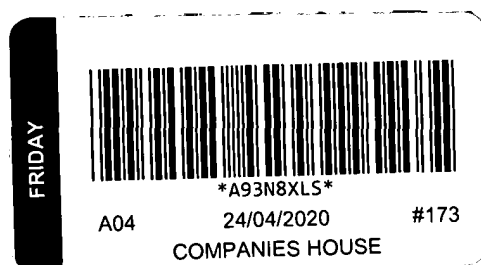


Registration number: 02020394

# BlackRock Investment Management (UK) Limited

Annual Report and Financial Statements

for the Period from 1 December 2018 to 31 December 2019



# **BlackRock Investment Management (UK) Limited**

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## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019**

The directors present their Strategic Report for BlackRock Investment Management (UK) Limited (the "company") for the period from 1 December 2018 to 31 December 2019.

#### ***Principal activity***

The principal activity of the company is the provision of investment management, advisory and administrative services. The company manages fixed income, equity and multi-asset solutions, in addition to providing client business support to other group companies.

The company operates branches outside the UK in Amsterdam, Athens, Brussels, Cape Town, Copenhagen, Frankfurt, Madrid, Munich, Milan, Paris, Stockholm, Tel Aviv and Vienna.

The company is authorised and regulated by the Financial Conduct Authority ("FCA").

There have not been any significant changes in the company's principal activities in the period under review and the directors propose that the principal activities will continue during 2020.

#### ***Corporate strategy***

Corporate strategy is developed and reviewed at a global and regional level. This Strategic Report will therefore focus on both global and regional industry trends and areas of strategic focus, while relating them to the services that the company provides.

#### ***The company's role in the global group***

The company is part of BlackRock, Inc. ("BlackRock" or "the firm"), a leading publicly traded investment management firm with \$7.43tn in assets under management ("AUM") as at 31 December 2019. With approximately 16,200 employees in more than 30 countries who serve clients in over 100 countries around the globe, BlackRock provides a broad range of investment and technology services to institutional and retail clients worldwide.

#### ***Industry profile***

##### ***Global***

BlackRock's diverse platform of alpha-seeking active, index and cash management investment strategies across asset classes enables BlackRock to tailor investment outcomes and asset allocation solutions for clients. Product offerings include single and multi-asset portfolios investing in equities, fixed income, alternatives and money market instruments. Products are offered directly and through intermediaries in a variety of vehicles, including open-end and closed-end mutual funds, iShares® exchange-traded funds ("ETFs"), separate accounts, collective investment trusts and other pooled investment vehicles. BlackRock also offers technology services, including the investment and risk management technology platform, Aladdin®, Aladdin Wealth, eFront, Cachematrix and FutureAdvisor, as well as advisory services and solutions to a broad base of institutional and wealth management clients. BlackRock is highly regulated and manages its clients' assets as a fiduciary. BlackRock does not engage in proprietary trading activities that could conflict with the interests of clients.

BlackRock serves a diverse mix of institutional and retail clients across the globe, with a regionally focused business model. The firm's footprints in the Americas, EMEA and Asia-Pacific regions reflect strong relationships with intermediaries and an established ability to deliver global investment expertise in funds and other products tailored to local regulations and requirements. BlackRock leverages the benefits of scale across global investment, risk and technology platforms while at the same time using local distribution presence to deliver solutions for clients. Furthermore, BlackRock's structure facilitates strong teamwork globally across both functions and regions in order to enhance the firm's ability to leverage best practices to serve clients and continue to develop talent.

## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

Clients include tax-exempt institutions, such as defined benefit and defined contribution pension plans, charities, foundations and endowments; official institutions such as central banks, sovereign wealth funds, supranationals and other government entities, taxable institutions including insurance companies, financial institutions, corporations and third-party fund sponsors, and retail investors.

The index investing industry has been growing rapidly, with ETFs as a major beneficiary, driven by structural tailwinds including the migration from commission-based to fee-based wealth management, clients' focus on value for money, the use of ETF as alpha tools and the growth of all-to-all networked trading. iShares® ETFs' growth strategy is centred on increasing scale and pursuing global growth themes in client and product segments, including Core, Strategic, which includes Fixed Income, Factors, Sustainable and Megatrend ETFs, and Precision Exposures.

As the wealth management landscape shifts globally from individual product selection to a whole-portfolio approach, BlackRock's Retail strategy is focused on creating outcome-oriented client solutions. This includes having a diverse platform of alpha-seeking active, index and alternative products, as well as enhanced distribution and portfolio construction technology offerings. Digital wealth tools are an important component of BlackRock's retail strategy, as BlackRock scales and customizes model portfolios, extends Aladdin Wealth and digital wealth partnerships globally, and helps advisors build better portfolios through portfolio construction, powered by Aladdin®.

BlackRock's institutional results will be driven by enhancing BlackRock's solutions-oriented approach; deepening client relationships through product diversification and higher value-add capabilities; and leveraging Aladdin's analytical and risk management expertise.

BlackRock continues to invest in technology services offerings, which enhance the ability to manage portfolios and risk, effectively serve clients and operate efficiently. Anticipated industry consolidation and regulatory requirements should continue to drive demand for holistic and flexible technology solutions. BlackRock offers investment management technology systems, risk management services, wealth management and digital distribution tools on a fee basis. BlackRock's technology portfolio includes Aladdin® and Aladdin Wealth, eFront, FutureAdvisor, Cachematrix, as well as minority investments in Scalable Capital, iCapital, Acorns and Envestnet.

#### ***Regional***

On a regional basis, BlackRock in EMEA managed \$1.9tn of AUM for its clients as at 31 December 2019, which generated \$3.9bn of revenue in the reporting period from a diversified client base and product range. Growth in the region has been powered by fixed income net inflows, reflecting strong flows into iShares® and liability-driven investment solutions.

#### ***Areas of strategic focus***

Against the industry profile and key industry trends the company, as part of the global group, will seek to deliver value for shareholders over time by, among other things, capitalising on BlackRock's differentiated competitive positioning, including:

- BlackRock's focus on strong performance providing alpha for active products and limited or no tracking error for index products;
- BlackRock's global reach and commitment to best practices around the world, with approximately 50% of employees outside the United States serving clients locally and supporting local investment capabilities. Approximately 40% of total AUM is managed for clients domiciled outside the United States;
- BlackRock's breadth of investment strategies, including market-cap weighted index, factors, systematic active, traditional fundamental active, high conviction alpha and illiquid alternative product offerings, which enhance its ability to tailor single and multi-asset investment solutions to address specific client needs;

## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

- BlackRock's differentiated client relationships and fiduciary focus, which enable effective positioning toward changing client needs and macro trends including the secular shift to index investing and ETFs, a focus on income and retirement, increasing demand for sustainable investment strategies and barbell investing using index, active and illiquid alternatives products; and
- BlackRock's longstanding commitment to innovation, technology services and the continued development of, and increased interest in, BlackRock technology products and solutions, including Aladdin®, Aladdin Wealth, Cachematrix and FutureAdvisor. This commitment is further extended by minority investments in distribution technologies including Scalable Capital, iCapital, Acorns and Envestnet.

#### ***Business review***

The nature of the company's business and the factors determining the level of regulatory capital have not changed significantly during the reporting period.

In 2019, the company continued to see strong growth in turnover across many revenue streams. The robust performance across fund ranges throughout the region and globally drove an increase in sub-delegated investment management revenue, the company's single largest source of revenue. Further, the central role the company plays in supporting BlackRock's wider operations resulted in a growth in amounts charged to other group companies for the provision of these services. Finally, the strong performance of the separate account business resulted in an increase in both advisory and performance fees from these mandates.

The company continues to use its balance sheet to support BlackRock's global and regional strategic goals. During the year, the company's on-going commitment to its European Collateralised Loan Obligation ("CLO") programme saw its retained holdings increase to £160.0m (2018: £132.3m). Additionally, the company made a number of investments, namely: an additional investment in Scalable Capital GmbH of £17.2m; a minority investment in Embark Group Limited of £10.0m; and the acquisition of customer contracts from NEX Treasury Limited for consideration of £8.0m.

The Senior Manager & Certification Regime ("SM&CR", "the regime") became effective from 9 December 2019. The regime replaced the Approved Person Regime, introducing new Senior Management Functions ("SMF"), changing how individuals are supervised and held accountable for the roles they perform and introducing an expanded list of prescribed responsibilities. The regime also introduced a requirement for the firm to certify, on an annual basis, that staff falling within the Certification population are "fit and proper".

#### ***Key performance indicators***

##### **Assets under management**

AUM rose by 21.8% to £774.9bn at 31 December 2019 (2018: £636.4bn) primarily due to positive market performance and strong net inflows across a number of product types.

##### **Turnover**

Total turnover increased by 28.6% to £2,033.5m in the period ended December 2019 (2018: £1,581.7m) due to increased investment management, administration and support services income from other group companies, along with the lengthened reporting period.

##### **Administrative expenses**

Administrative expenses, consisting primarily of staff costs and charges from other group companies, increased 29.9% to £1,271.4m (2018: £978.6m) due to growth in wage and technology costs, foreign exchange rate losses, and the extended reporting period.

##### **Net assets**

Net assets increased by 37.4% to £1,577.0m (2018: £1,147.7m), reflecting the reduced dividend paid by the company to its parent.

## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

The performance of the company is included in the results of BlackRock, Inc. group which are disclosed in the BlackRock, Inc. group annual report and on Form 10-K to the United States Securities and Exchange Commission ("SEC"). BlackRock, Inc. manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason, the company's directors believe that providing further performance indicators for the company itself would not enhance an understanding of the development, performance or position of the business of the company.

#### **Emerging risks and uncertainties (not considered "principal")**

During the year, the Board discussed and monitored a number of emerging risks which could potentially impact the company's ability to meet its strategic objectives.

The Board has determined that these emerging risks and uncertainties are not currently material to the company, and therefore are not cited as principal risks, but has nevertheless included them in this Strategic Report to enable users to understand how emerging risks have been considered in the current period.

Descriptions of these emerging risks, and how they are mitigated and monitored by the Board, are as follows:

#### ***Climate change***

*Risk description:* as an asset manager, the company has a fiduciary responsibility to protect and enhance the value of the assets clients have entrusted to it. Climate change poses risks and opportunities that may impact the long-term financial sustainability of the companies in which the company invests on behalf of its clients. Climate risk is a significant investment risk, with the potential for financial impacts that reverberate across all industries and markets, affecting long-term shareholder returns as well as economic stability.

The investment risks presented by climate change are set to accelerate a significant reallocation of capital, which will in turn have a profound impact on the pricing of risk and assets around the world. The risk arises not only in terms of the physical risk associated with rising global temperatures, but also transition risk - namely, how the global transition to a low-carbon economy could affect a company's long-term profitability.

*Risk mitigation:* In relation to risks posed by climate change, BlackRock has committed to put sustainability at the centre of risk management, portfolio construction, product design and company engagement. The commitment has been widely communicated to stakeholders, including a letter to shareholders of BlackRock, Inc. during January 2020, which can be accessed at the following link: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>. BlackRock continues to work to decouple company growth from environmental impact, while increasing the efficiency and resiliency of operations.

#### **Principal risks and uncertainties**

The Board is responsible for the company's system of risk management and internal control and for reviewing its effectiveness.

The Board has considered a number of potential risks and uncertainties affecting the company's business as an investment manager and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the Board, the audit committee and the risk committee on an ongoing basis.

This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving the company's strategic objectives. Both the principal risks and the monitoring system are also subject to robust assessment at least annually.

