05th April 2023

# UBS Asset Management Life Ltd

# Solvency and Financial Condition Report

## As at 31 December 2022

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# Glossary of Terms

| Acronym | Name |
|---|---|
| AM UK | Throughout this document, AM UK refers to UBS Asset Management Holding (No. 2) Ltd and its regulated subsidiaries which are as follows:<br>• UBS Asset Management (UK) Ltd<br>• UBS Asset Management Funds Ltd<br>• UBS Asset Management Life Ltd |
| AuM | Assets Under Management |
| BCMP | Business Continuity Management Plan |
| BEL | Best Estimate Liability |
| BRM | Business Risk Management |
| BSCR | Basic Solvency Capital Requirement |
| COVID-19 | Coronavirus |
| C&ORC | Compliance and Operational Risk Control |
| DISO | Divisional Information Security Officer |
| The Code | The Code of Conduct and Ethics (1-C-001254) |
| 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 |
| JP Morgan | JPMorgan Chase Bank, National Association, London Branch |
| IGM | Investment Guideline Monitoring |
| IPM | Investment Performance Measurement |
| KFH | Key Function Holder |
| KPCI | Key Procedural Control Instance |
| 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 |
| MRM | Management Responsibility Map |
| Non-Financial Risk | The risk of undue monetary loss and/or non-monetary adverse consequences resulting from inadequate or failed internal processes, people, and systems, failure to comply with laws and regulations and internal policies and procedures, or external events (deliberate, accidental, or natural) which have an impact to UBS, its clients or the markets in which it operates. The resultant risks are clustered as Compliance, Financial Crime and Operational Risk |
| NAV | Net Asset Value |
| Northern Trust | Northern Trust Global Services Limited |
| ORSA | Own Risk and Solvency Assessment |
| PCOC | Product and Customer Outcomes Committee |
| PRA | Prudential Regulation Authority |
| RSR | Regular Supervisory Report |

| | |
|---|---|
| SCR | Solvency Capital Requirement |
| SM&CR | Senior Managers & Certification 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 Chapter 3 of the Reporting Part of the PRA Rulebook for Solvency II Firms. The structure of the report follows Annex XX of the Delegated Regulation (EU) 2015/35 as incorporated into United Kingdom law.

**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 institutional pension funds in the UK. Life Ltd has a range of unit-linked investment funds across a broad range of passive investment capabilities.

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 authorized by the Prudential Regulation Authority (PRA) and dual regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'). Life Ltd has a highly outsourced business model and as a result, has no employees.

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 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 impacts policy holders to greater extent than Life Ltd. However, Life Ltd’s revenues are directly impacted by AuM levels, therefore market movements and in-flows or outflows of AuM impact its profitability.

Life Ltd does not actively invest surplus shareholder funds, holding them instead in cash or cash equivalents and short-dated Gilts. These holdings generate interest income which is recognised in the profit and loss account as earned. There are no investments in securitized assets.

Assets under management (“AuM”) have decreased by £4.9bn relative to the previous year. This is driven by a fall in equity markets during the year and the indexed nature of our products ensures our AuM movements correlate to these markets. Over half of the reduction (£2.6bn) was attributable to policyholder redemptions.

Liquid assets have reduced from £30.8m (2021) to £21.6m (2022). The decrease in liquid assets is due to an interim dividend of £11.0m (2021: £3.2m) paid to UBS Asset Management Holding Ltd (Parent company). Life Ltd has sufficient liquidity to meet its liabilities and fixed annual expenditure.

Life Ltd currently holds a regulatory capital ratio of 556% (2021: 870%) of the solvency capital requirement and Life Ltd is also well capitalised to support any adverse shocks with £21.6m (2021: £30.8m) is invested in short-dated Gilts or kept as cash or cash equivalents. Life Ltd has performed an assessment of the impact of various stress scenarios and it concluded that Life Ltd has adequate resources to remain resilient and continue in operational existence. Life Ltd has a robust process to ensure it captures the impact of various stress scenarios including Non-financial Risk events on its revenue, cost and solvency capital requirement for the next 3 years for those scenarios. Those entire stress scenarios are documented in the Own Risk and Solvency Assessment ("ORSA") document. Based on the result of various stress scenarios and reverse stress tests, Life Ltd can conclude that the company is well capitalised and has sufficient liquidity to meet its obligations, at least for the period up to 31 December 2025, even under the worst-case scenario.

A final dividend is not recommended by the Board for 2022 (2021 – nil) in addition to the interim dividend of £11.0m (2021: £3.2m) paid during the year.

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.

### 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 and are derived from the Standard Formula for Solvency and Capital Requirement.

| Risk Type | Solvency II *£ '000* | Percentage of SCR |
|---|---|---|
| **Underwriting Risk** | 1,138 | 45.7% |
| **Market Risk** | 1,253 | 50.3% |
| **Counterparty Default Risk** | 227 | 9.1% |
| **Diversification Benefit** | (643) | (25.8)% |
| **Non-financial Risk** | 732 | 29.4% |
| **Loss Absorbing Capacity of Deferred Tax ('LACDT')** | (215) | (8.6)% |
| **Solvency Capital Requirement** | **2,492** | |
| **Minimum Capital Requirement** | 3,445 | |
| **Regulatory Capital Requirement ('RCR')*** | **3,445** | |

* Regulatory Capital Requirement ('RCR') is higher of Solvency Capital Requirement and Minimum Capital Requirement

The risk profile is reviewed in section C.

### Valuation of Technical provisions for solvency purposes

The technical provisions calculations adopt 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 and 13 July 2018 on the interpretation of Article 18 of the Delegated Acts.

The table below shows technical provisions of Life Ltd as at 31 December 2022 under the Solvency II model.

| Category | 2022 *£ '000* | 2021 *£ '000* |
|---|---|---|
| **Technical provisions as a whole[1]** | 10,932,681 | 15,865,937 |
| **Best Estimate[2]** | 846 | 62 |
| **Unit-linked insurance obligations[3]** | 10,933,527 | 15,865,999 |

[1] Sum of the face value of the units.
[2] Present value of the excess of fees over expenses.
[3] Sum of technical provisions as a whole and best estimate

### Capital management

| Category | 2022<br>*£ '000* | 2021<br>*£ '000* |
|---|---|---|
| **Own Funds** | 19,147 | 29,293 |
| **Solvency Capital Requirement** | 2,492 | 3,366 |
| **Minimum Capital Requirement** | 3,445 | 3,126 |

The above assessment indicates that Life Ltd has regulatory capital available at 31 December 2022 of £19,147k (2021: £29,293k). Life Ltd's SCR is £2,492k (2021: £3,366k). A surplus of £15,703k (2021: £26,167k) over the minimum capital requirement reflected above and a surplus of £16,656k (2021: £25,927k) over the solvency capital requirement. The Capital Requirement is the higher of Solvency Capital Requirement and Minimum Capital Requirement, which is £3,445k for the year ended 31st December 2022.

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.

