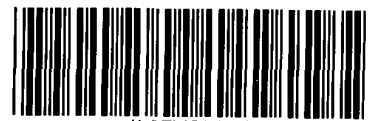


**UBS HEDGE FUND SOLUTIONS LIMITED**

**Report and Financial Statements**

**For the year ended 31 December 2016**

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COMPANIES HOUSE

**CORPORATE INFORMATION**

**DIRECTORS**

D. Germishuys  
E. Rulli

**SECRETARY**

J. Mortimer

**AUDITORS**

Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London  
E14 5EY

**REGISTERED OFFICE**

5 Broadgate  
London  
EC2M 2QS

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## STRATEGIC REPORT

The Directors present their strategic report of UBS Hedge Fund Solutions Ltd (the “Company”) for the year ended 31 December 2016.

### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company continues to be the provision of asset management services to institutional investors as a wholly owned subsidiary of UBS Asset Management AG. Its specific expertise is in the management of alternative investment funds.

Since 21 February 2017 the Company is no longer authorised and regulated by the Financial Conduct Authority (“FCA”).

The Directors assessed the implications of the FCA Capital Requirements in relation to the Company and its business operating model and as a result of the review an Internal Capital Adequacy Assessment (ICAAP) report for the Company was completed in December 2016.

### PRINCIPAL RISKS AND UNCERTAINTIES

Given that the nature of the Company's business is investment management, the risks to which the Company is exposed are principally those of a fiduciary nature and are managed according to UBS Group AG guidelines. The principal risks and uncertainties can be summarised as:

#### **Operational**

Management of operational risk, defined as risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, is becoming a key measure used by regulators to assess regulatory capital and risk monitoring programmes. The Company has in place a risk management and control framework which comprises qualitative elements such as a register of principal risks, policies and authorities, and quantitative components including risk measurement and limits. The Boards Committee sets the overall risk appetite for the Company. Risk exposure is monitored against the set risk appetite on an ongoing basis through risk reporting and escalation process to the Boards Committee. An assessment and review of the risk appetite methodologies and statements is made at a minimum on an annual basis, with the risks recorded on the risk register assessed more frequently.

#### **Market**

Market risk is the risk that the fair value of future cash flows will fluctuate because of changes in market prices. Market risk for the Company comprises two types of risks: foreign exchange risk, and interest rate risk. The Company does not enter into proprietary trading positions.

##### *Foreign exchange risk*

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's main exposure stems from fees accrued or billed in currencies which are not pound sterling denominated. The firm has limited appetite for market risk and seeks to minimise this by having an efficient process around payments of fees, and ensuring settlement occurs on a regular basis.

##### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Company is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates.

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**STRATEGIC REPORT (CONTINUED)****Credit**

The primary credit risk faced by the Company is based on its obligation to hold a certain amount of cash to cover its business needs and that in relation to fee debtors.

The risk on fee related debtors is controlled by having an efficient process around payments of fees, specifically to ensure fees are paid on time. Debtors are reviewed on a regular basis and high risk items are raised to senior management accordingly.

As a wholly-owned subsidiary of UBS Asset Management AG, the Company operates in line with UBS Group AG group (UBS Group AG and its subsidiaries) policies, including environmental and ethical standards.

**KEY PERFORMANCE INDICATORS**

Given the scope of the business that the Company conducts and also as it is a wholly-owned subsidiary of UBS Asset Management AG, the Directors are of the opinion that the use of key performance indicators or other forms of performance measurement are not necessary in providing an understanding of the development, performance or position of the Company and its business for the purposes of s417 of the Companies Act (2006). The parent company (UBS Asset Management AG) maintains an oversight of the Company's performance under the UBS Hedge Fund Solutions business, management and governance structures. However, the Directors are satisfied that the Company's business is operating and performing in accordance with and to the standards expected by those business, management and governance structures. The Directors continually and actively monitored the Company's regulatory capital limits during the year. There has been no change in this status during the year.

