

# Solvency and Financial Condition Report

As at 31st December 2017



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# Glossary of Terms

Acronym	Name
AF	Actuarial Function
AM UK	Throughout this document, AM UK refers to UBS Asset Management Holding (No. 2) Ltd and its regulated subsidiaries which are as follows: <ul style="list-style-type: none"> <li>• UBS Asset Management (UK) Ltd</li> <li>• UBS Asset Management Funds Ltd</li> <li>• UBS Asset Management Life Ltd</li> </ul>
AuM	Assets Under Management
BEL	Best Estimate Liability
BSCR	Basic Solvency Capital Ratio
C&ORC	Compliance and Operational Risk Control
The Code	The Code of Conduct and Ethics
EIOPA	European Insurance and Occupational Pensions Authority
FCA	Financial Conduct Authority
FRN	Firm Reference Number
FRS	Financial Reporting Standards
GIA	Group Internal Audit
Group	Refers to UBS Group
JPM LMA	JP Morgan Liquidity Management Account
KFH	Key Function Holder
LGPS	Local Government Pension Scheme
Life Ltd	UBS Asset Management Life Ltd
LACDT	Loss Absorbing Capacity of Deferred Tax
LMA	Liquidity Management Account
MCR	Minimum Capital Requirement
NAV	Net Asset Value
ORSA	Own Risk and Solvency Assessment
PCOC	Product and Customer Outcomes Committee
PMM	Performance Measurement and Management
PRA	Prudential Regulation Authority
RSR	Regular Supervisory Report
SCR	Solvency Capital Requirement
SIMF	Senior Insurance Manager Function
SIMR	Senior Insurance Manager Regime
SFCR	Solvency and Financial Condition Report
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.

# 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') is an insurance company subject to the Solvency II prudential regime. Life Ltd's sole purpose is to provide long-term unit-linked insurance benefits to pension funds in the UK, mainly institutional clients; 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 forms part of the group of entities referred to as UBS Asset Management UK ('AM UK'), which is the regional subset of the global UBS Asset Management business. Life Ltd is currently dual authorised and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA').

Life Ltd's revenue is earned as a management fee, based upon a percentage of Assets under Management ('AuM'), with the majority of expenses being directly linked to the fees earned. Life Ltd has a highly outsourced business model and as a result, has no employees.

Life Ltd does not take investment risk on behalf of policyholders or shareholders, nor does Life Ltd 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.

Life Ltd does not actively invest surplus shareholder funds, holding them instead in cash or cash equivalents 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.

In the first half of 2017, a 2018-2020 strategy for the UK, including Life Ltd, was reviewed and approved by the AM EC. For Life Ltd specifically, the consolidation of Local Government Pension Schemes opens up opportunities to leverage good existing passive and multi-asset capabilities, as well as a threat if there is a negative outcome from that process.

In November 2017, it was announced that UBS won a circa £10bn Local Government Pension Scheme ('LGPS') passive pooling mandate. Following the inflows of the LGPS National Framework Passive opportunity over the course of Q1 2018, the size of the Life Fund platform has grown, underpinning the strategy.

Details are given in section A.

## **System of Governance**

Life Ltd is committed to having a strong control environment, consistent with the UBS Group-wide policy to maintain high standards of control and compliance, which encompasses all elements of the ownership and governance environment, from the owners, UBS AG, the senior management through to the Board of Directors. Life Ltd has well defined management structures, which are supported by a number of committees, each of which operates with agreed terms of reference.

Details are given in section B.

## 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 and approved by the Board on an annual basis. The main risks that arise are shown in the table below.

<b>Risk Type</b> <i>GBP '000</i>	<b>Solvency II</b> <b>Pillar 1</b>	<b>Percentage of SCR</b>
<b>Market Risk</b>	<b>2,199</b>	<b>47.1%</b>
<b>Underwriting Risk</b>	<b>2,409</b>	<b>51.6%</b>
<b>Credit Risk</b>	<b>522</b>	<b>11.2%</b>
<b>Operational Risk</b>	<b>1,061</b>	<b>22.7%</b>

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

## Valuation for solvency purposes

A revised best estimate liabilities (BEL), risk margin and SCR methodology were developed for the year ended 31 December 2017. This revised approach adopts a cash flow projection methodology over the lifetime of the business (with an assumed management action to wind-up the company when it ceases to be viable) and is consistent with PRA guidance dated 1 December 2016 on the interpretation of Article 18 of the Delegated Acts, which was based on the Q&A response given by the European Insurance and Occupational Pensions Authority (EIOPA).

The table below shows the capital position of Life Ltd as at 31 December 2017 under the Solvency II revised model, and as assessed under the ORSA.

<b>Category</b> <i>GBP m</i>	<b>2017</b> <b>Pillar 1</b>
<b>BEL</b>	8,748.1
<b>Own Funds</b>	30.6
<b>Solvency Capital Requirement</b>	4.7
<b>Minimum Capital Requirement</b>	3.3

The Pillar 1 assessment as at 31 December 2017 indicates that Life Ltd's SCR is GBP 4.7m (2016: GBP 2.37m). Life Ltd has regulatory capital available at 31<sup>st</sup> December 2017 of GBP 30.6m, which represents a surplus of GBP 27.3m over the minimum capital requirement reflected above and a surplus of GBP 26.0m over the solvency capital requirement.

## Capital management

At all times, the Board of Life Ltd seeks to ensure it holds sufficient capital to meet prevailing regulatory requirements. The approach to capital management is outlined in section E.

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

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Director  
UBS Asset Management Life Ltd  
25 April 2018

# Auditors Report and Opinion

## **Report of the external independent auditor to the Directors of UBS Asset Management Life Ltd ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part 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 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21, S.28.01.01 ('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 S.05.01.02; 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 Ltd as at 31 December 2017 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.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), 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) 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 & Restriction on Use**

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. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Part 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.

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 on which they are based.

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) 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 judgement of the users taken on the basis of the Solvency and Financial Condition Report.

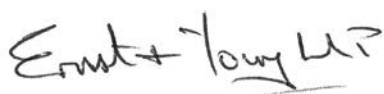
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<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.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, slightly slanted style.

Ernst & Young LLP  
Bristol  
25 April 2018

The maintenance and integrity of the UBS Group web site 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

