Statement of Financial Condition

UBS Financial Services Incorporated of Puerto Rico
(a subsidiary of UBS Financial Services Inc.)

June 30, 2017
Unaudited

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Contents

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(Unaudited)
June 30, 2017
(In thousands of dollars)

Assets	
Cash	$ 39,992
Securities and cash segregated and on deposit for federal and other regulations	3,048
Financial instruments owned, at fair value	8,156
Securities purchased under agreements to resell	508,616
Receivables:	
Clients	144,509
Brokers and dealers	24
Interest	547
Fees and other	208
Receivables from affiliated companies	3,219
Office equipment and leasehold improvements, net of accumulated depreciation and amortization of $21,218	492
Other assets	818
Total assets	$ 709,629
Liabilities and stockholder's equity	
Financial instruments sold, not yet purchased, at fair value	$ 53
Payables:	
Clients	8
Interest	2,566
Taxes	1,122
Other liabilities and accrued expenses	372,406
Accrued compensation and benefits	2,154
Payables to affiliated companies	6,751
	385,060
Subordinated liabilities	280,000
Stockholder's equity:	
Common stock (10,000 shares authorized, 1,000 issued and outstanding; $1 par value)	1
Additional paid-in capital	988,890
Accumulated deficit	(944,322)
Total stockholder's equity	44,569
Total liabilities and stockholder's equity	$ 709,629

See accompanying notes.

1. Organization

UBS Financial Services Incorporated of Puerto Rico (the "Company" or "UBSFSIPR") is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of various exchanges and the Financial Industry Regulatory Authority ("FINRA"). The Company's business activities include trading of Puerto Rico Government National Mortgage Association securities, United States government and agency obligations, Puerto Rico municipal obligations, commercial paper and other short-term debt, and equity securities. In addition, the Company provides brokerage and advisory services to retail, corporate, and institutional clients as well as mutual funds.

The Company is a wholly owned subsidiary of UBS Financial Services Inc. ("UBSFSI"). UBSFSI is a wholly owned subsidiary of UBS Americas Inc. ("UBS Americas") which is a wholly owned subsidiary of UBS Americas Holding LLC ("UBSAHL"). UBSAHL was established in order to become the intermediate holding company for all United States subsidiaries of UBS Group AG pursuant to the rules enacted for foreign banks in the United States. UBSAHL is a wholly owned subsidiary of UBS AG ("UBS") which is a wholly owned subsidiary of UBS Group AG. The Company has material transactions with its affiliates.

2. Summary of Significant Accounting Policies

Basis of Presentation

The statement of financial condition is prepared in conformity with accounting principles generally accepted in the United States, which requires management to make judgments and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Actual results could differ from those estimates. Management makes estimates regarding valuations of certain assets and liabilities, the outcome of litigation, certain accruals, and other matters that affect the reported amounts and disclosures of contingencies in the statement of financial condition.

The Company consolidates entities in which the Company has a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE"). At June 30, 2017, the Company does not have any interests in VIEs.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments with a maturity of three months or less when purchased. The Company had no cash equivalents as of June 30, 2017.

Cash and Securities Segregated and On Deposit for Federal and Other Regulations

The Company is required to segregate cash in a special reserve bank account for the exclusive benefit of customers under SEC Rule 15c3-3, the Customer Protection Rule. At June 30, 2017, the Company included $3,017 of qualified securities on deposit for federal and other regulations.

Principal Transactions

When acting as a principal, the Company enters into a transaction in its own name and for its own account. As a principal, the Company has beneficial ownership of and legal title to the assets. Transactions in which securities flow through the Company's inventory are considered principal transactions. Amounts receivable and payable for principal transactions that have not reached their contractual settlement date are recorded net in the statement of financial condition as receivables from brokers and dealers. The Company assumes both credit risk and market risk from the inception of the transaction.

Receivables from Clients and Allowance for Doubtful Accounts

Receivables from clients consist of a portfolio of securities-based loans that were purchased by the Company from an affiliated entity. The loans were originally recorded at the purchase price and subsequently adjusted for any charge offs or allowance for doubtful accounts. Any allowance for doubtful accounts represents the Company's estimate of losses inherent in the loan portfolio as of the balance sheet date. The Company's exposure to credit risk associated with its loans is measured on an individual customer basis. All loans are subject to the Company's credit review and monitoring procedures.

The loans are evaluated for impairment in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 310, Receivables. A loan is determined to be impaired when it is probable, based on current information and events, that the Company will not be able to collect all the principal and interest due under the contractual terms of the loan. If a loan is considered impaired, the Company measures the amount of impairment based on the fair value of the collateral less cost to sell the underlying collateral. Loans are

2. Summary of Significant Accounting Policies (continued)

Receivables from Clients and Allowance for Doubtful Accounts (continued)

generally placed on non-accrual status at the point when a maintenance call is not satisfied by the borrower. Any accrued interest receivable related to a loan that is placed on non-accrual status is added to the principal amount due. Payments received while a loan is on non-accrual status are recorded as a reduction of principal. If the borrower has demonstrated over a period of time, the ability to make periodic interest and principal payments as scheduled, the loan will be returned to accrual status.

Financial Instruments

Financial instruments owned and financial instruments sold, not yet purchased are recorded on a trade date basis at fair value. Fair value is determined by quoted market prices, when available. If quoted market prices are not available, fair value is determined using pricing models which incorporate management's best estimates of critical assumptions, which take into account time value, volatility and other factors underlying the securities. .