Actions taken by the Board and, where appropriate, its committees, to manage and mitigate the company's principal risks and uncertainties are set out as follows:

## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### ***Natural disasters, pandemics or health crises***

*Risk description:* events outside of BlackRock's control, including natural disasters, pandemics or health crises (such as the Coronavirus), may arise from time to time. Any such events, and responses thereto, may cause significant volatility and declines in the global markets, disruptions to commerce (including to economic activity, travel and supply chains), loss of life and property damage, and may adversely affect the global economy or capital markets, as well as the company's products, clients, vendors, operations and employees, which may cause BlackRock's AUM, revenue and earnings to decline.

In particular, the recent spread of the Coronavirus ("Covid-19") across the globe in February and March 2020 has caused equity markets to fall significantly, which has had a negative impact on the company's results. As the pandemic increases in duration, the continuation of measures to counteract Covid-19 (e.g. social distancing) could result in an even broader economic downturn which could have a prolonged negative impact on the company's financial results.

*Risk mitigation:* market movements are closely monitored by the company's investment research teams in line with each client's investment objective, and strategic decisions are taken by portfolio managers to proactively manage risk for each individual fund product managed. BlackRock has in place a detailed business continuity management programme that is focused on maintaining business operations in the event of a crisis. BlackRock's preparedness approach includes an extensive programme to monitor, review and assess threats and, where necessary, to respond to incidents that might impact our employees and operations.

Specifically, in respect of Covid-19, BlackRock has updated its business continuity and contingency plans and has fully briefed its staff on appropriate remote working arrangements, and compliance with government advice on social distancing. In particular, management has updated its key protocols to ensure there are appropriate mechanisms to manage:

- staff welfare;
- process resilience and compliance, including information technology infrastructure;
- client service (including ongoing communications with clients and reporting);
- the impact on the company's key supply chains; and
- the impact on third party service providers.

#### ***Capital adequacy***

*Risk description:* the company is subject to certain regulatory capital requirements, which require the company to maintain capital to support certain of its regulated business activities. Any failure to comply with any such regulations or to hold sufficient capital could result in fines and/or sanctions against the company, as well as reputational harm, and financial loss to clients. Moreover, to the extent that these laws and regulations become more stringent, or if BlackRock is required to hold increased levels of capital to support its businesses, the company's financial performance or plans for growth may be adversely impacted.

*Risk mitigation:* the company's regulatory capital requirement is established by reference to the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by the parent of its regulatory group, BlackRock Group Limited ("BGL"). The detailed analysis therein considers the strategy of the group, the risks faced in pursuing that strategy and the appropriate mitigation of those risks (one possible outcome of which may be to hold capital) to ensure the residual risk remains within the Board's risk appetite.

The company's objectives when managing capital are:

- to safeguard the company's ability to continue as a going concern;
- to satisfy the requirements of its regulators; and
- to maintain financial strength to support new business growth.

## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

Consideration of any dividends to be paid will have regard to the actual level of capital compared with target, as determined by the capital policy which sets out an internal requirement in excess of the regulatory requirement.

In addition, details of BGL's approach to capital adequacy are included in its 'Pillar 3' Market disclosure document, which also provides information regarding the remuneration policies and practices for those staff whose professional activities could have a material impact on BGL's risk profile. This can be found at the following website address:

<http://www.blackrock.com/uk/individual/literature/annual-report/blackrock-pillar-three-disclosure-annual-report.pdf>

#### ***Regulatory risk***

*Risk description:* BlackRock's business and operating activities are subject to increasing regulatory oversight in the UK and the company may be affected by a number of proposed or fully or partially implemented reform initiatives, as well as volatility associated with international regulatory uncertainty, including (but not limited to):

- the UK Exit from the European Union ("EU");
- reform of investment markets (such as the Markets in Financial Instruments Directive ("MiFID") governing the provision of investment services has been revised and is accompanied by an associated Regulation (together with certain secondary regulation, "MiFID II");
- EU market access due to increased regulation on third country fund marketing passports and the continuation of national private placement regimes for AIFM clients; and
- Senior Managers and Certification Regime in the UK.

Such regulatory reforms could require the company to alter its future business or operating activities, which could be time-consuming and costly, impede the company's growth and cause its AUM, revenue and earnings to decline. Regulatory reform may also impact BlackRock's internationally-based clients, which could cause them to change their investment strategies or allocations in manners that may be adverse to BlackRock.

Further details on the wider risks facing BlackRock as a whole, including more in-depth descriptions of each of the above matters, can be found in the BlackRock, Inc. 10K SEC filing: <https://ir.blackrock.com/financials/sec-filings/sec-filings-details/default.aspx?FilingId=13966766>.

*Risk mitigation:* BlackRock ensures that it monitors publications issued by regulators and other bodies on a daily basis in order to identify consultations, new regulation, legislation and changes to rules which may impact on BlackRock's business or on any compliance procedures. This monitoring is complemented by content from external policy advisors and trade associations to ensure BlackRock is up-to-date with all regulatory and legislative reforms that impact its activities across the globe.

BlackRock's Legal and Compliance department undertakes detailed analysis of forthcoming regulatory and legislative change to understand the implications of such change. Where necessary, BlackRock will engage with external policy advisors for independent assessments, and will engage with peers, including through trade association meetings, to discuss forthcoming changes. Risk-based monitoring is conducted post-implementation to review delivery of regulatory driven change.



## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### ***Geopolitical risk***

Since the Brexit vote in 2016, BlackRock has undertaken a thorough review of how the UK's exit from the European Union ("EU") will impact its business and operations in Europe.

On 31 January 2020, the UK formally left the EU and entered a transition period, during which the UK's arrangements with the EU will remain unchanged until 31 December 2020. There is currently uncertainty as to what type of deal will be negotiated between the UK and the EU from 1 January 2021 onwards, and it remains unclear how the future relationship will impact financial services.

At present, the Board concludes that there is no need to change the company's operating model, but they will continue to monitor developments and prepare appropriate plans to ensure continuity of service post transition period.

#### ***Risks and uncertainties impacting the company***

There are a number of wider risks and uncertainties posed by Brexit. However, the principal risks and uncertainties which could impact the company are as follows:

- the structure of the company's EU legal entity branch network may need to be revised;
- there may be changes to technology and operations including data, compliance rules, investment operations, service providers, and reporting; and
- trading, derivatives and market liquidity may become impacted due to uncertainty of regulatory recognition.

Third country investment management services are expected to continue as permitted by existing regulations.

In order to appropriately mitigate the above key risks and uncertainties, BlackRock has established a cross-functional Brexit Steering Committee that is coordinating its response to Brexit, in order to ensure that BlackRock's UK entities (including the company) can continue to meet clients' needs post-Brexit. This Steering Committee provides updates as and when requested by the Board.

Additionally, the company has representation on the Brexit Steering Committee through ongoing attendance and participation by certain of its Board members.

BlackRock has implemented a number of steps to prepare its business and has developed modular plans such that it can implement necessary steps as the outcome of the negotiations become final. Having closely monitored developments over the past twelve months, which included several potential dates for Brexit moving at short notice, the Board is confident that the company will be able to appropriately implement its plans in the case of a "no deal" position at short notice.

As part of BlackRock's strategy to grow the business across Europe and continue to deepen its presence in local markets, BlackRock has extended the permissions for the existing Markets in Financial Instruments Directive ("MiFID") entity in the Netherlands. This has been put in place to ensure BlackRock can continue to meet clients' needs should the UK exit the transition period without equivalent permissions being in place. Accordingly, the company has made arrangements to transfer impacted elements of its EU business (namely the assets, liabilities, and employees of the EU27 branches which the company operates) to the Netherlands entity should such circumstances arise.

#### ***Impact on the company's financial statements***

The Board, having considered the impact of Brexit, does not believe there to be a material impact on the fair value or carrying amount of the assets and liabilities on its balance sheet.

In the case that the future UK-EU regulatory agreement does not permit the company to contract directly with EU-domiciled clients after 31 December 2020, it would be required to novate its EU investment management agreements to other BlackRock EU-domiciled entities with appropriate regulatory permissions, in order to ensure continuity of service to these clients from 1 January 2021 onwards.

## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

If this scenario was to arise, the entity would continue to be profit-generative given that its activities are mostly in the UK. In addition, the Board have assessed the impact of this scenario arising on the company's capital position, and are confident that the company would continue to remain compliant with its capital requirements.

The management companies for BlackRock funds have appointed the company to act as Principal Distributor for them. The Principal Distribution function includes the ability to contract with third parties to provide sub-distribution services for the funds. The appointment of Principal Distributor, and the signing of contracts with sub-distributors are not regulated activities, so can continue to be performed by a UK entity even in a no-deal scenario. To the extent that BlackRock is performing any regulated functions in its distribution activities, these will be performed by appropriately regulated BlackRock entities appointed for this purpose by the Principal Distributor.

Taking the above factors into consideration, the Board does not believe there to be any impact on the company's ability to continue as a going concern for the next twelve months.

#### ***Operational risk***

*Risk description:* one of the major risks faced by the company is operational risk, which is the risk of direct or indirect impacts resulting from inadequate or failed internal processes and controls, people and systems, or from external events. Key operational risks facing the company include:

- a failure in, or disruption to, BlackRock's operational systems or infrastructure, including business continuity plans, could adversely affect operations, damage the company's reputation and cause BlackRock's AUM, revenue and earnings to decline; and
- a cyber-attack or a failure to implement effective information and cybersecurity policies, procedures and capabilities could disrupt operations and lead to financial losses and reputational harm, which may cause BlackRock's AUM, revenue and earnings to decline;
- failure or unavailability of third-party dependencies may adversely affect Aladdin operations, which could cause reputational harm, lead to a loss of clients and impede BlackRock's productivity and growth;
- continuing enhancements to Aladdin's capabilities, as well as the expansion of the Aladdin platform into new markets and geographies, have led to significant growth in Aladdin's processing scale, which may expose BlackRock to reputational harm, increased regulatory scrutiny and heightened operational, data management, cyber- and information-security risks;
- failure to maintain adequate corporate and contingent liquidity may cause BlackRock's AUM, liquidity and earnings to decline, as well as harm its prospects for growth;
- client investments in real assets, such as real estate, infrastructure and energy assets, may expose BlackRock and its funds and accounts to new or increased risks and liabilities, as well as reputational harm.

Further details on the wider risks facing BlackRock as a whole, including more in-depth descriptions of each of the above matters, can be found in the BlackRock, Inc. 10K SEC filing: <https://ir.blackrock.com/financials/sec-filings/sec-filings-details/default.aspx?FilingId=13966766>.

*Risk mitigation:* the company has a well-established operational risk management framework that provides appropriate control and oversight over risk management arrangements. The operational risk management framework supports the company's fiduciary obligations to clients and mitigates the potential impacts of poor customer outcomes. The strong management of risk also ensures that disruptions to delivering client services are minimised. BlackRock considers information security to be of paramount importance and an essential cornerstone of its operations, and has implemented information security policies and controls that seek to ensure adequate protection against the adverse effects of failures in confidentiality, integrity and availability of information and information systems. The policies are reviewed and revised on an annual basis through a formal governance process, including approval across senior management, and there is a rolling programme of security awareness communication and training for all staff.

## **BlackRock Investment Management (UK) Limited**

### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### ***Service provider risk***

*Risk description:* the company is exposed to third party outsourcing risk through inadequate or failed controls, processes or systems managed or supported by third parties other than BlackRock. Key risks include:

- the impairment or failure of third parties may negatively impact the performance of products and accounts that BlackRock manages, which may cause BlackRock's AUM, revenue and earnings to decline;
- the failure of a key vendor to BlackRock to fulfill its obligations or a failure by BlackRock to maintain its relationships with key vendors could have a material adverse effect on BlackRock's growth, reputation or business, which may cause the company's AUM, revenue and earnings to decline;
- any disruption to the company's distribution channels may cause BlackRock's AUM, revenue and earnings to decline. BlackRock relies on a number of third parties to provide distribution, portfolio administration and servicing for certain BlackRock investment; and
- disruption to the operations of third parties whose functions are integral to BlackRock's ETF platform may adversely affect the prices at which ETFs trade, particularly during periods of market volatility.