### External audit

Life Ltd qualifies as a "small firm for external audit purposes" and Life Ltd's SFCR is exempt from external audit in line with the amendment of the External Audit Part of the PRA Rulebook for Solvency II firms on 17 October 2018 (PS 25/18: Solvency II: External Audit of the Public Disclosure). However, Life Ltd decided to voluntarily comply with Rule 2.1 of the External Audit Paragraph of the PRA Rulebook applicable to Solvency II firms and engaged Ernst & Young LLP to audit and report on the following:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2022, ('the Narrative Disclosures subject to audit'); and

- Company templates S02.01.02, S12.01.02, S23.01.01, S25.01.21, S28.01.01 ('the Templates subject to audit').

# 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 section B (System of Governance), 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

Peter Davis, Director Natalie Sewell, Director
UBS Asset Management Life Ltd 05/04/2023

**Report of the independent external 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 and the Company's voluntary compliance with Rule 2.1 of that Part.**

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

**Opinion**

We are engaged by the Company to perform an audit of the nature prescribed by Rule 4.1(1) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms, in all respects as though that Part applied to the Company notwithstanding its status as a small firm for external audit purposes.

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2022**:**

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at **31 December 2022 ('the Narrative Disclosures subject to audit**'); and
- Company templates S02.01.02, S12.01.02, S23.01.01, S25.01.21 and S28.01.01 ('**the Templates subject to audit'**).

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company template S05.01.02; 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 2022** 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 *(Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'* and 'ISA (UK) 805 *(Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'*. 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

In auditing the relevant elements of the Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of the Directors' going concern assessment process and obtaining the Directors' going concern assessment covering the period up to 31 December 2025. This includes the Company's profitability, liquidity and solvency position;
- evaluating the appropriateness of assumptions and methodology used in the Directors' financial forecast which forms the basis for the Directors' going concern assessment and determining whether the forecast provides an appropriate basis for the Directors to assess the Company's going concern basis of accounting;
- assessing the accuracy of the going concern analysis by testing the inputs and the clerical accuracy of the financial forecast used;
- evaluating the assumptions used in the Directors' stress testing, including the reverse stress test, and concluded the assumptions to be reasonable and the likelihood of the reverse stress scenario to be remote;
- performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board, reviewed regulatory correspondence, and made enquiries as to the impact of the Russian invasion of Ukraine, the associated sanctions and the impact of recent events in the global banking sector; and
- assessing the appropriateness of the Company's going concern disclosures by evaluating the consistency with the Directors' assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period up to 31 December 2025

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

## Emphasis of matter – basis of accounting and restriction on use

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

This report is made solely to the Directors of the Company in accordance with our letter of engagement dated 6 March 2023 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 contained within the Solvency and Financial Condition Report.

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.

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 course of 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 this gives rise to a material misstatement in the relevant elements of the Solvency and Financial Condition Report themselves. 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.

In preparing the Solvency and Financial Condition Report, the Directors are responsible for assessing the Company's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Company, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**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 the 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.

***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.
However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the direct laws and regulations related to elements of Company law and tax legislation, and the financial reporting framework. Our consideration of other laws and regulations that may have a material effect on the Solvency and Financial Condition Report included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board, and the Audit Committee; and gained an understanding of the Company's approach to governance demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework and internal control processes.

- We assessed the susceptibility of the Company's Solvency and Financial Condition Report to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. Where fraud risk, including risk of management override, was considered to be higher, we performed audit procedures to address each identified fraud risk specifically on revenue recognition of internally calculated management fees.

  Our procedures included:

  - enquiry of management about risks of fraud and the controls put in place to address those risks;
  - understanding the oversight given by those charged with governance of management's processes over fraud;
  - considering the effectiveness of management's controls designed to address the risk of fraud;
  - reviewing estimates for evidence of management bias; and
  - testing the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.

- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and the PRA.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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/auditorsresponsibilities.

This description forms part of our auditor's Report on the Solvency and Financial Condition Report.

**Report on Other Legal and Regulatory Requirements**

In accordance with our letter of engagement dated 6 March 2023 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.

DocuSigned by:

Ernst & Young LLP

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Ernst & Young LLP
London
05 April 2023

# A Business and performance

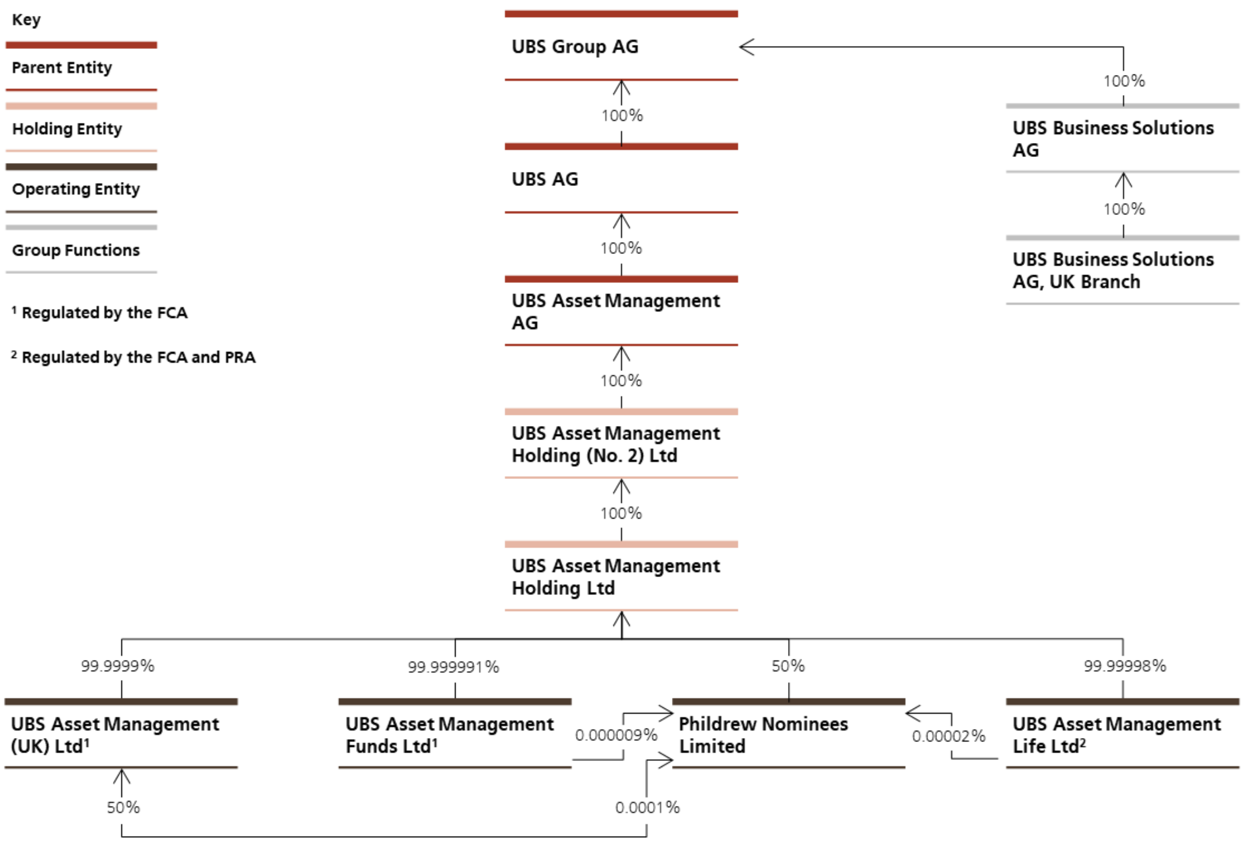
## A.1. Business & Operating Model

Life Ltd is an insurance company subject to the Solvency II prudential regime, that performs an Own Risk and Solvency Assessment ('ORSA') and produces a Regular Supervision Report ('RSR'), which is submitted to the PRA and publishes the Solvency and Financial Condition Report ('SFCR') on its website, all on an annual basis.