Financial Accounting Standards Board ("FASB") Accounting Standards Codifications ("ASC") 820, Fair Value Measurements, ("ASC 820") defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Valuation techniques, as specified by ASC 820, are used to measure fair value. The Company's fair value and valuation model governance structure includes numerous controls and procedural safeguards that are intended to maximize the quality of fair value measurements reported in the statement of financial condition. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market information and to provide justification and rationale for their fair value estimates. Independent price verification of financial instruments measured at fair value is undertaken by UBS's valuation control group. The objective of the independent price verification process is to independently corroborate the business's estimates of fair value against observable market information. By benchmarking the business's fair value estimates with observable market information, the degree of valuation uncertainty embedded in these measurements can be assessed and managed as required in the governance framework. As a result of the valuation controls employed, valuation adjustments may be made to the business's estimate of fair value.

2. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

All financial instruments at fair value are categorized into one of three fair value hierarchy levels, based upon the lowest level input that is significant to the financial instrument's fair value measurement in its entirety:

Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Company can assess at the measurement date.

Level 2: Valuation techniques for which all significant inputs are market observable, either directly or indirectly.

Level 3: Valuation techniques which include significant inputs that are not based on observable market data.

The following is a description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value:

U.S. Government securities: U.S. Government securities are generally actively traded and are valued using quoted market prices. Where market prices are not available, these securities are valued against yield curves implied from similar issuances.

Mutual Funds: Mutual funds are generally valued using quoted market prices or, where available, other observable inputs if not traded in an active market. In some instances significant inputs are not based on observable market data.

State and municipal obligations: These securities are comprised of bonds issued by states and municipalities. These financial instruments are priced based on recent trades or broker and dealer quotes.

2. Summary of Significant Accounting Policies (continued)

Collateralized Agreements

Securities purchased under agreements to resell ("resale agreements") and securities sold under agreements to repurchase ("repurchase agreements") are generally collateralized by mortgage-backed, municipal and U.S. government and agency securities, and are accounted for as financing transactions at their contractual amounts, plus accrued interest which represents amounts at which the securities will be subsequently resold or repurchased.

For resale agreements, it is the Company's policy to obtain possession or control of securities, which have a fair value in excess of the original principal amount loaned. The Company is required to deliver securities to counterparties in order to collateralize repurchase agreements. The risk related to a decline in the market value of collateral (pledged or received) is managed by setting appropriate market-based haircuts. On a daily basis, the Company monitors the fair value of the securities purchased and sold under these agreements. Should the fair value of the securities purchased decline, or the fair value of securities sold increase, additional collateral is requested or excess collateral is returned when deemed appropriate to maintain contractual margin protection.

The Company manages credit exposure arising from collateralized transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with counterparties that provide the Company, in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), with the right to net a counterparty' s rights and obligations under such agreement and liquidate and set off collateral held by the Company against the net amount owed by the counterparty. The Company elects to net certain repurchase agreements and resale agreements when the requirements of FASB ASC 210-20-45-11 "Balance Sheet - Offsetting: Repurchase and Reverse Repurchase Agreements" are met. At June 30, 2017, the Company did not net any repurchase and resale agreements.

Depreciation and Amortization

The Company depreciates office and other equipment using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining term of the lease.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

In accordance with the provisions of FASB ASC Topic 740, "Income Taxes", ("ASC Topic 740"), deferred tax assets and liabilities are recognized for the future tax effect of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect during the year in which the basis differences reverse. In the event it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is recorded.

ASC Topic 740 sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained. The amount of benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized.

The Company files income tax returns with the Commonwealth of Puerto Rico.

Accounting Developments

Adopted in 2017

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): “Improvements to Employee Share-Based Payment Accounting”. Among other changes, this amendment requires excess tax benefits and all tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the statement of operations. The amendment also removes the requirement to delay recognition of an excess tax benefit until the tax benefit reduces income taxes otherwise payable. The amendment requires that cash flows related to excess tax benefits are classified as an operating activity with other income tax cash flows. The amendment also allows the Company to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting and provides an accounting policy election to account for forfeitures as they occur. The Company adopted ASU 2016-09 on January 1, 2017, and it did not have a material impact on the Company's statement of financial condition.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are Under Common Control. The amendment changes the evaluation of whether a reporting entity is the primary beneficiary of a VIE by changing how a reporting entity that is a single decision maker of a VIE treats indirect interests in the entity held through related parties that are under common control with the reporting entity.

2. Summary of Significant Accounting Policies (continued)

Accounting Developments (continued)

Under the amendment, the single decision maker will consider an indirect interest held by a related party under common control on a proportionate basis. The Company adopted ASU No. 2016-17 on January 1, 2017, and it did not have a material impact on the Company's statement of financial condition.

Pending Adoption

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. Subsequently, the FASB has issued further ASUs (collectively, the "ASUs") for purposes of amending or clarifying that guidance. ASU 2014-09 establishes principles for revenue recognition that apply to all contracts with customers except those relating to financial instruments, leases and insurance contracts and requires an entity to recognize revenue as performance obligations are satisfied. In particular, the standard now specifies that variable consideration is only recognized 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. This may affect when certain performance-based and asset based fees can be recognized. It 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. The Company will adopt the standard as of its mandatory effective date on January 1, 2018, and will apply it on a modified retrospective basis, recognizing the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. The Company continues to assess the impact of the new standard on its financial statements, but currently does not expect any impact to be material.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. This amendment addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendment primarily affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. This amendment is effective for fiscal years beginning after December 15, 2017 (including interim and annual periods thereafter). ASU 2016-01 will have no impact on the Company's statement of financial condition.

