

# Solvency and Financial Condition Report

As at 31st December 2016



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## Summary

This report has been created in line with Article 51 of the Directive 2009/138/EC. The structure of the report follows Annex XX of the Delegated Regulations (EU) 2015/35.

### **Business and performance**

UBS Asset Management Life Ltd (Life Ltd) forms part of the overall group of UBS UK entities referred to as UBS Asset Management UK (AM UK). AM UK is the regional subset of the consolidated UBS Asset Management business. Life Ltd's sole purpose is to provide long-term unit-linked insurance benefits to pension funds in the UK, mainly institutional clients. Life Ltd has a range of unit-linked investment funds across a broad range of investment capabilities. Life Ltd is regulated by the PRA and the FCA.

Revenue is earned as a percentage of assets under management (AuM). A fixed proportion of which is paid to UBS Group companies for services. Some services are outsourced to third parties, with the majority of costs being proportional to the AuM and therefore directly aligned with the revenue stream. This arrangement results in Life Ltd being resilient to a wide range of adverse events.

Details are given in section A.

### **System of governance**

Material changes to the system of governance during the reporting period relate to the introduction of the Senior Insurance Managers Regime (SIMR) and a governance review by AM UK that led to a restructuring of governance arrangements and an enhanced process overall. Details are given in section B.

### **Risk profile**

The risk profile is reviewed in section C. There have been no material changes over the reporting period.

### **Valuation for solvency purposes**

Solvency II was implemented on 1<sup>st</sup> January 2016. There have been no changes to Life Ltd's valuation methodology during the period. Full details are contained in section D.

### **Capital management**

The approach to capital management is outlined in section E. There have been no changes in the approach during the reporting period.

Sections D and E of the SFCR have been subject to external audit.

## Statement of Directors Responsibilities

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulation Authority (PRA) rules and Solvency II Regulations.

The PRA Rulebook for Solvency II firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting Part requires that Life Ltd must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that Life Ltd must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Report & Accounts, confirms that, to the best of their knowledge:

- 1) Throughout the financial year in question, Life Ltd has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable; and
- 2) It is reasonable to believe that, at the date of the publication of the SFCR, Life Ltd continues to comply, and will continue to comply in future.

By Order of the Board



Director  
UBS Asset Management Life Ltd  
17th May 2017

# Auditors Report and Opinion

**Report of the external independent auditor to the Directors of UBS Asset Management Life Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms**

## **Report on the Audit of the relevant elements of the Solvency and Financial Condition Report**

### **Opinion**

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016 ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S12.01.02, S23.01.01, S25.01.21, S28.01.01, ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02 and S05.02.01 ; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of UBS Asset Management Life Limited as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Chapter of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, for our work, for this report, or for the opinions we have formed.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report 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 Solvency and Financial Condition Report is authorised for issue.

#### Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

#### Other Information

The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, 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 relevant elements of the Solvency and Financial Condition Report 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 this regard.

#### Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a

Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

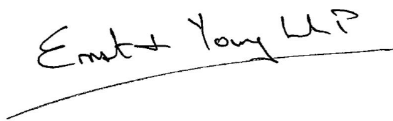
Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK & I) 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 decision making or the judgment of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. The same responsibilities apply to the audit of the Solvency and Financial Condition Report.

#### Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of UBS Asset Management Life Ltd statutory financial statements. 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 this regard.



Ernst & Young LLP  
London  
19 May 2017

The maintenance and integrity of the UBS Group website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.



## A. Business and performance

### A.1. Business

Life Ltd forms part of the overall group of UBS UK entities referred to as UBS Asset Management UK. UBS Asset Management UK (referred to in this document as AM UK) is the regional subset of the consolidated UBS Asset Management business.

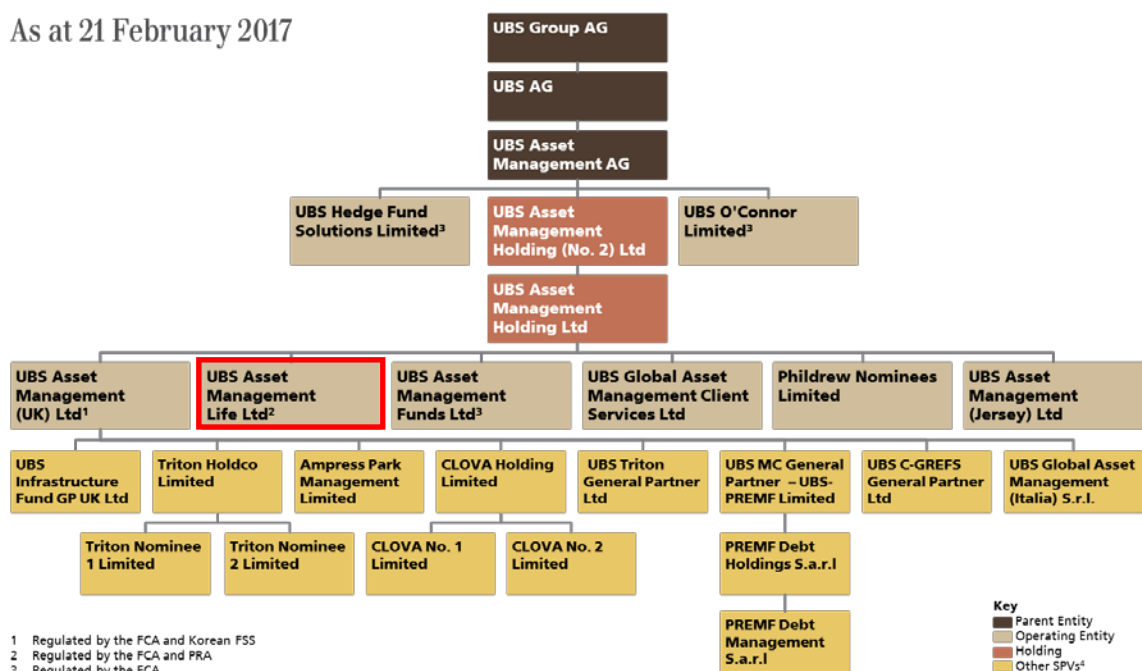
The strategy of Life Ltd, as with all other group subsidiaries, is in line with the UBS Group strategy. The Life Ltd Board is required to operate within the strategic limits set by the Group. Life Ltd's sole purpose is to enable AM UK to provide investment expertise and deliver investment products to UK pension scheme clients.

Life Ltd outsources all its operations to other UBS AM UK companies (investment management and administration) and to third party organisation (accounting and administration, and transfer agency). As a result, Life Ltd has no direct employees by virtue of its outsourcing agreements.

Under these outsourced agreements, primarily other UBS Group entities are responsible for the vast majority of the day to day operational activity that takes place. As a result, these outsource providers assume responsibility for negligence, wilful default, or fraud in the performance of the outsourcing services subject to any limits within the agreement.

There are seven UK registered companies within the AM UK group (excluding Special Purpose Vehicles) which are directly held by UBS Asset Management Holding (No.2) Ltd. Two of the UK registered entities are regulated by the Financial Conduct Authority (FCA) and one of the entities is regulated by the FCA and the PRA as shown below:

As at 21 February 2017



1 Regulated by the FCA and Korean FSS

2 Regulated by the FCA and PRA

3 Regulated by the FCA

4 These companies are subsidiaries of UBS Asset Management (UK) Ltd and are set up for specific purposes in the operation of UBS Asset Management's real estate and infrastructure funds

The activities of the key companies in respect of Life Ltd are described below:

- UBS Asset Management Holding Ltd - the principal activity is to act as a non-regulated holding company and service company providing support functions to its subsidiary undertakings which carry on investment management business; and
- UBS Asset Management Holding (No.2) Ltd is a non-regulated holding company for entities carrying out the AM activities in the UK. It is a direct subsidiary of UBS Asset Management AG, a new entity established in 2016 as an intermediate holding entity to hold ownership of the non-US domiciled Asset Management subsidiaries, in response to the 'Too Big to Fail' regulatory expectations. The ultimate parent company of UBS Asset Management AG is UBS Group AG. UBS Group AG provides financial advice and solutions to wealthy, institutional and corporate clients worldwide, as well as private clients in Switzerland. The operational structure of the Group is comprised of our Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank. UBS Group AG is listed on the SIX Swiss Exchange and the New York Stock Exchange. UBS Group AG is regulated by the Swiss Financial Market Supervisory Authority (FINMA).

#### A.1.1 Registered office and mailing address

UBS Asset Management Life Ltd  
5 Broadgate  
London  
EC2M 2QS

#### A.1.2 Supervisory authority responsible for financial supervision

Life Ltd is currently dual authorised and regulated (FRN: 186527) by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

|  |   |
|--|---|
| Prudential Regulation Authority<br>Bank of England<br>Threadneedle Street<br>London EC2R 8AH | Financial Conduct Authority<br>25 The North Colonnade<br>Canary Wharf<br>London E14 5HS |
|--|---|

Life Ltd is regulated as a solo insurance entity and is the only entity in the AM UK group that undertakes insurance activities.

#### A.1.3 External auditor of the undertaking

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

#### A.1.4 Material lines of business and geographical areas

The principal activity of Life Ltd is to provide long-term unit-linked insurance benefits to pension funds in the UK, mainly institutional clients, and the company has a range of unit-linked investment funds across a broad range of investment capabilities. Securities lending is also undertaken as part of the investment management strategies adopted for some of the unit-linked life funds.

As Life Ltd offers only unit linked investment products the risks to which Life Ltd is exposed are primarily of a fiduciary nature and are managed accordingly.

All Life Ltd's policies (contracts) are with institutional investors, either UK approved pension schemes or insurance companies (pension business only).

All business is written in the UK.

#### A.1.5 Significant events over the period

Life Ltd adopted the new Solvency II rules and Senior Insurance Managers Regime (SIMR) of the PRA as of 1st January 2016. Solvency II requirements have been reflected in the capital and technical provisions of Life Ltd from that date.

The UK voted to leave the European Union in June 2016. The Board was presented with a fund performance impact analysis ahead of the vote and received regular updates on any risks of relevance. Going forward the Board is engaged with UBS Group's Strategic Planning department as to the imprint of the business in the UK and the impact this will have on Life Ltd. Thus far the Board has no immediate concerns on the resilience of the business as a going concern.

## **A.2. Business Performance over the reported period**

### A.2.1 Underwriting Performance

As noted in section C.2. Life Ltd is only exposed to surrender/lapse risk and expense risk and does not have material exposure to these due to the variable cost base. Life Ltd's only business activity is to provide unit-linked life policies, the primary costs and rewards of which are passed on to pension scheme members. The assets and liabilities of Life Ltd are therefore closely matched. Life Ltd earns a management fee based upon the level of assets under management with the majority of expenses being directly linked to the fees earned. The financial performance of Life Ltd is detailed below.

|  | 2016<br>Financials |
|--|--------------------|
|  | GBP '000s          |
| <b>Revenue</b>   | 5,278              |
| <b>Investment Management Fees</b>                      | (3,004)            |
| <b>Other Direct Costs</b>                              | (1,198)            |
| <b>Profit / (Loss) before tax</b>                      | 1,076              |
| <b>Tax</b>   | (224)              |
| <b>Planned profit after tax</b>                        | <b>852</b>         |
| <b>Dividends Paid</b>                                  | 0                  |
| <b>Planned (loss) / profit after tax and dividends</b> | <b>852</b>         |

#### A.2.2 Investment Performance

Life Ltd does not take investment risk on behalf of policyholders or shareholders. Life Ltd funds are fully invested in funds managed by UBS AG companies. As Life Ltd's business solely comprises unit-linked policies, policyholders bear the investment risk in relation to linked assets. Life Ltd does not pursue any investment strategy with the intention of providing support to its own funds. The investment performance therefore has no direct impact on Life Ltd's performance.

Investment performance indirectly impacts the business through management fees which are a percentage of assets under management. The UK Risk Committee (see B.1.) oversees investment activities and provides the Board with reviews at each Board meeting.

Life Ltd does not actively invest surplus shareholder funds, holding them instead in cash or cash equivalents (a liquidity fund) and in a Gilt. These cash and cash equivalents generate interest income which is recognised in the profit and loss account as earned. There are no investments in securitized assets.

Investment income relates to interest earned on government bonds as well as cash at bank and totalled GBP 177,248 in 2016.

#### A.3. Any other information

There is no other material information regarding Life Ltd's business and performance.

## B. System of Governance

### B.1. General Information on the system of governance

The Life Ltd Board comprises four Directors including two Non-executive Directors, one of whom acts as the Chairman. The Board ensures that all activities of Life Ltd are effectively governed and there is a robust control environment. The Board escalates risks and issues in a timely and constructive manner to the UBS Asset Management Executive Committee, the governing body for the business division.

