefit scheme is assessed in accordance with the advice of a qualified actuary using the straight line write-down method, and is charged to the profit and loss account over the period benefiting from employees' services. The cost associated with the defined contribution scheme represents contributions payable in the period.

Equity participation plans

UBS provides various equity participation plans in the form of share plans and share option plans as detailed in Note 14. UBS recognises the fair value of share and share option awards determined at the date of grant as compensation expense over the period during which the employee is required to provide services in order to earn the award. The fair value of share awards is equal to the market price at the date of grant. For share options, fair value is determined using a proprietary option valuation model that reflects employees' exercise behaviour and the specific terms and conditions under which the options are granted.

Equity-settled awards are classified as equity instruments and are not re-measured subsequent to the grant date, unless an award is modified such that its fair value immediately after modification exceeds its fair value immediately prior to modification. Any increase in fair value resulting from a modification is recognised as compensation expense, either over the remaining service period or immediately for vested awards.

Cash settled awards are classified as liabilities and re-measured to fair value at each balance sheet date as long as they are outstanding. Decreases in fair value reduce compensation expense, and no compensation expense, on a cumulative basis, is recognised for awards that expire worthless or remain unexercised. Plans where participants have the option to roll share-based awards into alternative investments are treated as cash settled.

IFRS 15

Effective from 1 January 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers, which replaces IAS 18, Revenue and establishes principles for revenue recognition that apply to all contracts with customers except those relating to financial instruments, leases and insurance contracts and require an entity to recognize revenue as performance obligations are satisfied.

IFRS 15 now specifies that variable consideration is only recognized when the related performance obligation has been satisfied and to the extent that it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

IFRS 15 also provides guidance on when revenues and expenses should be presented on a gross or net basis and establishes a cohesive set of disclosure requirements for information on the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

There was no impact of adopting IFRS 15 to the financial statements. Management fees continue to be recognised on an accrual basis under IFRS 15. The risk of material misstatement has been assessed by management and is deemed to be low. Performance fees continue to be recognized when the related performance obligation has been satisfied and to the extent that it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

IFRS 9

Effective 1 January 2018, the Company adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. There are no financial investments other than investments in subsidiaries and therefore there is no impact of IFRS 9 and no adjustments were required to the financial statements of the Company in respect of the current or prior period.

UBS ASSET MANAGEMENT HOLDING LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

2. TURNOVER

	2018 £000	2017 £000
Expenses recharged to subsidiary undertakings	138,811	135,684

Turnover is earned primarily from activities based in the United Kingdom.

3. OPERATING PROFIT

This is stated after charging:

	2018 £000	2017 £000
Depreciation	477	559
Auditors' remuneration - audit of the financial statements	32	36

4. DIRECTORS AND EMPLOYEES

	2018 No.	2017 No.
Monthly average number of employees during the year, including Directors, categorised as follows:		
Investment management	234	234
Business management	34	31
Support functions	-	76
Total	268	341

In November 2017 the majority of Group shared services in the UK were transferred to the UK service company, resulting in most Corporate Centre support functions employees being transferred.

UBS ASSET MANAGEMENT HOLDING LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

5. DIRECTORS AND EMPLOYEES (CONTINUED)

	2018 £000	2017 £000
Employee costs:		
Wages and salaries	48,379	59,048
Social security costs	7,278	8,053
Pension costs	2,797	3,366
	<u>58,454</u>	<u>70,467</u>

Directors' emoluments are payable by another company of the Group and are not separately recharged to UBS Asset Management Holding Ltd. The below disclosures are therefore in respect of Directors' emoluments in respect of qualifying services to the Group rather than to the Company alone.

Emoluments of Directors

	2018 £000	2017 £000
Aggregate remuneration in respect of qualifying services to companies of the Group	1,336	1,350
Accrued pension at the end of the year	19	20
	<u>1,355</u>	<u>1,370</u>

	2018 No.	2017 No.
Directors to whom benefits are accrued under defined contribution schemes	2	2
	<u>2</u>	<u>2</u>

	2018 £000	2017 £000
Highest paid Director		
Aggregate remuneration	722	789
Accrued pension at the end of the year	9	10
	<u>731</u>	<u>799</u>

6. TRANSACTIONS WITH DIRECTORS AND RELATED PERSONS

Directors are entitled to deal in securities of UBS AG Group companies in accordance with the UBS AG Group's personal account dealing rules. These provide that the Directors obtain prior permission and must comply with restrictions designed to avoid conflicts of interest or dealing of a speculative nature. There had been no material transactions with Directors and related persons during the year.