Further details on the wider risks facing BlackRock as a whole, including more in-depth descriptions of each of the above matters, can be found in the BlackRock, Inc. 10K SEC filing: <https://ir.blackrock.com/financials/sec-filings/sec-filings-details/default.aspx?FilingId=13966766>.

*Risk mitigation:* BlackRock mitigates third party risks through due diligence and oversight programmes focused on critical entities that provide products, licences, or services to BlackRock or its funds. This includes but is not limited to: custodians, fund administrators, index providers, prime brokers, transfer agents, key technology services consultants and other advisors (e.g. tax advisors).

#### ***Market risk***

*Risk description:* market risk is the risk of a fall in the net assets of the company as a result of fluctuations in foreign exchange rates. The company is exposed to foreign exchange risk on all income and expenditure that arises in currencies other than sterling and is also exposed on the revaluation of any non-sterling net assets.

*Risk mitigation:* foreign currency balances are monitored by the Treasury and Finance teams in line with the company's tolerance for market risk in relation to foreign exchange. In limited circumstances, the company uses derivative financial instruments to economically hedge its risk associated with foreign exchange movements.

#### ***Credit risk***

*Risk description:* credit risk arises in relation to accounts receivable, surplus cash held in bank accounts or held on account with other BlackRock group companies or funds. The risk of default in relation to accounts receivable arising from fee income debtors is considered low.

*Risk mitigation:* the company minimises its exposure by actively pursuing settlement of outstanding management and performance fee invoices within the terms and conditions of the underlying agreement. Intercompany balances are managed centrally and are settled on a regular basis.

HSBC is the main cash management service provider, as an AA- rated bank, the risk of default is considered negligible. Both the Treasury and Risk and Quantitative Analysis departments continuously monitor the creditworthiness of HSBC.

## **BlackRock Investment Management (UK) Limited**

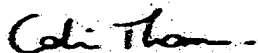
### **Strategic Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### ***Liquidity risk***

*Risk description:* liquidity risk is the risk that the company is unable to meet its financial obligations as they fall due without adversely affecting its financial position, the normal course of its business or its reputation.

*Risk mitigation:* the governance framework and liquidity policy, set at regulatory group level, are designed to: identify, quantify and monitor the liquidity needs, risks and requirements; maintain liquidity resources in excess of liquidity requirements; and maintain an appropriate governance and controls framework for the measurement, monitoring, forecasting, stress testing, usage and allocation of corporate liquidity.

Approved by the Board on 15 April 2020 and signed on its behalf by:



.....  
C Thomson  
Director

## **BlackRock Investment Management (UK) Limited**

### **Directors' Report for the Period from 1 December 2018 to 31 December 2019**

The Board presents its report together with the audited financial statements of BlackRock Investment Management (UK) Limited (registered number: 02020394) for the period from 1 December 2018 to 31 December 2019.

The directors have chosen, in accordance with section 414C (11) of the Companies Act 2006, to include certain additional matters in the Strategic Report that would otherwise be required to be disclosed in the Directors' Report.

#### **Dividends**

Dividends of £100.0m were paid in the period ended 31 December 2019 (2018: £150.0m).

#### **Directors and officer of the company**

The directors, who held office during the period and up to the date of this report, were as follows:

J Charrington - Chairman

C Clausen

R Damm (resigned 18 September 2019)

E de Freitas

E Fishwick

R Lord

S Mullin Outhwaite

C Thomson

P Olson (resigned 20 March 2019)

M Young

#### **Officers:**

BlackRock Company Secretarial Services (UK) Limited - Company Secretary

#### **Statement of directors' responsibilities**

The directors acknowledge their responsibilities for preparing the Annual 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ("FRS 101"). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## **BlackRock Investment Management (UK) Limited**

### **Directors' Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

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.

#### **Going concern**

The directors believe that the company is well placed to manage its business risks successfully. After making enquiries and considerations explained in note 2, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

There are no going concern issues as a result of the Coronavirus outbreak and subsequent downturn in the global macroeconomic environment. This is explained further in note 31.

#### **Change in accounting reference date**

The company, along with four other associated UK entities in the group, changed its Accounting Reference Date ("ARD") during the period from 30 November to 31 December, effective for the period ended 31 December 2019. Its 2019 financial statements have therefore been prepared for the 13 month period ended 31 December 2019. The company's ARD change related to certain organisational entity restructuring in respect of BlackRock's European operations.

As a result of the ARD change, the comparatives in these financial statements represent a period of 11 months as opposed to the current period of 13 months and therefore the amounts presented for each period are not directly comparable.

#### **Directors' third-party indemnity provisions**

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial period ended 31 December 2019 for the benefit of the then directors and, at the date of this report, are in force for the benefit of the directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties, powers or office.

#### **Employee consultation**

It is the company's policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be consulted on and involved in decisions that affect their current jobs or future prospects.

#### **Disabled employees**

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers with the company. Training, career development and promotion of disabled persons is, as far as possible, identical to that of other employees who are not disabled.

#### **Supplier engagement**

BlackRock uses suppliers to help support and enhance its business activities. Formal processes and procedures are in place to manage supplier risk and service delivery, such as regular performance reviews for our key suppliers. In addition, BlackRock maintains a Supplier Code of Conduct & Ethics which outlines the minimum expectations and standards of all our suppliers in relation to human rights, inclusion and diversity, environmental sustainability, integrity and ethics in management practices.

## **BlackRock Investment Management (UK) Limited**

### **Directors' Report for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **Disclosure of information to the auditor**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

#### **Reappointment of auditor**

The auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 15 April 2020 and signed on its behalf by:



C Thomson  
Director

## **BlackRock Investment Management (UK) Limited**

### **Independent Auditor's Report to the Members of BlackRock Investment Management (UK) Limited**

#### **Opinion**

In our opinion the financial statements of BlackRock Investment Management (UK) Limited (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the period 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.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes to financial statements 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



## **BlackRock Investment Management (UK) Limited**

### **Independent Auditor's Report to the Members of BlackRock Investment Management (UK) Limited (continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

#### **Responsibilities of directors**

As explained more fully in the directors' responsibility statements set out on pages 11 and 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### **Auditor's responsibilities for the audit of the financial statements**

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

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

#### **Report on other legal and regulatory requirements**

##### **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 Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

##### **Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013**

In our opinion the information for the financial period ended 31 December 2019 included on pages 62 to 63 has been properly prepared, in all material aspects in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

**BlackRock Investment Management (UK) Limited**

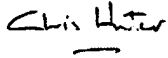
**Independent Auditor's Report to the Members of BlackRock Investment Management  
(UK) Limited (continued)**

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.



.....  
Chris Hunter CA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Edinburgh, United Kingdom

16 April 2020

## BlackRock Investment Management (UK) Limited

### Profit and Loss Account for the Period from 1 December 2018 to 31 December 2019

	Note	2019 £ 000	2018 £ 000
Turnover	4	2,033,538	1,581,715
Cost of sales		<u>(120,343)</u>	<u>(107,735)</u>
Gross profit		1,913,195	1,473,980
Administrative expenses		<u>(1,271,360)</u>	<u>(978,614)</u>
Operating profit	5	641,835	495,366
Dividends received		41,762	51,790
Interest receivable and similar income	9	8,903	4,134
Interest payable and similar charges	10	(16,367)	(10,758)
Net gains/(losses) on derivative financial instruments		<u>10,431</u>	<u>(850)</u>
Profit before tax		686,564	539,682
Tax on profit on ordinary activities	11	<u>(143,489)</u>	<u>(157,364)</u>
Profit for the period		<u>543,075</u>	<u>382,318</u>

The above results were derived wholly from continuing operations in the UK and overseas branches.

As a result of the ARD change, the comparatives represent a period of 11 months as opposed to the current period of 13 months and therefore the amounts are not directly comparable.

The notes on pages 22 to 61 form an integral part of these financial statements.

**BlackRock Investment Management (UK) Limited**

**Statement of Comprehensive Income for the Period from 1 December 2018 to 31  
December 2019**

	Note	2019 £ 000	2018 £ 000
Profit for the period		<u>543,075</u>	<u>382,318</u>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Changes in the fair value of other investments designated at fair value through other comprehensive income	16	(6,042)	17,230
Actuarial (losses)/gains on defined benefit schemes before tax		(5,507)	1,932
Deferred taxes on actuarial gains/(losses) on defined benefit schemes		<u>632</u>	<u>(323)</u>
		(10,917)	18,839
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation losses		<u>(7,774)</u>	<u>(436)</u>
Total comprehensive income for the period		<u><u>524,384</u></u>	<u><u>400,721</u></u>

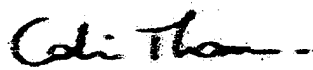
The notes on pages 22 to 61 form an integral part of these financial statements.

# BlackRock Investment Management (UK) Limited

(Registration number: 02020394)  
Balance Sheet as at 31 December 2019

	Note	31 December 2019 £ 000	30 November 2018 £ 000
<b>Fixed assets</b>			
Intangible assets	12	8,340	1,519
Tangible fixed assets	13	62,909	64,020
Right-of-use assets	14	186,975	-
Investments	15	188,255	171,059
Investments in financial assets	16	247,464	215,816
		<u>693,943</u>	<u>452,414</u>
<b>Current assets</b>			
Debtors	18	2,271,956	1,295,270
Cash and cash equivalents		524,198	1,153,841
		<u>2,796,154</u>	<u>2,449,111</u>
<b>Creditors: Amounts falling due within one year</b>	19	<u>(1,519,061)</u>	<u>(1,534,956)</u>
<b>Net current assets</b>		<u>1,277,093</u>	<u>914,155</u>
<b>Total assets less current liabilities</b>		<u>1,971,036</u>	<u>1,366,569</u>
<b>Creditors: Amounts falling due after more than one year</b>			
Loans and borrowings	20	(139,536)	(146,137)
Deferred compensation plans		(26,771)	(17,874)
Long-term lease liabilities	21	<u>(198,790)</u>	<u>-</u>
		<u>(365,097)</u>	<u>(164,011)</u>
Provisions	22	(21,096)	(51,529)
Defined benefit liability	23	<u>(7,804)</u>	<u>(3,377)</u>
<b>Net assets</b>		<u>1,577,039</u>	<u>1,147,652</u>
<b>Capital and reserves</b>			
Called-up share capital	24	94,485	94,485
Share premium reserve		100,000	100,000
Other reserves		155,564	149,555
Profit and loss account		<u>1,226,990</u>	<u>803,612</u>
<b>Shareholders' funds</b>		<u>1,577,039</u>	<u>1,147,652</u>

Approved by the Board on 15 April 2020 and signed on its behalf by:



C Thomson  
Director

The notes on pages 22 to 61 form an integral part of these financial statements.

**BlackRock Investment Management (UK) Limited**

**Statement of Changes in Equity for the Period from 1 December 2018 to 31 December 2019**

	<b>Called-up share capital £ 000</b>	<b>Share premium reserve £ 000</b>	<b>Foreign currency translation reserve £ 000</b>	<b>Investment revaluation reserve £ 000</b>	<b>Merger reserve £ 000</b>	<b>Share-based payment reserve £ 000</b>	<b>Profit and loss account £ 000</b>	<b>Total £ 000</b>
At 1 December 2018	94,485	100,000	(50,748)	82,441	18,309	99,553	803,612	1,147,652
Profit for the period	-	-	-	-	-	-	543,075	543,075
Other comprehensive income	-	-	(7,774)	(6,042)	-	-	(4,875)	(18,691)
Total comprehensive income	-	-	(7,774)	(6,042)	-	-	538,200	524,384
Dividends	-	-	-	-	-	-	(100,000)	(100,000)
Share-based payment transactions	-	-	-	-	-	19,825	(14,822)	5,003
At 31 December 2019	<u>94,485</u>	<u>100,000</u>	<u>(58,522)</u>	<u>76,399</u>	<u>18,309</u>	<u>119,378</u>	<u>1,226,990</u>	<u>1,577,039</u>

The notes on pages 22 to 61 form an integral part of these financial statements.