2. Summary of Significant Accounting Policies (continued)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments. The amendment replaces existing incurred loss impairment guidance and introduces a new credit loss model; the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The CECL model requires the measurement of all expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions and reasonable and supportable forecasts over the full remaining expected life of the financial assets. The amendment is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The adoption of 2016-13 is part of the UBS Group AG's key strategic initiative for adoption of an expected credit loss approach in provisioning for impairment. It is implemented under the joint sponsorship of the UBS Group AG's chief risk officer and chief financial officer. The implementation project structure is defined to address the critical requirements of the standard and to manage the appropriate involvement of key stakeholders, including risk control, finance, group technology and the business divisions. The steering committee, operating committee, technical board and individual work streams continue to ensure a streamlined implementation with appropriate controls and governance over all key decisions. The program has identified the primary changes to existing systems, processes, data and models required for the purposes of meeting the requirements and to allow for a sound front-to-back implementation. Significant progress has been made toward achieving key milestones across all work streams. The Company will adopt ASU 2016-13 on its mandatory effective date, January 1, 2020.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This ASU addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, and for the interim periods within those annual reporting periods. The Company does not expect this new guidance will have a material impact its statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory ("ASU 2016-16"). This amendment requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The effective date for the amendment is for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company is currently assessing the impact that ASU 2016-16 will have on its statement of financial condition.

2. Summary of Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230); Restricted Cash. The amendment requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalent, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end of period total amounts shown in the statement of cash flows. The amendment does not provide a definition of restricted cash or restricted cash equivalents. The amendment is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2016-18 will have on its statement of cash flows but does not anticipate that it will have a material impact. The guidance will have no impact on the Company's statement of income or statement of financial condition.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU clarifies the definition of a business by introducing a quantitative screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, in order to be considered a business, a set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The ASU is effective for reporting periods beginning after December 15, 2017. No material impact is expected as the ASU will be applied prospectively: however, the impact of the ASU will depend upon the acquisition and disposal activities of the Company.

In January 2017, the FASB issued ASU 2017-04, simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating step 2 from the goodwill impairment test. Under step 2 of the goodwill impairment test, a goodwill impairment loss was measured by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, the goodwill impairment test will require an impairment loss to the extent the carrying amount of a reporting unit exceeds its fair value. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2020, and for the interim periods within those annual reporting period with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 is to be applied on a prospective basis. Currently, the Company does not have any goodwill on its statement of financial condition.

(In thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, which amends the amortization period for certain purchased callable debt securities held at a premium. The ASU requires that such premiums are amortized to the earliest call date. The amendment does not require a change in the accounting for securities held at a discount; the discount continues to be amortized over the contractual life of the instrument. ASU 2017-08 is effective for annual reporting periods and interim periods within those periods beginning after December 15, 2018. The Company does not expect the adoption of ASU 2017-08 to have a material impact on the Company's statement of financial condition.

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-09, Receivables—Compensation—Stock Compensation (Subtopic 718): Scope of Modification Accounting, which amends the accounting for modifications of share-based payment awards. The amendments require that modification accounting be applied when a change to the terms or conditions of an award is substantive. ASU 2017-09 is effective for annual reporting periods and interim periods within those periods beginning after December 15, 2017. The Company does not expect the adoption of ASU 2017-09 to have a material impact on the Company's statement of financial condition.

3. Fair Value Measurements

At June 30, 2017, the financial instruments owned recorded at fair value, consisted of the following:

	Level 1	Level 2	Level 3	Total
Financial Instruments Owned, at fair value				
U.S. Government securities	$ 119	$ -	$ -	$ 119
Mutual funds	-	17	7,960	7,977
State and municipal obligations	-	60	-	60
Total	$ 119	$ 77	$ 7,960	$ 8,156
Financial Instruments Sold, Not Yet Purchased, at fair value				
State and municipal obligations	$ -	$ 53	$ -	$ 53
Total	$ -	$ 53	$ -	$ 53

3. Fair Value Measurements (continued)

Financial instruments sold, not yet purchased, at fair value represent obligations of the Company to deliver the specified securities at contracted prices and, thereby, require the Company to purchase the securities in the market at prevailing prices. The Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount reflected in the statement of financial condition.

At June 30, 2017, the Company did not have any transfers of financial instruments owned, at fair value or financial instruments sold, not yet purchased between Levels 1 and 2 of the valuation hierarchy.

The Company is the primary liquidity provider in the market for a number of closed-end mutual funds ("Funds") invested in Puerto Rico municipal securities. These Funds use leverage, which is currently provided through repurchase agreements between the Funds and the Company. Since 2013, the Puerto Rico market experienced a downturn and liquidity issues became relevant with the Funds. The fair value of these Funds is based on valuation techniques for which significant inputs are not based on observable market data.

The following table provides a reconciliation of the beginning and ending balances for the various classes of assets measured at fair value using unobservable inputs – Level 3.