**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



J. Mortimer

Company Secretary  
20 April 2017

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## DIRECTORS' REPORT

The Directors present their report and the audited financial statements of UBS Hedge Fund Solutions Limited (the "Company") for the year ended 31 December 2016.

### RESULTS AND DIVIDENDS

During the year the Company made a profit after taxation of £3,524,000 (2015 – £4,317,000). An interim dividend of £4,250,000 was paid during the year (2015 – £5,996,000). The Directors do not recommend payment of a final dividend (2015 – £nil).

### 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 were as follows:

D. Germishuys	
M. Jamieson	(resigned 30 May 2016)
E. Rulli	(appointed 31 March 2017)

### INSURANCE OF DIRECTORS

UBS AG, 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.

### 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'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.

The Company encourages the involvement of employees in the Company's performance through a number of compensation schemes which are based on UBS AG's shares (or following the exchange offer, UBS Group Shares).

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.

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**DIRECTORS' REPORT (CONTINUED)**

**DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the Directors at the date of approval of this Report and Audited Financial Statements have confirmed that:

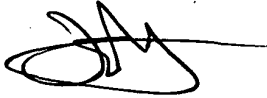
- so far as he/she is aware, there was no relevant audit information of which the Auditors were unaware; and
- he/she has taken all the steps necessary as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Auditors have been made aware of that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

By order of the board



J. Mortimer

Company Secretary  
20 April 2017

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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;

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.

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UBS HEDGE FUND SOLUTIONS LIMITED**

We have audited the financial statements of UBS Hedge Fund Solutions Limited for the year ended 31 December 2016 which comprise of the Income Statement, the Balance Sheet, the Statement of Change in Equity and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UBS HEDGE  
FUND SOLUTIONS LIMITED (CONTINUED)

**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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

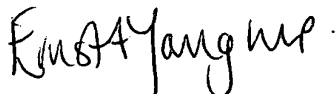
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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



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

24 April 2017

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**INCOME STATEMENT**  
for the year ended 31 December 2016

	<i>Notes</i>	<i>2016</i> £000	<i>2015</i> £000
<b>TURNOVER</b>	2	6,484	7,887
Administrative expenses		(2,321)	(2,651)
Other operating income		236	145
<b>OPERATING PROFIT</b>	3	<u>4,399</u>	<u>5,381</u>
Bank interest		5	19
<b>PROFIT ON ACTIVITIES BEFORE TAXATION</b>		<u>4,404</u>	<u>5,400</u>
Taxation on profit on ordinary activities	7	(880)	(1,083)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u><u>3,524</u></u>	<u><u>4,317</u></u>


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

The notes on pages 12 to 19 form an integral part of these financial statements.

**BALANCE SHEET**  
at 31 December 2016

	<i>Notes</i>	<i>2016</i> £000	<i>2015</i> £000
<b>FIXED ASSETS</b>			
Tangible fixed assets	8	2	3
<b>CURRENT ASSETS</b>			
Cash at bank		5,190	5,784
Debtors	9	2,139	1,942
Deferred tax assets		6	47
		<u>7,335</u>	<u>7,773</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Other creditors	10	635	846
Income tax payable		1,548	1,050
		<u>5,154</u>	<u>5,880</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>5,154</u>	<u>5,880</u>
<b>NET ASSETS</b>		<u>5,154</u>	<u>5,880</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	250	250
Profit and loss account		4,904	5,630
		<u>5,154</u>	<u>5,880</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>5,154</u>	<u>5,880</u>

Approved and authorised for issue by the Board of Directors on 20 April 2017 and signed on its behalf by:

  
D. Germishuys

  
E. Rulli  
Directors

The notes on pages 12 to 19 form an integral part of these financial statements.

## STATEMENT OF CHANGE IN EQUITY

For the year ended 31 December 2016

	Share Capital	Retained Earnings	Total Equity
	£000	£000	£000
At 1 January 2015	250	7,309	7,559
Profit for the financial year	-	4,317	4,317
Dividends Paid	-	(5,996)	(5,996)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	250	5,630	5,880
Profit for the financial year	-	3,524	3,524
Dividends Paid	-	(4,250)	(4,250)
	<hr/>	<hr/>	<hr/>
At 31 December 2016	250	4,904	5,154

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 1. ACCOUNTING POLICIES

**Basis of accounting**

The financial statements have been prepared under the historical cost 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.