The Board draws on the expertise within the Asset Management business division and the wider UBS Group, to provide entrepreneurial leadership within a framework of prudent and effective controls. It achieves this by setting the strategy and overseeing its delivery.

The main responsibilities of the Board include:

- Setting the strategic direction of the business;
- Oversight of the operating framework and ensuring there is an appropriate risk management and control environment in place;
- Oversight of the key investment, market and credit risks;
- Monitoring the financial and operational performance of the firm;
- Establishing the risk appetite of the business;
- Ownership of the Own Risk and Solvency Assessment (ORSA) ensuring content and concept of the process is embedded within the business;
- Compliance with the Senior Insurance Management Regime (SIMR); and
- Oversight of the outsourced service providers.

Minutes and papers from the Board may be shared with members of European Management Committee, Global Head of Compliance and Operational Risk Control (C&ORC) AM and UBS Regulatory Relations (UK). Upon request, the papers and minutes may be shared with the FCA and PRA.

The Board may delegate to individuals or committees in accordance with the AM UK group governance framework. All such delegation will be by approval of the Board. The Board will detail the mandate, the authorities and duties delegated as well as conditions or guidelines for the delegation. The Board retains ultimate responsibility for the decisions made within these committees.

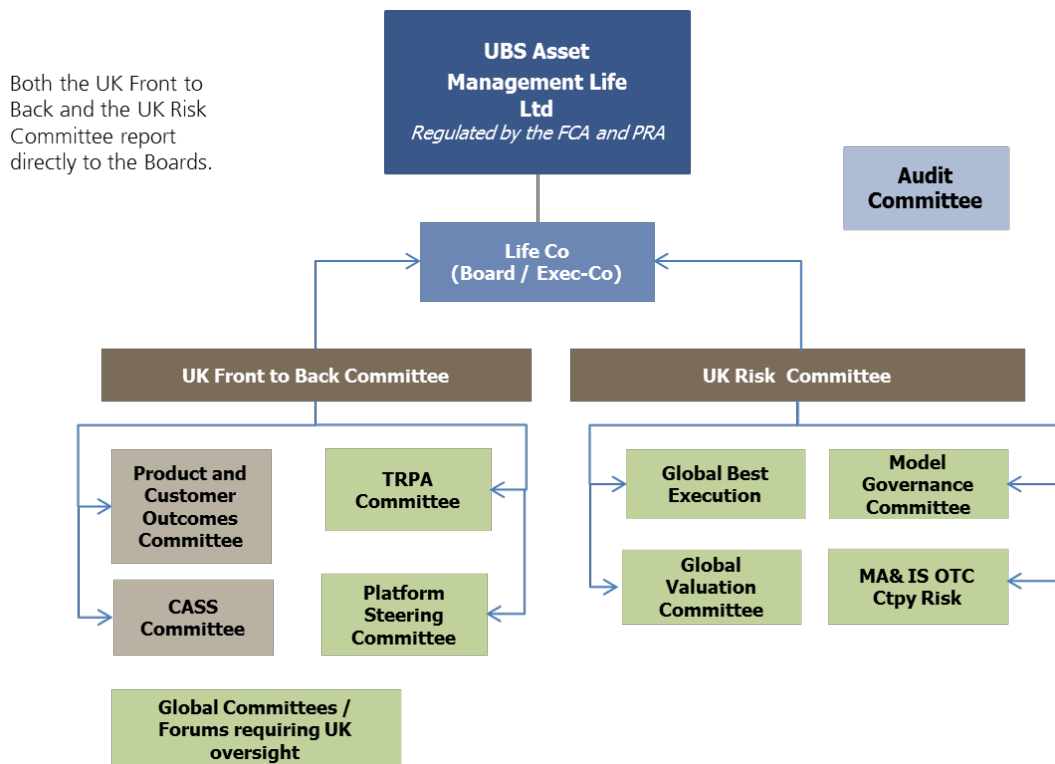
Permanent delegations have been afforded to the following AM UK Group Committees:

- UK Front to Back Committee – the committee manages the operating activities of the AM UK group of entities including, but not limited to, the front to back control framework, management of business and operational risk issues across key processes as the first line of defence. All business and support functions are represented at the UK Front to Back Committee;
- UK Risk Committee – provides oversight of market, credit and investment risk in the UK. Oversight of Operational Risk Control (ORC) is provided at the UK Front to Back and if appropriate would then be reported to the UK Risk Committee through the UK Front to Back Committee chair; and

- Product and Customer Outcomes Committee (PCOC) – a governance and oversight committee to ensure the consumer is at the centre of consideration. The PCOC takes the current FCA regulatory expectations pertaining to "retail customer outcomes" and ensures that all products meet consumer expectations throughout the product lifecycle.

In addition the UK Asset Management Audit Committee ensures independent oversight of all regulated UK Asset Management entities including Life Ltd. It provides an independent review of the Board and the business as a whole and comprises Group Internal Audit (GIA), UK Risk Control, C&ORC and the independent Non-Executive Directors.

The structure is shown in the diagram below:



Life Ltd has a well-defined management structure and there is clear definition of management and staff responsibilities, with respective reporting lines supported by defined documented procedures necessary for the efficient day-to-day operation of the entity. These procedures are reviewed and updated periodically and, where appropriate are subject to approval by the independent control functions of the Group.

#### B.1.1 Changes and adequacy in systems of governance in the period

The Board reviews and attests to the adequacy of the systems of governance on an annual basis, with the last review conducted in January 2017. In performing the review, the Board considers the nature, scale and complexity of risks inherent in its business.

There was a significant review of the adequacy of the governance system in 2015 and this resulted in the formation of the committees described above at the end of 2015 and the start of 2016. A Governance Map was drawn up in accordance with the SIMR requirements to fully document the whole process, and this provides comfort to the Board on the adequacy of the set-up. This was most recently reviewed and approved in January 2017.

In addition the business increased the number of Non-executive Directors providing independent oversight during the period, including the appointment of a Non-executive Director as Chair of the Life Ltd Board.

#### B.1.2 Details of remuneration

Life Ltd has no staff other than Directors by virtue of its outsourcing arrangements.

Remuneration of Directors is determined based upon a wide range of business activities, both internal to UBS Group and external, of which Life Ltd is a small component. The structure of remuneration paid to these individuals for their work in relation to Life Ltd does not in any way encourage risk taking as far as Life Ltd is concerned, and for this reason it has been concluded based on professional advice, that a Life Ltd remuneration committee should not be established.

#### B.1.3 Details of material transactions

There were no material transactions related to Life Ltd shareholders during the reported period.

### **B.2. Fit and proper requirements**

The rules under the Senior Insurance Manager Regime apply to Life Ltd. The aim of the SIMR is to ensure greater clarity about those individuals who have responsibility for managing the business. It requires firms to identify key functions which are of specific importance to the sound and prudent management of the firm. Firms must also assess these key function holders to be "fit and proper" for their respective roles.

In accordance with the requirement to assess fitness and propriety, all individuals performing a PRA and/or FCA function are required to be assessed as fit and proper to perform the function applied for, prior to the submission of an application for approval or Key Function Holder (KFH) notification. In assessing fitness and propriety, UBS have regard to an individual's honesty, integrity and reputation, competence and capability and financial soundness, in accordance with FIT, and have policies and procedures in place to identify, assess and review fitness and propriety on an ongoing basis.

For Life Ltd compliance with the "fit and proper" test is achieved through:

- Alignment with, and adherence to the UBS Code of Business Conduct & Ethics; and
- Participation in UBS's firm wide Performance Measurement and Management (PMM) process.

#### B.2.1. The Code of Business Conduct and Ethics of UBS Group

The Code of Business Conduct and Ethics of UBS Group (the Code) defines the principles and practices that the Group expects all of its employees and directors to follow unreservedly, both in letter and spirit. Issued by the UBS AG Board of Directors and the Group Executive Board, the Code is a demonstration

of the importance that the Group attaches to responsible corporate behaviour and of the UBS AG Board's commitment to it.

The principles and standards set out in the Code should characterise all business activities and dealings with stakeholders including clients, colleagues, shareholders, regulators and business partners. It is the basis for all the Group policies, guidelines and statements relating to employee's personal commitment to appropriate and responsible corporate behaviour. Compliance with the principles set out in the Code is mandatory.

The Code covers the following areas:

- Laws, rules and regulations;
- Ethical and responsible behaviour;
- Information management; and
- The work environment and social responsibility.

UBS does not tolerate violations of the Code or of any other internal Policy or external regulation.

#### B.2.2. Performance measurement and management process

The annual PMM process entails regular cycles of appraisal and performance reviews for all UBS Group employees. The achievements, level of technical competence required for execution of their specific roles and professional behaviour of all employees are actively evaluated to ensure compliance with corporate strategy and expectations of ethical conduct.

Life Ltd has, through its own local legal entity governance, additionally committed to a robust code of practice for all its key function holders, notably:

- Adherence to all standards and restrictions imposed by applicable laws, rules and regulations;
- Business conduct that is at all times above reproach;
- Provision of public information that is timely accurate and comprehensible;
- Client relationships built on trust and treating customers fairly;
- Respect for client confidentiality and protection of client information;
- Identification, management or avoidance of potential conflicts of interest in its business;
- Assistance in the fight against money laundering, corruption and terrorist financing;
- The proper handling of inside information;
- Protection of its assets and ensuring their effective use; and
- Treatment of UBS Group employees in line with ethical beliefs and creation of a diverse workplace free of discrimination and harassment.

#### B.2.3. Key roles and responsibilities

Life Ltd has defined a number of control functions in addition to the senior insurance manager functions prescribed by the Solvency II regulations. These are listed below:



| Function                                  | Senior Insurance Management and Control Functions | Key Responsibilities  |
|---|---|---|
| <b>Chief Executive</b>                    | SIMF 1, CF1                                       | Board Director with oversight and responsibility for all activity within the entity   |
| <b>Chief Financial Officer</b>            | SIMF 2  | Responsible for the integrity of financial and regulatory reporting   |
| <b>Chief Risk Officer</b>                 | SIMF 4  | Responsible for the development and implementation of principles and independent control frameworks for credit, market, country and operational risks |
| <b>Head of Internal Audit</b>             | SIMF 5  | Accountable for fulfilling the Internal Audit mandate for Life Ltd and responsible for developing and executing the annual UK Audit Plan              |
| <b>Chief Actuary</b>                      | SIMF 20   | Responsible for the performance of the Actuarial Function   |
| <b>Non-executive Director</b>             | SIMF 9  | Chairman of the Board, and provides independent oversight, scrutiny and expertise   |
| <b>Non-executive Director</b>             | SIMF 14   | Board Director, and provides independent oversight, scrutiny and expertise  |
| <b>Business Management</b>                | CF1   | Board Director  |
| <b>Head of UK Compliance</b>              | CF10  | Senior compliance officer responsible for oversight of compliance in the entity   |
| <b>Money Laundering Reporting Officer</b> | CF11  | Responsible for the overall management and reporting of financial crime matters   |

Life Ltd has also identified the following Key Functions, and allocates senior persons who have responsibility for these key functions as the Key Function Holder:

- Investment Management;
- Distribution;
- Outsourcing;
- Financial Control;
- Products;
- Fund Administration;
- Custody Services;
- Transfer Agency;
- Securities Lending;
- Legal;
- Operational Risk Control; and
- Risk Management.

### **B.3. Risk management system including the own risk and solvency assessment**

Sound risk management and control lies at the heart of financial institutions and is an integral part of creating sustainable value for shareholders. Failure to establish and sustain an effective firm-wide risk culture, and to adequately manage and control risks, leads to financial loss and damage to our reputation and to the trust of our stakeholders.

As a wholly-owned subsidiary of UBS AG, Life Ltd operates in-line with UBS Group risk management policies.

It is recognised that taking, managing and controlling risk is a core element of Life Ltd's business activities and that operational risks are an inevitable consequence of being in business. Therefore, the overall aim is not to eliminate every source of risk, but to identify and understand all key risks and potential risk concentrations, and to achieve an appropriate balance between risk and return. Ultimately it is necessary to ensure that risk taking is in line with Life Ltd's, and ultimately the broader UBS Group's, strategic priorities, values, and the risk appetite which has been agreed.

The Board of Life Ltd and the wider UBS Group, consider the foundations for a sound risk culture and risk management process to be as follows:

- A Board of Directors that establishes the firm's strategy in alignment with its risk principles, framework, capacity and major portfolio limits;
- An executive management team that instils a sound risk culture throughout the firm by aligning business planning, execution, performance measurement and compensation decisions with the firm's strategy;
- Business management that makes risk identification, assessment, measurement and management critical components of its day-to-day business execution; and
- Strong and efficient independent control functions that ensure sound oversight of the business activities and provide transparent risk / performance measurement and reporting.