**BlackRock Investment Management (UK) Limited**

**Statement of Changes in Equity for the Period from 1 December 2018 to 31 December 2019 (continued)**

	<b>Called-up share capital £ 000</b>	<b>Share premium reserve £ 000</b>	<b>Foreign currency translation reserve £ 000</b>	<b>Investment revaluation reserve £ 000</b>	<b>Merger reserve £ 000</b>	<b>Share-based payment reserve £ 000</b>	<b>Profit and loss account £ 000</b>	<b>Total £ 000</b>
At 1 January 2018	94,485	100,000	(50,312)	65,211	18,309	115,582	617,349	960,624
Profit for the period	-	-	-	-	-	-	382,318	382,318
Other comprehensive income	-	-	(436)	17,230	-	-	1,609	18,403
Total comprehensive income	-	-	(436)	17,230	-	-	383,927	400,721
Dividends	-	-	-	-	-	-	(150,000)	(150,000)
Share-based payment transactions	-	-	-	-	-	(16,029)	(47,664)	(63,693)
At 30 November 2018	<u>94,485</u>	<u>100,000</u>	<u>(50,748)</u>	<u>82,441</u>	<u>18,309</u>	<u>99,553</u>	<u>803,612</u>	<u>1,147,652</u>

The notes on pages 22 to 61 form an integral part of these financial statements.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019**

#### **1 General information**

The company is a private company limited by share capital, incorporated and domiciled in England, United Kingdom.

The address of its registered office is:

12 Throgmorton Avenue

London

EC2N 2DL

These financial statements were authorised for issue by the Board on 15 April 2020.

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### **Basis of preparation**

The company meets the definition of a qualifying entity under Application of Financial Reporting Requirements 100 ("FRS 100") as issued by the FRC. Accordingly, in the period ended 31 December 2019 the company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") issued by the FRC.

The financial statements have been prepared on the historical cost basis, except for the revaluation of any financial instruments held at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The company, along with four other associated UK entities in the group, changed its ARD during the period from 30 November to 31 December, effective for the period ended 31 December 2019. Its 2019 financial statements have therefore been prepared for the 13 month period ended 31 December 2019. The company's ARD change related to certain organisational entity restructuring in respect of BlackRock's European operations.

##### **Summary of disclosure exemptions**

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain standards, presentation of a cash-flow statement, standards not yet effective, impairment of assets, goodwill reconciliation, share-based payments and related party transactions.

Where required, equivalent disclosures are given in the group accounts of BlackRock, Inc.. These accounts are available to the public and can be obtained as set out in note 30.



## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Exemption from preparing group accounts**

The financial statements contain information about BlackRock Investment Management (UK) Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, BlackRock, Inc., a company incorporated in the United States of America.

##### **Going concern**

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 10, along with key risks facing the company.

In assessing the company's going concern status, the directors have taken into account the above factors, including the financial position of the company and in particular the significant net-cash position. The company has, at the date of this report, sufficient existing finances available for its estimated requirements for the next twelve months. This, together with its proven ability to generate cash from operations, provides the directors with the confidence that the company is well placed to manage its business risks successfully.

After making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

##### **Changes in accounting standards**

###### **New standards, interpretations and amendments effective**

On 1 December 2018, the company early adopted the following new and revised International Financial Reporting Standard ("IFRS") that was effective from that date and was relevant to its operations.

###### ***IFRS 16 'Leases'***

In the current period, the company has applied IFRS 16 'Leases' (as issued by the International Accounting Standards Board in January 2016), replacing International Accounting Standards ("IAS") 17 'Leases'.

IFRS 16 removes the distinction between operating and finance leases and requires the recognition of a right-of-use asset and a lease liability at the commencement date for all leases, except for those identified as low-value or having a remaining lease term of less than 12 months from 1 January 2019, the date of initial application.

The company has applied IFRS 16 using the modified retrospective approach, with the right-of-use asset recognised as the date of initial application as an amount equal to the lease liability, discounted using the company's incremental borrowing rate as at the date of initial application and adjusted for any prepaid or accrued rental payments. Comparative figures are not restated and there is no impact on equity at the date of initial application.

# BlackRock Investment Management (UK) Limited

## Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

### 2 Accounting policies (continued)

For contracts in place at the date of initial application, the company has elected not to re-assess whether a contract is or contains a lease and will continue to apply the definition of a lease from IAS 17.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases determined to be low-value, the company has adopted the practical expedient not to recognise a right-of-use asset and lease liability and instead account for the lease expense on a straight-line basis over the remaining lease term.

The company has elected not to separate non-lease components from lease components and instead account for each lease component and any associated non-lease components as a single lease component.

On transition, any existing Asset Retirement Obligations assets, representing an estimate of restoration, removal and dismantling costs, remain in leasehold improvements and have not been reclassified to right-of-use assets.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities was 2.64%.

The following is a reconciliation of total operating lease commitments at 30 November 2018 (as disclosed in the financial statements to 30 November 2018) to the lease liabilities recognised at 1 January 2019:

	£ 000
<b>Total operating lease commitments disclosed at 30 November 2018</b>	<b>267,151</b>
Recognition exemptions:	
Leases with remaining lease term of less than 12 months	(312)
Variable lease payments not recognised	1,314
Operating lease liabilities before discounting	268,153
Discounted using incremental borrowing rate	(49,014)
Operating lease liabilities	219,139
Reasonably certain extension options	171
<b>Total lease liabilities recognised under IFRS 16 at 1 December 2018</b>	<b>219,310</b>

None of the other standards, interpretations and amendments effective for the first time from 1 December 2018 have had a material effect on the financial statements.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

The company also elected to adopt the following amendments early:

##### **Definition of a Business - Amendments to IFRS 3 'Business Combinations'**

The amendments to IFRS 3 'Business Combinations', as issued in October 2018, revises the definition of a business. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments: clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test. The amendments have been early adopted from 1 December 2018, and therefore apply to any transactions where the acquisition date is on or after 1 December 2018.

#### **Turnover**

##### *Recognition*

The company earns turnover from the provision of investment management, advisory, principal distribution, administration and other related services. Turnover is recognised upon transfer of control of promised services to customers, i.e. when (or as) a performance obligation is satisfied, in an amount that reflects consideration to which the company expects to be entitled in exchange for those services (the "transaction price"), net of VAT. The company enters into contracts that can include multiple services and, in certain instances, may charge a "unitary fee" to cover these services. Such fees are accounted for separately if they are determined to be distinct. Consideration for the company's services is generally in the form of variable consideration because the amount of fees is subject to market conditions that are outside the company's influence. The company includes variable consideration as part of its transaction price when it is highly probable that a significant reversal will not occur, i.e. when the associated uncertainty is resolved. For some contracts with customers, the company involves third parties and related parties in providing services to the customer. Generally, the company is deemed to be the principal in these arrangements because the company controls the promised services before they are transferred to customers, and accordingly presents the turnover gross of related costs.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### *Fee arrangements*

Below are details of fee arrangements and how these are measured and recognised, for turnover from the provision of services:

- **Investment advisory and administration fees:** The fees are recognised as the services are performed over time. Such fees are primarily based on agreed-upon percentages of net asset value, AUM or committed capital. These fees are affected by changes in net asset value, AUM or committed capital, including market appreciation or depreciation, foreign exchange translation and net inflows or outflows. Investment advisory and administration fees for investment funds are shown net of fees waived pursuant to contractual expense limitations of the funds or voluntary waivers. Fees are generally invoiced monthly in arrears.
- **Investment advisory performance fees:** The company receives fees from certain actively managed investment portfolios. These performance fees are dependent upon exceeding specified relative or absolute investment return thresholds, which may vary by product or account, and include quarterly, annual or longer measurement periods. A portion of the fees the company recognises may be partially related to the services performed in prior periods that meet the recognition criteria in the current period. Performance fees are recognised when it is highly probable that a significant reversal will not occur (such as upon the sale of a fund's investment or when the amount of AUM becomes known as of the end of a specified measurement period). At each reporting date, the company considers various factors in estimating performance fees to be recognised. These factors include, but are not limited to, whether: (1) the fees are dependent on the market and thus are highly susceptible to factors outside the company's influence; and (2) the fees have a large number and a broad range of possible amounts.
- **Fees from group companies:** The company provides support services, investment management services, client services, research and executive level management services to other BlackRock entities. Such services are undertaken in accordance with legal agreements in place between the relevant entities, and the associated fees are determined in accordance with the arm's length principle. Fees from group companies are recognised as the services are performed.
- **Other turnover:** The company undertakes research and development ("R&D") activities to remain at the forefront of technology and to support its market-leading offerings. Other turnover relates to R&D tax credits which have been recognised as a result of expenditure incurred by the company in relation to relevant R&D activities.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Foreign currency transactions and balances**

The financial statements are presented in sterling, which is the currency of the primary economic environment in which the company operates (its functional currency).

Transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognised in the profit and loss account in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Exchange differences on non-monetary items, measured at fair value through profit or loss ("FVTPL"), are reported as part of the fair value gain or loss in the profit and loss account in the period in which they arise. Exchange differences on non-monetary items, measured at fair value through other comprehensive income ("FVTOCI"), are reported as part of the fair value gain or loss in other comprehensive income in the period in which they arise.

The assets and liabilities of the company's foreign operations are translated into the company's presentation currency, which is sterling, using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity. On disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation are reclassified to the profit and loss account.

##### **Tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the company intends to settle its current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

Current and deferred tax are recognised in the profit and loss account, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### **Intangible assets**

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and any impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### **Amortisation**

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic lives as follows:

<b>Asset class</b>	<b>Amortisation method and rate</b>
Management contracts and distribution agreements	Straight-line basis over five to eight years

#### **Tangible assets**

Property and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and accumulated impairment losses.

The cost of property and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

#### **Depreciation**

Depreciation is charged so as to write off the cost or valuation of assets, less any estimated residual value, over their expected useful economic lives, using the straight-line method, as follows:

<b>Asset class</b>	<b>Depreciation method and rate</b>
Furniture, fittings and equipment	Straight-line basis over three to seven years
Short-term leasehold property	Straight-line basis over the shorter of the estimated useful life or the remaining term of the lease
Right-of-use assets	Straight-line basis over the shorter of estimated useful life or the term of the lease.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Tangible fixed assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement is determined by the difference between sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **Investments**

Investments are equity holdings in subsidiaries and associates. They are measured at cost less any provision for impairment.

Investments are tested for impairment annually or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

#### **Investments in financial assets**

Investments in financial assets comprises financial assets acquired for business operations and strategic business objectives. Equity investments are designated as fair value through other comprehensive income and are carried at fair value.

Collateralised loan obligations are measured at amortised cost or FVTPL. See financial instruments policy for further details.

#### **Dividends**

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established, it is probable that the economic benefits associated with the dividend will flow to the company and the amount of the dividend can be measured reliably.

Dividends payable are included in the financial statements in the period in which they are approved by the directors.