The principal activity is to provide long-term unit-linked insurance benefits to institutional pension funds in the UK. Life Ltd has a range of unit-linked investment funds across a broad range of investment capabilities.

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 Non-financial Risks that arise under those agreements.

*UBS AM UK – Legal ownership structure*




Life Ltd was launched in 1998 when it was integral to Phillips & Drew Fund Management's strategy for entering the Defined Contribution ('DC') pension market. Subsequently the approach changed and UBS no longer offers DC products. The book of DC business was wound up in 2007. 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 Withholding Tax treatment that other funds do not. The tax and administrative effectiveness for the pension market enables UBS to offer a competitive product on the market and compete with other major passive fund providers.

All Life Ltd's Policy documents (contracts) are with institutional investors, either UK approved pension schemes or insurance companies. The Policy is a contract between the insurer (Life Ltd) 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.

Similar to contract terms in peer company products, the contracts give Life Ltd the unilateral right at any time to terminate the contract subject to giving three months' notice. This is an important risk mitigant that allows Life Ltd to reduce losses, and if necessary, wind up the company at relatively short notice if it ceases to be viable.

As at 31 December 2022, the Life Funds comprise 29 clients. The top five clients represent 87% of AuM as at 31 December 2022 compared to 62% of AuM as at 31 December 2021. The figures are calculated to exclude the impact of cross holding effect, i.e. where one Life Fund holds units in another Life Fund, to avoid the double counting of AuM. 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.

As a result of its highly outsourced business model, Life Ltd has no employees. Other entities are responsible for the vast majority of the day-to-day operational activity that occurs and for the costs of the Non-financial Risks that arise under those agreements. The Product function is retained in-house. Life Ltd has appointed JP Morgan as fund administrator and custodian, Northern Trust as transfer agent and Willis Towers Watson as Actuary. Details about outsourcing agreements Life Ltd has entered into are described in section B.6.

The cost for the Asset Management division is expensed through UBS Asset Management Holding Ltd. A fixed monthly charge is allocated from UBS Asset Management Holding Ltd to Life Ltd.

Any legally distributable profits of Life Ltd will be paid as dividends to the parent entity in line with Group Policy. The distribution of available earnings by UBS subsidiaries is subject to local minimum legal reserves and local regulatory capital requirements and will only be payable upon approval by the Board of Directors.

**Strategy**

Life Ltd’s strategy has not changed and remains to offer an administratively simple and cost effective way of providing pooling arrangements.

**Registered office and mailing address**:

UBS Asset Management Life Ltd
5 Broadgate
London
EC2M 2QS

A.1.1 Supervisory authority responsible for financial supervision

Life Ltd is currently authorised by the PRA and dual regulated by the FCA and the PRA (FRN: 186527).

| | |
|---|---|
| Prudential Regulation Authority<br>Bank of England<br>Threadneedle Street<br>London EC2R 8AH | Financial Conduct Authority<br>12 Endeavour Square<br>London E20 1JN |

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

**External auditor of the undertaking**:
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

## A.2. Business Performance over the reporting 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 Policyholders. The assets and liabilities of Life Ltd are therefore closely matched. Life Ltd earns a management fee based upon the level of AuM with the majority of expenses being directly linked to the AuM and therefore, fees earned. The financial performance of Life Ltd is detailed below.

| *Financial data* | **2022** ***£ '000*** | **2021** ***£ '000*** |
|---|---|---|
| Revenue | 4,183 | 4,587 |
| Custody Fees | (1,160) | (1,160) |
| **Net Revenue** | **3,023** | **3,427** |
| Investment Management Fees | (740) | (1,239) |
| Other Direct Costs | (1,228) | (1,013) |
| **Profit before tax** | **1,055** | **1,175** |
| Tax | (196) | (220) |
| **Profit after tax** | **859** | **955** |
| **Total AuM (£bn)** | **10.9** | **15.9** |

Revenue has decreased by 9%. This is due to the average AuM being lower compared to 2021, leading to reduced management fees being paid on a lower asset base. This decrease is partially offset by clients switching AuM into sustainable products which attracts a higher basis point fee.

Assets under management ("AuM") have decreased by £4.9bn relative to the previous year. This is driven by a fall in equity markets during the year and the indexed nature of our products ensures our AuM movements correlate to these markets. Over half of the reduction (£2.6bn) was attributable to policyholder redemptions.

Custody fees remained flat, however we expect these to move broadly in line with overall AuM levels, but there have been additional transaction costs incurred during the year, caused by switches of client assets into sustainable products, which have increased custody fees to AuM ratio compared to prior year.

Investment Management Fees and Other Direct Costs decreased by 13%. A proportion of Management fees are paid to UBS Asset Management UK Ltd for portfolio management services. As the Management fees have decreased, this in turn has led to a reduction in the amount paid to UBS Asset Management UK Ltd.

### A.2.2 Investment Performance

Life Ltd's business solely comprises unit-linked policies and policyholders bear the investment risk in relation to linked assets. As a result, Life Ltd does not take investment risk on behalf of policyholders or shareholders and does not pursue any investment strategy with the intention of providing support to its own funds.

Life Ltd is not a Pension fund itself and therefore is unable to invest in its own unit linked funds. The investment performance, therefore, impacts policy holders to a greater extent than Life Ltd. However, Investment performance of the unit linked funds impacts Life Ltd's revenue, its fees being a percentage of assets under management.

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 recognized in the profit and loss account as earned income. There are no investments in securitized assets. Investment income relates to interest earned on Gilts as well as cash at bank totalled to a gain of £130k (2021 loss of £27k).

### A.3. Any other information

#### A.3.1 Russia-Ukraine crisis

Within the unit-linked funds, Russian equity values in the funds have been written down to zero from 3 March 2022, due to sanctions and the closure of Russian equity exchange. Exposure to Russia and Ukraine as of 31 December 2022 is limited is 0.002%.

It should be noted that, the investment risk in relation to these funds has been assessed to have an immaterial impact on the entity's business performance and capital position in relation to their exposure to Russia and Ukraine.

Overall UBS has a global franchise and only limited direct exposure to the region. With a diversified business model, robust risk management processes, and a very strong capital position we are very well placed to handle any challenges or risks.

Given the serious nature of the developments in the Ukraine and the associated uncertainty in multiple respects, potential material Non-financial Risk exposure is possible. However, we have a comprehensive Business Continuity Management program and Crisis Management framework in place, designed to prevent a wide variety of events from interfering with our critical operations.