Firm-wide risk management and risk control are designed to support optimal risk/return decisions. Holistic governance in conjunction with business aligned risk, compliance and finance processes, are intended to prevent Life Ltd and therefore the UBS Group, from unacceptable damage to its financial strength, performance and reputation. At the same time, the risk management and control processes help to ensure that risk and return objectives are appropriately balanced in order to achieve sustainable earnings growth.

Life Ltd is fully committed to promoting a sound risk culture and robust risk management framework and works closely with the Risk Control and Compliance functions of the Group. In addition, the Group Internal Audit function assesses the effectiveness of internal controls.

Life Ltd operates a three lines of defence approach to internal control, and Risk Control is integral to this process. The three lines of defence approach is described in detail in section B.4.

The Life Ltd Board has ultimate responsibility for risk management within the organisation and oversees this function through the Risk Committee, as well as defining the risk appetite of Life Ltd.

Life Ltd undertakes an Own Risk and Solvency Assessment (ORSA) at least annually and more frequently if significant changes to the risk profile of the business have occurred.

The ORSA is an integrated element of Life Ltd's risk management framework. The ORSA documents the risks faced by the firm and the capital required to assist in mitigating the risk exposures identified. This process is used by the Board of Life Ltd as part of its decision making process. The Head of Risk Control is responsible for planning and initiating the annual ORSA cycle and for ensuring that all relevant stakeholders are aware of their roles and responsibilities in the process.

The ORSA process includes:

- Risk identification, review and assessment against the risk appetite;
- Evaluation of the Solvency Capital Requirement (SCR) and own solvency needs;
- Assessment of the appropriateness of using the Standard Formula for the calculation of the SCR;
- Projection of capital, and business and capital planning;
- Stress and scenario testing;
- Reverse stress testing;
- Ongoing capital adequacy monitoring;
- Effectiveness of the risk management framework; and
- ORSA documentation including independent review and signoff.

The ORSA Report is subject to multiple stages of approval and challenge including:

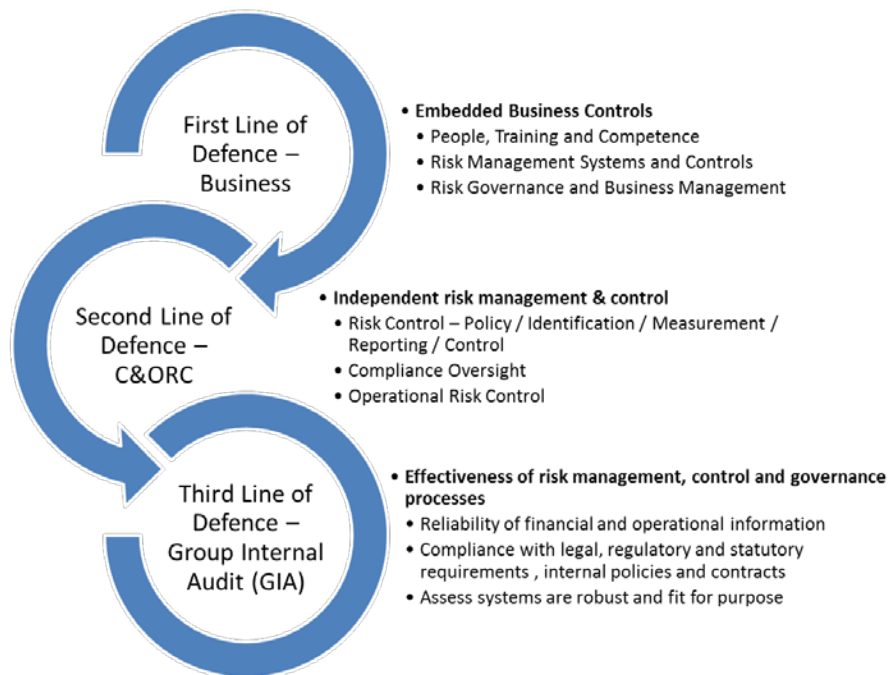
- Actuarial Function and risk owners;
- Senior management of AM UK involved with Life Ltd; and
- Life Ltd Board including the Independent Non-executive Directors.

The ORSA was last approved by the Board on 15th May 2017, and is approved by the Board on an annual basis.

#### **B.4. Internal control system**

UBS takes a 'three lines of defence' approach to risk and control.

- 1st Line of Defence: Embedded business controls
- 2nd Line of Defence: Independent Risk Control functions
- 3rd Line of Defence: Group Internal Audit function



#### B.4.1. Embedded business controls - 1st Line of Defence

The primary responsibility for identifying and managing risk lies with the business by continually monitoring and managing levels of exposure to ensure that risk and return are balanced. The senior management of Life Ltd own all the risks assumed throughout their business units and are accountable not only for the credit and market risks, but also for the operational risks arising from their activities.

Senior management have an overriding priority to protect the Group's long-term interests and not simply to maximise short-term profits. Business management within support and control functions must view control objectives as of equal importance to their ongoing business support tasks.

##### *B.4.1.1. People, Training and Competence*

Life Ltd operates a Training and Competence Regime for all staff including those in UBS Group companies who may perform work on behalf of Life Ltd.

All new joiners are required to complete a suite of computer based training modules. Completion records and performance is tracked and reported to senior management. All staff are required to complete refresher training on a periodic basis.

Ongoing competence is measured continually throughout the year at regular meetings and on a practical level much of this is driven by the PMM process. UBS Group employees and their managers have overall responsibility for ensuring they remain competent for their roles and are supported in this by Education & Development and, where appropriate, the Compliance Team.

For a number of staff involved in conducting regulated activities, additional training and competence requirements apply. These requirements relate to assessment and supervision of employees until deemed competent, appropriate examinations, training needs and maintaining competence.

#### *B.4.1.2. Risk Management Systems and Controls*

Systems and Controls consist of qualitative and quantitative measures at both the fund level and asset level. Reports are designed to comply with fund characteristics and legal documents and determined as part of the fund launch process. Systems and controls are reviewed on an ongoing basis and at each Risk Committee when both risks and the adequacy of monitoring are evaluated.

#### *B.4.1.3. Risk governance and business management*

Life Ltd complies with the requirements set up by UBS for the management of risk. Each business division owns the risk emanating from its activities and is accountable for managing that risk. Management in all functions (business, logistics, control etc.) are responsible for establishing an appropriate risk management environment including market, credit and operational risk management, the establishment and maintenance of robust internal controls, and a strong risk culture. The UBS Asset Management President is accountable for the overall effectiveness of risk management in the Asset Management business division. Day-to-day risk management is delegated to AM Executive Committee members who assume risk management responsibilities for their own functional or regional areas. AM Business risk managers work closely with the independent control functions in assessing risks.

### B.4.2. Independent risk management & control - 2nd Line of Defence

#### *B.4.2.1. Risk Control*

Risk Control is mandated with providing independent monitoring of the effectiveness of risk management and oversight of investment risk-taking activities.

Risk Control is an independent risk function with a separate reporting line from the UBS AM business and portfolio management functions. The Risk Control function reports to the Chief Risk Officer (CRO) of UBS AM who reports to the Group Chief Risk Officer. The risk management system is subject to the broader UBS Group and AM risk policy framework. Policies are designed to guide actions and decisions within the context of UBS's corporate governance framework, risk principles and objectives. Group and business division specific policies aim to ensure the safe and sound conduct and control of businesses and functions. The policy framework is periodically reviewed to ensure its adequacy and appropriateness for the requirements of AM UK.

The key roles and responsibilities of Risk Control are as follows:

- Risk Identification – developing and implementing adequate processes and controls to identify risk and approving non-standard or complex transaction as defined in the Transactions Requiring Pre-Approval (TRPA) policy;
- Risk Measurement – including validation of models, measurement and valuation methodologies;
- Risk Policy – development of policy consistent with UBS Group policies, industry and regulatory best practice;
- Risk Reporting – development of risk reporting and the risk limit framework, and accurate and timely production of reports for the AM Risk Committee, AM Executive Committee and UBS Group; and
- Risk Control – enforcing adherence to all risk limits, policies, and regulatory requirements, and if deemed appropriate, initiating penalties for staff / businesses that breach risk policies and limits.

#### *B.4.2.2. Compliance oversight*

The UK Compliance Team sits within C&ORC and is mandated to assist the business as follows:

- Provide advice to the business on regulatory, compliance and anti-money laundering issues;
- Monitor compliance with regulations, and work with the business to develop and implement compliant systems and procedures;
- Ensure the accurate recording of Operational Risk Events and the implementation of the appropriate prevention management;
- Participate in new initiatives and projects to identify regulatory requirements and provide advice on compliance issues and aspects;
- Ensure employees are adequately trained on regulatory and compliance issues;
- Conduct Anti Money Laundering (AML) due diligence on the appointed providers of outsourced services;
- Report to the Regulator and any associated regulatory bodies where appropriate; and
- Implement new directives and regulations as appropriate.

#### *B.4.2.3. Operational Risk Control*

Operational Risk Control (ORC) provides an independent and objective check on whether business management is adequately managing material operational risk arising as a consequence of the division's business or logistical activities.

The Group Head of C&ORC must ensure that the Operational Risk Framework is implemented to achieve full transparency of operational risk disclosure, that there is a continuous evaluation and enhancement process and that management take appropriate action in response to shortcomings in compliance with, or effectiveness of, operating standards. Specifically, ORC is responsible for providing an independent assessment as to whether or not operational risks are identified, evaluated, included on the Operational Risk Inventory (ORI), an appropriate response is consciously chosen by business management, and that they are reported consistently and comprehensively to the appropriate risk forum. ORC is responsible for reviewing new business proposals and transactions requiring pre-approval.

#### B.4.3. Group Internal Audit function - 3rd Line of Defence

GIA performs the internal auditing function for the UBS Group including Life Ltd. GIA independently assesses the effectiveness of Life Ltd's system of internal controls and compliance with statutory, legal and regulatory requirements and additionally assesses design and operating effectiveness of governance and controls. GIA also evaluates the independence of risk control functions.

GIA assists the Board and the Risk Committee and the Audit Committee, in the discharge of their governance responsibilities by systematically assessing:

- The effectiveness of risk management, control and governance processes;
- The reliability of financial and operational information;
- Compliance with legal, regulatory and statutory requirements as well as internal policies and contracts; and
- Whether the systems are robust and fit for purpose.

Further, GIA assess the adherence to approved strategy as well as the processes for strategy development, setting risk appetite and business planning. GIA closely cooperates with internal and external legal advisors and risk control units on investigations into major control issues.

The existence of internal audit does not relieve management of its responsibility regarding the risk management and control process. Remediating issues is the responsibility of management.

The current SIMF5 is the Head of GIA Assurance. Life Ltd has submitted an application for the SIMF5 responsibility to be transferred to the Head of AM Internal Audit. There is a delegation agreement between the Head GIA Assurance and the Head AM Internal Audit, whereby day to day responsibilities are delegated to the latter, who provides regular updates to the former. Both individuals report to the Group Head of GIA. The Head AM Audit meets regularly with the senior executives of Life Ltd to discuss and present local risk assessments and audit results and is responsible for developing and overseeing the execution of the UK Audit Plan.

The audit plan will be presented to the Board on an annual basis, and GIA are permanent guests at board meetings and at the AM UK Audit Committee to present information which is relevant for the entity.

### **B.5. Actuarial function**

The Company currently outsources the Actuarial Function (AF) and has engaged Willis Towers Watson to provide these services.

In line with the Solvency II Directive 2009/138/EC (the SII Directive) covering EU insurance companies (Article 48), a Chief Actuary has been appointed for the Firm. The Chief Actuary is responsible for the Actuarial Function under the PRA's Senior Insurance Managers Regime and is subject to its requirements of that function.

The key responsibilities of the Chief Actuary function are:

- Proposing methodologies and assumptions for the calculation of technical provisions;
- Provide opinions on the Firm's underwriting policy;
- Reviewing the annual calculation of technical provisions;
- Dealing with any questions from the Firm's auditors;
- Contributing to the effective implementation of the Firm's risk management system;
- Documenting conclusions (on the above) in an annual AF report that is presented to the Board;
- Informing management on interpretation of "Treat Customers Fairly" (TCF) / "Policyholders' reasonable expectations" (PRE) by responding to specific requests and through participation in quarterly Board meetings;
- Meeting SIMR requirements by participating in Board meetings, reviewing PRA / FCA communications that relate to AF matters and attending PRA Periodic Summary Meetings;
- Providing any other advice associated with the role of Chief Actuary / AF as may be requested including attending ad hoc management and Board meetings as may reasonably be required; and
- Helping lead the development of the Firm's culture by the governing body as a whole.