Financial Instruments Owned

	Mutual Funds
Beginning Balance	$ 8,527
Purchases	8,681
Sales	(8,604)
Unrealized gain(loss)	(644)
Ending Balance	$ 7,960

3. Fair Value Measurements (continued)

The following table provides information on the valuation techniques, significant unobservable inputs and the range of values for those inputs for financial instruments owned, at fair value, categorized as Level 3 of the fair value hierarchy at June 30, 2017. The range of input values presented in the below table is representative of the highest and lowest level of input used to value the significant instruments within each category. The disclosure below also includes qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

Level 3 at Fair Value

	Financial Instruments Owned	Valuation Technique	Significant Unobservable Inputs	Range of Input Values
Mutual Funds	$ 7,960	Internally Developed Model	Discount Rates	11% - 32%

Financial assets and liabilities not measured at fair value

Other financial assets and liabilities are recorded by the Company at their contract values and include cash and cash equivalents, cash and securities segregated and on deposit for federal and other regulations, securities purchased under agreements to resell, receivables and payables from (i) clients, (ii) interest, (iii) fees and other and, (iv) affiliated companies.

All financial assets and liabilities carried at contract amounts that either have short-term maturities (one year or less) or bear market interest rates are carried at amounts that approximate fair value. The carrying value of client receivables approximate fair value as these receivables re-price daily and there is no stated maturity date.

The following table represents the carrying value, fair value, and fair value hierarchy category of certain financial assets and liabilities that are not recorded at fair value in the Company's statement of financial condition. The following table excludes all non-financial assets and liabilities.

(In thousands of dollars)

3. Fair Value Measurements (continued)

	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash	$ 39,992	$ 39,992	$ 39,992	$ -	$ -
Securities and cash segregated and on deposit for federal and other regulations	3,048	3,048	3,048		-
Securities purchased under agreements to resell	508,616	508,616	-	508,616	-
Receivables from clients	144,509	-	-	144,509	-
Receivables from brokers and dealers	24	24	-	24	-
Interest	547	547	-	547	-
Fees and other	208	208	-	208	-
Receivables from affiliated companies	3,219	3,219	-	3,219	-

	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Liabilities:					
Payable to clients	$ 8	$ 8	$ -	$ 8	$ -
Interest	2,566	2,566	-	2,566	-
Payables to affiliated companies	6,751	6,751	-	6,751	-
Subordinated liabilities	280,000	280,000	-	280,000	-

4. Collateralized Agreements

The Company enters into resale agreements and repurchase agreements to, among other things, acquire securities to cover short positions and settle other securities obligations and for the Company's financing transactions.

Secured Financing Transactions-Maturities and Collateral Pledged

As of June 30, 2017 there were no gross obligations for repurchase agreements or securities loaned.

Offsetting of Collateral Agreements

The Company manages credit risk by entering into netting agreements with counterparties. These netting agreements generally enable the counterparties to offset liabilities against assets received in the event that the counterparty to the transaction is unable to fulfill its contractual obligation.

(In thousands of dollars)

4. Collateralized Agreements (continued)

Offsetting of Collateral Agreements (continued)

The Company offsets these financial assets and financial liabilities on the statement of financial condition only when it has an enforceable legal right to offset the respective recognized amounts and intends to settle on a net basis.

The following table presents information regarding the offsetting of financial assets and financial liabilities:

	Gross Amounts	Amounts Offset in the Statement of Financial Conditions	Net Amounts Presented in the Statement of Financial Condition	Gross Amounts not offset in the Statement of Financial Condition (1)	Net Amount (2)
Financial Assets					
Securities purchased under agreement to resell	$ 508,616	$ -	$ 508,616	$ (508,616)	$ -

(1) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are not met in accordance with applicable offsetting account guidance ASC 210-20-45-11.

(2) In some cases, collateral exchanged with counterparty exceeds the net asset or liability balance with that counterparty. In such cases, the amounts reported in this column are limited to the related asset or liability with the counterparty.

In the normal course of business, the Company obtains securities under agreements to resell and on terms which permit it to re-pledge or resell the securities to others. At June 30, 2017, the Company obtained and had available securities with a fair value of approximately $541,837 of which none has been pledged or otherwise transferred to others.

5. Receivables from Clients and Allowance for Doubtful Accounts

The Company provides securities-based lending that allows clients to borrow against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying securities (the "Loans"). The Loans are demand facilities with variable interest rates and are fully secured by cash and client securities, a portion of which includes Puerto Rico closed-end funds and Puerto Rico municipal securities.

(In thousands of dollars)

5. Receivables from Clients and Allowance for Doubtful Accounts (continued)

As of June 30, 2017, receivables from clients consisted of:

Loans	$128,109
Other	16,400
Total	$144,509

The client is required to post collateral in excess of the value of the margin Loans and the collateral must meet certain lending value criteria as defined by the Company. Collateral is monitored daily for price volatility in order to maintain adequate margins. If the collateral value drops below the minimum required levels, a maintenance call is issued. The borrower must satisfy the call by providing additional securities or by paying down the loan. If the borrower does not satisfy the call, the Company may liquidate collateral to achieve required levels of collateralizations. Significant market volatility could have a negative impact on the borrower's ability to satisfy the call or the Company's ability to liquidate collateral. To limit the Company's credit risk exposure, the credit facilities are uncommitted.

As of June 30, 2017 and for the year then ended, there was no allowance for loan losses and no loans identified as impaired.

6. Receivables from and Payable to Brokers and Dealers

Amounts receivable from and payable to brokers and dealers include amounts due on failed securities transactions. Amounts receivable from and payable to brokers and dealers at June 30, 2017, were $24 which has been included in receivables from brokers and dealers in the statement of financial condition. There were no payables due to brokers and dealers as of this date.