#### A.3.3 Going Concern

Life Ltd's business activities, together with the factors likely to affect its future development, performance and position are set out within this report. The financial position of Life Ltd and its liquidity position are reflected on the balance sheet. In response to the natural disaster risk outlined on page 10 of the financial statements, Life Ltd has performed an assessment of the impact due to the COVID-19 pandemic and concluded that the Company has adequate resources to continue in operational existence at least for the period up to 31 December 2025. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements and SFCR document.

Life Ltd has a robust process to ensure it captures the impact of various stress scenarios including Non-financial Risk events on its revenue, cost and solvency capital requirement for the next 3 years for those scenarios. Those entire stress scenarios are documented in the Own Risk and Solvency Assessment ("ORSA") document. Based on the result of various stress scenarios and reverse stress tests, the Board of the Company has concluded that even in the worst-case scenario it is well capitalised and has sufficient liquidity to meet its obligations at least for the period up to 31 December 2025.

# B System of Governance

### B.1. General Information on the System of Governance

#### Governance framework

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 shareholders, the senior management through to its Board of Directors.

AM UK performs the vast majority of the operational activity that takes place day-to-day for Life Ltd under outsourcing agreements. UBS Asset Management in the UK ('AM UK') has well-defined management structures, which are supported by a number of committees/forums, many of which operates within 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 efficient day-to-day operation. These procedures are reviewed and updated periodically and where appropriate, are subject to approval by the independent control functions.

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/forum will be established, in some instances, AM UK will leverage a global committee/forum to report updates, issues and concerns to the relevant UK Board or committee/forum.

**Role of the Board & Non-Executive Directors**

The Board are collectively responsible for the long term success of the company and for providing leadership of the company within a framework of prudent and effective controls. They oversee the implementation of the strategy for Life Ltd (in light of the strategy set by the wider UBS Group and approved by the AM Executive Team).

In order to ensure the effectiveness of the Board, an appropriate mix of individuals with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making is key. The Non-Executive Directors (NEDs) are independent from the business and provide objective oversight, scrutiny and expertise on issues including, but not limited to, strategy, performance, resources, standards of conduct and the management of conflict of interests.

The Board must complete a self-assessment at least annually to review its own performance, as well as the performance of each of the Committees/Forums. Such a review seeks to determine whether the Board and the Committees/Forums function effectively and efficiently and whether the terms of reference need to be updated. Considering that review, the Board must determine whether it has the appropriate diversity of qualifications, knowledge and relevant experience and set out possible actions that are likely to promote greater diversity in the future if necessary.

The responsibilities of the Life Board include:

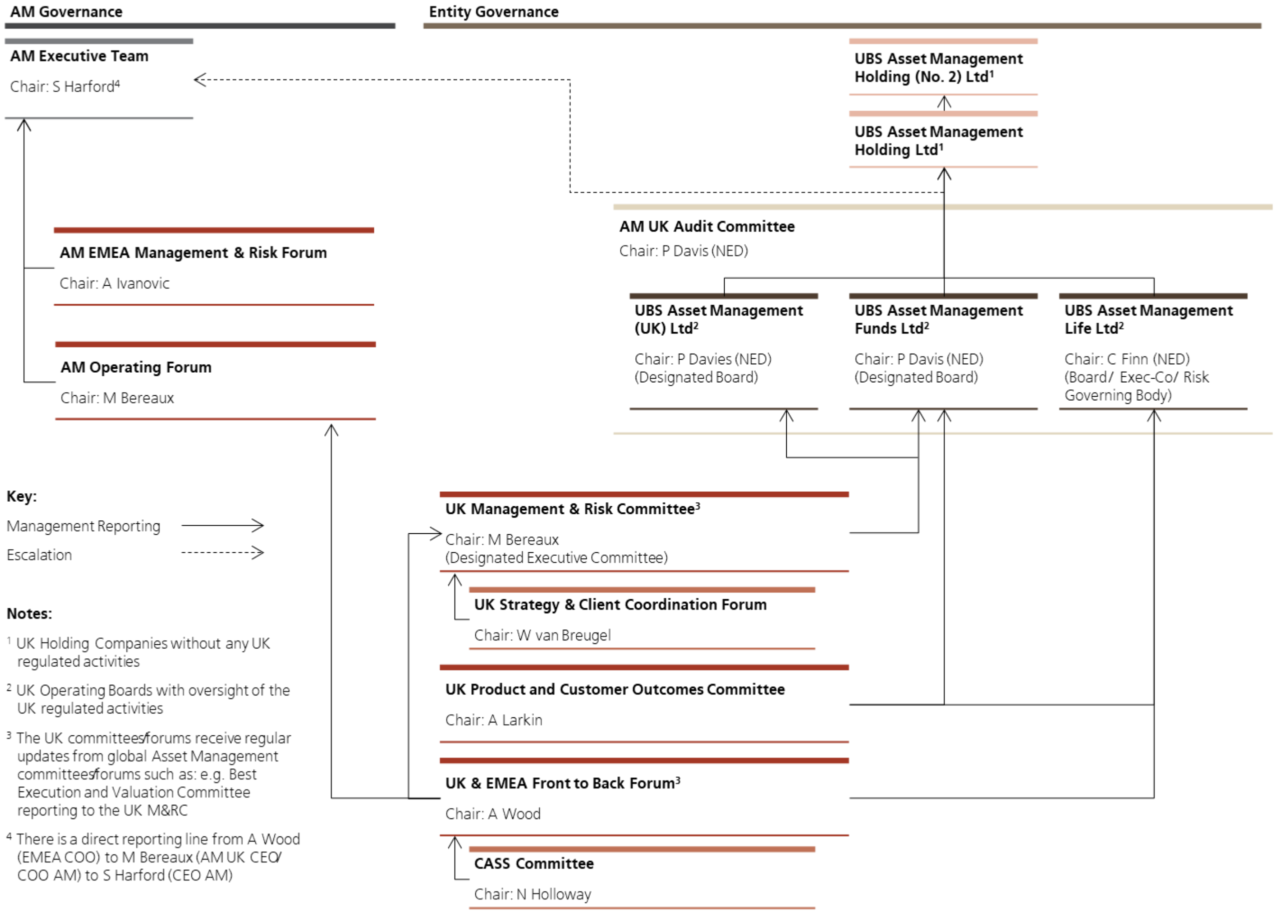
- Actively engage in the affairs of Life Ltd and keep abreast of material changes in Life Ltd's business and the external environment, as well as act in a timely manner to protect the long-term interests of Life Ltd.
- Oversee the development of and approve Life Ltd's business plan, objectives and strategy, 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.
- Approve Life Ltd's risk appetite and monitor exposure versus appetite on at least a quarterly basis.
- Ensure effective risk management for the entity through:
    - Oversight of the investment risk to clients arising from the management of assets and performance of regulated activities;
    - Oversight of all relevant risks to the entity as identified and captured in the AM UK Risk Taxonomy (Business, Financial, Non-Financial, Conduct & Reputational);
    - Oversight of adherence to risk policy and risk limits; and
    - Consider and review the appropriateness and completeness of risk information and reporting made available.
- 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;
- Take an active part in the Own Risk and Solvency Assessment ('ORSA'), including steering how the assessment is to be performed and challenging the results;
- Require that Life Ltd maintain a robust finance function responsible for accounting and financial data, which includes the:

    - approval of the annual financial statements, ORSA and Solvency and Financial Condition Report ('SFCR') and a periodic independent review of critical areas;
    - Approval of the methodology and assumptions used to value liabilities; and
    - Approval of the policy for valuing assets;
- Non-Executive Directors oversee the selection and performance, of the Life Ltd CEO, key members of senior management and heads of the control functions, (including oversight of the plans for succession) through the annual Board review process;
- Ensure compliance with the Senior Managers and Certification Regime regulation especially taking ownership of the Governance Map and assigning appropriate prescribed responsibilities to the Senior Management Functions;
- Approves relevant matters related to Life Ltd products development and new business opportunities
- Oversight of outsourced functions, ensuring that the terms of the outsourced engagements and ongoing service levels with outsourced providers for funds administration, custody services, securities lending and transfer agency are appropriate for the services delivered.
- Oversight of inter-entity outsourcing as it relates to Investment Management activities delegated to UBS Asset Management (UK) Ltd by Life Ltd.

## Overview of governance & committee/forum structure

The UK governance framework supports the Boards of the three main regulated entities, as well as the AM divisional governance bodies.

*AM UK Governance & Committee/Forums Structure*



**UK & EMEA Front-to-Back Forum**

The Forum represents the UK Management Committee and the Boards of UBS Asset Management Life Ltd and UBS Asset Management Funds Ltd to manage the operating activities of AM UK including, but not limited to, the front-to-back control framework and management of business and Non-financial Risk issues across key processes as the first line of defence.

**UK Product and Customer Outcomes Committee (‘PCOC’)**

The AM UK Product and Customer Outcomes Committee supports the AM UK Management Committee, the Boards of UBS Asset Management Funds Ltd and UBS Asset Management Life Ltd in establishing oversight of material risks related to products and the consideration of customer outcomes in line with the regulatory expectations on Treating Customers Fairly

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 life-cycle of the product. The PCOC will also be responsible for ensuring that AM UK fulfils its Treat-Customers-Fairly obligations effectively and efficiently.

**UK 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**

Life Ltd have a Management Responsibility Map ('MRM') which describes the system of governance in more detail and is available on request. The MRM is regularly reviewed and considered by the Board (at least annually) to ensure it remains appropriate given the nature, size and complexity of the business.

**Details of remuneration**

All staff are either employed by UBS AG or UBS Business Solutions AG (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.

Directors' emoluments are payable by another Group company and are not separately recharged to Life Ltd. Non-executive directors contract directly with Life Ltd.

## B.2. Fit and Proper Requirements

The aim of SM&CR is to reduce harm to consumers and to strengthen market integrity by creating a system that enables firms and regulators to hold people to account and therefore ensures greater clarity about those individuals who have responsibility for managing the business. Life Ltd is required to identify their most senior manager functions which are of specific importance to the sound and prudent management of the firm. SM&CR requires Life Ltd to also identify functions which need certification that are not senior management functions, but can have a significant impact on customers, firm and/or market integrity. Individuals in both the senior manager and certification functions need 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 senior manager function are required to be assessed prior to the submission of an application. The fit and proper assessment process applies to individuals in a certification function but these individuals will not be registered with the regulator. In assessing fitness and propriety, UBS have regard to an individual's honesty, integrity and reputation, competence and capability and financial soundness, and have policies and procedures in place to identify, assess and review fitness and propriety on an annual basis.

**Senior Management Functions**

The PRA and FCA have set out a number of key responsibilities and functions that must be allocated amongst those individuals at Life Ltd approved to carry out an SMF role. The Board carries out an ongoing assessment of the appropriateness and completeness of its allocation of PRA and FCA Prescribed Responsibilities.

The individuals listed below have each been allocated Senior Management Functions ('SMFs') as of 31/12/2022:

| Name | Role Title | Senior Management Function | Description of a Senior Management Function | Effective Date |
|---|---|---|---|---|
| **Malcolm Gordon** | Head of UK Institutional Client Coverage | SMF1 | Chief Executive function | 07.10.2021 |
| | | SMF3 | Executive Director | 10.12.2018 |
| **Ruth Beechey** | UK Chief of Staff | SMF3 | Executive Director | 10.12.2018 |
| **Natalie Sewell** | Business Manager Portfolio Engineering & Trading | SMF3 | Executive Director | 10.02.2022 |
| **Daniel Beadel** | Chief Financial Officer | SMF2 | Chief Finance | 10.12.2018 |
| **Farooq Gulzar** | Chief Risk Officer | SMF4 | Chief Risk | 19.04.2021 |
| **Keith Haywood** | Head of Asset Management Group Internal Audit | SMF5 | Head of Internal Audit | 10.12.2018 |
| **Claire Finn** | Non-Executive Director - Chair of the Board | SMF9 | Chair | 20.09.2022 |
| **Pete Davis** | Non-Executive Director | SMF14 | Senior Independent Director | 10.12.2018 |
| **Naz Shabir** | Head of C&ORC AM UK | SMF16 | Compliance Oversight | 20.07.2022 |
| **James Mortimer** | Head of Financial Crime Prevention AM | SMF17 | Money Laundering Reporting | 10.12.2018 |
| **Neil Chapman** | Chief Actuary | SMF20 | Chief Actuary | 10.12.2018 |
| **Andrew Wood** | AM EMEA Operating Officer | SMF24 | Chief Operations | 22.07.2022 |
| **Nora Holloway** | Head UK Fund Product Control | SMF24 | Chief Operations | 18.03.2019 |