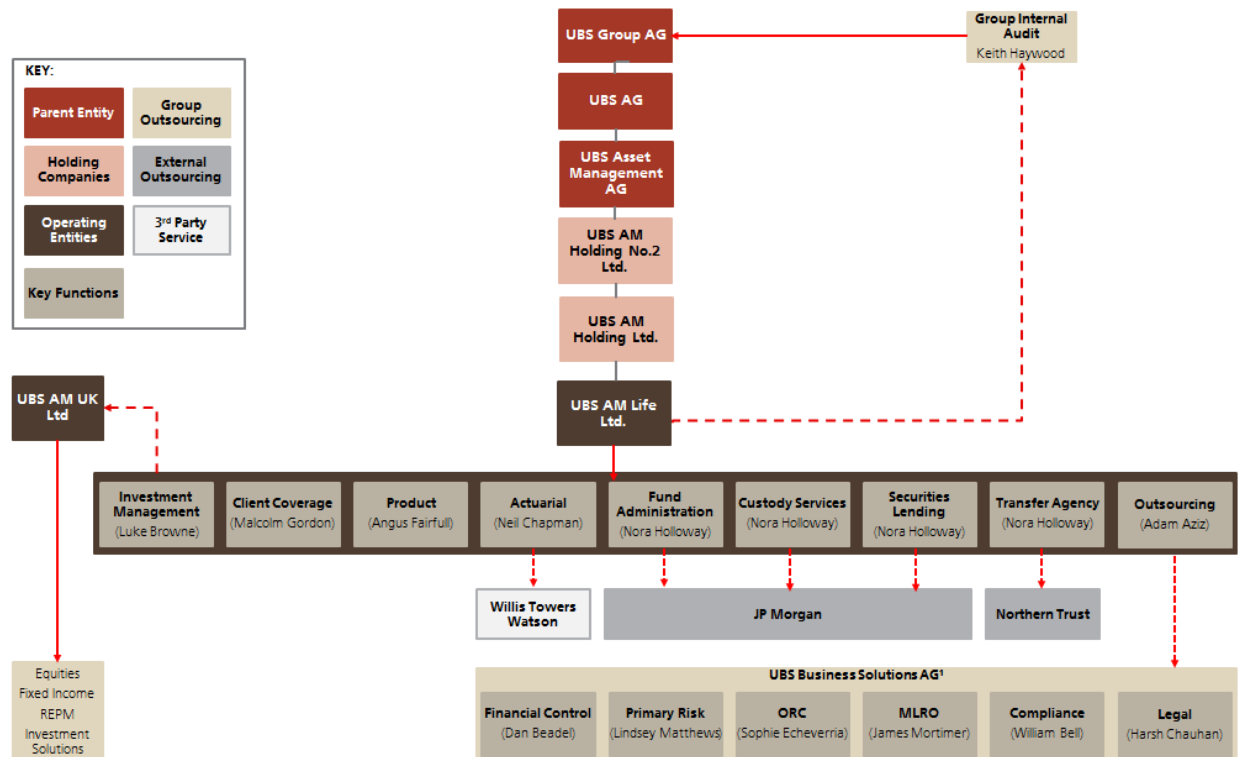
## A.1. Business & Operating Model

UBS Asset Management Life Ltd ('Life Ltd') is an insurance company subject to the Solvency II prudential regime and performs an Own Risk and Solvency Assessment ('ORSA'), Regular Supervisory Report ('RSR') and Solvency and Financial Condition Report ('SFCR'). The principal activity is to provide long-term unit-linked insurance benefits to pension funds in the UK, 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.

In comparison to mutual fund structures, unit-linked funds offer an administratively simpler and more cost-effective way of providing pooling arrangements. In addition, life funds benefit from WHT tax treatment that UCITS funds do not. The tax and administrative effectiveness for the pension market enables UBS to compete, on a level playing field, with the major passive providers.

All Life Ltd's policies (contracts) are with institutional investors, either UK approved pension schemes or insurance companies. The policy is a contract between the insurer and the pension scheme. Life Ltd maintains unit-linked funds which operate in a similar manner to mutual funds. The number of units issued to an investor is a factor of unit price and amount invested. The value of an investor's policy return is the value attributed to units issued in the unit-linked fund. The contracts give Life Ltd the unilateral right at any time to terminate the contract subject to giving three months' notice.

### Overview of Life Ltd Business Model



Notes:  
<sup>1</sup> Human Resources, Communications & Branding, Group Technology, Group Operations, Group Corporate Services and Group Sourcing are also part of UBS Business Solutions but are not key functions for Life Ltd.

Life Ltd is one of the three main regulated legal entities of AM UK. The other entities are UBS Asset Management (UK) Ltd and UBS Asset Management Funds Ltd. Both UBS Asset Management Funds Ltd (in relation to its UCITS funds only) and Life Ltd contract with UBS Asset Management (UK) Ltd for the performance of the investment management function. Under this agreement, UBS Asset Management (UK) Ltd is responsible for the vast majority of the operational activity that takes place day-to-day and for the costs of the operational risks that arise under those agreements.

Life Ltd has appointed JP Morgan as fund administrator and custodian, Northern Trust as transfer agent and Willis Towers Watson as Actuary. As a result of its outsourcing arrangements with other, primarily UBS Group companies, Life Ltd has no employees, though the Product Development and Management function is retained in-house for Life Ltd. Details about outsourcing agreements Life Ltd has entered into are described in section B.6.

As at 31 December 2017, the Life Funds comprise 60 clients. The top five clients represent 45% of AuM as at 31 December 2017 compared to 23% of AuM as at 31 December 2016. No single client represents more than 15%. The figures are calculated to exclude the cross holding effect. Life Ltd does not engage in reinsurance and the sub-funds do not invest in external Life funds, however, external Life funds can invest into Life Ltd's sub-funds.

## Strategy

In the first half of 2017, a 2018-2020 strategy for the UK, including Life Ltd, was reviewed and approved by the AM EC. For Life Ltd specifically, the consolidation of Local Government Pension Schemes opens up opportunities to leverage good existing passive and multi-asset capabilities from new passive opportunities, as well as a threat if an individual opportunity is unsuccessful.

In November 2017, it was announced that UBS won a circa £10bn LGPS passive pooling mandate. Following the inflows of the LGPS National Framework Passive opportunity over the course of Q1 2018, the size of the Life Fund platform has grown by GBP10bn, underpinning the strategy. Given the nature of the framework agreement, this introduces an element of client concentration risk. However, this is in part mitigated by the long-term nature of the contract, with the initial term being 10 years. The growth in AuM of our passive Life Funds provides critical mass in a number of funds, thereby further increasing our ability to compete for future business.

### 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 FCA and the PRA.

Prudential Regulation Authority Bank of England Threadneedle Street London EC2R 8AH	Financial Conduct Authority 25 The North Colonnade Canary Wharf London E14 5HS
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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.2. Business Performance over the reported period

### A.2.1 Underwriting Performance

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.

<i>GBP '000</i>	<b>2017 Financials</b>	<b>2016 Financials</b>
Revenue	5,755	5,278
Investment Management Fees	(3,068)	(3,004)
Other Direct Costs	(1,071)	(1,198)
Profit before tax	1,616	1,076
Tax	(312)	(224)
<b>Profit after tax</b>	<b>1,304</b>	<b>852</b>

Unit-linked Assets under Management within Life Ltd:

<b>Unit-linked Assets as at 31 December 2017</b> <i>GBP bn</i>	<b>2017</b>	<b>2016</b>
Passive Assets	8.0	6.9
Active Assets	0.8	0.5
<b>Total AuM</b>	<b>8.8</b>	<b>7.4</b>

### A.2.2 Investment Performance

Life Ltd does not take investment risk on behalf of policyholders or shareholders. 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 income. 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 433,929 (2016 - GBP 177,248).

**A.3. Any other information**

It is currently unclear how Brexit may ultimately impact the Asset Management business in the UK. However, this is a UK based product for UK Pension fund clients only. The financial statements have been prepared on the assumption that the business model will not change materially for the foreseeable future. The Board of Directors will continue to consider the potential impact as further details emerge over time from the government negotiations.