7. Related Party Transactions

In the normal course of business, the Company enters into transactions with affiliated companies. At June 30, 2017, the statement of financial condition included the following balances:

Assets	
Securities purchased under agreements to resell	$ 210,000
Receivables from affiliated companies	3,219

7. Related Party Transactions (continued)

Liabilities	
Dividends and interest	2,566
Payables to affiliated companies	6,751
Subordinated liabilities	280,000

Service Level Agreements

Pursuant to service level arrangements, the Company provides certain services to affiliates. The significant arrangements where the Company provides administrative and other support services to affiliates include agreements with UBS Trust Company of Puerto Rico ("UBS Trust of PR") and UBS Financial Services Inc. - Puerto Rico Office.

Finance Arrangements

The Company meets its short-term financing needs by borrowing from UBS Americas, which facilitates the funding.

At June 30, 2017, the Company had resale agreements of $136,345 with mutual funds co-managed by an affiliate.

During 2017, UBSFSI has made capital contributions to the Company in the amount of $25,000. UBSFSI also guarantees payment and performance of all liabilities, obligations and commitments of the Company. UBSFSI does not receive any consideration for this guarantee.

Compensatory Arrangements

Certain employees of the Company have been issued loans by an affiliate as part of the Company's compensation programs related to employee recruiting and retention (see Note 12). These loans bear interest and have terms generally between seven and nine years.

Clearing Agreements among Retail Clients

Retail clients of the Company are introduced to UBSFSI on a fully disclosed basis. The Company has a fully disclosed clearing agreement with UBSFSI pursuant to which UBSFSI provides certain clearing and related functions. Under this arrangement, UBSFSI, under the Company's continuing supervision, assumes the physical custody of, and conducts the brokerage settlement activities for, accounts of the Company and its clients.

(In thousands of dollars)

7. Related Party Transactions (continued)

Securities Purchased under Agreements to Resell

As of June 30, 2017, the Company entered into a resale agreement with UBSFSI in the amount of $210,000. The agreement is collateralized by U.S. Treasury Notes.

8. Subordinated Liabilities

At June 30, 2017, subordinated borrowings and total credit facilities outstanding with UBS Americas consisted of the following:

	Maturity	Amount Outstanding	Total Credit Facility
Revolving subordinated loan	3/31/2018	$130,000	$450,000
Term subordinated loan	12/31/2018	150,000	150,000
		$280,000	$600,000

These loans are subordinated to claims of general creditors, is covered by agreements approved by FINRA and other regulatory authorities, and is included by the Company for purposes of computing net capital under the SEC Uniform Net Capital Rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, this loans may not be repaid unless first approved by FINRA and the National Futures Association.

9. Risk Management

The Company's risk management policies and related procedures are aligned with those of UBS. The Company's risk governance framework operates along three lines of defense. The first line of defense, business management, owns respective risk exposures and is required to maintain effective processes and systems to manage its risks, including robust and comprehensive internal controls and documented procedures. Business management has appropriate supervisory controls and review processes in place designed to identify control weaknesses and inadequate processes. The second line of defense, the control functions, provides independent oversight of risks, including assisting in setting risk limits and protecting against non-compliance with applicable laws and regulations. Internal audit forms the third line of defense, evaluation of the overall effectiveness of governance, risk management and the control environment, including the assessment of how the first and second lines of defense meet their objectives.

9. Risk Management (continued)

The Company's risk management and control principles are as follows:

- Protection of financial strength. Protecting the financial strength of the Company by controlling risk exposures and avoiding potential risks concentrations at individual exposure levels, at specific portfolio levels and at an aggregate Company level across all risk types.

- Protection of reputation. Protecting the Company's reputation through a sound risk culture characterized by a holistic and integrated view of risk, performance and reward, and through full compliance with the Company's standards and principles, particularly the Company's Code of Business Conduct and Ethics.

- Business management accountability. Ensuring management accountability, whereby business management, as opposed to Risk Control, owns all risks assumed throughout the Company and is responsible for the continuous and active management of all risk exposures to ensure that risk and return are balanced.

- Independent controls. Independent control functions which monitor the effectiveness of the business's risk management and oversee risk-taking activities.

- Risk disclosure. Disclosure of risks to senior management, the Board of Directors, investors, regulators, credit rating agencies and other stakeholders with an appropriate level of comprehensiveness and transparency.

Market Risk

Market risk is the risk of loss from changes in market variables. There are two broad categories of changes: general market risk factors driven by macroeconomic, geopolitical and other market-wide considerations and market risk factors that are specific to individual companies or entities.

General market risk factors include interest rates, level of equity market indices, foreign currency exchange rates and other factors. Market risk factors that are specific to individual companies or entities cannot be explained by general market moves. In the normal course of business the Company is exposed to general and specific market risks related to its trading activities and some non-trading businesses are also subject to market risk.

The Company has two major portfolio measures to monitor market risk: Value at Risk and Stress Loss. The two major portfolio measures are complemented by concentration and other

9. Risk Management (continued)

Market Risk (continued)

supplementary limits on portfolios, sub-portfolios or asset classes. The senior management of each relevant business area is responsible for reviewing trading and non-trading positions, exposures, profits and losses, and trading strategies. The Company has a risk control group which reviews the Company's risk profile and independently monitors development in trading and non-trading portfolios according to established limits. The risk control group also reviews trading positions and economic hedging strategies, performs market risk modeling and aids in setting risk policies of the Company.

Operational Risk

Operational risk is the risk resulting from inadequate or failed internal processes, people and systems, or from external causes (e.g., deliberate, accidental or natural).