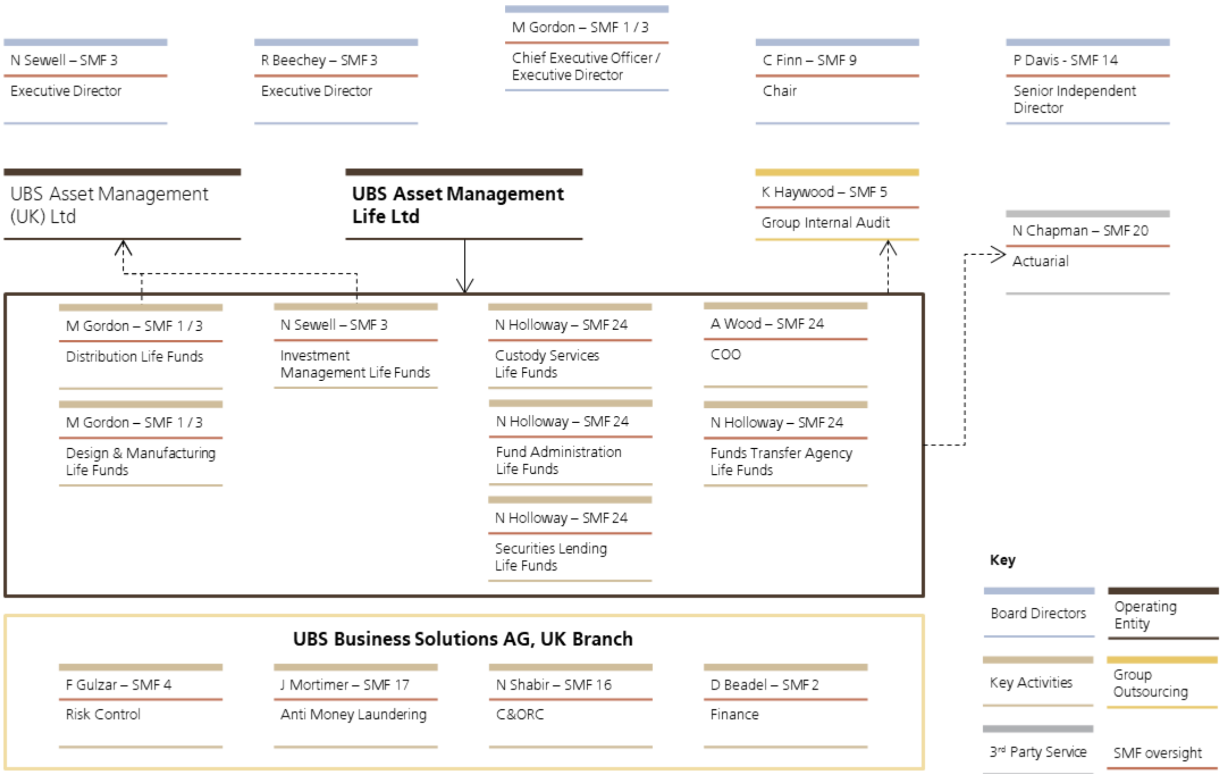
**Exceptions**

The AM UK Business Management carries out an ongoing assessment of the appropriateness and completeness of its Senior Management Functions. In the most recent assessment the following SMFs have been deemed to be not applicable for Life Ltd:

| SMF | Description of a Senior Management Function | Rationale |
|---|---|---|
| **SMF6** | Head of Key Business Area | Investment Management outsourced to AM UK Ltd with oversight from KFH Investment Management |
| **SMF7** | Group Entity SM | 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 |
| **SMF10** | Chair of the Risk Committee | SMF10 analysis performed by AM UK Business Management concluded that PRA's prescribed functions in the PRA's handbook prescribed for the Chair of Risk Committee are covered by the Board |
| **SMF11** | Chair of the Audit Committee | Life Ltd has allocated responsibility for safeguarding and overseeing the independence and performance of the internal audit function to its Senior Independent Director who discharges the oversight of the internal audit system of Life Ltd to the AM UK Audit Committee which also oversees the performance of the internal audit function for UK Ltd and Funds Ltd as a joint Audit Committee without appointing an SMF11 for the relevant entities |
| **SMF18** | Other Overall Responsibility | Products & HR were considered for this function and deemed by the Board to not be significant functions for Life Ltd |

**Senior management coverage of Life Ltd operating activities**

*Life Ltd - Summary of senior management coverage of activities*




**Employment arrangements for SMFs**

NEDs are appointed directly by Life Ltd. Senior Managers performing executive functions and Group Internal Audit are employed by UBS AG, Senior Managers performing certain Group Function executive functions are employed by UBS Business Solutions and the Chief Actuary is employed by a letter of engagement between Willis Towers Watson and Life Ltd.

## 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 firm-wide risk culture, and to adequately manage and control risks, leads to financial loss and damage to our reputation and to the trust of our stakeholders. The Board are ultimately responsible for adequate risk management and establishing an integrated and institution-wide risk culture.

Life Ltd is subject to risk management and control principles, which apply to the UBS Group, and are designed to support optimal risk-return decisions. Holistic governance together with aligned risk, compliance and finance processes are designed to help protect Life Ltd from unacceptable damage to its financial strength, performance and reputation. Also, the risk management and control processes of Life Ltd 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 Life Ltd Board.

In order to form an adequate risk culture, respective policies such as The Code (see Glossary) are established for all employees. Risk management is an integral topic of all committees and management expects every employee to act appropriately within the allowed risk appetite.

AM UK operates a Training and Competence Regime for all staff. Training is given a high priority, and staff receive appropriate training which is considered regularly by managers in order to maintain competence. All new joiners are required to complete a suite of computer-based training modules. Completion records and performance is tracked and non-compliance or late completion is reported to senior management. Most computer-based training modules contain a test which employees must pass before the training is complete. All staff are required to complete refresher training on a periodic basis.

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.

The Board and senior management have also received training throughout the year on relevant regulatory topics.

### 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 Chief Risk Officer 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;
- Evaluation of the SCR and own solvency needs;
- Assessment of the appropriateness of using the Standard Formula for the calculation of the SCR;
- Business and capital planning;
- Stress and scenario testing;
- Reverse stress testing;
- Ongoing capital adequacy monitoring;
- ORSA documentation including sign-off by the Board owner of each section.

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

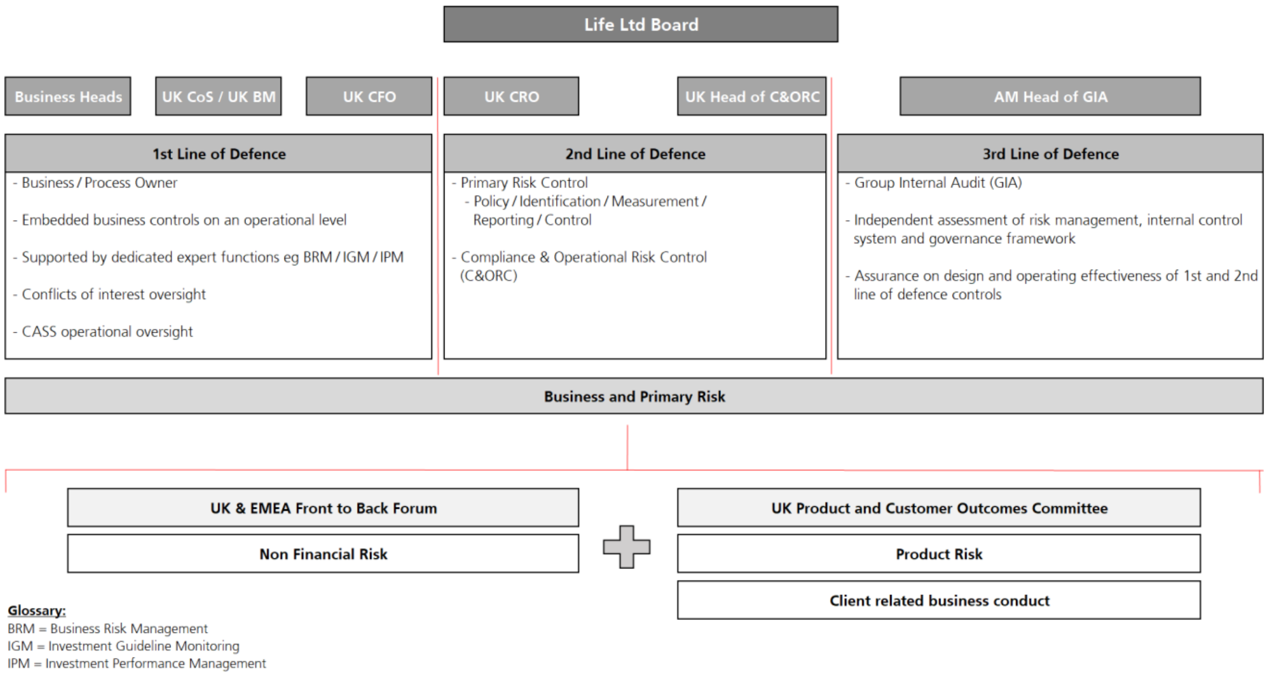
- Actuarial Function and risk owners;
- Senior management of AM UK involved with Life Ltd; and
- Life Ltd Board including the Independent Non-executive Directors.