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

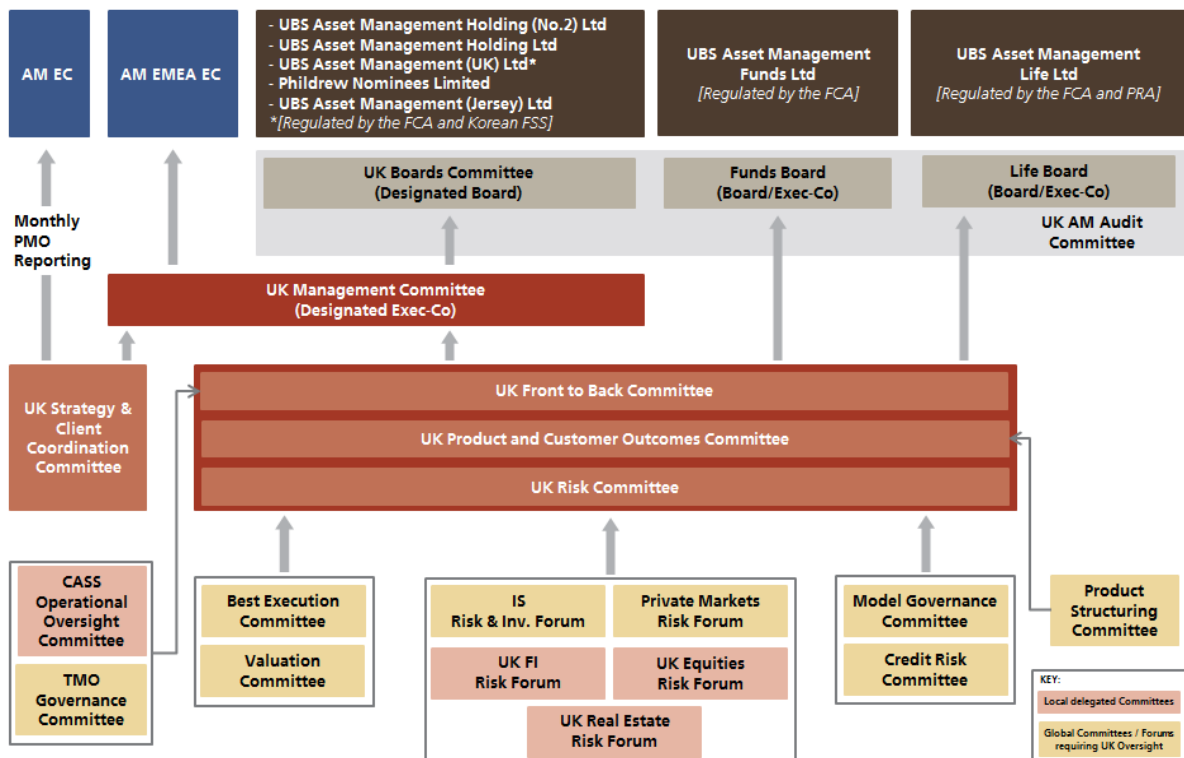
Life Ltd is committed to having a strong control environment, consistent with the UBS Group-wide policy to maintain high standards of control and compliance, which encompasses all elements of the ownership and governance environment, from the owners, UBS AG, the senior management through to the Board of Directors.

AM UK has well-defined management structures, which are supported by a number of committees, each of which operates with agreed terms of reference. Throughout the organization there is a proper definition of management and staff responsibilities, with respective reporting lines supported by defined documented procedures necessary for the efficient day-to-day operation of UBS AG. These procedures are reviewed and updated periodically and where appropriate, are subject to approval by the independent control functions of the Group.

AM UK draws on the expertise within the Asset Management business division and the wider UBS Group. Where the topics or concerns are of particular interest to the UK or if there is a statutory or regulatory requirement, a UK specific committee will be established.

In some instances, AM UK will leverage a global committee. In these instances, the Boards of the UK entities will ensure there is cross representation on the Global Committee to report updates, issues and concerns to the relevant UK Board or Committee.

### Overview of AM UK Governance & Committee Structure



## The Life Ltd Board

Life Ltd Board comprises five Directors including two Non-Executive Directors, one of whom acts as the Chair. 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 manner to (members of) the UBS Asset Management Executive Committee, the governing body for the business division via the UK CEO.

The Board draws on the expertise within the Asset Management business division and the wider UBS Group, to provide leadership within a framework of prudent and effective controls.

The responsibilities of the Board include:

- Actively engage in the affairs of Life Ltd and keep abreast of material changes in Life Ltd's business and the external environment, as well as act in a timely manner to protect the long-term interests of Life Ltd;
- Oversee the development of and approve Life Ltd's business plan and objectives and strategy, and monitor their implementation;
- Play a lead role in establishing and overseeing Life Ltd's corporate culture, conduct and values;
- Oversee implementation of Life Ltd's governance framework and periodically review it to ensure that it remains appropriate in light of material changes to Life Ltd's size, complexity, geographical footprint, business strategy, markets and regulatory requirements;
- Establish, along with senior management, the Life Ltd's risk appetite, taking into account the competitive and regulatory landscape and Life Ltd's long-term interests, risk exposure and ability to manage risk effectively;
- Oversee Life Ltd's adherence to risk policy and risk limits;
- Approve the approach and oversee the implementation of key policies pertaining to Life Ltd's capital and liquidity plans, compliance policies and obligations, and the internal control system;
- Require that Life Ltd maintain a robust finance function responsible for accounting and financial data;
- Approve the annual financial statements and require a periodic independent review of critical areas;
- Oversee the selection and performance, of the Life Ltd CEO, key members of senior management and heads of the control functions;
- Take ownership of the ORSA ensuring content and concept of the process is embedded within the business;
- Ensure compliance with the Senior Insurance Management Regime regulation especially taking ownership of the Governance Map and assigning appropriate prescribed responsibilities to the Senior Insurance Management Functions;
- Approve the methodology and assumptions used to value liabilities; and
- Approve the policy for valuing assets

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 which retains ultimate responsibility for the decisions made within these committees.



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

- UK Front-to-Back Committee – the committee represents the UK Management Committee and the Boards of UBS Asset Management Life Ltd, UBS Asset Management Funds Ltd and UBS O'Connor Limited to manage the operating activities of AM UK including, but not limited to, the front-to-back control framework and management of business and operational risk issues across key processes as the first line of defence;
- UK Risk Committee – the committee is responsible for reviewing risks and investment performance arising from the management of assets and performance of regulated activities by AM UK as well as assessing trends and issues that affect the business;
- Product and Customer Outcomes Committee ('PCOC') – the committee ensures that all products that are manufactured and/or distributed in the UK are designed appropriately for the identified target market and they continue to meet the expectations of their target market throughout the lifecycle of the product. The PCOC will also be responsible for ensuring that AM UK fulfils its TCF obligations effectively and efficiently; and
- UK AM Audit Committee – the 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.

### **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 March 2018. In performing this review, the Board considered the governance as appropriate and adequate for the nature, size and complexity of the business.

The Board also regularly reviews the Governance Map drawn up in accordance with the SIMR requirements and this provides comfort to the Board on the adequacy of the set-up.

### **Details of remuneration**

All staff are either employed by UBS AG or UBS Business Solutions, UK branch, but the cost for the Asset Management division is expensed through UBS Asset Management Holding Ltd. A monthly charge is allocated from UBS Asset Management Holding Ltd to Life Ltd based on an allocation of the time spent by employees on the activities performed for Life Ltd.

Directors' emoluments are payable by another Group company and are not separately recharged to Life Ltd.

### **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 Proper test for Approved Persons sourcebook, 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 Performance Measurement and Management ('PMM') process.

## **Culture**

Maintaining a climate that demands integrity and ethical values is critical to the establishment and maintenance of an effectively controlled organisation.

AM UK is committed to:

- Business conduct that is above reproach;
- Adhering to standards and restrictions imposed by applicable laws, rules and regulations;
- Providing public information that is timely, accurate and comprehensible;
- Creating relationships with clients built on trust and treating customers fairly;
- Upholding client confidentiality and protecting client information;
- Identifying, managing or avoiding actual, potential and perceived conflicts of interest arising from any of our business activities;
- Assisting in the fight against money laundering, corruption and terrorist financing;
- The proper handling of inside information;
- Protecting its assets and ensuring their effective use; and
- Treating its employees in line with ethical beliefs and creating a diverse workplace free of discrimination and harassment.

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 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 tangible demonstration of the importance that the Group attaches to responsible corporate behaviour and of the UBS AG Board of Directors 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. Every Group employee must read, understand and comply with the Code. The Code is included in key training activities at all levels to ensure that it is properly understood. The Code is available on the Group's intranet and is accessible to all personnel. The Code is applicable to all staff operating for AM UK. UBS Code of Business Conduct and Ethics principles and standards are:

- Laws, rules and regulations;
- Ethical and responsible behavior;
- Information management;
- Work environment;
- Social responsibility; and
- Disciplinary measures.