Events may be direct financial losses or indirect in the form of revenue forgone as a result of business suspension. They may also result in damage to the Company's reputation and franchise, which have longer term financial consequences.

Operational risk is an inevitable consequence of being in business, and managing operational risk is a core element of the Company's business activities. It is not possible to eliminate every source of operational risk, but the Company's aim is to provide a framework that supports the identification and assessment of all material operational risks and their potential concentrations in order to achieve an appropriate balance between risk and return.

A comprehensive operational risk taxonomy is established that defines the universe of inherent material operational risks which arise as a consequence of business activities. This enables a common understanding and provides a standard and consistent categorization of operational risk across all business divisions. The aggregated impact of control deficiencies and the adequacy of remediation efforts are overseen by Compliance and Operational Risk Control through an end-to-end framework consisting of all three lines of defense. The framework is complemented by front-to-back control assessments, leveraging internal subject matter expertise, which provides a comprehensive view of the current operational risk exposure against agreed risk appetite statements and measures. Significant control deficiencies that surface during the internal control and operational risk assessment processes must be reported in the operational risk inventory and sustainable remediation must be initiated.

9. Risk Management (continued)

Credit Risk

Credit risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to the Company. This can be caused by factors directly related to the counterparty or from failures in the settlement process. It can also be triggered by economic or political factors in the country in which the counterparty is based or where it has substantial assets. Counterparties to the Company's financing activities are primarily affiliates, other financial institutions, including banks, brokers and dealers, investment funds and insurance companies, individuals and non-financial operating entities. Credit losses could arise should counterparties fail to perform and the value of any collateral held prove inadequate due to market conditions.

The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral where appropriate.

Client transactions include positions in written options, financial instruments sold, not yet purchased and commodities and financial futures. The risk to the Company's clients in these transactions can be substantial, principally due to price volatility which can reduce the clients' ability to meet their obligations. To the extent clients are unable to meet their commitments to the Company and margin deposits are insufficient to cover outstanding liabilities, the Company may take action as appropriate.

Client trades are recorded on a settlement date basis. Should either the client or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices. Trades pending at June 30, 2017 were settled without material adverse effect on the statement of financial condition.

Receivables and payables with brokers and dealers and agreements to resell and repurchase securities are generally collateralized by U.S. Government and agency securities. Additional collateral is requested when considered necessary.

The Company has direct exposure to Puerto Rico municipal securities and closed-end funds arising from its secondary market activities, which was $8,020 at June 30, 2017. In addition, securities-backed lending facilities, including purpose and non-purpose loans, provided by the Company to its customers and repurchase agreements with institutional clients are, in part, collateralized by Puerto Rico municipal securities and closed-end funds primarily invested in

9. Risk Management (continued)

Puerto Rico municipal securities. This collateral is subject to lending value haircuts and daily margining.

Since 2015, the Commonwealth of Puerto Rico along with certain agencies and public corporations of the Commonwealth have defaulted on various debt instruments. In May 2017, certain debt of the Commonwealth was placed into a bankruptcy-like proceeding (refer to Note 10). As a result of these recurring events, the Company continues to limit lending value on most Puerto Rico municipal securities and closed-end funds.

The total lending exposure against Puerto Rico municipal securities and closed-end fund collateral at June 30, 2017 was $9,365. The underlying collateral had a market value of $42,115 as of this date. For a significant number of these loans, the Company has recourse to the borrower.

10. Commitments and Contingencies

Legal Proceedings

The Company operates in a legal and regulatory environment that exposes it to significant litigation risks and similar risks arising from disputes and regulatory proceedings. As a result, the Company is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations.

Such matters are subject to many uncertainties, and the outcome and timing of resolution is often difficult to predict, particularly in the earlier stages of a case. There are situations where the Company may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Company believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Company makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against the Company, but are nevertheless expected to be, based on the Company's experience with similar asserted claims. Such provisions would be included in the other liabilities and

10. Commitments and Contingencies (continued)

accrued expenses on the statement of financial condition. If any of those conditions are not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require the Company to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although we therefore cannot provide a numerical estimate of the future losses that could arise from the class of litigation, regulatory and similar matters, the Company believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions.

In the matters disclosed below, the Company does not state whether a provision has been established. Either a) the Company has not established a provision and the matter is treated as a contingent liability under the applicable accounting standard or b) the Company has established a provision but disclosure of that fact would prejudice seriously the Company's position with other parties in that matter because it would reveal the fact that the Company believes an outflow of resources to be probably and reliably estimable. In addition to the matters mentioned below, the Company is involved in litigation as well as regulatory matters arising in the normal course of business.

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and the Funds that are sole-managed and co-managed by UBS Trust Co. of Puerto Rico ("UBS Trust of PR") and distributed by UBSFSIPR have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of approximately $2,244,200 of which claims with aggregate claimed damages of $1,227,490 have been resolved through settlements, arbitrations or withdrawal of the claim. The claims are filed by clients in Puerto Rico who own the Funds or Puerto Rico municipal bonds and/or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the Funds and of the loans.

A shareholder derivative action was filed in 2014 against UBSFSI, UBSFSIPR and UBS Trust of PR and current and certain former directors of the Funds, alleging hundreds of millions in losses

10. Commitments and Contingencies (continued)

in the Funds. In 2015, defendants' motion to dismiss was denied. Defendants' requests for permission to appeal that ruling were denied by the Puerto Rico Court of Appeals and the Puerto Rico Supreme Court. In 2014, a federal class action complaint was also filed against various UBS entities included the UBSFSI, UBSFSIPR and UBS Trust of PR, certain members of UBSFSIPR's senior management, and the co-manager of certain of the Funds seeking damages for investor losses in the Funds during the period from May 2008 through May 2014. In December 2016, defendants' motion to dismiss was granted in part and denied in part.