The Actuarial Function holder attends all Life Ltd Board meetings and receives all relevant management information and Life Ltd Board papers. In order to ensure appropriate oversight and in accordance with the UBS AM UK Outsourcing Policy, the role of Chief Actuary has a reporting line to the CEO of the Firm.

All actuarial work must comply with the appropriate Technical Actuarial Standards published by the Financial Reporting Council and be subject to the Actuarial Profession's peer review requirements. Actuarial Profession standards also require the AF to ensure that the Firm's management be kept aware

at all times of the AF's interpretation of its obligations to treat customers fairly and satisfy policyholders' reasonable expectations.

## **B.6. Outsourcing**

The UK Front to Back Committee is responsible for oversight of all outsourced functions whether that is to an internal Group company or an external vendor, and the Chairman of the UK Front to Back Committee has been identified as the KFH for outsourcing. This role reports to UK AM CEO. The Board retains ultimate responsibility for all decisions made within the UK Front to Back committee.

The following functions are outsourced by Life Ltd:

- Actuarial;
- Fund Administration;
- Custody Services;
- Transfer Agency;
- Securities lending;
- Distribution;
- Portfolio Management;
- Operations;
- Finance;
- Compliance and Operational Risk Control; and
- Legal.

All of these outsourced activities are performed in the UK.

The outsourcing agreements in respect of Life Ltd (the outsourcer) are on commercial terms typical for such agreements whereby the outsource providers assume responsibility for negligence, wilful default, or fraud in the performance of the outsourcing services subject to any specific limits within the individual agreements. In the event that a loss exceeds the specified limit, Life Ltd would have recourse to claim under the professional indemnity insurance policy in place for UBS subsidiaries.

The UBS Board has a clear strategy on outsourcing based on factors including impacts on clients, increase in profitability in a sustainable way and differentiating UBS from competitors over the long term by buying skills, services and processes from the right suppliers whilst retaining appropriate oversight responsibility. The Board will not outsource on the basis of a lower cost option only and have implemented a robust framework which must be followed at the on-boarding phase and throughout the life-cycle of the outsourced activity.

## **B.7. Any other information**

A revised governance framework for AM UK was implemented in 2015 and has been operating throughout 2016. The new framework introduced additional committees to segregate responsibilities. The framework has been successfully embedded within the business for over 12 months and the effectiveness has been reviewed by Group Internal Audit.



## C. Risk profile

Life Ltd employs a robust process for identifying and managing its key risks. Risks are managed and monitored to a risk appetite defined in the risk appetite statement and approved by the Board on an annual basis. The table below contains a breakdown of SCR by risk category.

| Risk Type                     | Solvency II Pillar 1<br>GBP '000s | Percentage of SCR |
|-------------------------------|-----------------------------------|-------------------|
| <b>Market Risk</b>            | <b>464</b>                        | <b>19.5%</b>      |
| <b>Interest Rate Risk</b>     | 12                                | 0.5%              |
| <b>Equity Risk</b>            | 317                               | 13.4%             |
| <b>Currency Risk</b>          | 135                               | 5.7%              |
| <b>Life Underwriting Risk</b> | <b>437</b>                        | <b>18.4%</b>      |
| <b>Lapse</b>                  | 377                               | 15.9%             |
| <b>Expenses</b>               | 60                                | 2.5%              |
| <b>Counterparty Default</b>   | <b>418</b>                        | <b>17.6%</b>      |
| <b>Operational Risk</b>       | <b>1,056</b>                      | <b>44.5%</b>      |
| <b>Total</b>                  | <b>2,374</b>                      |                   |

### C.1. Underwriting risk

The vast majority of the assets on Life Ltd's balance sheet are held in respect of unit-linked contracts under which policyholders select the unit fund in which to invest in. The investments of unit-linked funds are selected to be in the best interests of policyholders taking into account disclosed fund investment objectives and constraints related to unit-linked contracts including liquidity constraints.

Life Ltd complies with appropriate Conduct of Business rules contained in FCA and PRA sourcebooks including:

- Having clear investment guidelines for each unit-linked fund that include its strategy and objective;
- Only allowing permitted assets to be included in unit-linked funds; and
- Ensuring that marketing material accurately reflects investment strategies, objectives and risk.

Where Life Ltd does have investment discretion, i.e. assets not forming part of unit-linked funds, it invests in secure and highly liquid assets.

Solvency II defines underwriting risk as "the risk of loss or adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions". The only underwriting risks that Life Ltd is exposed to are surrender / transfer risk and expense risk. The short projection term resulting from Life Ltd's unilateral right to terminate contracts (see sections D.2 and E.2) reduces the impact of a significant lapse of business. Surrender / transfer risk is a material component of the SCR, representing 15.9% of the SCR. Expense risk is mitigated due to the right to terminate contracts and because the

majority of Life Ltd's expenses are directly related to the fees earned. Expense risk is minimal, representing 2.5% of the SCR.

## **C.2. Market risk**

Solvency II defines market risk as "the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments".

Under Solvency II's standard formula, market risk can be divided between the following sub-risks:

- Interest rate risk – market risk from changes in the term structure of interest rates, or in the volatility of interest rates;
- Property risk – market risk from changes in the level or in the volatility of market prices of real estate;
- Equity risk – market risk from changes in the level or in the volatility of market prices of equities;
- Spread risk – market risk from changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure;
- Currency risk – market risk from changes in the level or in the volatility of currency exchange rates; and
- Concentration risk – market risk from either the lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

Due to the nature of the unit-linked business, all policyholder assets and liabilities are linked. Market risk exposure arises through the variability of the fees that the entity receives. This is because fees are a proportion of the underlying unit linked assets which fluctuate in value based on market risks. Market risk accounts for 19.5% of the SCR.

The Board notes that certain risk mitigation measures are in place. Firstly market risk is limited by expenses being predominantly directly related to the fees earned. Secondly the unit-linked policies can be terminated with 3 months notice. Thirdly the Board makes use of stress testing in the ORSA and uses the results to assist in managing Life Ltd. These measures overall limit the ultimate risk exposure of the firm.

Shareholder assets are invested into Gilts and a liquidity product, as well as being held partially in cash. This gives rise to interest rate risk. Life Ltd does not use its capital to seed new funds and does not otherwise have direct exposure to the risks listed above.

Currency risk arises from invested assets being held in a different currency to fees (i.e. different to GBP). An extremely conservative assessment has been carried out, under the assumption that all invested assets are in foreign currencies, in deriving the SCR due to currency risk.

Life Ltd is not materially exposed to property risk, spread risk or concentration risk. Whilst a property fund does exist it is in the process of being wound down.

The remaining range of unit-linked products are mainly equity focused and are not significantly concentrated in any one issuer, sector or country. Life Ltd seeks to mitigate concentration risk wherever possible by offering a diverse range of products.

### **C.3. Credit risk**

Solvency II defines credit risk as "the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk or spread risk, or market risk concentrations".

Life Ltd does not take proprietary positions outside that taken by the unit linked fund holders.

The direct credit risks faced by Life Ltd are based on the legal entity being obligated to hold a certain amount of cash to cover its business needs. The firm maintains a lien over the assets of the funds to enable any fees owed to be recovered from the unit-linked assets apportioned for accounting purposes to the policyholder of the client. As a result, Life Ltd's only credit risk exposure is in respect of its excess assets, i.e. its own funds.

Life Ltd's firm cash balance of GBP 23m is invested in UK government gilts, with GBP 4m deposited in a JP Morgan Liquidity Management Account (LMA). A further GBP 3.4m is held in a Barclays account. All three give rise to credit risk through the exposure Life Ltd has to those counterparties. However this is managed in accordance with UBS Group and Asset Management's Divisional risk management framework and policy.

The Board manages credit risk by carefully selecting the counterparties with whom it places company assets. The exposures outlined above constitute 17.6% of the SCR.

### **C.4. Liquidity risk**

Solvency II defines liquidity risk as "the risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due".

Liquidity of traded asset unit-linked products is considered to be satisfactory and is assessed on a regular basis through analysis of liquidation capacity and the cost of liquidation. The analysis is carried out independently of portfolio managers.

Liquidity of Life Ltd's Real Estate Life fund has a different liquidity profile and is the subject of a negotiated exception. This has been identified internally and discussed with the FCA, who have waived Life Ltd's obligations to comply with COBS 21.3.1R. This allows Life Ltd to suspend redemptions when there is insufficient cash in the master fund to meet redemptions. The master fund generates cash through the sale of buildings, from rental income and from new investors. A decision has been taken to close Life Ltd's Real Estate Life fund (and it is closed to new investment).

The unit-linked funds are managed in accordance with the investment policy and a risk management process which is rigorously monitored internally. Investors choosing to redeem receive back the current value of their units. In exceptional circumstances, the funds can borrow up to 10% of their Net Asset Value (NAV) for the purpose of managing redemptions.

The company's own capital is significantly larger than the minimum required to be held and is diversified across a number of sources, with sufficient capital available at short notice to meet all liquidity needs.

Life Ltd's liquidity risk is minimal and is managed by ensuring that Life Ltd has sufficient liquidity as opposed to holding capital. Life Ltd has no contractual premiums, so there is no expected profit to account for.

### **C.5. Operational risk**

Solvency II defines operational risk as "the risk of loss arising from inadequate or failed internal processes, personnel or systems or from external events".

Operational Risk represents one of the most significant risks a firm with a business model similar to Life Ltd is exposed to. This is owing to the nature of the business and the high level of processes occurring relative to the low level of financial risk to which the firm is exposed. However, as a result of the outsourcing agreements which Life Ltd has entered into, the nature of the operational risks to which the firm is exposed primarily relate to the ongoing performance of those duties which have been outsourced to third parties (both UBS Group and non-UBS Group entities).

The approach taken to assessing the firm's operational risk capital requirements involves a quantification of the impact of key tail-events through the use of scenario analysis, consistent with the approach taken by peers. The Board concluded that for the purposes of undertaking the ORSA, this would be the most appropriate methodology to employ.

The methodology incorporates the following steps:

- Initial Assessment of Operational Risks;
- Key risk and scenario selection;
- Quantification of Selected Scenarios;
- Senior Management challenge of scenario assumptions and quantification;
- Scenario modelling of capital requirement in the Group Advanced Measurement Approach (AMA) model;
- A top down review of significant risks and financial losses; and
- Board approval.

The approach takes advantage of a combination of qualitative and quantitative input from the risk owners who are senior managers in the business, internal and external event data, subject matter experts and independent challenge from senior management. The Board believes the adoption of this process has aided the quantification of operational risk capital and ensures the risk capital is prudently aligned to the risk exposures within the business.

Mitigation of operational risks is achieved through a strong and robust framework for controlling risks. UBS Group's operational risk framework involves significant reporting and analysis of risks, including review by the AM UK Front to Back Committee. Through review of any issues that arise the overall management of operational risk is dynamically adjusted within the framework to the evolving business environment, undergoing continuous enhancement.

### **C.6. Other material risks**

There are no other material risks that Life Ltd believes need to be considered as part of the SCR.

## **C.7. Any Other Information**

### C.7.1. Group Risk

Life Ltd is reliant on UBS Group for various services including day to day management of Life Ltd. Life Ltd does not directly employ any staff with staff seconded from UBS Group.

As a result of the dependency for provision of services, any change in the business model of UBS Group could have a direct impact on Life Ltd and its ability to conduct business.

Any failure of UBS Group is regarded as an extremely remote event below the 1-in-200 probability level regarded as relevant for inclusion in the SCR calculations.

### C.7.2. Conduct Risk

Conduct Risk is the risk that the conduct of the firm or its individuals unfairly impacts clients or counterparties undermines the integrity of the financial system or impairs effective competition to the detriment of consumers.

The Conduct Risk framework highlights the need to focus not just on how our business is controlled and the internal impact but also the external impact of our actions and behaviours on both clients and markets. Hence, conduct risk is a subset of operational risk. The Operational Risk Framework captures both internal impacts (risk of financial loss, regulatory and reputational risk) and also the external impacts to clients and markets.

UBS' approach to conduct risk is as follows:

- It is embedded in recruitment and talent processes (e.g. hiring processes, internal mobility, PMM, learning strategy, etc.) which are identified as key drivers to embed cultural change;
- UBS utilizes complaints handling, Incidents & Consequences, management tools and intelligence capability within the bank to enable the management of conduct risks effectively; and
- UBS leverages cultural initiatives such as the 3 Keys to Success / Principles & Behaviours programs which promote and help achieve our vision and execute our strategy.