#### **Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, or it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Leases**

###### *Definition*

A lease is a contract, or a part of a contract, that conveys the right to use an asset (the "underlying asset") for a period of time in exchange for consideration. Further, the contract must convey the right to the company to control the asset. A contract is deemed to convey the right to control the underlying asset if, throughout the period of use, the company has the right to:

- Obtain substantially all the economic benefits from the use of the underlying asset; and
- Direct the use of the underlying asset.

Where contracts contain a lease coupled with an agreement to purchase or sell other goods or services (i.e. non-lease components), the company has made an accounting policy election, by class of underlying asset, to account for both components as a single lease component.

###### *Initial recognition and measurement*

The company initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The lease liability is measured at the present value of the lease payments not yet paid at the commencement date. The lease payments include fixed payments, purchase options at exercise price (where payment is reasonably certain), expected amount of residual value guarantees, termination option penalties (where payment is considered reasonably certain) and variable lease payments that depend on an index or rate. The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the company's initial direct costs and an estimate of restoration, removal and dismantling costs.

###### *Subsequent measurement*

After the commencement date, the company measures the lease liability by:

- (a) Increasing the carrying amount to reflect interest on the lease liability;
- (b) Reducing the carrying amount to reflect the lease payments made; and
- (c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments.

Interest on the lease liability in each period during the lease term is equal to the company's incremental borrowing rate. Interest charges are included in finance costs in the profit and loss account, unless the costs are included in the carrying amount of another asset applying other applicable standards. Variable lease payments not included in the measurement of the lease liability, are included in operating expenses in the period in which the event or condition that triggers them arises. The related right-of-use asset is accounted for using the Cost model in IAS 16 'Property, Plant and Equipment' and depreciation is charged in accordance with the requirements of IAS 16 as disclosed in the accounting policy for property, plant and equipment. Adjustments are made to the carrying value of the right-of-use asset where the lease liability is re-measured in accordance with the above. Right-of-use assets are tested for impairment in accordance with IAS 36 'Impairment of assets' as disclosed in the accounting policy.



## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### *Lease modifications*

If a lease is modified, the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, the lease modification will result in either a separate lease or a change in the accounting for the existing lease.

The modification is accounted for as a separate lease if both:

- (a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

If both of these conditions are met, the lease modification results in two separate leases, the unmodified original lease and a separate lease. The company then accounts for these in line with the accounting policy for new leases. If either of the conditions are not met, the modified lease is not accounted for as a separate lease and the consideration is allocated to the contract and the lease liability is re-measured using the lease term of the modified lease and the discount rate as determined at the effective date of the modification. For a modification that fully or partially decreases the scope of the lease (e.g., reduces the square footage of leased space), IFRS 16 requires a lessee to decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference between those adjustments is recognised in profit or loss at the effective date of the modification. For all other lease modifications which are not accounted for as a separate lease, IFRS 16 requires the lessee to recognise the amount of the re-measurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting profit or loss.

##### *Short-term and low value leases*

The company has made an accounting policy election, by class of underlying asset, not to recognise lease assets and lease liabilities for leases with a lease term of 12 months or less. The company has also made an accounting policy election on a lease-by-lease basis, not to recognise lease assets on leases for which the underlying asset is of low value. Lease payments on short-term and low value leases are accounted for on a straight line basis over the term of the lease or other systematic basis if considered more appropriate. Short-term and low value lease payments are included in operating expenses in the profit and loss account.

##### **Share-based payments**

The ultimate parent company, BlackRock, Inc. issues equity-settled share-based payments to certain employees of the company. The fair values of equity-settled schemes, long-term incentives plan ("LTIP"), restricted stock grants and restricted stock units ("RSUs") are determined at the grant date and expensed on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards, based on the group's estimate of awards that will eventually vest and adjusted for the effect of non market-based vesting conditions.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Financial instruments**

###### **Initial recognition**

Financial assets and financial liabilities comprise all assets and liabilities reflected in the balance sheet, excluding tangible assets, intangible assets, deferred tax assets, income tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The company recognises financial assets and financial liabilities in the balance sheet when, and only when, the company becomes party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial asset or financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as FVTPL and sales of other financial assets and financial liabilities are recognised on the trade date, i.e. the date on which the company commits to purchase or sell the financial assets or financial liabilities or the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

###### **Classification and measurement**

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at FVTOCI; or
- financial assets at FVTPL.

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at FVTPL.

The classification and the basis for measurement are subject to the company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Financial assets at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at FVTPL.

The company's financial assets measured at amortised cost comprise trade debtors, loans, and cash and cash equivalents.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Income is recognised on an effective interest basis for financial assets other than those financial assets classified as FVTPL.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period.

If a financial asset meets the amortised cost criteria, the company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

##### **Financial assets at FVTOCI**

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The company's financial assets measured at FVTOCI comprise debt securities and equity investments not held for trading.

On initial recognition of an equity investment that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the profit and loss account.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Financial assets at FVTPL**

Financial assets not otherwise classified above are classified and measured as FVTPL.

The company's financial assets measured at FVTPL comprise unrated tranches of collateralised loan obligations not held for trading

##### **Financial liabilities at amortised cost**

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

##### **Financial liabilities at FVTPL**

Financial liabilities are classified and measured at FVTPL when the financial liability is either a contingent consideration acquired in a business combination, held for trading (including derivatives) or it is designated at FVTPL.

##### **Derecognition**

###### *Financial assets*

The company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire;
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit and loss account.

Any cumulative gain or loss recognised in other comprehensive income in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the company is recognised as a separate asset or liability.

###### *Financial liabilities*

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the profit and loss account.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Foreign exchange gains and losses**

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in the profit and loss account in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in the profit and loss account in the 'other gains and losses' line item. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in the profit and loss account in the 'other gains and losses' line item; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

##### **Financial liabilities and equity instruments**

Debt and equity instruments issued by the company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in the profit and loss account on the purchase, sale, issue or cancellation of the company's own equity instruments.

##### **Derivative financial instruments**

Derivative financial instruments are contracts, the values of which are derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

In limited circumstances, the company uses derivative financial instruments to economically hedge its risk associated with foreign exchange movements. It is not the company's policy to trade in derivative instruments. The company does not designate its derivative instruments as formal hedging instruments and hedge accounting is not applied.

Derivative financial instruments are recognised in the balance sheet at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the profit and loss account immediately. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the balance sheet, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Impairment of financial assets**

###### *Measurement of Expected Credit Losses*

The company recognises loss allowances for expected credit losses ("ECL") on financial instruments that are not measured at FVTPL, namely:

- Financial assets that are debt securities; and
- Trade and other debtors

The ECL model anticipates impairment losses by recognising them over the lifetime expected of the financial instrument including that which is forward looking.

The company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the company recognises an allowance for the full amount of the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the company recognises the lifetime ECL.

The company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

For assets held at amortised cost, provisions for credit-impairment are recognised in the profit and loss account and are reflected in accumulated provision balances against each relevant financial instruments balance. For assets held at FVTOCI the loss is recognised in other comprehensive income and accumulated in the investment revaluation reserve.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the company on terms that the company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

For trade and other debtors, the company applies a simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the debtors.

Based on the analysis at the end of the reporting period, the impairment on the company's assets are considered to be immaterial and no allowance has been recognised in the financial statements.

#### **Accounting estimates and assumptions**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment and the valuation of financial instruments as explained in more detail below:-

#### **Provisions for impairment**

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

#### **Fair value of financial assets and liabilities**

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

##### ***Critical accounting judgements***

There are no critical accounting judgements.

##### ***Key sources of estimation uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

##### **Fair value assets and liabilities**

In accordance with IFRS 9, Financial Instruments, certain assets and liabilities on the balance sheet are measured at fair value. These items are measured in accordance with IFRS 13 'Fair Value Measurement'. IFRS 13 requires the application of judgement to best estimate the future cash flows, cost of equity and, in certain instances, the application of any discount for lack of marketability.

Full details are set out in note 27.

##### **Income taxes**

The company is subject to income tax in numerous jurisdictions and judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. If it is probable that the tax authority will accept an uncertain tax treatment, the company measures its income taxes in the financial statements consistently with the tax treatment used in its income tax return. Otherwise, it measures the effect of the uncertainty using either the most likely amount or expected value method. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Full details are set out in note 11.

##### **Deferred tax assets**

Judgement is required by management to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Full details are set out in note 11.



## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 4 Turnover

The analysis of the company's turnover for the period from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Investment advisory and administration fees	1,741,224	1,455,429
Investment advisory performance fees	25,557	8,005
Other turnover	266,757	118,281
	<u>2,033,538</u>	<u>1,581,715</u>

Turnover includes advisory and performance fee income from other group companies of £1,581,229,000 (2018: £1,279,400,000).

The analysis of the company's turnover for the period by geographical location is as follows:

	2019 £ 000	2018 £ 000
United Kingdom	1,709,992	1,247,097
Overseas	323,546	334,618
	<u>2,033,538</u>	<u>1,581,715</u>

#### 5 Operating profit

Arrived at after charging/(crediting):

	2019 £ 000	2018 £ 000
Depreciation expense	15,834	9,832
Depreciation on right-of-use assets	16,066	-
Amortisation expense	1,189	498
Foreign exchange losses/(gains)	18,248	(8,539)
Operating lease expense	-	16,538
Expense on short term leases	11	-
	<u>11</u>	<u>-</u>

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 6 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	742,745	566,140
Social security costs	97,511	77,828
Pension costs, defined contribution scheme	39,130	25,388
Other employee expense	9,063	6,871
	<u>888,449</u>	<u>676,227</u>

The average number of persons employed by the company (including directors) during the period, analysed by category was as follows:

	2019 No.	2018 No.
Office and management	<u>3,400</u>	<u>3,312</u>

In addition to the above, 6 employees (2018: 5) were seconded from the company to another group company. The company was reimbursed for the related cost of these employees through a secondment recharge of £17,975,000 (2018: £14,155,000).

#### 7 Directors' remuneration

The directors' remuneration for the period was as follows:

	2019 £ 000	2018 £ 000
Aggregate emoluments	1,431	1,808
Company contributions in respect of defined contribution pension schemes	9	13
	<u>1,440</u>	<u>1,821</u>

Of the 10 (2018: 10) directors that served during the period, 7 were remunerated by the company (2018: 8). The amounts included above relate to their service as directors of the company based on an estimated time allocation basis except 4 (2018: 4) directors, who were paid an agreed fee.

# **BlackRock Investment Management (UK) Limited**

## **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

### **7 Directors' remuneration (continued)**

During the period the number of directors who were receiving benefits and share incentives was as follows:

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
Received or were entitled to receive shares under service condition based schemes	6	8
Received or were entitled to receive shares under market performance based schemes	4	5
Accruing benefits under defined contribution pension scheme	<u>6</u>	<u>5</u>

During the period, no director (2018: no directors) exercised BlackRock, Inc. share options.

In respect of the highest paid director:

	<b>2019</b>	<b>2018</b>
	<b>£ 000</b>	<b>£ 000</b>
Aggregate emoluments	584	611
Company contributions in respect of defined contribution pension schemes	<u>4</u>	<u>3</u>
	<u>588</u>	<u>614</u>

During the period the highest paid director received or was entitled to receive shares under both a service condition based incentive scheme and a market performance based incentive scheme.

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 8 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	550	700
<b>Other fees to auditors</b>		
The auditing of accounts of any associate of the company	346	460
Audit-related assurance services	135	157
All other assurance services	60	60
	<u>541</u>	<u>677</u>

#### 9 Interest receivable and similar income

	2019 £ 000	2018 £ 000
Collateralised loan interest	5,089	2,958
Interest income on bank deposits	3,814	1,176
	<u>8,903</u>	<u>4,134</u>

The collateralised loan interest earned is in relation to the CLOs disclosed in note 17. The interest income on bank deposits relates to interest received on cash and a cash-pooling arrangement, see note 18.