## **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.

## 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	SIMF 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	Responsible for fulfilling the Internal Audit mandate for Life Ltd and 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	Chair of the Board, providing independent oversight, scrutiny and expertise
<b>Non-executive Director</b>	SIMF 14	Board Director, providing independent oversight, scrutiny and expertise
<b>Board Director</b>	CF1	Board Director with oversight and responsibility for all activity within the entity
<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 not appointed a SIMF 7 Group Entity Senior Insurance Manager on the basis that Life Ltd has discretion over its own affairs. There is no role in the wider UBS Group that has a veto over decisions made by Life Ltd.

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**

#### **B.3.1. Risk management system**

Sound risk management and control is an integral part of creating a sustainable business and delivering ongoing value for stakeholders. Failure to establish and sustain an effective 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.

Taking, managing and controlling risk is a core element of AM UK's business activities. 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. It is necessary to ensure that risk taking is in line with AM UK's, and ultimately the broader UBS Group's, strategic priorities, values and risk appetite.

One of the foundations required to achieve this objective is having an executive management team that instils a sound risk culture throughout AM UK. A central element of building a sound risk culture is setting clear standards of conduct and ethics, to this end UBS maintains a 'Code of Conduct and Ethics' (the Code) (1-C-001254) – see section B2.

AM UK has adopted and is subject to the broader UBS Group and AM risk policy framework, ensuring a consistent approach across UBS Group. Policies are designed to guide actions and decisions within the context of UBS's and AM UK's corporate governance framework, risk principles and objectives. Moreover, a suite of established 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.

AM UK is fully committed to promoting a sound risk culture and robust risk management framework. It is subject to the UBS Risk Management and Control Principles which apply to the UBS Group 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, and whether they are commensurate with the risks taken.

Risk management and risk control are both designed to support optimal risk-return decisions. Holistic governance, together with aligned risk, compliance and finance processes are designed to help protect AM UK from unacceptable damage to its financial strength, performance and reputation. The risk management and control processes of AM UK also help to ensure that risk and return objectives are appropriately balanced in order to achieve sustainable earnings growth within the risk appetite established by the AM UK Boards.

#### **B.3.2. Own Risk and Solvency Assessment**

A formal ORSA assessment should be performed at least once each calendar year. The Board considers this appropriate, taking into account the nature, scale and complexity of the business written by Life Ltd. The assessment will be timed to ensure that the calculation of SCR and the ORSA are based on a comparable risk profile, consistent data points, assumptions, parameters and methods, as well as to support the business planning and capital management process. In 2016, it was agreed by the Board in discussion with the PRA that the ORSA should be performed in conjunction with the Regular Supervisory Report (RSR) and the Solvency and Financial Condition Report (SFCR). This allowed the ORSA, RSR and SFCR to be performed concurrently in future years.

The ORSA shall also be performed within the calendar year if Life Ltd experiences a change in the risk, or solvency profile that may materially affect the ORSA. The financial position is monitored, along with the risk profile, including the internal and external events occurring. This will inform the Board as to whether an ad-hoc ORSA process may be appropriate.

The assessment is made for Life Ltd as a stand-alone entity but having regard to its position within UBS Group.

The ORSA is an integrated element of Life Ltd's risk management framework. The ORSA documents the risks faced by Life Ltd 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 challenge including:

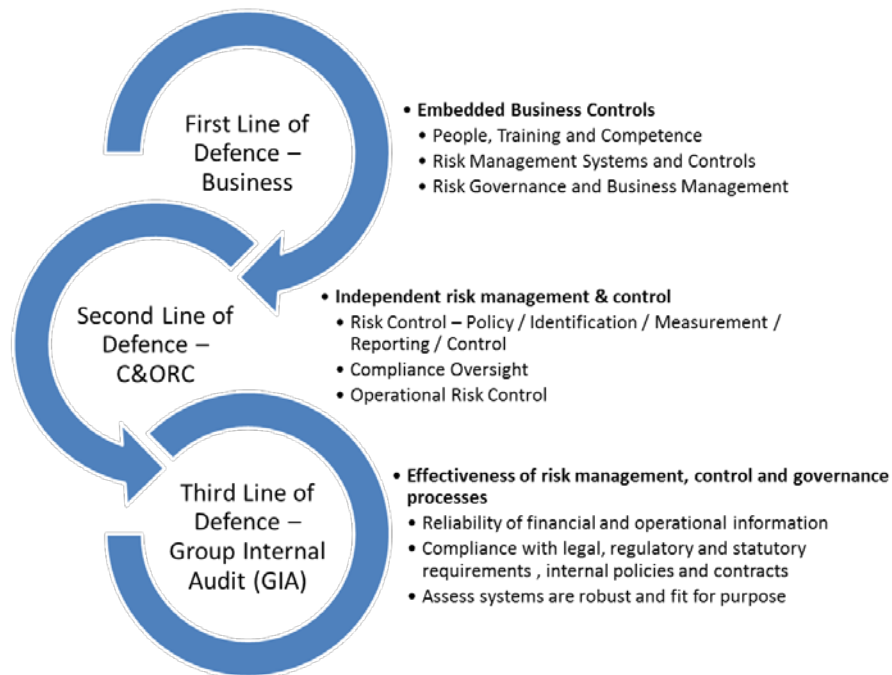
- Actuarial Function and risk owners;
- Senior management of AM UK involved with Life Ltd; and
- Life Ltd Board including the Independent Non-executive Directors.

The ORSA was last approved by the Board on [24th April 2018], and is approved by the Board on an annual basis.

#### **B.4. Internal Control System**

Life Ltd adopts a 'three lines of defence' approach to risk and control, which can be summarised as:

- **1st Line of Defence: Embedded business controls**  
The primary responsibility for identifying and managing risk lies with the business. It is the responsibility of business management to continually monitor and manage levels of exposure to ensure that risk and return are balanced and to remediate any identified risk control issues
- **2nd Line of Defence: Independent risk management & control**  
Independent Risk Control functions monitor the effectiveness of the business divisions' risk management. This is achieved by undertaking independent risk assessments that ensure risks are identified and escalated to senior management so that action plans can be implemented for effective remediation and mitigation of the identified risks.
- **3rd Line of Defence: Group Internal Audit function**  
Group Internal Audit (GIA) performs independent assurance function for the entire Group. GIA independently assesses the effectiveness of both the 1st and 2nd Lines of defence to ensure UBS's systems and controls are compliant with statutory, legal and regulatory requirements.



### 1st Line of Defence: Embedded business controls

The senior management own all the risks assumed throughout their business units and are responsible for the continuous and active management of all risk exposures to ensure that risk and return are balanced. They are accountable not only for the credit and market risks actively taken in order to generate returns, 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.

### People, Training and Competence

UBS Asset Management operates a Training and Competence Regime for all staff. Training is given a high priority and staff receive appropriate training on a regular basis in order to maintain competence.

All new joiners are required to complete a suite of computer based training modules. Completion records and performance are 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. Staff members 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 and Operational Risk Team.

Competence is measured by the line manager in an assessment which covers investment knowledge and understanding of the regulatory system/firm/job specific knowledge and that the appropriate qualifications, job experience and practice have been undertaken by the individual to the manager's satisfaction.

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.

### **UBS Group Risk Management and Control Principles**

The UBS Group recognises that taking, managing and controlling risk is a core element of UBS's business activities and that operational risks are an inevitable consequence of being in business. Therefore, the UBS Group's 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. The UBS Group needs to ensure that risk taking is in line with Life Ltd's strategic priorities and values, and within its risk taking capacity. The UBS Group believes the most important foundations for a sound risk culture and for excellence in risk management and control are:

- Its Board of Directors, responsible for oversight of the Life Ltd's strategy in alignment with risk principles, framework, capacity and major portfolio limits;
- Its executive management team, that instils a sound risk culture throughout Life Ltd by aligning business planning, execution, performance measurement and compensation decisions with Life Ltd's strategy;
- Its business management team 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 and performance measurement and reporting

Following on from these foundations are five fundamental principles of risk management and risk control:

- Protection of financial strength;
- Protection of reputation;
- Business management accountability;
- Independent controls; and
- Risk disclosure.