In 2015, a class action was filed in Puerto Rico state court against UBSFSIPR seeking equitable relief in the form of a stay of any effort by UBSFSIPR to collect on non-purpose loans it acquired from UBS BUSA in December 2013 based on plaintiffs' allegation that the loans are not valid. The trial court denied defendants' motion to dismiss the action based on a forum selection clause in the loan agreement. The Puerto Rico Supreme Court reversed that decision and remanded the case back to the trial court for reconsideration.

In 2014, UBSFSIPR reached a settlement with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico ("OCFI") in connection with OCFI's examination of UBSFISPR's operations from January 2006 through September 2013, pursuant to which the Company is paying up to an aggregate of $7,700 in investor education contributions and restitution.

In 2015, the SEC and FINRA announced settlements with UBSFSIPR of their separate investigations stemming from the 2013 market events. Without admitting or denying the findings in either matter, UBSFSIPR agreed in the SEC settlement to pay $15,000, and $18,500 in the FINRA matter. The Company also understands that the Department of Justice is conducting a criminal inquiry into the impermissible reinvestment of non-purpose loan proceeds. The Company is cooperating with the authorities in this inquiry.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (the "System") against over forty defendants, including UBSFSIPR The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately $3,000,000 of bonds by the System in 2008 and sought damages of over $800,000. In December 2016, the court granted the System's request to join the action as a plaintiff , but ordered that plaintiffs must file an amended complaint. In March 2017, the court denied defendants' motion to dismiss the amended complaint.

10. Commitments and Contingencies (continued)

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of the sale of the funds in 2008 and 2009, which was settled in 2012. Beginning in 2012 two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities including the UBSFSI, UBSFSIPR, UBS Trust of PR, certain of the Funds, and certain members of UBSFSIPR senior management, seeking damages for investor losses in the Funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. In September 2016, the court denied plaintiffs' motion for class certification. In March 2017, the US Court of Appeals for the First Circuit denied plaintiffs' petition seeking permission to bring an interlocutory appeal challenging the denial of their motion for class certification.

In 2015, certain agencies and public corporations of the Commonwealth of Puerto Rico have defaulted on certain interest payments. In 2016, the Commonwealth defaulted on payments on its general obligation debt ("GO Bonds") and in 2017 the Commonwealth defaulted on payments on its debt backed by the Commonwealth's Sales and Use Tax ("COFINA Bonds") as well as on bonds issued by the Commonwealth's Employee Retirement System ("ERS Bonds). The Funds hold significant amounts of both COFINA and ERS Bonds and the defaults on interest payments are expected to adversely affect dividends from the Funds. Executive orders of the Governor that have diverted funds to pay for essential services instead of debt payments and stayed any action to enforce creditors' rights on the Puerto Rico bonds continue to be in effect. In June 2016, US federal legislation created an oversight board with power to oversee Puerto Rico's finances and to restructure its debt. The oversight board is authorized to impose, and has imposed, a stay on exercise of creditors' rights. In May and June 2017, the oversight board placed the GO, COFINA and ERS Bonds, among others, into a bankruptcy-like proceeding under the supervision of a Federal District Judge as authorized by the oversight board's enabling statute. These events, further defaults, any further legislative action to create a legal means of restructuring Commonwealth obligations or to impose additional oversight on the Commonwealth's finances, or any restructuring of the Commonwealth's obligations, may increase the number of claims against the Company concerning Puerto Rico securities as well as potential damages sought.

The Company's statement of financial condition as of June 30, 2017 reflects provision with respect to these matters in amounts that the Company believes to be appropriate under the applicable accounting standards. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on

10. Commitments and Contingencies (continued)

currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that have been recognized.

Other Commitments and Contingencies

In the normal course of business, the Company enters into when-issued transactions and underwritings commitments. Settlement of these transactions at June 30, 2017 did not have a material impact on the statement of financial condition. There were no underwriting commitments at June 30, 2017.

11. Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1). The Company computes its net capital requirement under the alternative method. Under the method of computing capital requirements adopted by the Company, net capital shall not be less than the excess margin collected on resale agreements plus $1,000. As of June 30, 2017, the Company's net capital, as defined, was $179,702, which exceeded minimum net capital requirement by $176,081.

Dividend payments, equity withdrawals and advances to UBS FSI or any of its affiliates are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule.

12. Equity Participation and Other Compensation Plans

UBS Group AG operates several equity participation and other compensation plans to align the interests of executives, managers and staff with the interests of shareholders while continuously meeting regulatory requirements.

Equity Ownership Plan ("EOP")

EOP is a mandatory share-based compensation plan for all employees with total compensation above a defined threshold. These employees receive a portion of their annual performance-related compensation in the form of notional shares. Furthermore, notional shares granted to (i) Group Managing Directors, (ii) employees who by the nature of their role have been determined to materially set, commit or control significant amounts of the firm's resources or exert significant influence over its risk profile and (iii) employees whose incentive exceeds a certain threshold are subject to performance conditions. The performance conditions are based on the UBS Group AG return on tangible equity and the divisional return on attributed

12. Equity Participation and Other Compensation Plans (continued)

Equity Ownership Plan ("EOP") (continued)

equity. Awards issued outside the normal performance year cycle, such as replacement awards or sign-on awards, may be offered in deferred cash under the EOP plan rules.