#### 10 Interest payable and similar charges

	2019 £ 000	2018 £ 000
Interest payable on loan notes payable to group companies	10,724	9,827
Other finance costs	5,643	931
	<u>16,367</u>	<u>10,758</u>

Details of the loan notes payable to group companies are provided in note 20. Other finance costs represent lease dilapidations accretion charges.

# BlackRock Investment Management (UK) Limited

## Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

### 11 Income tax

Tax charged/(credited) in the profit and loss account:

	2019 £ 000	2018 £ 000
<b>Current taxation</b>		
UK corporation tax	85,182	53,209
UK corporation tax adjustment to prior periods	(3,478)	3,844
Double taxation relief	(5)	(2)
Foreign tax	51,023	212,455
Foreign tax adjustment to prior periods	11,461	9,148
Total current income tax	<u>144,183</u>	<u>278,654</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	9,245	(119,951)
Arising from changes in tax rates and laws	(344)	1,501
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(9,595)	(2,840)
Total deferred taxation	<u>(694)</u>	<u>(121,290)</u>
Tax expense in the profit and loss account	<u>143,489</u>	<u>157,364</u>

In addition to the amount charged to profit and loss, the following amounts relating to tax have been recognised in other comprehensive income:

	2019 £ 000	2018 £ 000
<b>Deferred taxation</b>		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Deferred taxes on actuarial (losses)/gains on defined benefit pension	(632)	323
Total income tax recognised in other comprehensive income	<u>(632)</u>	<u>323</u>

In addition to the amount charged to profit and loss, and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2019 £ 000	2018 £ 000
<b>Current taxation</b>		
Current taxes on items credited to equity	(1,725)	(9,727)
<b>Deferred taxation</b>		
Deferred taxes on items (credited)/charged to equity	(98)	7,641
Total income tax recognised in other comprehensive income	<u>(1,823)</u>	<u>(2,086)</u>

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 11 Income tax (continued)

The tax on profit before tax for the period is higher than the standard rate of corporation tax in the UK (2018: higher than the standard rate of corporation tax in the UK) of 19% (2018: 19%).

	2019 £ 000	2018 £ 000
Profit before tax	<u>686,564</u>	<u>539,682</u>
Corporation tax at standard rate	130,447	102,540
Increase in current tax from adjustment for prior periods	7,983	12,992
Increase from effect of revenues exempt from taxation	(4,393)	(2,835)
Increase from effect of expenses not deductible in determining taxable profit	5,137	1,067
Increase arising from overseas tax suffered	13,763	45,895
Decrease from effects of double taxation relief	(5)	(2)
Decrease in current tax from unrecognised temporary difference from a prior period	(9,595)	(2,840)
Deferred tax expense relating to changes in tax rates or laws	342	1,677
Other tax effects for reconciliation between accounting profit and tax income	<u>(190)</u>	<u>(1,130)</u>
Total tax charge	<u>143,489</u>	<u>157,364</u>

The Finance Act 2016 reduced the UK corporation tax rate to 17% with effect from 1 April 2020, as such the deferred tax balances have been recognised at a rate of 17%. Subsequent to the balance sheet date, measures were introduced in the Budget statement to revert to a rate of 19% from 1 April 2020.

During the previous reporting period group relief previously claimed by another group company was reallocated to the company for nil payment. During the period, the company has received further group relief from the same group company. The group company surrendering this relief has an ongoing open matter with Her Majesty's Revenue and Customs. If this open matter is resolved in the favour of the group company, then the company's tax liability will decrease by approximately £168,945,000 (2018: £161,149,000).

# BlackRock Investment Management (UK) Limited

## Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

### 11 Income tax (continued)

#### Deferred tax

Deferred tax movement during the period:

	At 1 December 2018 £ 000	Recognised in profit and loss £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	2,856	485	-	-	3,341
Amortisation	158,182	(4,130)	-	-	154,052
Other post-employment benefits	661	(78)	632	-	1,215
Share-based payment	19,543	1,221	-	98	20,862
Provisions	5,183	(3,480)	-	-	1,703
Loans and borrowings	3,602	8,260	-	-	11,862
Other items	1,593	(1,585)	-	-	8
Net tax assets	<u>191,620</u>	<u>693</u>	<u>632</u>	<u>98</u>	<u>193,043</u>

Deferred tax movement during the prior period:

	At 1 January 2018 £ 000	Recognised in profit and loss £ 000	Recognised in other comprehensive income £ 000	Recognised in equity £ 000	At 30 November 2018 £ 000
Accelerated tax depreciation	1,817	1,039	-	-	2,856
Amortisation	13,630	144,552	-	-	158,182
Other post-employment benefits	993	(9)	(323)	-	661
Share-based payment	29,447	(2,263)	-	(7,641)	19,543
Provisions	3,679	1,504	-	-	5,183
Loans and borrowings	28,556	(24,954)	-	-	3,602
Other items	172	1,421	-	-	1,593
Net tax assets	<u>78,294</u>	<u>121,290</u>	<u>(323)</u>	<u>(7,641)</u>	<u>191,620</u>

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 11 Income tax (continued)

Within the deferred tax assets above, the amount falling due after more than one year is £148,978,000 (2018: £155,770,000).

In January 2020, the Withdrawal Agreement for Brexit was ratified by the EU, the outcome of which was that the UK entered a transition period until 31 December 2020. During the transition period, the UK's arrangements with the EU will remain unchanged. Included within the deferred tax balances of the company at the balance sheet date is a deferred tax asset in respect of the Frankfurt and Munich branches that related to the restructuring of the company's German holdings in the prior period, which had been recognised on the basis of a Brexit date of 31 January 2020. The company has determined that, were the deferred tax asset to be recognised based on the transition period ending on 31 December 2020, this deferred tax asset would be increased by £9,181,000 to reflect the further amount of the deferred tax asset that would be expected to be available to utilise in a future period of to the company.

#### 12 Intangible assets

	<b>Management contracts and distribution agreements £ 000</b>
<b>Cost</b>	
At 1 December 2018	4,266
Additions	<u>8,010</u>
At 31 December 2019	<u>12,276</u>
<b>Amortisation</b>	
At 1 December 2018	2,747
Amortisation charge	<u>1,189</u>
At 31 December 2019	<u>3,936</u>
<b>Carrying amount</b>	
At 31 December 2019	<u><u>8,340</u></u>
At 30 November 2018	<u><u>1,519</u></u>



# BlackRock Investment Management (UK) Limited

## Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

### 13 Tangible assets

	Short-term leasehold property £ 000	Furniture, fittings and equipment £ 000	Total £ 000
<b>Cost</b>			
At 1 December 2018	96,344	24,483	120,827
Additions	7,469	10,931	18,400
Disposals	(3,247)	(1,279)	(4,526)
Transfers	(4,140)	4,140	-
Foreign exchange movements	(893)	13	(880)
At 31 December 2019	<u>95,533</u>	<u>38,288</u>	<u>133,821</u>
<b>Depreciation</b>			
At 1 December 2018	43,180	13,627	56,807
Charge for the period	7,691	8,143	15,834
Eliminated on disposal	-	(1,212)	(1,212)
Foreign exchange movements	(534)	17	(517)
At 31 December 2019	<u>50,337</u>	<u>20,575</u>	<u>70,912</u>
<b>Carrying amount</b>			
At 31 December 2019	<u>45,196</u>	<u>17,713</u>	<u>62,909</u>
At 30 November 2018	<u>53,164</u>	<u>10,856</u>	<u>64,020</u>

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 14 Right-of-use assets

	Property £ 000
<b>Cost</b>	
At 1 December 2018	-
Adjustment on transition to IFRS 16	203,041
At 31 December 2019	203,041
<b>Depreciation</b>	
At 1 December 2018	-
Charge for the period	16,066
At 31 December 2019	16,066
<b>Carrying amount</b>	
At 31 December 2019	186,975
At 30 November 2018	-

See note 21 for further information on leases.

#### 15 Investments

<b>Subsidiaries</b>	<b>£ 000</b>
<b>Cost</b>	
At 1 January 2018 and 30 November 2018	124,417
At 1 December 2018 and 31 December 2019	124,417

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2019	2018
BlackRock Fund Managers Limited*	Provider of investment management, advisory and administration services	12 Throgmorton Avenue, London, EC2N 2DL, United Kingdom	100%	100%
BlackRock Asset Management Deutschland AG*	Provider of investment management services	Lenbachplatz 1 1st Fl, Munich 80333, MN3, Germany	100%	100%

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 15 Investments (continued)

\* indicates a direct investment held by the company

##### Associates

	£ 000
<b>Cost</b>	
At 1 December 2018	46,642
Additions	17,196
At 31 December 2019	<u>63,838</u>

Details of the associates as at 31 December 2019 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2019	2018
Scalable Capital GmbH	Digital investment manager	Prinzregentenstraße 48, 80538 München, Germany	38.8% / 40.9%	34.18% / 37.14%

All of the above subsidiaries and associates are recorded at cost or following the adoption of FRS 101 deemed cost.

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 16 Investments in financial assets

	Fair value through other comprehensive income £ 000	Amortised cost £ 000	Fair value through profit and loss £ 000	Total £ 000
At 1 December 2018	83,538	119,704	12,574	215,816
Additions	7,450	52,242	3,321	63,013
Disposals	-	(15,924)	-	(15,924)
Losses through profit and loss	-	(11,576)	(2,912)	(14,488)
Income recognised in profit and loss	-	5,089	-	5,089
Losses through other comprehensive income	(6,042)	-	-	(6,042)
At 31 December 2019	<u>84,946</u>	<u>149,535</u>	<u>12,983</u>	<u>247,464</u>

	Fair value through other comprehensive income £ 000	Amortised cost £ 000	Fair value through profit and loss £ 000	Total £ 000
At 1 January 2018	66,308	67,360	7,569	141,237
Additions	-	49,383	5,348	54,731
Gains through profit and loss	-	-	(343)	(343)
Income recognised in profit and loss	-	2,961	-	2,961
Gains through other comprehensive income	17,230	-	-	17,230
At 30 November 2018	<u>83,538</u>	<u>119,704</u>	<u>12,574</u>	<u>215,816</u>

FVTOCI assets consists of unlisted equity shares, which by their nature have no fixed maturity date or coupon rate.

Additions in the FVTOCI category represents a minority interest investment by the company in Embark Group Limited, which the company has elected, under IFRS 9, to record at FVTOCI. As part of the same acquisition a convertible loan of £2,550,000 is recognised within additions in the amortised cost category.

Additions in the amortised cost and FVTPL categories include £37,088,000 (2018: £48,342,000) interests acquired in CLOs and vehicles used to establish CLOs, comprising both rated and unrated tranches. The rated senior tranches pay bi-annual interest with weighted average coupon rates as follows; Tranche 1 - 1.45%, Tranche 2 - 2.27%, Tranche 3 - 3.35%, Tranche 4 - 5.66% and Tranche 5 - 8.26%. The unrated senior tranche relating to a vehicle in the warehousing phase receives interest based on EURIBOR plus the applicable senior margin of 1% for the first 12 months, then 1.5% for the next 3 months, and then 2% for the remaining 9 months. Unrated tranches paying bi-annual dividends representing residual waterfall cash flows.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **16 Investments in financial assets (continued)**

At the balance sheet date the company had an undrawn commitment and undrawn contingent commitment to loan advances in respect of CLO X warehousing of £2,220,000 (2018: £nil) and £13,557,000 (2018: £nil) respectively.

#### **17 Interests in unconsolidated structured entities**

The AUM of the company as at 31 December 2019 was £774.9bn (2018: £636.4bn).