### **UBS Asset Management Risk Management Systems and Controls**

Systems and Controls consist of qualitative and quantitative measures captured by various reports at both the fund level and asset level. They are linked directly to fund size and complexity, 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, at each Risk Committee when both risks and the adequacy of monitoring are evaluated, and would be adapted if found to be insufficient.

### **UBS Asset Management Risk Governance and Business Management**

Within UBS, 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 CRO is accountable for the overall effectiveness of risk management in the business division. Day-to-day risk management is delegated to Executive Committee members who assume risk management responsibilities for their own functional or regional areas. Business risk managers work closely with the independent control functions in assessing risks.



## **Investment Guideline Monitoring**

Investment Guideline Monitoring is an independent function within the COO area with responsibility for monitoring regulatory and internal investment guidelines. The team uses third party vendor software called Sentinel, as well as internally developed processes. Sentinel is a pre and post-trade investment restrictions monitoring system. Compliance with certain regulatory and fund specific investment restrictions are monitored through this system.

## **2<sup>nd</sup> Line of Defence: Independent risk management & control**

The independent risk management and control functions are mandated with monitoring and challenging the effectiveness of the management of risk by the business.

### **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 of UBS AM who reports to the Group Chief Risk Officer.

The Chief Risk Officer within AM is responsible for ensuring the Risk Framework is in place to permit the risk actions described below:

- Risk Identification - Risk Control is responsible for supporting business management in developing and implementing adequate risk identification controls and processes. Risk Control must approve any transactions that do not fit into approved systems / processes, or which demand special approval because of their large size or non-standard nature, as defined in the Transactions Requiring Pre Approval policy;
- Risk Measurement - Risk Control is responsible for risk measurement and valuation methodologies, with specific emphasis on the validation of the models used to value and risk manage complex instruments. The Business is expected to develop and submit to Risk Control for approval any developments or changes to risk measurement and valuation methodologies;
- Risk Policy - Risk Control is responsible for developing AM risk policies ensuring they are continually consistent with evolving business requirements, industry and regulatory best practice, and are accurately adopted from UBS Group Policies;
- Risk Reporting - Risk Control is responsible for developing the risk reporting and risk limit framework and ensuring the timely and accurate production of comprehensive risk reports to the AM Risk Committee and AM Executive Committee and UBS Group; and
- Risk Control - Risk Control is responsible for 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.

### **Compliance and Operational Risk Control**

Compliance and Operational Risk Control ('C&ORC') is responsible for providing independent oversight and control of the risks arising from UBS's business activities at a divisional, regional, and entity level, this done by ensuring that UBS operates in compliance with all applicable regulations and legal restrictions.

C&ORC's primary purpose is to ensure that all compliance, conduct and operational risks are understood, owned and managed to the Life Ltd's risk appetite. This responsibility includes ensuring the necessary risk frameworks are appropriately designed and operating effectively across the business and pro-

actively identifying and analysing risk and providing constructive challenge to achieve an appropriate balance between risk and return.

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, C&ORC is responsible for providing an independent assessment as to whether or not operational risks are identified, evaluated, included on the Operational Risk Inventory, an appropriate response is consciously chosen by business management, and that they are reported consistently and comprehensively to the appropriate risk forum. C&ORC is responsible for reviewing new business proposals and transactions requiring pre-approval.

C&ORC is responsible for advising the business on all regulatory matters. The UK Compliance Team sits within Compliance & Operational Risk Control. The Head of UK Compliance reports to the EMEA Head of C&ORC. The UK Compliance Team assists the business in achieving a high standard of compliance and supports the objectives of the regulatory system and has the following roles:

- To provide advice to the business on regulatory, compliance and anti-money laundering issues;
- To monitor compliance with regulations and work with the business to develop and implement compliant systems and procedures;
- To ensure the accurate recording of Operational Risk Events and the implementation of the appropriate prevention management;
- To participate in new initiatives and projects to identify regulatory requirements and provide advice on compliance issues and aspects;
- To establish good and open relationships with the Regulators and manage these relationships accordingly;
- To ensure employees are adequately trained on regulatory and compliance issues;
- To review AM financial promotions to ensure they are clear, fair and not misleading;
- To conduct AML due diligence on the appointed providers of outsourced services;
- To report to the Regulator and any associated regulatory bodies where appropriate; and
- To implement new directives and regulations as appropriate.

Compliance colleagues worldwide work together to ensure a consistent and high standard of compliance across the Group. The EMEA Head of Compliance attends the UK Management Committee on a monthly basis and provides a written regulatory report to the committee on a quarterly basis.

### **3rd Line of Defence: Group Internal Audit function**

Audit coverage for the entire UBS Group is provided by Group Internal Audit ('GIA'). GIA is an independent and objective function that supports the business in achieving its defined strategic, operational, and financial and compliance objectives, and the Board of Directors and its committees, namely the Risk Committee and the Audit Committee in discharging their governance responsibilities by systematically assessing:

- the effectiveness of processes to define strategy and risk appetite, as well as the overall adherence to the approved strategy;
- the effectiveness of governance processes;
- the effectiveness of risk management, including whether risks are appropriately identified and managed;
- the effectiveness of internal controls, and whether they are commensurate with the risks taken;
- the soundness of the risk and control culture;

- the effectiveness and sustainability of remediation activities;
- the reliability and integrity of financial and operational information, i.e. whether activities are properly, accurately and completely recorded, and the quality of underlying data and models; and
- the effectiveness of processes to comply with legal, regulatory and statutory requirements, internal policies and contracts.

Further, GIA assesses the adherence to approved strategy as well as the processes for strategy development, setting risk appetite and business planning. All reports with key issues are provided to the Group CEO, the Group Executive Board ('GEB') members responsible for the business divisions and other responsible management. In addition, the Chairman of the Board of Directors, the Risk Committee and the Audit Committee are regularly informed about relevant findings in reports issued that apply to UBS AM. GIA closely cooperates with internal and external legal advisors and risk control units on investigations into major control issues.

Effective risk management, control and governance processes are the responsibility of the respective management and control functions. GIA independently assess design and operating effectiveness of governance at Group, divisional and regional levels. It also evaluates the independence of risk control functions.

Remediating issues is the responsibility of management. GIA ensures that management has sustainably addressed relevant issues raised from all sources (i.e. issues rated 3 and above from GIA, external audit, regulators, or self-identified by management). The existence of internal audit does not relieve management of its responsibility regarding the risk management and control process.

Group Internal Audit are permanent guests at the Board meetings and at the AM UK Audit Committee and present the findings from the Audit Committee where they are relevant to the UK. The audit plan will also be presented to the Boards and AM UK Audit Committee on an annual basis.

## **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 Life Ltd. 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 Life Ltd's underwriting policy;
- Reviewing the annual calculation of technical provisions;
- Contributing to the effective implementation of the Life Ltd'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 Treating Customers Fairly / Policyholders' Reasonable Expectations by responding to specific requests and through participation in 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 Life Ltd's culture by the governing body as a whole.

The Chief Actuary attends all Life Ltd Board meetings and receives all relevant management information and Life Ltd Board papers. In order to ensure appropriate oversight, the role of Chief Actuary has a reporting line to the CEO of AM UK.

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 Life Ltd Board 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 Chair of the UK Front-to-Back Committee has been identified as the Key Function Holder for outsourcing. This role reports to the AM UK 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 (UK);
- Fund Administration (UK and India);
- Custody Services (UK);
- Transfer Agency (UK, Ireland and India);
- Securities lending (UK);
- Portfolio Management (UK);
- Operations (UK);
- Finance (UK);
- Compliance and Operational Risk Control (UK); and
- Legal (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 has implemented a robust approval framework which must be followed at the on-boarding phase and throughout the life-cycle of the outsourced activity.

## **B.7. Any other Information**

There is no other material information regarding Life Ltd's System of Governance.