UBS ASSET MANAGEMENT HOLDING LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2018 £000	2017 £000
a) The charge for taxation comprises:		
Current tax:		
Current Year	(641)	527
Prior Year	(145)	40
Total current tax (credit) / charge for the year	<u>(786)</u>	<u>567</u>
Deferred tax:		
Originating and reversal of timing differences	2,457	455
Adjustments to prior years	-	(232)
Total deferred tax for year	<u>2,457</u>	<u>223</u>
Total tax charge on profit on ordinary activities	<u>1,671</u>	<u>790</u>

b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £000	2017 £000
(Loss) / profit on ordinary activities before tax	(226)	640
Total tax (credit) / charge at standard UK corporation tax rate of 19% (2017 – 19.25%)	<u>(43)</u>	<u>123</u>
Effects of:		
Net expense / (income) not recognised for tax purposes	512	9
Transfer pricing adjustments	1,347	1,321
Deductible temporary differences for which no DTA recognised	-	(471)
Adjustments in respect of prior periods	(145)	(192)
Total tax charge for the year	<u>1,671</u>	<u>790</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

(c) Deferred tax asset

	2018	2017
	£000	£000
Provision at start of period	6,827	7,050
Credit to the profit and loss account – current year	(2,457)	(455)
Charge to the profit and loss account – prior year	-	232
Provision at end of period	4,370	6,827
Comprising:		
Employee compensation awards	4,175	6,589
Fixed assets	195	238
Total deferred tax assets	4,370	6,827

8. TANGIBLE FIXED ASSETS

	Assets Under Construction £000	Computer Equipment £000	Total £000
Cost:			
At 1 January 2018	24	3,710	3,734
Additions	-	85	85
Assets Under Construction capitalised during the year	(10)	-	(10)
Retirements	-	(251)	(251)
At 31 December 2018	14	3,544	3,558
Depreciation:			
At 1 January 2018	-	1,659	1,659
Charge in year	-	477	477
Retirements	-	(251)	(251)
At 31 December 2018	-	1,885	1,885
Net book amount at:			
31 December 2018	14	1,659	1,673
At 1 January 2018	24	2,051	2,075

UBS ASSET MANAGEMENT HOLDING LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

9. INVESTMENTS

	2018	2017
	£000	£000
a) Non-Current Investments		
Shares in subsidiary undertakings at cost:		
UBS Asset Management (UK) Ltd	131,517	131,517
UBS Asset Management Funds Ltd	26,212	26,212
UBS Asset Management (Jersey) Ltd	-	-
UBS Asset Management Life Ltd	15,000	15,000
	<u>172,729</u>	<u>172,729</u>
b) Current Investments		
UBS Asset Management (Jersey) Ltd	1	150
	<u>172,730</u>	<u>172,879</u>
Total net book value of investments		

The investment in UBS Asset Management (Jersey) Ltd was classified as a current asset as at 31 December 2017 and 31 December 2016 as the Company's financial statements as at 31 December 2016 were prepared on a breakup basis. The investment was impaired in the year.

10. DEBTORS

	2018	2017
	£000	£000
Amounts owed by UBS Group undertakings	5,486	3,046
Prepayments and accrued income	2,132	1,793
VAT receivable	929	1,438
	<u>8,547</u>	<u>6,277</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2017
	£000	£000
Amounts owed to UBS Group undertakings	15,011	11,954
Accruals and deferred income	40,747	32,248
	<u>55,758</u>	<u>44,202</u>

UBS ASSET MANAGEMENT HOLDING LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

12. PROVISIONS FOR LIABILITIES AND OTHER CHARGES

	2018	2017
	£000	£000
Provisions at 1 January	2,344	2,489
Additions	2,093	2,020
Reduction / Unused	(349)	(64)
Transfers to other UBS Group entities	-	(548)
Utilised	(1,971)	(1,553)
	<u>2,117</u>	<u>2,344</u>
Provisions at 31 December	<u>2,117</u>	<u>2,344</u>

The transfer to other Group entities in 2017 are for provisions relating to UBS Business Solutions AG where shared services functions in the UK were transferred to during 2017.