Conduct risk is a component of UBS Group's operational risk framework.

### C.7.3. Cyber Risk

Cyber-attack leads to loss of data, brand damage and client redemptions, compromising business. Cyber-attacks against Financial Institutions are widespread, the frequencies of attacks are on the rise and the techniques used are increasingly sophisticated. The rationale for these attacks ranges from unfriendly nation-states breach of systems to seek intellectual property, organised cyber criminals breach of systems for monetary gain, to hacking activists aiming to make political statements.

Life Ltd takes the threat seriously and engages with UBS Group's cyber risk experts to protect the company.

Cyber risk is a component of UBS Group's operational risk framework.

#### C.7.4. Stock Lending

As part of the investment management strategies adopted for some of the unit-linked funds, securities lending is undertaken. The securities lending activities carried out on behalf of the Life funds are performed by JP Morgan. This activity is undertaken to enhance the returns for policyholders and does not impact the balance sheet of Life Ltd.

There are a number of risk mitigating measures relating to the stock lending activities that the Life Ltd Board use to manage the inherent risks this activity presents. These are:

- Indemnity of lender in respect of securities;
- A list of eligible borrowers is maintained based on pre-agreed criteria;
- Collateral posted must be of the same asset class;
- Collateral Haircuts are set separately for Fixed Income and Equities; and
- Collateral received must comply with diversification criteria.

Specifically with regards to Indemnity of lender in respect of securities, JP Morgan offer an indemnity to the lender in the case of borrower default. This means that the Life Ltd does not have exposures from borrowers not returning the assets lent since JP Morgan will make good on any assets not returned. The risks arising from stock lending are therefore considered to be minimal.

#### C.7.5. Stress Testing

The impact of potential stress events on Life Ltd is assessed by stressing the business plan according to a number of different quantitative scenarios and calculating the impact on own funds. Qualitative assessments are also made through the reverse stress testing framework.

- Quantitative events focus on revenue implications of market events or changes in the book of business; and
- Qualitative events focus on fast and slow moving events that could be triggered internally or externally and could in extremis cause the business model to fail.

Stress test results showing potential vulnerabilities with respect to revenue or business viability are used as early warning signs and can trigger preventative actions to ensure improved readiness for the negative effects of a given scenario in the future.

The Board discusses the results of the stress testing and determines whether specific management actions are necessary given what the stress tests highlight. In doing so, the Board take into account the severity of the scenario and the likelihood of occurrence.

#### C.7.6. Stress Tests/Quantitative Scenarios

Stress tests are quantitative scenarios that can be expressed in terms of mathematical shocks to various factors in the business plan and are used to assess the overall resilience of the plan to negative events. By definition the events are severe but plausible yet do not result in overall business failure.

Typical scenarios are:

- Hypothetical scenarios based on UBS Group Risk approach;
- Historical/Hypothetical events relevant to an asset management business; and

- Changes to the business composition of Life Ltd.

The stress tests are applied to Life Ltd's business plan and the effect on the business plan assessed. Whilst the impact is significant in some cases the results demonstrate that the business is still adequately capitalized.

#### C.7.7. Reverse Stress Testing/Qualitative Scenarios

Reverse stress is predominately a qualitative process that is intended to complement the quantitative stress tests by assuming 'what if' outcomes that could extend beyond the range normally probed, and thereby potentially challenge assumptions regarding severity and plausibility. Reverse stress tests push the business to the point where it is no longer viable and are used by the Board of Directors to understand key vulnerabilities.

Reverse stress tests are applied qualitatively. The Board reviews the scenarios in detail in order to fully understand severe vulnerabilities and adjusts the control framework where necessary for additional reporting, analysis or controls.

## D. Valuation for Solvency Purposes

### D.1. Assets

#### D.1.1. Summary of asset valuation

The table below sets out the valuation of Life Ltd's assets on a UK GAAP basis as at 31st December 2016:

| Total Assets                            | 31 December 2016 |
|---|------------------|
|   | GBP '000s        |
| Debt and other fixed income securities  | 23,050           |
| Assets held to cover linked liabilities | 7,384,918        |
| Cash at bank and in hand                | 7,438            |
| Debtors                                 | 996              |
| Prepayments and accrued income          | 153              |
|   |                  |
| <b>Total Assets</b>                     | <b>7,416,555</b> |

Under Solvency II all assets are valued on the same basis as in the financial statements.

The financial statements are prepared on the basis of the accounting policies set out below and comply with the special provisions relating to insurance companies in Schedule 3 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, made under the Companies Act 2006. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006 (the SORP) have been adopted.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment and certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies and in accordance with Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework' for all periods presented.

#### D.1.2. Debt and other fixed income securities

Debt and other fixed income securities represent investments in UK government bonds. The Company, upon initial recognition, designates these financial investments at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

#### D.1.3. Assets held to cover linked liabilities

Assets held to cover linked liabilities represent the market value of assets held in unit-linked funds. Life Ltd has outsourced all its operations to other UBS Asset Management UK companies (investment



management and administration) and to third party organisations (accounting and administration, and transfer agency).

Investments are valued at the balance sheet date as follows:

- Listed securities are valued at the bid market price;
- Unit trust units are valued at bid price; and
- Short term deposits are valued at cost, exclusive of accrued interest.

Financial futures and options contracts are valued at market rates ruling at the balance sheet date and the gain or loss on these contracts is recorded in the technical account.

All properties in the property funds within the unit-linked assets of the Company were valued independently as at 31st December 2016 by qualified professional valuers working for Knight Frank LLP, acting in the capacity of External Valuers. All such valuers were chartered surveyors being members of the Royal Institution of Chartered Surveyors (RICS).

All valuations were carried out on the basis of open market value, in accordance with the RICS Appraisal and Valuation Manual.

Assets held to cover linked liabilities are held at fair value to back the underlying liabilities to which these relate. Fair value of quoted investments and unit trust units are based on bid price.

The policy for classification of investments into the fair value hierarchy is described below. The methodology applied to valuation of investments under UK GAAP is considered equivalent to the Solvency II valuation methodology in Article 75 of SII Directive and Article 10 of SII Delegated Regulation.

### **Quoted market prices in active markets - ("Level 1")**

Valuation technique: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

These are investments whose fair value is determined using observable, unadjusted quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Listed debt and equities securities in active markets and quoted unit trusts in active markets would typically be classified within Level 1 of the fair value hierarchy.

### **Internal models with significant observable market parameters - ("Level 2")**

Valuation technique: Other techniques for which the lowest level inputs that is significant to the fair value measurement, either directly or indirectly.

These are investments whose fair value is determined using inputs other than quoted prices included within Level 1 inputs that are observable, either directly or indirectly through corroboration with market data.

Level 2 inputs include the following:

- Evaluated prices based on a compilation of primary observable market information or a broker quote in a non-active market;

- Prices based on a Net Asset Value (NAV) from a fund manager;
- Quoted prices for similar (i.e. not identical) assets in active markets; and
- Inputs other than quoted prices that are observable for the asset (for example, benchmark yields, base spreads, adjustment for corporate actions and reported trades).

Money market vehicles, unlisted fixed income securities, valued using third-party fair value models, unlisted collective investment vehicles and most derivatives are generally classified within Level 2 of the fair value hierarchy.

### **Internal models with significant unobservable market parameters - ("Level 3")**

Valuation technique: Valuation techniques for which the lowest level input which is significant to the fair value measurement is unobservable.

These are investments whose fair value is determined using inputs that are not observable, reflecting assumptions that the market participants may use in pricing an investment. Securities for which no indication or comparables are available and where financial information is used to calculate the valuation, would typically be classified within Level 3 of the fair value hierarchy.

#### **D.1.4. Cash at bank and in hand**

Cash balances are held in JP Morgan Liquidity Management Account (JP Morgan LMA) and Barclays (current account).

The current account held with Barclays provides immediate access to liquidity. Sufficient cash is maintained in the current account at all times to ensure Life Ltd is able to meet its immediate obligations without having to access the LMA account and the Gilts. These obligations have low volatility.

The LMA account also provides immediate access to liquidity and term value for balances. Balances are held on balance sheet at JPMorgan and interest is earned depending on the duration it is kept in the scheme for. This is categorized as overnight, one-month, three-month and six-month tranches. Each progressive tranche automatically earns incremental value without locking balances to term or actively investing. Currently a majority of the balances earn the interest of the fourth tranche. The cash is neither placed on any maturity nor invested with any counterparty outside of JPMorgan. Also, there is no maximum trade duration as no trades occur to move the cash as it remains on JPMorgan's balance sheet.

#### **D.1.5. Debtors, prepayments and accrued income**

Debtors and accrued income represent revenue from management fees and therefore have not been included within the Investment valuation under Solvency II. Prepayments relate to operating expense prepayments.

## **D.2. Technical Provisions**

The annual revenue (i.e. management fees before expenses) of Life Ltd averages approximately GBP 5m p.a. over the last five years. It exclusively writes single premium unit linked business with the unit liabilities matched by backing unit fund assets and the majority of the firm's expenses are directly linked

to the fees it earns. In addition, Life Ltd has the unilateral ability to terminate all insurance obligations with three months' notice.

In 2015, the Board of Life Ltd elected to request permission to apply a simplified approach to calculating the technical provisions. The rationale for this decision was based on the Board's assessment of the business' nature, scale and complexity, specifically the firm's ability to be able to terminate all insurance obligations with three months' notice.

The ability to terminate all insurance obligations with three months' notice means that the time horizon used to project the expected net fee income and risk margin is very short, and as a consequence these items are small. The calculation of the present value of net fee income and the risk margin include elements of prudence and discounting has been ignored. No deferred tax liability in relation to these items has been set up on the Solvency II balance sheet.

This very short projection term means that best estimate liability calculated using a cash flow projection approach would only be marginally less than the face value of units. Furthermore, the risk margin would be negligible because of the three month projection term.

By adopting a simplified approach, the firm avoided having to incur the large and disproportionate costs associated with developing a cash flow projection liability valuation model. This simplified approach was fully disclosed to the PRA in November 2015.

The PRA has recently decided to review this approach in 2017 following new guidance from European Insurance and Occupational Pensions Authority (EIOPA). However, the PRA has said that Life Ltd may continue to use its simplified approach until the review has been completed. This approach was therefore used for the year ended 31st December 2016. Any changes that might result from the PRA's review are not expected to materially impact the Company's capital position, with the regulatory solvency capital ratio still expected to be in the range of 700% - 900%.

The technical provisions are the sum of a best estimate liability and a risk margin as shown in the table below.

| <b>Unit-linked Pensions Business</b>        |                         |
|---|-------------------------|
| <b>Technical provisions*</b>                | <b>31 December 2016</b> |
|   | GBP '000s               |
| Best estimate liabilities                   | 7,384,982               |
| Risk margin                                 | 115                     |
|   |                         |
| Technical provisions - Solvency II          | <b>7,385,097</b>        |
| Technical provisions - financial statements | 7,384,918               |
| Difference**                                | 178                     |

\* Life Ltd has one Solvency II line of business which is single premium unit linked business with the unit liabilities matched by backing unit fund assets.

\*\* No material variance between Solvency II technical provisions and technical provisions per the financial statements.

For the type of unit-linked contracts written by Life Ltd the best estimate liabilities are calculated as:

- The value of the units allocated to the policies; less
- On a best-estimate basis, the present value of future projected charges less future administrative expenses.

No account is taken of future premiums that may be paid after the valuation date in determining the best estimate liabilities with the projection of cash-flows in respect of business in-force at the valuation date ceasing at the point at which Life Ltd can terminate its contracts (which is a notice period of three months on all contracts, as noted above). When determining the net fee income, which is deducted from the face value of the units to determine best estimate liabilities, three months worth of fee income net of variable expenses and twelve months of the other fixed expenses. Given the three month projection term, no allowance is made for policyholder withdrawal rates as doing so would have an immaterial effect.

In calculating the risk margin it is required to assume that the assets are selected in such a way as to minimise the SCR for market risk that the reference undertaking is exposed to, so that the remaining market risk is immaterial (given that interest rate risk is explicitly excluded in the calculation of the risk margin). The risk margin is, therefore, calculated as a 6% cost-of-capital charge on the non-market risk components of the SCR. The 6% cost of capital assumptions is prescribed by the regulations. The non-market risk components for Life Ltd are the life underwriting, counterparty and operational risk components of the SCR. The risk margin is calculated over one year and it is assumed there is no change in the non-market risk components over this period.