## 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.

<b>Risk Type</b> <i>GBP '000</i>	<b>Solvency II</b> <b>Pillar 1</b>	<b>Percentage of SCR</b>
<b>Underwriting Risk</b>	<b>2,409</b>	<b>51.6%</b>
Lapse	2,011	43.1%
Expense	659	14.1%
Diversification Benefit	(261)	(5.6%)
<b>Market Risk</b>	<b>2,199</b>	<b>47.1%</b>
Interest Rate Risk	21	0.5%
Equity Risk	1,782	38.2%
Spread Risk	45	1.0%
Currency Risk	847	18.2%
Diversification Benefit	(496)	(10.6%)
<b>Credit Risk</b>	<b>522</b>	<b>11.2%</b>
<b>Diversification Benefit</b>	<b>(1,288)</b>	<b>(27.6%)</b>
<b>Operational Risk</b>	<b>1,061</b>	<b>22.7%</b>
<b>Loss Absorbing Capacity of Deferred Tax</b>	<b>(239)</b>	<b>(5.1%)</b>
<b>Solvency Capital Requirement</b>	<b>4,664</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-linked fund in which to invest. 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 lapse 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. Lapse risk is a material component of the SCR, representing 43% of the SCR. Expense risk

represents 14% of the SCR. It is mitigated by the right to terminate contracts and because the majority of Life Ltd's expenses are directly related to the fees earned.

## **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 47% of the SCR. The market risks and returns relating to the unit-linked assets are incurred by the policy holders.

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 Life Ltd.

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 as the 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. Life Ltd 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 cash balance of GBP 22m is invested in UK government gilts, with GBP 5.1m deposited in a JP Morgan Liquidity Management Account ('LMA'). A further GBP 4.1m 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 11% 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.

Life Ltd's real estate Life fund which had a different liquidity profile and was the subject of a negotiated exception. This was identified internally and discussed with the FCA, who waived Life Ltd's obligations to comply with COBS 21.3.1R. This allowed Life Ltd to suspend redemptions when there was insufficient cash in the master fund to meet redemptions. A decision was taken to close Life Ltd's real estate Life fund which closed on 1 February 2018.

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.

#### **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 a significant risk for Life Ltd. However, as a result of the outsourcing agreements which Life Ltd has entered into, the nature of the operational risks to which Life Ltd is exposed primarily relate to the oversight of those duties which have been outsourced to third parties (both UBS Group and non-UBS Group entities).

The approach taken to assessing Life Ltd's operational risk capital is based on the standard formula, as per Article 204 of Delegated Acts on Solvency II, and is calculated as 25% of the previous year's expenses. For Life Ltd these expenses mainly comprise of fees paid to other UBS entities as well as



custody fees. Life Ltd continues to use the same approach as in last year's assessment which is in line with EIOPA's guidance on Pillar 1 assessment.

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. The exposures outlined above constitute 23% of the SCR.

#### **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**

UBS defines Conduct Risk as the risk that the conduct of Life Ltd unfairly impacts clients or counterparties, undermines the integrity of the financial system or impairs effective competition to the detriment of consumers. Conduct risk is a component of UBS Group's operational risk framework which captures both internal impacts (risk of financial loss, regulatory and reputational risk) and also the external impacts to clients and markets.

##### **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 Life Ltd 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 predetermined type and quality;

- 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 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.

## 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 Solvency II assets as at 31st December 2017. There were no changes made to the recognition and valuation bases used or to estimates of assets during the reporting period.

<b>Total Assets</b> <i>GBP '000</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Debt and other fixed income securities	22,003	23,050
Assets held to cover linked liabilities	8,748,362	7,384,918
Cash at bank and in hand	9,281	7,438
Debtors	883	997
Prepayments and accrued income	466	153
<b>Total Assets</b>	<b>8,780,995</b>	<b>7,416,556</b>

Under Solvency II all assets are valued on the same basis as in the financial statements. The financial statements are prepared on the historical cost convention as set out in the relevant accounting policies and in accordance with Financial Reporting Standard 101 ('FRS 101') 'Reduced Disclosure Framework' 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.

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

Debt and other fixed income securities represent investments in UK government bonds. These are valued on the basis of quoted (unadjusted) prices in active markets for identical assets.

#### 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, and are fair valued as follows:

##### **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 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.

Investments are classified as level 3 when the fair value is determined using inputs that are not observable, reflecting assumptions that the market participants may use in pricing an investment. Level 3 valued assets consist of a property fund which is designed as an appropriate vehicle to enable particular investor categories to access funds which invest principally in UK commercial property.

The fair value of the property fund (closed 01 February 2018) has been arrived at on the basis of valuations carried out by external valuers, Knight Frank LLP. The valuation basis has been by Market Value in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards. The valuation is based upon assumptions including future rental income and expected vacancy rates. The valuers also make reference to market evidence of transaction prices for similar properties. Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in significant lower (higher) fair value. Generally, a change in the assumptions made for the estimated rental value is accompanied by a directionally similar change in the rental growth per annum and discount (and exit yield), and an opposite change in the long term vacancy rate. The following table details the breakdown of assets held to cover linked liabilities by fair value hierarchy excluding a balance of £112m relating to cash and £43m relating to other receivables.

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets held to cover linked liabilities</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed maturity securities	-	508,075		508,075
Equity securities	7,897,467	10,034	52,535	7,960,036
Other investments (including derivatives)	70,432	54,897		125,329
Total	7,967,899	573,006	52,535	8,593,440

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

Cash balances are held in JP Morgan Liquidity Management Account (JPM 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 JPM LMA account also provides immediate access to liquidity and term value for balances. Cash balances are held at JPMorgan and interest is earned depending on the duration it is kept in the scheme. 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 in the JPM LMA.

#### 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.1.6. Leasing arrangements

There were no leasing arrangements in place during the reporting period.

### D.2. Technical Provisions

Life Ltd exclusively writes single premium unit-linked business with the unit liabilities matched by backing unit-linked fund assets and the majority of Life Ltd's expenses are directly linked to the fees it earns. For the year ended 31 December 2016, Life Ltd used a simplified approach in calculating the technical provisions. The rationale for this decision was based on the Board's assessment of the nature, scale and complexity of the business, specifically Life Ltd's ability to be able to terminate all insurance obligations with three months' notice. This simplified approach was fully disclosed to the PRA who stated that Life Ltd may continue to use its simplified approach until the PRA performed a review of this approach in 2017.

A revised best estimate liabilities, risk margin and SCR methodology was developed for the year ended 31 December 2017. This revised approach adopts a cash flow projection methodology over the lifetime of the business (with an assumed management action to wind-up the company when it ceases to be viable) and is consistent with PRA guidance dated 1 December 2016 on the interpretation of Article 18 of the Delegated Acts, which was based on the Q&A response given by EIOPA. The main sources of uncertainty in the calculation of the technical provisions relate to the assumed surrender rates and management action.

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

<b>Unit-linked Pensions Business</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Technical provisions in GBP '000</b>		
Best estimate liabilities	8,748,095	7,384,982
Risk margin	987	115
<b>Technical provisions - Solvency II</b>	<b>8,749,082</b>	<b>7,385,097</b>
Technical provisions - financial statements	8,748,362	7,384,918
Difference	720	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-linked fund assets. Variance between Solvency II technical provisions and technical provisions per the financial statements relates to the risk margin less the present value of future profits GBP 267,000 (2016: GBP 63,000).