At 31 December 2018 an amount of £1,949,349 (2017 - £1,949,349) has been provided for the reinstatement costs of premises leased by the Company. The reinstatement costs are based on advice provided by Jones Laing LaSalle and Morgan Pepper who are acting as joint Estate Agents for the vacated property. There is little to no uncertainty as to the amount of this provision. It is expected to be utilised on expiry of the lease of the underlying asset in 2026.

An amount of £56,000 (2017 - £56,000) has been provided for the anniversary awards due to long serving employees of the Company. There is little to no uncertainty as to the amount of this provision. It is expected to be utilised during 2019.

£112,000 has been provided for untaken holidays and severance costs in the year (2017 - £339,000).

13. CALLED UP SHARE CAPITAL

	2018	2017
	£000	£000
Authorised, allotted and fully paid:		
151,380,168 Ordinary shares of £1 each	151,380	151,380
	<u>151,380</u>	<u>151,380</u>
Allotted and fully paid:		
151,380,168 Ordinary shares of £1 each	151,380	151,380
	<u>151,380</u>	<u>151,380</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

14. SHARE BASED PAYMENTS

UBS Asset Management Deferral Plans

Over a certain total compensation threshold, employees' annual variable compensation is subject to mandatory deferral in UBS notional shares and / or UBS notional instruments over a period of five years, or longer for certain regulated employees. Deferred compensation is delivered through two plans: the Equity Ownership Plan (EOP) and the Deferred Contingent Capital Plan (DCCP).

UBS Asset Management employees receive 75% of their deferred performance awards in notional funds under the EOP (AM EOP) and 25% in the DCCP. AM EOP awards vest over five years with 40% of the awards vesting after two years, 40% after three years and 20% after five years. The balance of the amount deferred (25%) is awarded in the Deferred Contingent Capital Plan (DCCP) which represent a contingent right to receive cash or a DCCP Instrument at vesting. DCCP awards vest at the end of the five year deferral period.

For the 2018 performance year, UBS Equity Ownership Plan (EOP) was introduced into the mandatory deferral mix for employees within non-investment aligned business areas of Asset Management. These employees received 50% of their deferred compensation in AM EOP, 25% in EOP and 25% in the DCCP. AM EOP awards will vest over five years with 35% of the awards vesting after two years, 35% after three years and 30% after five years. EOP awards will vest over two years with 50% of the awards vesting after two years and 50% after three years.

UBS Share Awards (Equity Plus and Equity Ownership Plans)

(i) Equity Ownership Plan (EOP)

Under EOP employees are granted an award of UBS notional shares, meaning they generally have a right to receive actual UBS shares at vesting. In general, awards vest in two equal tranches after 2 and 3 years, subject to the Plan Rules.

AM EOP is an award of UBS notional funds (previously known as Alternative Investment Vehicles or AIVs). Under AM EOP, employees are granted an award of UBS notional funds which mirror the value of the underlying investments. The value of these notional funds will be paid in cash at vesting, subject to the Plan Rules. For employees in investment areas, awards vest 40% in year 2, 40% in year 3 and 20% in year 5. For employees in non-investment areas, awards vest 35% in year 2, 35% in year 3 and 30% in year 5.

GEB members receive at least 50% of their performance award under EOP. The award vests in equal instalments after years 3, 4 and 5, subject to both Group and business division performance.

EOP awards may also be granted to employees when joining the Group to replace forfeited awards or in special circumstances (off cycle awards). Off-cycle awards have the same terms and conditions as on-cycle awards, except that the forfeiture conditions are more stringent.

(ii) Equity Plus (EP)

This voluntary plan gives eligible employees the opportunity to purchase UBS Group AG shares at fair market value on the purchase date and receive at no additional cost, one additional 'matching' notional share for every three shares purchased, up to a maximum annual limit (fractional free shares may be granted). Share purchases can be made annually from bonus compensation or monthly based on deductions from salary. Employees are able to sell purchased shares at any time, but the matching shares require a retention period of a maximum of 3 years before they are delivered.