Due to uncertainties around the interpretation of certain EIOPA rules, management have since conducted analysis to understand the possible impact of using a longer projection period. This has the effect of reducing the best estimate liabilities and increasing the risk margin, with the overall effect being a reduction in the technical provisions. However, it also increases the Solvency Capital Requirement. As described above, the overall effect is not expected to materially impact the Company's capital position

The table below provides a breakdown of how the risk margin is determined.

| Risk Margin               | 31 December 2016 |
|---------------------------|------------------|
|                           | GBP '000s        |
| Counterparty Default Risk | 418              |
| Life Risks                | 437              |
| BSCR for risk margin      | <b>855</b>       |
| Operational Risk          | 1,056            |
| SCR for risk margin       | <b>1,910</b>     |
| Cost of Capital           | 6%               |
| Risk Margin               | 115              |

The material differences between the bases, methods and main assumptions used in the calculation of the technical provisions for solvency purposes compared to those used in financial statements are:

- There are no material approximations used in the calculation of the best estimate liabilities or risk margin:

- The valuation in the financial statements does not include the present value of future net fee income, i.e. the difference in value between future management fees and future expenses; and
- The valuation in the financial statements does not include the Risk Margin.

Assets values are the same for both the financial statements and Solvency II. A reconciliation of the financial statements and Solvency II technical provisions as at 31st December 2016 is shown above.

#### D.2.1. Use of matching adjustment

No matching adjustment has been applied.

#### D.2.2. Use of volatility adjustment

The volatility adjustment is not used by Life Ltd.

#### D.2.3. Application of the transitional risk-free interest rate-term structure

The transitional risk-free interest rate-term structure has not been applied.

#### D.2.4. Application of transitional deduction

The transitional deduction has not been applied.

#### D.2.5. Description of recoverables from reinsurance contracts and special purpose vehicles; and any material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period

Life Ltd has no reinsurance arrangements and no Special Purpose Vehicles.

### D.3. Other liabilities

Details on other liabilities are contained in the table below:

| Other Liabilities                     | 31 December 2016 |
|---------------------------------------|------------------|
|                                       | GBP '000s        |
| Provision for liabilities and charges | 109              |
| Creditors                             | 1,329            |
| Accruals and deferred income          | 199              |
| Other Liabilities                     | 1,637            |

The Company has immaterial Other Liabilities.

#### D.3.1. Provision for liabilities and charges

Provision for liabilities and charges relate to deferred tax liabilities. Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. No adjustment is made to the technical provisions in respect of deferred tax for the Solvency balance sheet under the simplified approach as the impact is not expected to be material.

#### D.3.2. Creditors

Creditors comprise of corporation tax payable as well as amounts owed to other UBS Group undertakings.

#### D.3.3. Accruals and deferred income

Accruals and deferred income include mainly accrued custody charges and professional fees. Life Ltd did not have any contingent liabilities as at 31 December 2016.

### **D.4. Alternative methods for valuations**

Valuation techniques applied to investments classified as Level 3 in the financial statements are considered consistent with Article 10(5) – 10(7) of SII Delegated Regulation (Alternative Valuation Techniques). Level 3 investments are those whose fair value is determined using inputs that are not observable, reflecting assumptions that the market participants may use in pricing an investment. Securities for which no indication or comparables are available and where financial information is used to calculate the valuation, would typically be classified within Level 3 of the fair value hierarchy.

### **D.5. Any other information**

There is no other material information regarding the valuation of assets and liabilities.

## E. Capital Management

### E.1. Own Funds

At all times, the Board of Life Ltd seeks to ensure the firm holds sufficient capital to meet prevailing regulatory requirements.

Life Ltd has historically been, and continues to be, profitable. The nature of the cost base for Life Ltd is variable and directly linked to the revenues earned. Revenues tend to be predictable on a 12 month prospective view and any material fund launches and / or material net new money flows are typically known in advance and incorporated into the capital forecast accordingly. As a result of outsourcing its activities, including investment management which is outsourced to UBS AM UK, Life Ltd has no employees.

The firm's regulatory capital excess is disclosed in the board reports presented by the Head of Finance. Daily forecasting is considered unnecessary unless a significant event were to arise, as in the normal course of business the revenue and costs are predictable. If there were to be a risk of capital falling below a regulatory capital excess of GBP 2m, then a request for additional capital would be made to EMEA Regional Treasury. These requests require prior approval from the Directors of Life Ltd, and the Head of Finance, Group Tax, Group Treasury, and UBS AM's global Executive Committee.

Life Ltd's own funds is made up of only Tier 1 basic own funds including GBP 15m ordinary share capital and GBP 14.8m retained earnings. There are no availability or eligibility restrictions on basic own funds for the Company. A summary of the own funds, SCR and MCR are shown in the table below.

| Summary                                     | 31 December 2016 | 31 December 2015 |
|---|------------------|------------------|
|   | GBP '000s        | GBP '000s        |
| Ordinary share capital                      | 15,000           | 15,000           |
| Reconciliation reserve                      | 14,827           | 14,294           |
| <b>Own Funds - Tier 1 unrestricted</b>      | <b>29,827</b>    | <b>29,294</b>    |
| Pillar 1 Solvency capital requirement (SCR) | 2,374            | 2,303            |
| Pillar 1 Minimum capital requirement (MCR)  | 3,332            | 2,657            |
| Ratio of eligible own funds over the SCR    | 1256%            | 1272%            |
| Ratio of eligible own funds over the MCR    | 895%             | 1102%            |

There have been no significant changes over the reporting period in own funds or SCR. The change in MCR is from the change in prescribed exchange rates over the period where the MCR is the absolute floor of €3.7m specified in Article 251. Further details on how the MCR is calculated is provided in section E.2.

There are no material differences between the Shareholder's funds per the financial statement and the capital resource per Solvency II.

|  | 2016      | 2015*     |
|--|-----------|-----------|
|  | GBP '000s | GBP '000s |
| Shareholder's funds per financial statement                        | 30,006    | 29,154    |
| Solvency II adjustment for best estimate liability and risk margin | (178)     | 140       |
| Available capital resources per Solvency II                        | 29,828    | 29,294    |

\*2015 Solvency II capital resources are unaudited

## E.2. Solvency capital requirement and Minimum capital requirement

Under Solvency II, firms are required to maintain a minimum level of capital, which is the greater of the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR).

The MCR has been calculated using the approach specified in Article 251, subject to a cap of 45% of the SCR, a floor of 25% of the SCR and an absolute floor of €3.7m. The nature of the business sold by UBS means that the level of technical provisions is large compared to the SCR and therefore the 45% cap bites. Given the SCR is less than the absolute floor, the MCR is equal to the absolute floor of GBP 3.3m using the prescribed exchange rates at 31 December 2016 and is the biting capital requirement at year-end 2016. Life Ltd had excess capital of GBP 26.5m as at 31 December 2016.

The simplified approach described earlier in D.2. is also used to calculate the SCR. As unit liabilities are matched by backing unit fund assets and the majority of Life Ltd's expenses are directly linked to the fees it earns, exposure to market risk on unit linked assets is very small. All linked assets are treated as "type 2" equities in the SCR calculation. Further elements of prudence have been introduced in the equity and currency stresses in respect of unit linked assets, and diversification is not being allowed for in the SCR calculation.

The PRA has recently decided to review this approach in 2017 following new guidance from European Insurance and Occupational Pensions Authority (EIOPA). However, the PRA has said that they are content for Life Ltd to continue to use its simplified approach until the review has been completed. This was therefore used for the year ended 31st December 2016. Any changes that might result from the PRA's review are not expected to materially impact the Company's capital position, with the regulatory solvency capital ratio still expected to be in the range of 700% - 900%.

Life Ltd does not have approval in place to use undertaking specific parameters in the calculation of the SCR.

A breakdown of the SCR into contributing components is in the table below.



| Solvency capital requirement (SCR)         | 31 December 2016 |
|--|------------------|
|  | GBP '000s        |
| Market Risk                                | 464              |
| Counterparty Default Risk                  | 418              |
| Life Risk                                  | 437              |
| <b>Basic Solvency Capital Ratio (BSCR)</b> | <b>1,318</b>     |
| Operational Risk                           | 1,056            |
| <b>Total SCR</b>                           | <b>2,374</b>     |

### Market Risk

The quantum of the firm's market risk has been broken down into three key risks: Equity, Interest Rate and Currency:

| Market Risk               | GBP'000s |
|---------------------------|----------|
| <b>Interest Rate Risk</b> | 12       |
| <b>Equity Risk</b>        | 317      |
| <b>Currency Risk</b>      | 135      |

#### Equity Risk

For the simplified approach we assume all assets are held in "type 2" equities, shocked at 49% with a worst case symmetric adjustment of 10%, giving an overall shock of 59%. We apply this to our 3 month revenues to generate an Equity risk of GBP 317,000.

#### Interest Rate Risk

For interest rate risk, we have modelled the impact on our Gilt position (which represents the majority of the capital that the entity holds in excess of its unit funds) of a 100bp increase to the yield curve.

In the current low interest rate environment and due to the short dated nature of the Gilt, this shock is considered sufficiently prudent and therefore appropriate at this time, but this assumption will be kept under review as interest rates are reviewed by central banks.

#### Currency Risk

For the simplified approach we assume all UBS Life fund securities are not GBP denominated assets and applied a 25% shock, giving an impact of GBP 135,000.

### Counterparty Default Risk

The main source of counterparty default risk for Life Ltd relates to the firm's cash deposits and other assets.

Type 1 – calculated using EIOPA guidelines, looking at our capital holdings with 3 main counterparties giving an impact of GBP 418,000.

Type 2 – UBS Life does not have any type 2 counterparty risks.

### Life Risk

| Life Underwriting Risk | GBP'000s |
|------------------------|----------|
| Lapse                  | 377      |
| Expenses               | 60       |

#### Lapse Risk

We have applied a 70% mass lapse shock giving an impact of GBP 377,000.

#### Expense Risk

We have modelled a 10% increase in fixed expenses only, as a large proportion of the expenses are variable and in direct proportion to the management fees. We have not scaled this by 1% for inflation due to the 3 month projected term. We also assume a full year of fixed administration expenses. This gives an impact of GBP 60,000.

#### Diversification

For the simplified approach we have prudently assumed there is no diversification benefit.

#### Deferred Tax

For the simplified approach we have chosen not to include this deferred tax item as a Solvency II liability and no reduction is applied to the capital requirement.

### Operational Risk

Calculated as 25% of annual expenses incurred.

#### **E.3. Use of the duration based equity risk sub module in the calculation of the SCR**

The Company did not use the duration-based equity risk sub module in the calculation of the Solvency Capital Requirement.

#### **E.4. Differences between the standard formula and any internal model used**

Life Ltd does not use an internal model and hence this section is not applicable.

#### **E.5. Non compliance with the MCR requirement and non compliance with the SCR**

There were no instances of non-compliance with either the Minimum Capital Requirement or Solvency Capital Requirement during the reporting period.

**E.6. Any other information**

There is no other material information regarding the capital management of the Company.

## F. Solvency II Quantitative Reporting templates

The following quantitative reporting templates (QRTs) are included in this document in accordance with the regulations:

| <b>Template</b>   | <b>Description</b>   |
|-------------------|--|
| <b>S.02.01.02</b> | Balance sheet  |
| <b>S.05.01.02</b> | Premiums, claims and expenses by line of business  |
| <b>S.05.02.01</b> | Premiums, claims and expenses by country   |
| <b>S.12.01.02</b> | Life and Health SLT Technical Provisions   |
| <b>S.23.01.01</b> | Own Funds  |
| <b>S.25.01.21</b> | Solvency Capital Requirement for undertakings on Standard Formula                          |
| <b>S.28.01.01</b> | Minimum Capital Requirement – Only Life or only non-life insurance or reinsurance activity |

The templates are provided in GBP 000s.