The following methodology is used to calculate the BEL:

- a) All policies have been modelled as a single risk group reflecting the homogenous nature of the risks underlying the single line of business written by Life Ltd;
- b) The BEL are calculated as the difference between the face value of the units and the present value of the excess of fees over expenses;
- c) A cash flow projection over the lifetime of the business (subject to the management action described below) is performed to derive the present value of the excess of fees over expenses, which allows for expected decrements and expenses and assumes no future/ new premiums in line with PRA requirements for the interpretation of Article 18 of the Delegated Acts;
- d) Given the type of business of Life Ltd, which relates to investment only policies taken out by the trustees of pension schemes and are not related to individual members, the only decrements allowed for are surrenders. There are no contractual maturity dates and members' deaths do not trigger payments under the policies;
- e) The expenses incurred by the company in servicing policies are included in the projection and reflect the extent to which these expenses are variable or fixed. The projection of future fund values reflect the annual management charges that the company is entitled to deduct and the future expected investment returns implied by the EIOPA GBP risk free curve. An expense inflation assumption is used to escalate fixed expenses in the future; this is based on a long term view of inflation rates; and
- f) A management action is assumed, reflecting the circumstances when the company might cease to be viable and therefore be wound-up to avoid incurring ongoing and increasing losses by exercising the company's unilateral right to terminate all policies after having given three months' notice. A closure cost of £1m is assumed to be incurred at the time of closure; this has been set using expert judgement after being discussed with management.

In calculating the risk margin, the projection of future SCR for each future year over the life time of the business was considered. The prescribed 6% cost of capital was applied to the projected SCRs with the resulting amounts discounted back using EIOPA's GBP risk free curve. This utilises the EIOPA recommended approach (Article 58 of the Delegated Acts and Guideline 61 in the Level 3 guidelines – EIOPA-BoS-14/166 EN) which allows an approximate approach to be used to project the required future SCR amounts (and does not require supervisory approval). The future SCR amounts for lapse, expense and counterparty default risk are calculated by applying the proportion that the SCR capital amounts are to the unit-linked funds at the outset to projected future unit-linked funds.

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

<b>Risk Margin</b> <i>GBP '000</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Counterparty Default Risk	522	418
Life Risk	2,409	437
Market Risk	2,199	464
Diversification benefit	(1,288)	-
BSCR for risk margin	<b>3,842</b>	<b>1,319</b>
Operational Risk	1,061	1,056
SCR for risk margin	4,903	2,375
Tax adjustment (LACDT) arising from above DTL	(239)	-
SCR after LACDT adjustment	<b>4,664</b>	<b>2,375</b>
Cost of Capital	6%	6%
Risk Margin	987	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:

- 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.

There are no material approximations used in the calculation of the best estimate liabilities or risk margin. Compared to the simplified approach used for the year ended 31 December 2016, the only material change in assumptions is that a surrender decrement and assumed management are now needed. Such assumptions were immaterial / not relevant when using the short projection term of the previous simplified approach. 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 31 December 2017 is shown on page 34.

#### 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

In calculating the BEL and risk margin investment returns and discount rates will be as per the GBP risk-free interest rate term structure prescribed and provided by EIOPA as at 31 December 2017 and so by definition the transitional arrangement for the risk-free interest rate-term structure is not being used.

#### 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; these are Solvency II values and are consistent with the financial statement values. There are no changes to the recognition and valuation basis in the reporting period:

<b>Other Liabilities</b> <i>GBP '000</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Provision for liabilities and charges	90	109
Creditors	964	1,329
Accruals and deferred income	269	199
Other Liabilities	1,323	1,637

#### 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 revised 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 2017.

### 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). As Life Ltd exclusively writes single premium unit-linked business with the unit liabilities matched by backing unit-linked fund assets, the valuation techniques for liabilities are no different to assets please refer to section D.1.3.

### 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 it 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 AM UK, Life Ltd has no employees.

Life Ltd'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 are made up of only Tier 1 basic own funds including GBP 15m ordinary share capital and GBP 15.6m reconciliation reserve. 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.

<b>Summary</b> <i>GBP '000</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Ordinary share capital	15,000	15,000
Reconciliation reserve	15,589	14,827
<b>Own Funds - Tier 1 unrestricted</b>	<b>30,589</b>	<b>29,827</b>
Pillar 1 Solvency capital requirement	4,664	2,374
Pillar 1 Minimum capital requirement	3,250	3,332
Ratio of eligible own funds over the SCR	656%	1,256%
Ratio of eligible own funds over the MCR	941%	895%

The table below sets out changes in reconciliation reserve during the year:

<b>Reconciliation Reserve</b>	<i>GBP '000</i>
At 1 January 2017	14,827
Profit for the financial year	1,304
2016 Solvency II adjustment for best estimate liability and risk margin	178
2017 Solvency II adjustment for best estimate liability and risk margin	(720)
At 31 December 2017	<b>15,589</b>

There have been no significant changes over the reporting period in own funds. 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. The change in the SCR is as a result of a change in approach as outlined in section D.2. This revised approach adopts a cash flow projection methodology over the lifetime of the business consistent with

PRA guidance on the interpretation of Article 18 of the Delegated Acts. There are no material differences between the Shareholder's funds per the financial statements and the capital resource per Solvency II.

<i>GBP '000</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Shareholder's funds per financial statements	31,310	30,006
Solvency II adjustment for best estimate liability and risk margin	(720)	(178)
Available capital resources per Solvency II*	30,589	29,827

\*Difference between the total of shareholder's funds per financial statements and Solvency II adjustment for best estimate liability and risk margin to the available capital resources per Solvency II is due to rounding.

## **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 MCR and the 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 latter absolute floor results in a MCR of GBP 3.3m using the prescribed exchange rates at 31 December 2017. The biting capital requirement at year-end 2017 is the SCR. This is a change compared to 31 December 2016 when the MCR was the biting capital requirement, which is a result of using a revised approach to derive technical provisions as described earlier in D.2. In particular, the use of a longer projection term results in a greater present value of the excess of fees over expenses (and therefore lower BEL), which in turn results in SCR stresses that reduce funds under management (and therefore future fees) having greater effect and resulting in a higher SCR capital amount. Life Ltd had own funds over and above the SCR of GBP 25.9m as at 31 December 2017.

The SCR has been calculated in accordance with the methodology specified under the Standard Formula, which involves applying a series of prescribed stress tests. Life Ltd does not use any simplified calculations for the SCR.

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

<b>Solvency capital requirement (SCR)</b> <i>GBP '000</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Market Risk	2,199	464
Counterparty Default Risk	522	418
Life Risk	2,409	437
Diversification benefit	(1,288)	-
<b>Basic Solvency Capital Ratio (BSCR)</b>	<b>3,842</b>	<b>1,319</b>
Operational Risk	1,061	1,056
Total SCR	4,903	2,375
Tax adjustment (LACDT) arising from above DTL	(239)	-
<b>SCR after LACDT adjustment</b>	<b>4,664</b>	<b>2,375</b>

## **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 SCR.

**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.

## Solvency II Quantitative Reporting templates

The following quantitative reporting templates 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.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.02.01.01**  
**Balance sheet**