The company manages investment funds which are considered to be structured entities within the definition of IFRS 12 'Disclosure of Interests in Other Entities'. Structured entities are not consolidated as the company does not have "control" as defined under IFRS 10 'Consolidated Financial Statements'. The company receives an interest in these unconsolidated structured entities through the receipt of investment advisory, administration, performance fees and income from other group companies. The unconsolidated structured entities are constituted as open-ended and closed-ended investment companies, unit trusts and investment trusts.

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest capital primarily from third-party investors in a portfolio of assets in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, they are susceptible to market price risk arising from uncertainties about future values of the asset they hold.

The unconsolidated structured entities are financed through equity capital provided by investors.

The fees received during the year to 31 December 2019, in relation to the above, were £2,033,538,000 (2018: £1,581,715,000). The carrying value on the balance sheet as at 31 December 2019 is £265,223,000 (2018: (£181,187,000)), as represented by trade debtors and accrued income.

Additionally, the company currently holds interests related to ten CLO vehicles, comprising a vertical slice which contains both rated and unrated tranches. The company is required to hold a 5% interest in these vehicles under risk retention rules, as disclosed in note 16 of the accounts. Further to this, the company receives fees in respect of management of the securitised vehicles.

#### **Maximum exposure to loss**

The company's maximum exposure to loss associated with its interest in investment funds is limited to the carrying amounts shown above. In respect of the CLO vehicles, the maximum exposure to loss for the company is the loss of repayments of principal, coupon payments, non-rated distributions and management fees. The income received during the year in relation to interests held was £5,089,000 (2018: £2,958,000), and management fees were £13,598,000 (2018: £7,098,000) (these fees have been included as part of the unconsolidated structured entities above).

#### **Financial support**

The company has not provided financial support to any of its unconsolidated structured entities during the period, and has no contractual obligations or current intention of providing financial support in the future.

#### **Other information**

There are no differences to the economic or voting rights attaching to the equity held by the company from those held by other investors. There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the company's interest in the unconsolidated structured entities.

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 18 Debtors

	31 December 2019 £ 000	30 November 2018 £ 000
Trade debtors	91,080	72,582
Amounts due from group companies	1,720,552	866,108
Accrued income	174,143	108,605
Prepayments	23,580	14,201
Other debtors	21,926	29,929
Deferred tax asset	193,043	191,657
Corporation tax asset	47,632	12,188
	<u>2,271,956</u>	<u>1,295,270</u>

Cash management within the BlackRock group is governed by a cash pooling arrangement. Surplus cash from BlackRock group companies is swept into HSBC accounts held by the company. The balances are treated as intercompany receivables and payables between the company and the corresponding group companies. This cash in addition to the company's surplus cash, is then held as short-term instruments by BGL. The balance due from BGL of £912,815,000 (2018: £475,258,000) in relation to this arrangement is included within amounts due from group companies.

Included within amounts due from group companies are a loan made by the company to BGL of £210,000,000 (2018: £nil) and a Euro-denominated loan to BlackRock Cayman Z Limited of £8,181,000 (2018: £8,568,000). The loan to BGL is repayable in full on 31 March 2021 and attracts an annual interest rate of 1.1676% which is payable semi-annually on 31 March and 30 September. The loan to BlackRock Cayman Z Limited is repayable in full on 10 August 2021 and attracts an annual interest rate of 0.546% payable on maturity.

Excluding cash management balances and the above mentioned loans, all other amounts due from group companies are unsecured, interest free and repayable on demand.

Amounts falling due after more than one year total £367,159,000 which include the above-mentioned loans and deferred tax assets (also included in the above table) falling due after more than one year of £148,978,000 (2018: £155,770,000).

The company provides a number of bank guarantees totalling £6,316,000 (2018: £2,580,000). These guarantees are not included in the above table.

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 19 Creditors: Amounts falling due within one year

	31 December 2019 £ 000	30 November 2018 £ 000
Trade creditors	156,549	116,365
Accrued expenses	333,053	353,636
Amounts due to group companies	769,801	819,727
Social security and other taxes	83,621	79,003
Other creditors	238	10,239
Corporation tax liability	159,696	155,986
Lease liabilities	16,103	-
	<u>1,519,061</u>	<u>1,534,956</u>

Included within amounts due to group companies is £685,072,000 (2018: £762,457,000) in relation to the cash pooling arrangement.

Excluding the loan note shown below, all other amounts due to group companies are unsecured, interest free and repayable on demand. The terms of the loan note are detailed in note 20.

See note 21 for further details on lease liabilities.

#### 20 Loans and borrowings

	31 December 2019 £ 000	30 November 2018 £ 000
<b>Non-current loans and borrowings</b>		
Loans due to group undertakings	<u>139,536</u>	<u>146,137</u>

Included above are interest bearing Euro-denominated loan notes and these represents tranches 1, 2 and 3 of the notes payable to BlackRock Asset Management UK Limited.

Loan notes 1 and 2 were obtained on 30 June 2015 following the refinancing of an earlier loan note between the company and BlackRock Asset Management UK Limited. The outstanding balance of the loan is for a total of £84,734,000. They bear interest rates of 7.36% and 10.84% respectively and interest is payable semi-annually on 31 March and 30 September. Interest payable by the company during the period is included in the profit and loss account as interest payable on loans notes payable to group undertakings.

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 20 Loans and borrowings (continued)

Tranches 1 and 2, of £42,367,000 each, are due to be repaid by 30 June 2030 subject to having sufficient reference profits (Tranche 1: £10.6m, Tranche 2: £21.2m) in the financial years from 31 December 2019. Early repayment is permissible at no penalty. Based on management forecasts, the company will make sufficient profits to repay both Tranches 1 and 2 within the terms of the loan agreement.

Tranche 3 was obtained on 1 September 2017 following the investment in Scalable Capital GmbH by the company's Frankfurt branch. The outstanding balance of the loan is £44,576,000. It bears an interest rate of 3.54% and interest is payable semi-annually on 31 March and 30 September. Interest payable by the company during the period is included in the profit and loss account as interest payable on loans payable to group undertakings. This loan note is due to be repaid by 31 August 2037. Early repayment is permissible at no penalty.

Also included above is a Euro-denominated loan note payable to BlackRock (Netherlands) B.V. During the period, the company received consideration in the form of cash in exchange for the contractual obligation to transfer 1% of future profits from part of its European operations to BlackRock Netherlands B.V. This loan agreement is unsecured and can be dissolved by either party. The outstanding balance of the loan is £10,226,000.

#### 21 Leases

	31 December 2019 £ 000	30 November 2018 £ 000
Non-current	<u>198,790</u>	<u>-</u>

The company has leases for office buildings. The average lease term is 4 years (2018: 4 years). With the exception of short-term and low-value leases, each lease is reflected on the balance sheet as a right-of-use asset and a corresponding lease liability. Payments which are variable in nature and do not depend on an index or rate may include common area maintenance charges and are expensed on the basis that they are not recognised as a lease liability.

Some leases contain an option to extend the lease for a further term or an option to terminate the lease early. Such options are taken into effect in determining the term of the lease.

#### Lease liabilities maturity analysis

A maturity analysis of lease liabilities based on undiscounted gross cash flow is reported in the table below:

	31 December 2019 £ 000	30 November 2018 £ 000
Less than one year	21,488	19,970
2 years	74,827	69,792
More than 5 years	<u>162,280</u>	<u>177,389</u>
Total lease liabilities (undiscounted)	<u>258,595</u>	<u>267,151</u>

Total cash outflow for leases for the year ended 31 December 2019 was £21,196,000 (2018: £16,538,000).



## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **22 Provisions**

	<b>Property-related provisions £ 000</b>
At 1 December 2018	51,529
Decrease due to right-of-use asset adjustment	(27,836)
Provisions used	(198)
Unused provision reversed	(3,247)
Increase due to unwinding of discount	965
Decrease due to foreign exchange differences	(117)
At 31 December 2019	<u>21,096</u>

Property related provisions previously included an amount in relation to the rent free period on the company's Drapers Garden property of £27,836,000 (2018: £26,870,000). This amount has been reclassified to right-of-use assets in accordance with IFRS 16, which are now recognised in note 14.

The remaining provision balance at 31 December 2019 represents a dilapidation provision recognised in respect of the Drapers Gardens property. This amount is based on the estimated cost of returning the property to its original condition at the end of the lease term, discounted back to the current equivalent expense.

#### **23 Pension and other schemes**

##### **Defined contribution pension scheme**

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £39,130,000 (2018: £25,388,000).

##### **Defined benefit schemes**

##### **Post retirement medical benefit scheme**

The company operates a number of defined benefit schemes. The largest one is the post-retirement medical benefit scheme ("PRMB"), and is disclosed below. The PRMB liability is calculated by an external actuary using the projected unit credit method.

## BlackRock Investment Management (UK) Limited

### Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

#### 23 Pension and other schemes (continued)

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the balance sheet date are as follows:

	31 December 2019	30 November 2018
Discount rate	2.00	2.90
Medical cost inflation initial rate (%)	6.50	7.00
Medical cost inflation ultimate rate (%)	4.40	4.70
Year ultimate reached	<u>2023</u>	<u>2022</u>

During the period, £123,000 (2018: £218,000) was charged to the profit and loss and debit of £2,719,000 (2018: credit of £1,984,000) taken to other comprehensive income, resulting in the PRMB liability moving from £1,990,000 as at 30 November 2018 to £4,832,000 as at 31 December 2019.

#### 24 Share capital

##### Allotted, called-up and fully paid shares

	No. 000	31 December 2019 £ 000	No. 000	30 November 2018 £ 000
Ordinary shares of £1 each	<u>94,485</u>	<u>94,485</u>	<u>94,485</u>	<u>94,485</u>

#### 25 Dividends

	31 December 2019 £ 000	30 November 2018 £ 000
Dividend of £1.06 (2018: £1.59) per ordinary share	<u>100,000</u>	<u>150,000</u>

#### 26 Share-based payments

##### *Restricted stock and RSUs*

Restricted stock and RSUs are issued by the ultimate parent company, BlackRock, Inc., and RSUs are converted into shares of BlackRock, Inc. on each of the vesting dates. Substantially all restricted stock and RSUs vest over periods ranging from one to three years, although conditions vary between different types of award. Dividend equivalents on restricted stock and RSU are subject to forfeiture prior to vesting of the award, and as such are not paid to employees until that date.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **26 Share-based payments (continued)**

##### ***Service condition awards***

The majority of restricted stock and RSU awards are granted with a service condition only. These awards are valued at their grant-date fair value as measured by BlackRock, Inc. common stock price. The total fair value amortised over the vesting period is adjusted for future forfeitures based on management's best estimate of restrictions and behavioural considerations.

##### ***Performance condition awards***

The company granted stock awards with a performance condition ("BlackRock Performance Incentive Plan Awards") in 2015. The number of awards that vest is dependent upon the achievement of certain performance measures for BlackRock, Inc. over a performance period of three years from the grant date. The awards consist of a base number of RSUs granted multiplied by a percentage determined in accordance with the level of attainment of selected BlackRock, Inc. performance measures during the performance period which could be higher or lower than the original RSUs at grant date. The awards are generally forfeited if the employee leaves before the vesting date. These awards are amortised over the service period of three years.

##### ***Market performance based stock options***

The company granted stock options with a market performance condition in 2017. The vesting of these options is dependent upon the achievement of certain share price targets for BlackRock, Inc. common stock over a performance period of five years from the grant date and the attainment of certain performance measures. If both hurdles are achieved, the option will vest in three equal instalments at the end of years five, six and seven. Vested options can be exercised up to nine years following the grant date. The options are generally forfeited if the employee leaves the company before the respective vesting date. The expense for each tranche is amortised over the respective requisite service period. The company assumes the performance condition will be achieved. If such condition is not met, no compensation cost is recognised and any recognised compensation cost is reversed.