**Turnover**

Turnover, stated net of value added tax, and rebates, comprises management fees, performance fees, and other charges earned from providing investment and fund management services to clients and other UBS Group undertakings. Management and performance fees are recognised on an accrual basis, with performance fee rebates being accrued when fees have been earned.

**Interest Income**

Interest income on cash balances is recognised on an 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 software	60 months
Computer hardware	36 to 60 months

**Operating leases**

Rentals payable under operating leases are recorded in the Income Statement on a straight-line basis over the lease term.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**1. ACCOUNTING POLICIES (CONTINUED)*****Pensions***

UBS AG operates a defined benefit scheme and a defined contribution scheme, for the benefit of the Company's employees. All defined benefit accruals in the UK stopped 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.

***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.

***Equity participation plans***

UBS provides various equity participation plans in the form of share plans and share option plans. UBS recognises the fair value of share and share option awards determined at the date of grant as compensation expense over the performance year. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

## 1. ACCOUNTING POLICIES (CONTINUED)

**Cash at Bank**

Cash and short term deposits in the balance sheet comprise of cash at banks 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.

**Administrative expenses**

Administrative expenses incurred are recognised on accrual basis.

**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.

## 2. TURNOVER

Turnover represents commissions and investment management fees of £6,484,000 (2015: £7,887,000) and is primarily from activities based in the United Kingdom.

## 3. OPERATING PROFIT

This is stated after charging:

	2016	2015
	£000	£000
Auditors' remuneration - audit of the financial statements	20	20
Gains on foreign exchange	(236)	(145)
Depreciation	1	0
	<u>          </u>	<u>          </u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

## 4. DIRECTORS AND EMPLOYEES

## a) Staff costs

	2016	2015
	£000	£000
Wages and salaries	1,445	1,724
Social security costs	149	217
Other pension costs	84	73
	<u>1,678</u>	<u>2,014</u>

Monthly average number of employees during the year, including Directors, categorised as follows:

	2016	2015
Portfolio management	6	6
Portfolio support	2	2
Total	<u>8</u>	<u>8</u>

## b) Directors' remuneration

The Directors' services to the Company in their capacity as Directors do not occupy a significant amount of their time, and no disclosure has been made in these financial statements of amounts payable to Directors of UBS Hedge Fund Solutions Limited by UBS AG as these do not represent payments in respect of qualifying services as Directors.

## 5. SHARE-BASED PAYMENT

*UBS Asset Management Deferral Plans*

Over a certain total compensation threshold, employees' variable compensation is subject to mandatory deferral. UBS Asset Management has two main deferral plans: the UBS Asset Management Equity Ownership Plan (Asset Management EOP) and the Deferred Contingent Capital Plan (DCCP). Employees whose total compensation is above the defined threshold receive 75% of their deferred compensation in 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. Through the Asset Management EOP, awards are made in vehicles aligned to selected UBS Asset Management funds (Notional Funds, previously known as Alternative Investment Vehicles or AIVs). The balance of the amount deferred (25%) is awarded in the DCCP which represent a contingent right to receive cash at vesting. Awards are deferred over five year and vest at the end of the five year deferral period.

*Equity Plus (EP)*

This voluntary plan gives eligible employees the opportunity to purchase UBS shares at fair market value on the purchase date and receive at no additional cost, one free notional UBS share for every three shares purchased, up to a maximum annual limit. Share purchases can be made annually from bonus compensation or monthly based on deductions from salary. Shares purchased under Equity Plus are restricted from sale for 3 years from the time of purchase.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

**5. SHARE-BASED PAYMENT (CONTINUED)**

The weighted average share price at the date of exercise for shares during the year was 1,275p (2015: 948p). The shares outstanding at 31 December 2016 have a share price of 1,195p (2015: 1,151p), and a weighted average time to vesting date of 0.2 to 2.1 years (2015: 1 to 3 years).