	<b>Solvency II value</b>	
	<b>C0010</b>	
<b>Assets</b>		
Goodwill	<b>R0010</b>	
Deferred acquisition costs	<b>R0020</b>	
Intangible assets	<b>R0030</b>	
Deferred tax assets	<b>R0040</b>	
Pension benefit surplus	<b>R0050</b>	
Property, plant & equipment held for own use	<b>R0060</b>	
Investments (other than assets held for index-linked and unit-linked contracts)	<b>R0070</b>	22,003
Property (other than for own use)	<b>R0080</b>	
Holdings in related undertakings, including participations	<b>R0090</b>	
Equities	<b>R0100</b>	
Equities - listed	<b>R0110</b>	
Equities - unlisted	<b>R0120</b>	
Bonds	<b>R0130</b>	22,003
Government Bonds	<b>R0140</b>	22,003
Corporate Bonds	<b>R0150</b>	
Structured notes	<b>R0160</b>	
Collateralised securities	<b>R0170</b>	
Collective Investments Undertakings	<b>R0180</b>	
Derivatives	<b>R0190</b>	
Deposits other than cash equivalents	<b>R0200</b>	
Other investments	<b>R0210</b>	
Assets held for index-linked and unit-linked contracts	<b>R0220</b>	8,748,362
Loans and mortgages	<b>R0230</b>	
Loans on policies	<b>R0240</b>	
Loans and mortgages to individuals	<b>R0250</b>	
Other loans and mortgages	<b>R0260</b>	
Reinsurance recoverables from:	<b>R0270</b>	
Non-life and health similar to non-life	<b>R0280</b>	
Non-life excluding health	<b>R0290</b>	
Health similar to non-life	<b>R0300</b>	
Life and health similar to life, excluding health and index-linked and unit-linked	<b>R0310</b>	
Health similar to life	<b>R0320</b>	
Life excluding health and index-linked and unit-linked	<b>R0330</b>	
Life index-linked and unit-linked	<b>R0340</b>	
Deposits to cedants	<b>R0350</b>	
Insurance and intermediaries receivables	<b>R0360</b>	883
Reinsurance receivables	<b>R0370</b>	
Receivables (trade, not insurance)	<b>R0380</b>	466
Own shares (held directly)	<b>R0390</b>	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	<b>R0400</b>	
Cash and cash equivalents	<b>R0410</b>	9,281
Any other assets, not elsewhere shown	<b>R0420</b>	
<b>Total assets</b>	<b>R0500</b>	8,780,995

	Solvency II value	
	C0010	
<b>Liabilities</b>	<b>R0510</b>	
Technical provisions – non-life	<b>R0520</b>	
Technical provisions – non-life (excluding health)	<b>R0530</b>	
Technical provisions calculated as a whole	<b>R0540</b>	
Best Estimate	<b>R0550</b>	
Risk margin	<b>R0560</b>	
Technical provisions - health (similar to non-life)	<b>R0570</b>	
Technical provisions calculated as a whole	<b>R0580</b>	
Best Estimate	<b>R0590</b>	
Risk margin	<b>R0600</b>	
Technical provisions - life (excluding index-linked and unit-linked)	<b>R0610</b>	
Technical provisions - health (similar to life)	<b>R0620</b>	
Technical provisions calculated as a whole	<b>R0630</b>	
Best Estimate	<b>R0640</b>	
Risk margin	<b>R0650</b>	
Technical provisions – life (excluding health and index-linked and unit-linked)	<b>R0660</b>	
Technical provisions calculated as a whole	<b>R0670</b>	
Best Estimate	<b>R0680</b>	
Risk margin	<b>R0690</b>	8,749,083
Technical provisions – index-linked and unit-linked	<b>R0700</b>	-
Technical provisions calculated as a whole	<b>R0710</b>	8,748,095
Best Estimate	<b>R0720</b>	987
Risk margin	<b>R0730</b>	
Other technical provisions	<b>R0740</b>	
Contingent liabilities	<b>R0750</b>	
Provisions other than technical provisions	<b>R0760</b>	
Pension benefit obligations	<b>R0770</b>	
Deposits from reinsurers	<b>R0780</b>	90
Deferred tax liabilities	<b>R0790</b>	
Derivatives	<b>R0800</b>	
Debts owed to credit institutions	<b>R0810</b>	
Financial liabilities other than debts owed to credit institutions	<b>R0820</b>	
Insurance & intermediaries payables	<b>R0830</b>	
Reinsurance payables	<b>R0840</b>	269
Payables (trade, not insurance)	<b>R0850</b>	
Subordinated liabilities	<b>R0860</b>	
Subordinated liabilities not in Basic Own Funds	<b>R0870</b>	
Subordinated liabilities in Basic Own Funds	<b>R0880</b>	964
Any other liabilities, not elsewhere shown	<b>R0900</b>	8,750,407
<b>Total liabilities</b>	<b>R1000</b>	30,589
<b>Excess of assets over liabilities</b>		

Annex I  
S.05.01.02  
Premiums, claims and expenses by line of business

	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>	R0550																	
<b>Other expenses</b>	R1200																	
<b>Total expenses</b>	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		1,766,781						
Reinsurers' share	R1420								
Net	R1500		1,766,781						
<b>Premiums earned</b>									
Gross	R1510		1,766,781						
Reinsurers' share	R1520								
Net	R1600		1,766,781						
<b>Claims incurred</b>									
Gross	R1610		1,317,551						
Reinsurers' share	R1620								
Net	R1700		1,317,551						
<b>Changes in other technical provisions</b>									
Gross	R1710		(1,363,444)						
Reinsurers' share	R1720								
Net	R1800		(1,363,444)						
<b>Expenses incurred</b>	R1900		4,048						
<b>Other expenses</b>	R2500								
<b>Total expenses</b>	R2600								

Annex I																	
S.12.01.02																	
Life and Health SLT Technical Provisions																	
		Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct)		Annuities stemming from non-life insurance contracts and relating to health	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)		
				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
<b>Technical provisions calculated as a whole</b>	<b>R0010</b>																
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	<b>R0020</b>																
<b>Technical provisions calculated as a sum of BE and RM</b>																	
<b>Best Estimate</b>																	
<b>Gross Best Estimate</b>	<b>R0030</b>			8,748,095							8,748,095						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	<b>R0080</b>																
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	<b>R0090</b>			8,748,095							8,748,095						
<b>Risk Margin</b>	<b>R0100</b>		987								987						
<b>Amount of the transitional on Technical Provisions</b>																	
Technical Provisions calculated as a whole	<b>R0110</b>																
Best estimate	<b>R0120</b>																
Risk margin	<b>R0130</b>																
<b>Technical provisions - total</b>	<b>R0200</b>		8,749,083								8,749,083						



Annex I  
S.23.01.01  
Own funds

**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**

	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	15,589	15,589			
R0140					
R0160					
R0180					
R0220					
R0230					
R0290	30,589	30,589			
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	30,589	30,589	-		
R0510	30,589	30,589			
R0540	30,589	30,589	-		
R0550	30,589	30,589			
R0580	4,664				
R0600	3,251				
R0620	656%				
R0640	941%				

**C0060**

**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

R0700	30,589				
R0710	-				
R0720	-				
R0730	15,000				
R0740	-				
R0760	15,589				
R0770					
R0780					
R0790					

**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)**



**Annex I**

**S.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**

	C0010			
MCR <sub>NL</sub> Result	R0010		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
			C0020	C0030
Medical expense insurance and proportional reinsurance	R0020			
Income protection insurance and proportional reinsurance	R0030			
Workers' compensation insurance and proportional reinsurance	R0040			
Motor vehicle liability insurance and proportional reinsurance	R0050			
Other motor insurance and proportional reinsurance	R0060			
Marine, aviation and transport insurance and proportional reinsurance	R0070			
Fire and other damage to property insurance and proportional reinsurance	R0080			
General liability insurance and proportional reinsurance	R0090			
Credit and suretyship insurance and proportional reinsurance	R0100			
Legal expenses insurance and proportional reinsurance	R0110			
Assistance and proportional reinsurance	R0120			
Miscellaneous financial loss insurance and proportional reinsurance	R0130			
Non-proportional health reinsurance	R0140			
Non-proportional casualty reinsurance	R0150			
Non-proportional marine, aviation and transport reinsurance	R0160			
Non-proportional property reinsurance	R0170			

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

	C0040			
MCR <sub>L</sub> Result	R0200	61,237	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
			C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210			
Obligations with profit participation - future discretionary benefits	R0220			
Index-linked and unit-linked insurance obligations	R0230		8,748,095	
Other life (re)insurance and health (re)insurance obligations	R0240			
Total capital at risk for all life (re)insurance obligations	R0250			

**Overall MCR calculation**

	C0070	
Linear MCR	R0300	61,237
SCR	R0310	4,664
MCR cap	R0320	2,099
MCR floor	R0330	1,166
Combined MCR	R0340	2,099
Absolute floor of the MCR	R0350	3,251
	C0070	
<b>Minimum Capital Requirement</b>	R0400	3,251

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