The weighted average share price at the date of exercise for shares during the year was 1,176p (2017: 1,215p). The shares outstanding at 31 December 2018 have a share price of 1,255p (2017: 1,139p), and a weighted average time to vesting date of 0.2 to 0.6 years (2017: 0.0 to 1.2 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

14. SHARE BASED PAYMENTS (CONTINUED)

UBS Option Awards and Stock Appreciation Right (SAR) Awards

The weighted average share price at the date of exercise for options exercised during the year was 941p (2017: 911p). The options outstanding at 31 December 2018 have an exercise price of 1,098p (2017: 1,899p). The weighted average remaining contractual term for options outstanding ranges from 0.2 years to 0.6 years (2017: 0.0 years to 1.2 years). The weighted average share price at the date of exercise for SAR exercised during the year was 863p (2017: 835p). The SAR outstanding at 31 December 2018 have an exercise price of 941p (2017: 911p). The weighted average remaining contractual term for SAR outstanding ranges from 0.2 years to 0.7 years (2017: 1.1 years to 1.7 years).

Other deferred compensation plans

UBS also grants deferred compensation awards to replace forfeited awards on joining UBS to new recruits in the form of Notional Funds or UBS shares or notional shares.

The Company recognised a total charge of £7,660,000 (2017: £ 6,421,000) all of which relate to equity-settled share-based payment transactions.

Discontinued deferred compensation plans

Senior Executive Equity Ownership Plan (SEEOP)

Senior executives received a portion of their performance related compensation in UBS Group AG Shares or notional UBS Group AG Shares instead of cash, on a mandatory basis. The awards granted in UBS Group AG Shares or Notional UBS Group AG shares (or following the exchange offer, UBS Group AG Shares) are settled in equity. SEEOP awards generally vest in five increments over a five-year vesting period. These awards are forfeitable in certain conditions, including performance conditions, are not met. No grants have been made in 2018.

The weighted average share price at the date of exercise for shares during the year was 1,176p (2017: 1,215p). The shares outstanding at 31 December 2018 have a share price of 1,255p (2017: 1,139p), and a weighted average time to vesting date of 0.2 to 0.6 years (2017: 0.0 to 1.2 years).

15. PENSIONS

The Company operates both a hybrid scheme with defined benefit and defined contribution sections, UBS (UK) Pension & Life Assurance Scheme, and a pure defined contribution scheme, known as the UBS (UK) Voluntary Pension Scheme. These are UBS schemes and are part of UBS group policy. All eligible UBS employees within the UK are, or can be, members of the scheme and disclosures of the Scheme are made within UBS Group AG Annual Report. All defined benefit accruals in the UK ceased from 1 July 2013.

Under the IFRS standard IAS 19 – Employee Benefits; the Former scheme is classified as a Multi-employer scheme. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore, in accordance with exemptions set out in IAS 19, it accounts for the contributions to the scheme as if it were a defined contribution scheme.

The total pension cost for the Company was £2,797,000 (2017 - £ 3,366,000) all of which related to the schemes outlined above. No contributions were outstanding relating to these schemes as at 31 December 2018 (2017- £nil).

UBS ASSET MANAGEMENT HOLDING LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2018

16. SUBSIDIARY UNDERTAKINGS

The subsidiary undertakings of the Company at 31 December 2018, all of which are engaged in investment management, advisory and related services, are shown below. All subsidiary undertakings are registered in England and Wales and operate in the United Kingdom.

UBS Asset Management (UK) Ltd, (whose subsidiaries are UBS Infrastructure Fund GP UK Ltd, UBS C-GREFS General Partner Ltd, UBS MC General Partner – UBS-PREMF Limited and UBS Triton General Partner Ltd whose subsidiaries are Triton Holdco Limited, Triton Nominee 1 Limited and Triton Nominee 2 Limited)

UBS Asset Management Funds Ltd
Phildrew Nominees Limited
UBS Asset Management (Jersey) Ltd
UBS Asset Management Life Ltd

CLOVA Holding Limited was dissolved on 5 September 2018.

17. PARENT UNDERTAKINGS

The Company's immediate parent undertaking is UBS Asset Management Holding (No.2) Ltd. The group into which the Company is consolidated and the ultimate parent undertaking and controlling party is UBS Group AG, a company incorporated in Switzerland. This is the largest group company preparing consolidated financial statements which include the Company's financial statements.

Copies of the financial statements of UBS Group AG can be obtained from:

Company Secretary
UBS AG London Branch
5 Broadgate
London EC2M 2QS

Or can be downloaded from:

https://www.ubs.com/global/en/about_ubs/investor_relations/annualreporting/2018.html

18. EVENTS AFTER THE BALANCE SHEET DATE

On 1st May 2019 the Directors proposed the payment of an interim dividend of £20,300,000. for the Company and its subsidiaries. There were no other events after the balance sheet date which have an impact on the presentation of the financial statements.