**Annex I**  
**S.02.01.02**  
**Balance sheet**  
**GBP 000s**

**Assets**

|  |
|--|
| Goodwill   |
| Deferred acquisition costs   |
| Intangible assets  |
| Deferred tax assets  |
| Pension benefit surplus  |
| Property, plant & equipment held for own use   |
| Investments (other than assets held for index-linked and unit-linked contracts)        |
| Property (other than for own use)  |
| Holdings in related undertakings, including participations                             |
| Equities   |
| Equities - listed  |
| Equities - unlisted  |
| Bonds  |
| Government Bonds   |
| Corporate Bonds  |
| Structured notes   |
| Collateralised securities  |
| Collective Investments Undertakings  |
| Derivatives  |
| Deposits other than cash equivalents   |
| Other investments  |
| Assets held for index-linked and unit-linked contracts                                 |
| Loans and mortgages  |
| Loans on policies  |
| Loans and mortgages to individuals   |
| Other loans and mortgages  |
| Reinsurance recoverables from:   |
| Non-life and health similar to non-life  |
| Non-life excluding health  |
| Health similar to non-life   |
| Life and health similar to life, excluding health and index-linked and unit-linked     |
| Health similar to life   |
| Life excluding health and index-linked and unit-linked                                 |
| Life index-linked and unit-linked  |
| Deposits to cedants  |
| Insurance and intermediaries receivables   |
| Reinsurance receivables  |
| Receivables (trade, not insurance)   |
| Own shares (held directly)   |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in |
| Cash and cash equivalents  |
| Any other assets, not elsewhere shown  |
| <b>Total assets</b>  |

|              | Solvency II value |
|--------------|-------------------|
|              | C0010             |
| <b>R0010</b> |                   |
| <b>R0020</b> |                   |
| <b>R0030</b> |                   |
| <b>R0040</b> |                   |
| <b>R0050</b> |                   |
| <b>R0060</b> |                   |
| <b>R0070</b> | 23,050            |
| <b>R0080</b> |                   |
| <b>R0090</b> |                   |
| <b>R0100</b> |                   |
| <b>R0110</b> |                   |
| <b>R0120</b> |                   |
| <b>R0130</b> | 23,050            |
| <b>R0140</b> | 23,050            |
| <b>R0150</b> |                   |
| <b>R0160</b> |                   |
| <b>R0170</b> |                   |
| <b>R0180</b> |                   |
| <b>R0190</b> |                   |
| <b>R0200</b> |                   |
| <b>R0210</b> |                   |
| <b>R0220</b> | 7,384,918         |
| <b>R0230</b> |                   |
| <b>R0240</b> |                   |
| <b>R0250</b> |                   |
| <b>R0260</b> |                   |
| <b>R0270</b> |                   |
| <b>R0280</b> |                   |
| <b>R0290</b> |                   |
| <b>R0300</b> |                   |
| <b>R0310</b> |                   |
| <b>R0320</b> |                   |
| <b>R0330</b> |                   |
| <b>R0340</b> |                   |
| <b>R0350</b> |                   |
| <b>R0360</b> | 996               |
| <b>R0370</b> |                   |
| <b>R0380</b> | 153               |
| <b>R0390</b> |                   |
| <b>R0400</b> |                   |
| <b>R0410</b> | 7,438             |
| <b>R0420</b> |                   |
| <b>R0500</b> | 7,416,555         |

**Liabilities**

Technical provisions – non-life

Technical provisions – non-life (excluding health)

Technical provisions calculated as a whole

Best Estimate

Risk margin

Technical provisions - health (similar to non-life)

Technical provisions calculated as a whole

Best Estimate

Risk margin

Technical provisions - life (excluding index-linked and unit-linked)

Technical provisions - health (similar to life)

Technical provisions calculated as a whole

Best Estimate

Risk margin

Technical provisions – life (excluding health and index-linked and unit-linked)

Technical provisions calculated as a whole

Best Estimate

Risk margin

Technical provisions – index-linked and unit-linked

Technical provisions calculated as a whole

Best Estimate

Risk margin

Other technical provisions

Contingent liabilities

Provisions other than technical provisions

Pension benefit obligations

Deposits from reinsurers

Deferred tax liabilities

Derivatives

Debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions

Insurance &amp; intermediaries payables

Reinsurance payables

Payables (trade, not insurance)

Subordinated liabilities

Subordinated liabilities not in Basic Own Funds

Subordinated liabilities in Basic Own Funds

Any other liabilities, not elsewhere shown

**Total liabilities**
**Excess of assets over liabilities**

|              | Solvency II value |
|--------------|-------------------|
|              | C0010             |
| <b>R0510</b> |                   |
| <b>R0520</b> |                   |
| <b>R0530</b> |                   |
| <b>R0540</b> |                   |
| <b>R0550</b> |                   |
| <b>R0560</b> |                   |
| <b>R0570</b> |                   |
| <b>R0580</b> |                   |
| <b>R0590</b> |                   |
| <b>R0600</b> |                   |
| <b>R0610</b> |                   |
| <b>R0620</b> |                   |
| <b>R0630</b> |                   |
| <b>R0640</b> |                   |
| <b>R0650</b> |                   |
| <b>R0660</b> |                   |
| <b>R0670</b> |                   |
| <b>R0680</b> |                   |
| <b>R0690</b> | 7,385,097         |
| <b>R0700</b> |                   |
| <b>R0710</b> | 7,384,982         |
| <b>R0720</b> | 115               |
| <b>R0730</b> |                   |
| <b>R0740</b> |                   |
| <b>R0750</b> |                   |
| <b>R0760</b> |                   |
| <b>R0770</b> |                   |
| <b>R0780</b> | 109               |
| <b>R0790</b> |                   |
| <b>R0800</b> |                   |
| <b>R0810</b> |                   |
| <b>R0820</b> |                   |
| <b>R0830</b> |                   |
| <b>R0840</b> | 199               |
| <b>R0850</b> |                   |
| <b>R0860</b> |                   |
| <b>R0870</b> |                   |
| <b>R0880</b> | 1,324             |
| <b>R0900</b> | 7,386,729         |
| <b>R1000</b> | 29,827            |

Annex 1 - S.05.01.02

Premiums, claims and expenses by line of business  
GBP 000s

|   | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              | Line of Business for: accepted non-proportional reinsurance |          |                             |          | Total |       |
|---|--|-----------------------------|---------------------------------|-----------------------------------|-----------------------|--|---|-----------------------------|---------------------------------|--------------------------|------------|------------------------------|---|----------|-----------------------------|----------|-------|-------|
|   | Medical expense insurance  | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health  | Casualty | Marine, aviation, transport | Property |       |       |
|   | C0010  | C0020                       | C0030                           | C0040                             | C0050                 | C0060                                    | C0070                                       | C0080                       | C0090                           | C0100                    | C0110      | C0120                        | C0130   | C0140    | C0150                       | C0160    |       | C0200 |
| <b>Premiums written</b>                       |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Direct Business                       | R0110  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Proportional reinsurance accepted     | R0120  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Non-proportional reinsurance accepted | R0130  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Reinsurers' share                             | R0140  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Net   | R0200  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| <b>Premiums earned</b>                        |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Direct Business                       | R0210  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Proportional reinsurance accepted     | R0220  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Non-proportional reinsurance accepted | R0230  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Reinsurers' share                             | R0240  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Net   | R0300  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| <b>Claims incurred</b>                        |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Direct Business                       | R0310  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Proportional reinsurance accepted     | R0320  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Non-proportional reinsurance accepted | R0330  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Reinsurers' share                             | R0340  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Net   | R0400  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| <b>Changes in other technical provisions</b>  |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Direct Business                       | R0410  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Proportional reinsurance accepted     | R0420  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Gross - Non-proportional reinsurance accepted | R0430  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Reinsurers' share                             | R0440  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Net   | R0500  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| <b>Expenses incurred</b>                      |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Other expenses                                | R1200  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |
| Total expenses                                | R1300  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |   |          |                             |          |       |       |

|  | Line of Business for: life insurance obligations |                                     |  |                      |   |  | Life reinsurance obligations |                  | Total       |
|--|--|-------------------------------------|--|----------------------|---|--|------------------------------|------------------|-------------|
|  | Health insurance                                 | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance           | Life reinsurance |             |
|  | C0210  | C0220                               | C0230                                  | C0240                | C0250   | C0260  | C0270                        | C0280            |             |
| <b>Premiums written</b>                      |  |                                     |  |                      |   |  |                              |                  |             |
| Gross  | R1410  |                                     | 363,279                                |                      |   |  |                              |                  | 363,279     |
| Reinsurers' share                            | R1420  |                                     |  |                      |   |  |                              |                  |             |
| Net  | R1500  |                                     | 363,279                                |                      |   |  |                              |                  | 363,279     |
| <b>Premiums earned</b>                       |  |                                     |  |                      |   |  |                              |                  |             |
| Gross  | R1510  |                                     | 363,279                                |                      |   |  |                              |                  | 363,279     |
| Reinsurers' share                            | R1520  |                                     |  |                      |   |  |                              |                  |             |
| Net  | R1600  |                                     | 363,279                                |                      |   |  |                              |                  | 363,279     |
| <b>Claims incurred</b>                       |  |                                     |  |                      |   |  |                              |                  |             |
| Gross  | R1610  |                                     | (1,121,898)                            |                      |   |  |                              |                  | (1,121,898) |
| Reinsurers' share                            | R1620  |                                     |  |                      |   |  |                              |                  |             |
| Net  | R1700  |                                     | (1,121,898)                            |                      |   |  |                              |                  | (1,121,898) |
| <b>Changes in other technical provisions</b> |  |                                     |  |                      |   |  |                              |                  |             |
| Gross  | R1710  |                                     | (611,468)                              |                      |   |  |                              |                  | (611,468)   |
| Reinsurers' share                            | R1720  |                                     |  |                      |   |  |                              |                  |             |
| Net  | R1800  |                                     | (611,468)                              |                      |   |  |                              |                  | (611,468)   |
| <b>Expenses incurred</b>                     |  |                                     |  |                      |   |  |                              |                  |             |
| Other expenses                               | R1900  |                                     | (3,430)                                |                      |   |  |                              |                  | (3,430)     |
| Total expenses                               | R2600  |                                     |  |                      |   |  |                              |                  |             |

Annex I  
S.05.02.01  
Premiums, claims and expenses by country  
GBP 000s

|  |       | Home Country | Top 5 countries (by amount of gross premiums written)<br>- life obligations |       |       |       |       | Total Top 5 and home country |
|--|-------|--------------|---|-------|-------|-------|-------|------------------------------|
|  |       | C0150        | C0160   | C0170 | C0180 | C0190 | C0200 | C0210                        |
|  | R1400 |              |   |       |       |       |       |                              |
|  |       | C0220        | C0230   | C0240 | C0250 | C0260 | C0270 | C0280                        |
| <b>Premiums written</b>                      |       |              |   |       |       |       |       |                              |
| Gross  | R1410 | 363,279      |   |       |       |       |       | 363,279                      |
| Reinsurers' share                            | R1420 |              |   |       |       |       |       |                              |
| Net  | R1500 | 363,279      |   |       |       |       |       | 363,279                      |
| <b>Premiums earned</b>                       |       |              |   |       |       |       |       |                              |
| Gross  | R1510 | 363,279      |   |       |       |       |       | 363,279                      |
| Reinsurers' share                            | R1520 |              |   |       |       |       |       |                              |
| Net  | R1600 | 363,279      |   |       |       |       |       | 363,279                      |
| <b>Claims incurred</b>                       |       |              |   |       |       |       |       |                              |
| Gross  | R1610 | (1,121,898)  |   |       |       |       |       | (1,121,898)                  |
| Reinsurers' share                            | R1620 |              |   |       |       |       |       |                              |
| Net  | R1700 | (1,121,898)  |   |       |       |       |       | (1,121,898)                  |
| <b>Changes in other technical provisions</b> |       |              |   |       |       |       |       |                              |
| Gross  | R1710 | (611,468)    |   |       |       |       |       | (611,468)                    |
| Reinsurers' share                            | R1720 |              |   |       |       |       |       |                              |
| Net  | R1800 | (611,468)    |   |       |       |       |       | (611,468)                    |
| <b>Expenses incurred</b>                     | R1900 | (3,430)      |   |       |       |       |       | (3,430)                      |
| <b>Other expenses</b>                        | R2500 | (1,040)      |   |       |       |       |       | (1,040)                      |
| <b>Total expenses</b>                        | R2600 | (4,470)      |   |       |       |       |       | (4,470)                      |



Annex I  
S.12.01.02  
Life and Health SLT Technical Provisions  
GBP 000s

Technical provisions calculated as a whole  
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

Technical provisions calculated as a sum of BE and RM

Best Estimate

Gross Best Estimate

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance/SPV and Finite Re - total