The ORSA was last approved by the Board on 8th April 2022. The ORSA report for 2022 is expected to be approved with the SFCR on 29th March 2023.

## B.4. Internal Control System

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

*AM UK Three Lines of Defence Model*




The objective of the control functions in all lines of defence is to support the Board in implementing a comprehensive and sound risk management and risk control framework and to continuously improve it. The control functions within the three lines of defence act independently from each other with the mission to monitor adherence to policies and procedures as well as compliance with laws and regulations. To ensure the independence and continuity of the control functions, the respective units have access to all relevant data and information. Results and conclusions of their activities are frequently reported to the Board as well as to all relevant committees. For the same reason of independence, a strict segregation of duties applies, meaning that the tasks of the control functions are controlled by the next level of defence respectively and the staff does not form part of or depend hierarchically upon functions controlled by them. In addition, they are subject to a remuneration policy which aims to avoid any conflict of interest by being independent from the business performance of the Group.

### B.4.1 1st Line of Defence (1LOD) —Business

The 1st line of defence is responsible for proper risk management and culture within their daily business activities, and they are supported by various dedicated expert functions that are in permanent exchange with the 2nd line of defence.

The members of the Board own all the risks assumed throughout the business units, including outsourced activities and processes, 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 risks actively taken in order to generate returns, but also for the risks arising from their activities. Senior management have an over-riding priority to protect Life Ltd's long-term interests and not simply to maximise short-term profits.

**Dedicated Expert Functions**

Asset Management's Business Risk Management (BRM) team is responsible for effective first-line-of-defense risk management of AM's Non-financial Risks. Working closely with the business functions, BRM performs Front-to-Back business control and risk assessments, identifies and highlights potential areas of operational weaknesses, provides management with a forward-looking, consolidated view of Front-to-Back business risks and provides a framework for the capture and monitoring of remediation activities. An integral part of BRM is the Divisional Information Security Officer ('DISO') who covers all information processes, physical and electronic, regardless of whether they involve people and technology or relationships with external partners, customers and third parties. Information security addresses information protection, confidentiality, availability and integrity throughout the life cycle of the information and its use within the organisation.

**Conflicts of Interest Oversight**

Fostering a risk culture is also central to identifying and managing conflicts of interest. Life Ltd maintains a conflicts of interest inventory for which each conflict is allocated a significant influence function owner. Discussion of conflicts of interest are scheduled at the Life Board so that conflicts are reviewed on an annual basis.

### B.4.2 2nd Line of Defence (2LOD)—Independent Risk Management & Control

The UK CRO and Head of UK Compliance are both permanent guests of the Board, are independent from the 1st line of defence, and 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 primary 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. Reporting lines are as follows: AM UK CRO -> AM EMEA CRO -> AM CRO -> Group Chief Risk Officer.

The AM UK CRO has responsibility for providing an independent check on AM UK's primary risk-taking activities as part of the AM UK CRO's responsibility for the implementation and enforcement of the UBS Risk Management and Control Principles. The AM UK CRO is supported by AM aligned control functions.

Risk Control is responsible for ensuring the Primary Risk Framework is in place to permit the risk actions described below:

- Risk Identification—Supporting business management in developing and implementing adequate primary 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.

- 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 adapted 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 UK Risk Committee
- Risk Limits—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
- Stress Testing—Stress tests play a key role in the Risk Management and Control framework. 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 capital plan to negative events.

**Compliance & Operational Risk Control ('C&ORC')**

C&ORC is responsible for providing independent oversight and control over the consequential risks arising from UBS's business activities at a global, regional, divisional and entity level, in order to ensure compliance, financial crime and operational risks are understood, owned and managed within risk appetite. This includes establishing and implementing a comprehensive and efficient control framework covering key risks owned within C&ORC and partnering with the AM Business Division to ensure all risks are duly considered and that remediation remains a focus and priority across the firm. In summary, C&ORC AM is responsible for:

- Independently assessing and reporting all material compliance, financial crime and operational risks relevant to AM.
- Escalating and reporting C&ORC risks and issues and agreeing appropriate mitigation for AM.
- Maintaining a global understanding of relevant systems, controls and processes used to manage C&ORC risks for AM.
- Managing C&ORC relationships with AM Business Heads, including ensuring appropriate engagement exists between C&ORC and AM at all organization levels.
- Ensuring allocation of C&ORC AM resources to AM is effective and efficient.
- Implementing appropriate governance structures.

The UK Head of C&ORC provides a written regulatory report to the Board on a quarterly basis.

B.4.3 3rd Line of Defence (3LOD) —Group Internal Audit function

Audit coverage for the entire UBS Group is provided by 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
- 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 Chair of the Board of Directors, the Divisional Risk Committee and the Divisional 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 divisional 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.