#### **27 Fair value measurement**

The fair value of financial assets and financial liabilities are determined as follows:

Level 1 - fair value measurement derived from quoted prices (unadjusted) in active market prices for identical assets or liabilities.

Level 2 - fair value measurement derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices).

Level 3 - fair value measurement derived from valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable market inputs).

# BlackRock Investment Management (UK) Limited

## Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)

### 27 Fair value measurement (continued)

The following tables provide the fair value measurement of the company's assets and liabilities.

#### Assets measured at fair value 2019

	<b>Total £ 000</b>
Assets at FVTPL - subordinated collateralised loan obligations	12,983
Assets at FVTPL - foreign exchange forward contract derivatives	851
Assets designated as FVTOCI - unlisted investments	84,946
	<u>98,780</u>

#### Assets measured at fair value 2018

	<b>Total £ 000</b>
Assets at FVTPL - subordinated collateralised loan obligations	12,574
Assets at FVTPL - foreign exchange forward contract derivatives	460
Assets designated as FVTOCI - unlisted investments	83,538
	<u>96,572</u>

#### Liabilities measured at fair value 2019

	<b>Total £ 000</b>
Liabilities at FVTPL - foreign exchange forward contract derivatives	156
Liabilities at FVTPL - derivative call option	-
	<u>156</u>

#### Liabilities measured at fair value 2018

	<b>Total £ 000</b>
Liabilities at FVTPL - foreign exchange forward contract derivatives	647
Liabilities at FVTPL - derivative call option	8,568
	<u>9,215</u>

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **27 Fair value measurement (continued)**

##### ***Valuation methods and assumptions***

##### ***Subordinated collateralised loan obligations:***

The fair value of subordinated collateralised loan obligations are determined using valuation techniques based on the calculation of the present value of expected future cash flows. These cash flows are based on the performance of a pool of unlisted corporate debt instruments, which are subsequently collateralised. These investments therefore fall within level 3 of the fair value hierarchy.

##### ***Unlisted investments:***

The fair value of unlisted FVOCI equity shares has been estimated using a full income approach. In applying this approach, in the absence of forecasts, management have used historical management accounts and financial statements, and applied assumptions to create projected cashflows, this includes the application of long-term growth rates. The projected cashflows have then been discounted at a rate reflecting the appropriate cost of equity. These investments therefore fall within level 3 of the fair value hierarchy.

##### ***Foreign exchange forward contracts:***

The fair values of derivative instruments are calculated using quoted prices and therefore categorised as level 1 securities in the fair value hierarchy.

At the statement of financial position date foreign exchange forward contracts were in place to hedge the transactional foreign exchange exposure of the entity. These forwards have a tenure of less than one month.

##### ***Derivative call options:***

The fair value of the call option entered into by the company has been estimated by determining an appropriate valuation approach, utilising a Monte Carlo model. This model then incorporated inputs including the underlying value of the BlackRock operation, the appropriate risk free rate of return, the estimated volatility, and the time to expiry. The model then performed a large number of simulations to determine the likelihood of the option being 'in the money' at various intervals until the option expired to work out the fair value. This liability falls within level 3 of the fair value hierarchy.

There were no changes to the valuation techniques during the period.

#### **28 Contingent liabilities**

The company is an authorised institution and operates in the UK or overseas within the regulatory framework established by the FCA or overseas by local regulatory bodies. In the normal course of business, the company may, from time to time, be subject to claims, actions or proceedings. While there can be no assurances, the directors believe, based on information currently available to them, that a material outflow of economic benefits is not probable.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **29 Related party transactions**

The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

Details of Directors' emoluments are set out in note 7. There are no personnel other than directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the company.

#### **30 Parent and ultimate parent undertaking**

The company's immediate holding company is BlackRock Finance Europe Limited and the ultimate parent company and controlling party is BlackRock, Inc. a company incorporated in the State of Delaware in the United States of America. The parent company of the largest and smallest group that includes the company and for which group accounts are prepared is BlackRock, Inc. Copies of the group financial statements are available upon request from the Investor Relations website at [www.blackrock.com](http://www.blackrock.com) or requests may be addressed to Investor Relations at 55 East 52nd Street, New York, NY 10055, USA or by email at [invrel@blackrock.com](mailto:invrel@blackrock.com). BlackRock, Inc.

#### **31 Non adjusting events after the financial period**

In March 2020 the company extended the value and maturity of a loan receivable from BlackRock Group Limited (see note 18). The balance increased from £210,000,000 to £1,000,000,000, the interest rate increased from 1.1676% to 1.1800%, and maturity extended from 31 March 2021 to 20 March 2022.

In March 2020, the company received a dividend of £50,000,000 from its wholly owned subsidiary BlackRock Fund Managers Limited.

Global markets have experienced high levels of volatility and a downturn in the global economic environment subsequent to 31 December 2019 as a result of the Covid-19 outbreak.

Covid-19 and the consequent impact on the global economy is considered a non-adjusting post balance sheet event. Consequently, no adjustments are required to be made to the financial position at 31 December 2019 as a result of this event.

#### *Impact on earnings, profitability and liquidity post year-end*

The majority of the company's turnover is received for the provision of sub-delegated investment advisory and administration fees. As outlined in note 2, such fees are primarily based on percentages of net asset value or AUM. Accordingly, where there are decreases in AUM (either as a result of market downturn or client redemptions, or both), on a like-for-like basis, the company's revenue will decrease. As at 31 March 2020, the AUM of the company has decreased by approximately £30.1bn, although it is not clear at this date how much of this change in AUM is directly attributable to the outbreak of Covid-19.

## **BlackRock Investment Management (UK) Limited**

### **Notes to the Financial Statements for the Period from 1 December 2018 to 31 December 2019 (continued)**

#### **31 Non adjusting events after the financial period (continued)**

Despite the current market conditions, the company remains profitable and has an appropriate level of liquidity to meet its financial obligations as they fall due without adversely affecting its financial position, the normal course of its business or its reputation. Furthermore, the company's conservative approach to capital management ensures that it continues to hold capital reserves well in excess of both external and internal requirements.

##### *Impact on fair value of financial instruments post year-end*

Additionally, the impact Covid-19 has had on the global economy may impact the valuation of certain financial instruments recognised on the balance sheet, where the financial instruments are fair-valued and linked to market inputs, or unobservable inputs.

The quantum of the effect of Covid-19 on these financial instrument values cannot be practically determined at the date of these financial statements, however the company is monitoring the situation and considering the effect it may have on the valuation of any impacted underlying instruments in the future.

##### *Impairment of non-financial assets*

Further, impairment assessments may require an impairment expense to be recorded against intangibles assets, tangible fixed assets and investments in subsidiaries and associates.

The quantum of the effect of Covid-19 on the quantum of any impairment cannot be practically determined at the date of these financial statements, however the company is monitoring the situation and considering the effect it may have on the recoverable amount of any impacted underlying assets subject to impairment reviews in the future.

##### *Impact on business operations*

From an operational perspective, the company and the broader BlackRock group as a whole, continues to operate as expected. With business continuity plans ensuring minimal disruption to its business or the company's ability to discharge its obligations to its various stakeholders.

## BlackRock Investment Management (UK) Limited

### Country by Country Reporting for the Period from 1 December 2018 to 31 December 2019

The company presents information on a consolidated basis on its establishments in existence during the year, in accordance with Article 89 of Directive 2013/36/EU of the European Parliament and of the Council and Statutory Instrument 2013/3118 Capital Requirements (Country-by-Country Reporting) Regulations 2013.

2019					Average
Jurisdiction	Turnover	Profit/(loss)	Corporation	Total charge	number of
	£ 000	before tax	tax paid	£ 000	employees
		£ 000	£ 000		No.
UK*	2,178,282	465,697	78,559	90,200	3,010
Germany	174,226	64,593	42,462	18,150	144
Italy	67,470	44,374	15,951	13,122	66
Netherlands	52,532	72,997	(322)	18,723	58
France	29,972	14,006	5,981	4,796	40
Spain	35,373	28,270	7,961	7,068	23
Denmark	15,526	11,088	2,762	2,439	20
Belgium	14,155	9,038	3,985	2,673	13
Sweden	11,247	9,737	3,182	2,084	18
Austria	7,347	3,682	1,203	920	8
South Africa	-	(59)	(4)	-	1
Greece	6,685	3,966	-	900	8
Israel	6,571	2,505	33	576	10

#### Jurisdiction      Name of establishment

##### Provider of investment management, advisory and administrative services

UK	BlackRock Investment Management (UK) Limited
	BlackRock Fund Managers Limited
Germany	BlackRock Asset Management Deutschland AG

##### Provider of local sales and marketing support

Germany	BlackRock Investment Management (UK) Limited - German branch, Munich
	BlackRock Investment Management (UK) Limited - German branch, Frankfurt on Main
Italy	BlackRock Investment Management (UK) Limited - Milan branch
Netherlands	BlackRock Investment Management (UK) Limited - Amsterdam branch
France	BlackRock Investment Management (UK) Limited - Paris branch
Spain	BlackRock Investment Management (UK) Limited - Madrid branch
Denmark	BlackRock Investment Management (UK) Limited - Copenhagen branch
Belgium	BlackRock Investment Management (UK) Limited - Brussels branch
Sweden	BlackRock Investment Management (UK) Limited - Stockholm branch
Austria	BlackRock Investment Management (UK) Limited - Vienna branch
South Africa	BlackRock Investment Management (UK) Limited - Cape Town branch



## **BlackRock Investment Management (UK) Limited**

### **Country by Country Reporting for the Period from 1 December 2018 to 31 December 2019 (continued)**

<b>Jurisdiction</b>	<b>Name of establishment</b>
Greece	BlackRock Investment Management (UK) Limited - Athens branch
Israel	BlackRock Investment Management (UK) Limited - Tel Aviv branch

\* UK Corporate tax payments are made in instalments prior to the end of the period to which they relate. They are therefore based on forecast profits and forecast tax liabilities, which can vary from the final accrual in the financial statements. UK Corporate tax payments for the period can also be reduced by amounts carried forward from prior periods.

UK Corporation tax may be reduced by factors such as income received that is not subject to UK taxation such as dividends, or losses incurred by other UK group companies and surrendered for nil payment. Please refer to the income tax note, note 11, in the financial statements for a reconciliation of the tax charge.

**The table above provides information on:**

#### *Turnover*

Turnover is stated net of VAT.

#### *Profit/(loss) before tax*

Profit/(loss) before tax represents accounting profits under FRS 101.

#### *Corporation tax paid*

All corporate income tax payments and refunds are made and received during the year in the respective country. Corporation taxes paid in the year rarely relate to the profits earned in the year in which they are paid since income tax for a given period is generally paid across multiple years and as such timing differences will exist between cash tax payments and accruals.

#### *Total income tax charge*

Current and deferred income tax charges relating to the current year booked to the profit and loss statement in the year.

#### *Average number of employees*

The number of employees has been calculated as the average number of employees on a full time equivalents basis, who were permanent employees during the period.

#### *Additional information*

The company's directors have also included the combined results for BlackRock Investment Management (UK) Limited (excluding non UK branches) and BlackRock Advisors (UK) Limited (excluding non UK branches). BlackRock Investment Management (UK) Limited is also subject to the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The combined results provides a more coherent view of their profile on the basis that, in substance, they operate as one business.

Combined turnover for the companies was £2,376,258,000, combined profit was £878,799,000, combined corporate income tax paid was £109,401,000 and the combined total income tax charge for 2019 was £119,207,000.

The average number of employees for BlackRock Investment Management (UK) Limited which are at the disposal of BlackRock Advisors (UK) Limited was 3010.