Risk Margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - total

|       | Index-linked and unit-linked insurance |  |                                      |       | Other life insurance                     |                                      | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | Total (Life other than health insurance, incl. Unit-Linked) | Health insurance (direct business)       |                                      |       | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | Total (Health similar to life insurance) |       |
|-------|--|--|--------------------------------------|-------|--|--------------------------------------|---|----------------------|---|--|--------------------------------------|-------|---|---|--|-------|
|       | Insurance with profit participation    | Contracts without options and guarantees | Contracts with options or guarantees |       | Contracts without options and guarantees | Contracts with options or guarantees |   |                      |   | Contracts without options and guarantees | Contracts with options or guarantees |       |   |   |  |       |
|       | C0020                                  | C0030                                    | C0040                                | C0050 | C0060                                    | C0070                                | C0080   | C0090                | C0100   | C0150                                    | C0160                                | C0170 | C0180   | C0190                                     | C0200                                    | C0210 |
| R0010 |  |  |                                      |       |  |                                      |   |                      |   |  |                                      |       |   |   |  |       |
| R0020 |  |  |                                      |       |  |                                      |   |                      |   |  |                                      |       |   |   |  |       |
|       |  |  |                                      |       |  |                                      |   |                      |   |  |                                      |       |   |   |  |       |
| R0030 |  |  | 7,384,982                            |       |  |                                      |   |                      |   | 7,384,982                                |                                      |       |   |   |  |       |
| R0080 |  |  |                                      |       |  |                                      |   |                      |   |  |                                      |       |   |   |  |       |
| R0090 |  |  | 7,384,982                            |       |  |                                      |   |                      |   | 7,384,982                                |                                      |       |   |   |  |       |
| R0100 |  | 115                                      |                                      |       |  |                                      |   |                      |   | 115                                      |                                      |       |   |   |  |       |
| R0110 |  |  |                                      |       |  |                                      |   |                      |   |  |                                      |       |   |   |  |       |
| R0120 |  |  |                                      |       |  |                                      |   |                      |   |  |                                      |       |   |   |  |       |
| R0130 |  |  |                                      |       |  |                                      |   |                      |   |  |                                      |       |   |   |  |       |
| R0200 |  | 7,385,097                                |                                      |       |  |                                      |   |                      |   | 7,385,097                                |                                      |       |   |   |  |       |

**Annex I - S.23.01.01**
**Own funds**
**GBP 000s**
**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35**

Ordinary share capital (gross of own shares)  
 Share premium account related to ordinary share capital  
 Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings  
 Subordinated mutual member accounts  
 Surplus funds  
 Preference shares  
 Share premium account related to preference shares  
 Reconciliation reserve  
 Subordinated liabilities  
 An amount equal to the value of net deferred tax assets  
 Other own fund items approved by the supervisory authority as basic own funds not specified above

**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**
**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand  
 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand  
 Unpaid and uncalled preference shares callable on demand  
 A legally binding commitment to subscribe and pay for subordinated liabilities on demand  
 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  
 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
 Other ancillary own funds

**Total ancillary own funds**
**Available and eligible own funds**

Total available own funds to meet the SCR  
 Total available own funds to meet the MCR  
 Total eligible own funds to meet the SCR  
 Total eligible own funds to meet the MCR

**SCR**
**MCR**
**Ratio of Eligible own funds to SCR**
**Ratio of Eligible own funds to MCR**
**Reconciliation reserve**

Excess of assets over liabilities  
 Own shares (held directly and indirectly)  
 Foreseeable dividends, distributions and charges  
 Other basic own fund items  
 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**Reconciliation reserve**
**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business  
 Expected profits included in future premiums (EPIFP) - Non-life business

**Total Expected profits included in future premiums (EPIFP)**

|       | Total  | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|-------|--------|-----------------------|---------------------|--------|--------|
|       | C0010  | C0020                 | C0030               | C0040  | C0050  |
| R0010 | 15,000 | 15,000                |                     |        |        |
| R0030 |        |                       |                     |        |        |
| R0040 |        |                       |                     |        |        |
| R0050 |        |                       |                     |        |        |
| R0070 |        |                       |                     |        |        |
| R0090 |        |                       |                     |        |        |
| R0110 |        |                       |                     |        |        |
| R0130 | 14,827 | 14,827                |                     |        |        |
| R0140 |        |                       |                     |        |        |
| R0160 |        |                       |                     |        |        |
| R0180 |        |                       |                     |        |        |
| R0220 |        |                       |                     |        |        |
| R0230 |        |                       |                     |        |        |
| R0290 | 29,827 | 29,827                |                     |        |        |
| R0300 |        |                       |                     |        |        |
| R0310 |        |                       |                     |        |        |
| R0320 |        |                       |                     |        |        |
| R0330 |        |                       |                     |        |        |
| R0340 |        |                       |                     |        |        |
| R0350 |        |                       |                     |        |        |
| R0360 |        |                       |                     |        |        |
| R0370 |        |                       |                     |        |        |
| R0390 |        |                       |                     |        |        |
| R0400 |        |                       |                     |        |        |
| R0500 | 29,827 | 29,827                | 0                   |        |        |
| R0510 | 29,827 | 29,827                |                     |        |        |
| R0540 | 29,827 | 29,827                | 0                   |        |        |
| R0550 | 29,827 | 29,827                |                     |        |        |
| R0580 | 2,374  |                       |                     |        |        |
| R0600 | 3,332  |                       |                     |        |        |
| R0620 | 1256%  |                       |                     |        |        |
| R0640 | 895%   |                       |                     |        |        |

**C0060**

|       |        |  |
|-------|--------|--|
| R0700 | 29,827 |  |
| R0710 | 0      |  |
| R0720 | 0      |  |
| R0730 | 15,000 |  |
| R0740 | 0      |  |
| R0760 | 14,827 |  |
| R0770 |        |  |
| R0780 |        |  |
| R0790 |        |  |

**Annex 1**
**S.25.01.21**
**Solvency Capital Requirement - for undertakings on Standard Formula  
GBP 000s**

Market risk  
Counterparty default risk  
Life underwriting risk  
Health underwriting risk  
Non-life underwriting risk  
Diversification  
Intangible asset risk  
**Basic Solvency Capital Requirement**

**Calculation of Solvency Capital Requirement**

Operational risk  
Loss-absorbing capacity of technical provisions  
Loss-absorbing capacity of deferred taxes  
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC  
**Solvency capital requirement excluding capital add-on**  
Capital add-on already set  
**Solvency capital requirement**  
**Other information on SCR**  
Capital requirement for duration-based equity risk sub-module  
Total amount of Notional Solvency Capital Requirement for remaining part  
Total amount of Notional Solvency Capital Requirements for ring fenced funds  
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios  
Diversification effects due to RFF nSCR aggregation for article 304

|       | Gross solvency capital requirement | USP   | Simplifications |
|-------|------------------------------------|-------|-----------------|
|       | C0110                              | C0090 | C0100           |
| R0010 | 464                                |       |                 |
| R0020 | 418                                |       |                 |
| R0030 | 437                                |       |                 |
| R0040 |                                    |       |                 |
| R0050 |                                    |       |                 |
| R0060 |                                    |       |                 |
| R0070 |                                    |       |                 |
| R0100 | 1,318                              |       |                 |

|       | C0100 |
|-------|-------|
| R0130 | 1,056 |
| R0140 |       |
| R0150 |       |
| R0160 |       |
| R0200 | 2,374 |
| R0210 |       |
| R0220 | 2,374 |
| R0400 |       |
| R0410 |       |
| R0420 |       |
| R0430 |       |
| R0440 |       |

**Annex I**
**5.28.01.01**
**Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity**
**Linear formula component for non-life insurance and reinsurance obligations**

|                          |              |
|--------------------------|--------------|
|                          | <b>C0010</b> |
| MCR <sub>NL</sub> Result | <b>R0010</b> |

Medical expense insurance and proportional reinsurance  
Income protection insurance and proportional reinsurance  
Workers' compensation insurance and proportional reinsurance  
Motor vehicle liability insurance and proportional reinsurance  
Other motor insurance and proportional reinsurance  
Marine, aviation and transport insurance and proportional reinsurance  
Fire and other damage to property insurance and proportional reinsurance  
General liability insurance and proportional reinsurance  
Credit and suretyship insurance and proportional reinsurance  
Legal expenses insurance and proportional reinsurance  
Assistance and proportional reinsurance  
Miscellaneous financial loss insurance and proportional reinsurance  
Non-proportional health reinsurance  
Non-proportional casualty reinsurance  
Non-proportional marine, aviation and transport reinsurance  
Non-proportional property reinsurance

|              | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|--------------|---|---|
|              | <b>C0020</b>  | <b>C0030</b>  |
| <b>R0020</b> |   |   |
| <b>R0030</b> |   |   |
| <b>R0040</b> |   |   |
| <b>R0050</b> |   |   |
| <b>R0060</b> |   |   |
| <b>R0070</b> |   |   |
| <b>R0080</b> |   |   |
| <b>R0090</b> |   |   |
| <b>R0100</b> |   |   |
| <b>R0110</b> |   |   |
| <b>R0120</b> |   |   |
| <b>R0130</b> |   |   |
| <b>R0140</b> |   |   |
| <b>R0150</b> |   |   |
| <b>R0160</b> |   |   |
| <b>R0170</b> |   |   |

**Linear formula component for life insurance and reinsurance obligations**

|                         |                     |
|-------------------------|---------------------|
|                         | <b>C0040</b>        |
| MCR <sub>L</sub> Result | <b>R0200</b> 51,695 |

Obligations with profit participation - guaranteed benefits  
Obligations with profit participation - future discretionary benefits  
Index-linked and unit-linked insurance obligations  
Other life (re)insurance and health (re)insurance obligations  
Total capital at risk for all life (re)insurance obligations

|              | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|--------------|---|--|
|              | <b>C0050</b>  | <b>C0060</b>                                   |
| <b>R0210</b> |   |  |
| <b>R0220</b> |   |  |
| <b>R0230</b> | 7,384,982   |  |
| <b>R0240</b> |   |  |
| <b>R0250</b> |   |  |

**Overall MCR calculation**

|                                    |                     |
|------------------------------------|---------------------|
|                                    | <b>C0070</b>        |
| Linear MCR                         | <b>R0300</b> 51,695 |
| SCR                                | <b>R0310</b> 2,374  |
| MCR cap                            | <b>R0320</b> 1,068  |
| MCR floor                          | <b>R0330</b> 594    |
| Combined MCR                       | <b>R0340</b> 1,068  |
| Absolute floor of the MCR          | <b>R0350</b> 3,332  |
|                                    | <b>C0070</b>        |
| <b>Minimum Capital Requirement</b> | <b>R0400</b> 3,332  |

## G. Glossary of Terms

| <b>Term</b> | <b>Explanation</b>   |
|-------------|--|
| AF          | Actuarial Function   |
| AMA         | Advanced Measurement Approach  |
| AM          | The Asset Management business division of UBS  |
| AML         | Anti Money Laundering  |
| CEO         | Chief Executive Officer  |
| C&ORC       | Compliance and Operational Risk Control  |
| The Code    | The Code of Conduct and Ethics   |
| CRO         | Chief Risk Officer   |
| EIOPA       | European Insurance and Occupational Pensions Authority   |
| FCA         | Financial Conduct Authority  |
| FINMA       | Swiss Financial Market Supervisory Authority   |
| FRS         | Financial Reporting Standards  |
| GIA         | Group Internal Audit   |
| Group       | Refers to UBS Group  |
| IFRS        | International Financial Reporting Standards  |
| KFH         | Key Function Holder  |
| Life Ltd    | Throughout this document AM Life Ltd and Life Ltd refers to UBS Asset Management Life Ltd.   |
| LMA         | Liquidity Management Account   |
| MCR         | Minimum Capital Requirement  |
| NAV         | Net Asset Value  |
| ORC         | Operational Risk Control   |
| ORI         | Operational Risk Inventory   |
| ORSA        | Own Risk and Solvency Assessment   |
| PCOC        | Product and Customer Outcomes Committee  |
| PMM         | Performance Measurement and Management   |
| PRA         | Prudential Regulation Authority  |
| PRE         | Policyholders' reasonable expectations   |
| QRT         | Quantitative Reporting Template  |
| RICS        | Royal Institution of Chartered Surveyors   |
| SCR         | Solvency Capital Requirement   |
| SIMR / SIMF | Senior Insurance Manager Regime / Senior Insurance Manager Function  |
| SFCR        | Solvency and Financial Condition Report  |
| SORP        | Statements of Recommended Practice   |
| TCF         | Treat customers fairly   |
| TRPA        | Transaction Requiring Pre Approval   |
| UBS         | UBS Group. This refers to UBS and its subsidiaries.  |
| UBS AG      | UBS AG is the parent company of the UBS Group. It is a company incorporated under the laws of Switzerland with the principal place of business registered in Zurich. |



UBS Asset Management Life Ltd  
5 Broadgate  
London EC2M 2QS  
Tel. +44 (0)20 7901 5000  
Fax +44 (0)20 7929 0487  
[www.ubs.com](http://www.ubs.com)