*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 956p (2015: 880p). The options outstanding at 31 December 2016 have an exercise price of 3,107p (2015: 3,046p). The weighted average remaining contractual term for options outstanding ranges from 0.2 years to 2.1 years for CHF (2015: 0.7 years to 2.9 years for CHF). The weighted average share price at the date of exercise for SAR exercised during the year was 876p (2015: 745p). The SAR outstanding at 31 December 2016 have an exercise price of 956p (2015: 812p). The weighted average remaining contractual term for SAR outstanding ranges from 2.1 years to 2.7 years (2015: 0.4 years to 3.7 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 gain of £106,000 (2015: charge £339,000) all of which relate to equity-settled share-based payment transactions.

**6. TRANSACTIONS WITH DIRECTORS AND CONNECTED PERSONS**

Directors are entitled to deal in securities with UBS AG 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 have been no material transactions with Directors and related persons during the year.

**7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES***(a) Taxation on profit on ordinary activities*

The tax charge is made up as follows:

	2016 £000	2015 £000
UK corporation tax:		
Current year	839	1,074
Total current tax	<u>839</u>	<u>1,074</u>
Deferred tax:		
Originating and reversal of timing differences	41	9
Total deferred tax for year	<u>41</u>	<u>9</u>
Tax on profit on ordinary activities	<u><u>880</u></u>	<u><u>1,083</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

## 7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

## (b) Factors affecting tax charge

	2016 £000	2015 £000
Profit on ordinary activities before tax	4,404	5,400
Profit on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 20.00% (2015 – 20.25%)	881	1,093
Effects of:		
Income not recognised for tax purposes	(1)	(16)
Change in UK taxation rates	-	6
Total tax	880	1,083

## (c) Deferred tax asset

	2016 £000	2015 £000
Provision at start of period	47	56
Charge to the profit and loss account - current year	(41)	(9)
Provision at end of period	6	47
Comprising:		
Employee compensation awards	6	47
Total deferred tax assets	6	47

## 8. TANGIBLE FIXED ASSETS

	<i>Computer Equipment</i> £000	<i>Total</i> £000
Cost:		
At 1 January 2016	9	9
Additions/(Disposals)	-	-
At 31 December 2016	9	9
Depreciation:		
At 1 January 2016	(6)	(6)
Charge in year	(1)	(1)
At 31 December 2016	(7)	(7)
Net book amount at:		
31 December 2016	2	2
1 January 2016	3	3

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

**9. DEBTORS**

	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Amounts owed by group undertakings	2,123	1,926
Accrued income	14	14
Value Added Tax	2	2
	<u>2,139</u>	<u>1,942</u>

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<i>£000</i>	<i>£000</i>
Amounts owed to group undertakings	125	145
Accruals	510	701
	<u>635</u>	<u>846</u>

**11. CALLED UP SHARE CAPITAL**

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
250,000 Ordinary shares of £1 each	250	250	250	250

**12. 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's financial statements. All defined benefit accruals in the UK stopped 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 exceptions set out in IAS 19, it accounts for contributions to the scheme as if it were a defined contribution scheme. The defined benefits scheme was closed during 2013.

The total pension cost for the Company was £84,000 (2015 - £73,000), all of which related to the schemes outlined above. No contributions were outstanding relating to these schemes as at 31 December 2016 (2015 – £ nil).

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**13. PARENT UNDERTAKINGS**

The Company's immediate parent undertaking is UBS Asset Management AG, a company incorporated in Switzerland. This is the direct parent company preparing consolidated financial statements which include the Company's financial statements. Copies of the financial statements of UBS AG can be obtained from the Company Secretary, UBS AG London Branch, 5 Broadgate, London EC2M 2QS.

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 the Company Secretary, UBS AG London Branch, 5 Broadgate, London EC2M 2QS.

**14. EVENTS AFTER THE BALANCE SHEET DATE**

Since 21 February 2017 the Company is no longer authorised and regulated by the Financial Conduct Authority ("FCA").