Notional shares represent a promise to receive UBS shares at vesting and do not carry voting rights during the vesting period. Notional and performance shares granted before February 2014 have no rights to dividends, whereas for awards granted since February 2014 employees are entitled to receive a dividend equivalent which may be paid in notional shares and / or cash, and which will vest on the same terms and conditions as the award. Awards granted in the form of UBS shares, notional shares and performance shares are settled by delivering UBS shares at vesting. EOP awards generally vest in equal increments after two and three years following grant. The awards are generally forfeitable upon, among other circumstances, voluntary termination of employment.

Deferred Contingent Capital Plan ("DCCP")

DCCP is a mandatory deferred cash compensation plan for all employees with total compensation above a defined threshold. DCCP awards granted up to January 2015 represent a right to receive a cash payment at vesting. For awards granted since February 2015, DCCP takes the form of notional additional tier 1 (AT1) capital instruments, which at the discretion of UBS can either be settled in the form of a cash payment or a marketable AT1 capital instrument.

The DCCP awards vest in full after five years unless there is a trigger or viability event. Awards granted under the DCCP are written down if UBS's common equity tier 1 capital ratio falls below defined thresholds. DCCP awards are also forfeited if a viability event occurs, that is if the Swiss Financial Market Supervisory Authority provides a written notice to UBS that the DCCP awards must be written down to prevent an insolvency, bankruptcy or failure of UBS, or if UBS receives a commitment of extraordinary support from the public sector that is necessary to prevent such an event.

For awards granted up to January 2015, interest on the awards is paid annually for performance years in which the firm generates an adjusted profit before tax. For awards granted since February 2015, interest payments are discretionary. The awards are generally forfeitable upon, among other circumstances, voluntary termination of employment with the Company.

12. Equity Participation and Other Compensation Plans (continued)

Equity Plus Plan

Equity Plus is a voluntary plan that provides eligible employees with the opportunity to purchase shares of UBS at market value and receive, at no additional cost, one free notional UBS share for every three shares purchased, up to a maximum annual limit. Share purchases may be made annually from the performance award and/or monthly through regular deductions from salary. Shares purchased under Equity Plus are restricted from sale for a maximum of three years from the time of purchase. Equity Plus awards vest after up to three years. For awards granted from April 2014 onwards, employees are entitled to receive a dividend equivalent which may be paid in either notional shares and/or cash.

Partner Plus Plan

Partner Plus Plan is a deferred cash compensation plan for certain eligible financial advisors. Awards (Company contributions) have been based on a predefined formula during the performance year. Participants have also been allowed to voluntarily contribute additional amounts otherwise payable during the year, up to a percentage of their pay which are vested upon contribution. For performance year 2017, the Company has discontinued Company contributions and voluntary contributions to the plan. Company contributions and voluntary contributions are credited with interest in accordance with the terms of the plan. Rather than being credited with interest, a participant may elect to have voluntary contributions, along with vested company contributions, credited with notional earnings based on the performance of various mutual funds. Company contributions and interest on both company and voluntary contributions ratably vest in 20% installments six to ten years following grant date. Company contributions and interest or notional earnings on both company and voluntary contributions are forfeitable under certain circumstances.

Compensatory Loans

The Company and affiliates have entered into various agreements with certain of the Company's financial advisors whereby these financial advisors receive a compensatory commitment for recruiting and retention purposes.

13. Employee Benefit Plans

Eligible employees of the Company were included in the non-contributory defined benefit pension plan of UBS FSI, which was frozen in 1998.

Additionally, employees of the Company are eligible to participate in the UBS Financial Services Inc. 401(k) Plus Plan, which includes an employee savings investment plan and a defined contribution pension plan.

UBSFSI also provides certain life insurance and health care benefits to employees of the Company.

14. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For financial reporting purposes, net deferred tax assets are included in other assets in the statement of financial condition and are reflected with a reduction for a valuation allowance.

In accordance with ASC Topic 740, if it is more-likely-than-not that the ultimate realization of deferred tax assets is not going to be recognized, a valuation allowance should be recorded. In assessing the recoverability of the deferred tax assets, the Company considered all available positive and negative evidence, including history of earnings as well as all possible tax planning strategies and future taxable income supported through detailed projections.

After consideration of all relevant evidence, the Company believes that it is more-likely-than-not that a benefit will not be realized for any of its deferred tax assets, and accordingly, a full valuation allowance of $392,231 has been recorded. Since December 31, 2016, the valuation allowance increased by $43,365.

As of June 30, 2017, the Company had net deferred tax assets of $392,231, before any valuation allowance, of which $243,818 related to net operating losses, $132,315 related to accelerated income and deferred deductions, $11,149 related to employee benefits and $4,949 related to alternative minimum tax.

The Company has a net operating loss carryforward of $649,334 that will begin to expire in of 2024.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income taxes.

14. Income Taxes (continued)

The Company files income tax returns with the Commonwealth of Puerto Rico. The tax years that remain subject to examination are from 2012 through 2016. In the next twelve months the Company believes that there will be no material changes to unrecognized tax benefits.

15. Subsequent Events

The Company has evaluated its subsequent event disclosure through September 13, 2017, the date the Company's statement of financial condition was issued, and has determined that there are no other events that would have a material impact on the statement of financial condition.