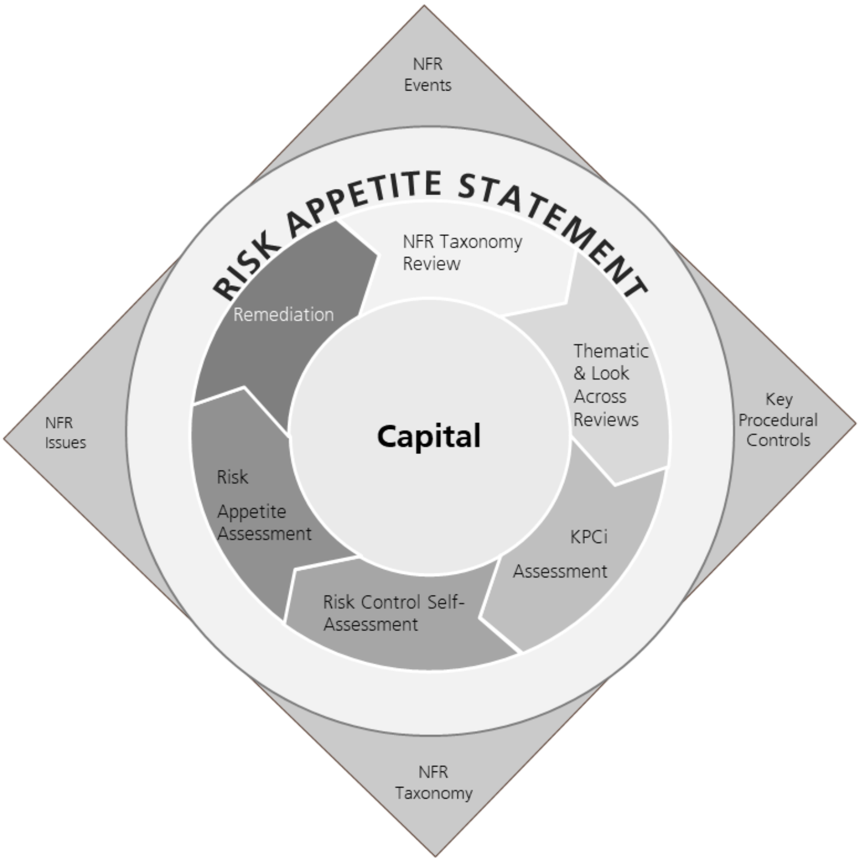
Remediating issues is the responsibility of management. GIA ensures that management has sustainably addressed relevant issues raised from all sources (i.e. issues rated 3 as moderate and above from GIA, external audit, regulators, or self-identified by management). The existence of internal audit does 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 audits 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.4.4 Risk Frameworks

For each risk category, dedicated Risk Frameworks (in the form of policies) exist, the most important from the perspective of Life Ltd is the Non-financial Risk Framework (1-P-000017).

Overview of the UBS Non-financial Risk Framework




- Non-financial Risk Taxonomy: defines the universe of material compliance, financial crime and operational risks, which can arise as consequences of our business activities and through external factors. The Non-financial Risk taxonomy provides a clear classification, across all business divisions, of the universe of UBS's inherent Non-financial Risk to allow analysis of risk exposure and concentrations.
- Non-financial Risk Taxonomy Review: the NFR Taxonomy is applied consistently across the firm and reviewed annually to ensure it remains a complete view of the universe of inherent compliance, conduct and operational risk.
- Key Procedural Controls ('KPCs'): key internal controls determined by UBS Divisions, Group Functions and UBS entities as sufficient to mitigate key Non-financial Risks to an acceptable level, recorded in the Enterprise Risk Management Tool (ERMS)
- Key Procedural Control Instances ('KPCI') assessment: self-assessment of the design and operating effectiveness of key controls, identifying control deficiencies. Owned and performed by control owners in both first line and second line of defence on a semi-annual basis. The KPCI assessment is an important input into the overall front-to-back assessment of the control framework completed as part of the Risk Control Self-Assessment ('RCSA')
- Non-financial Risk Issue: an internal control deficiency as identified (by KPCI Assessment, RCSA, Non-financial Risk Event, etc.) before or after the risk crystallises where a control is (i) missing, (ii) not adequately designed to mitigate a Non-financial Risk (design deficiency), or (iii) is not operating effectively to mitigate the Non-financial Risk sustainably (operating deficiency). UBS Divisions, Group Functions and UBS entity management are responsible for the accuracy and completeness of internal control deficiencies recorded, and the adequacy of the remediation of control deficiencies
- Remediation: actions taken to address an Issue either within a single function, multiple functions, within / across division(s)
- Non-financial Risk Events: the consistent reporting and assessment of compliance, financial crime and operational risk events is essential for the management of Non-financial Risk to which UBS is exposed to through daily business activities. Timely reporting of events provides the firm with opportunity to analyse and learn, while taking required action to protect the firm against further occurrences; Non-financial

Risk Events are logged in the ERMS, a root-cause analysis is completed and remediation actions defined. Where control weaknesses are identified management remediation action is taken. Event write ups are reviewed and approved by business risk management and if certain thresholds are met by C&ORC. In addition, events that have been escalated are reviewed in the quarterly 'Event Review Panel' ('ERP') meetings

- Non-financial Risk Appetite: represents the level of Non-financial Risk that the firm is willing to accept (or not accept) in pursuit of its strategic objectives. It represents a clear point of intervention, which allows the firm to respond promptly and effectively to Non-financial Risk appetite breaches and supports the optimised allocation of limited risk management resources to prioritised issues. Non-financial Risk appetite objectives are defined by divisions, Group functions and UBS entities in risk appetite statements
- Thematic Reviews and Look Across Reviews: whenever a quarterly risk appetite assessment hard trigger is breached for their taxonomy, the Taxonomy Owner will complete a look across to the other Business Divisions / GFs who may be impacted by this same risk to try and identify any emerging risk. The periodic look across is forward looking and will add further value to help identify cross Business Divisions/Group Functions emerging risks and ensure a continuous focus on relevant risks
- Risk Control Self-Assessment ('RCSA'): owned by the first line of defence with the 2 line of defence challenge; it is performed annually and designed to evaluate the inherent risk, the strength and weaknesses of the control environment and the resulting residual risk. The RCSA includes a front-to-back integrated view of assessment of control environment and is designed to produce transparent and actionable outcomes.

B.4.5 Risk Reporting

Risks must be reported for internal control purposes at a frequency and to a level of detail commensurate with the extent and variability of the risk and needs of senior management. It is the responsibility of the business units creating and managing the risk to ensure that control functions are provided with appropriate data to sufficient level of granularity to compile reports. AM UK's risk management framework contains a regular and comprehensive reporting landscape to ensure monitoring of adequate liquidity, capital and risk exposure levels. The internal reporting is used for the escalation of risk indicators and the initiation of appropriate mitigating actions.

## B.5. Actuarial Function

The actuarial function is performed externally by Willis Towers Watson as a 3rd party service provider and the Chief Actuary is employed by a letter of engagement between Willis Towers Watson and Life Ltd. This engagement letter allows UBS AG to perform the same annual vetting process for the Chief Actuary as for all other Life Ltd SMFs. The Chief Actuary is responsible for the Actuarial Function under the PRA's SM&CR and is subject to the requirements of that function.

Key responsibilities include:

- coordinating the calculation of technical provisions;
- ensuring the appropriateness of methodologies and assumptions used to calculate technical provisions;
- assessing the sufficiency and quality of the data used;
- providing opinions on the overall underwriting policy and the adequacy of the reinsurance arrangements; and
- contributing to the effective implementation of the risk management system.

Life Ltd currently engages Willis Towers Watson to provide the Actuarial Function. The Chief Actuary is responsible for the Actuarial Function and 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 Actuarial Function to ensure that the Life Ltd Board be kept aware at all times of the Actuarial Function's interpretation of its obligations to treat customers fairly and satisfy policyholders.

A letter of engagement is in place which allows UBS AG to perform the same annual vetting process for the Chief Actuary as for all other Life Ltd's SMFs.

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 SMF1 of Life Ltd

## B.6. Outsourcing

The UK & EMEA Front to Back Forum 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 & EMEA Front to Back Forum has been identified as the Key Function Holder for Intra-Entity Outsourcing and reports to the AM Country Head UK. The Board retains ultimate responsibility for all decisions made within the UK & EMEA Front to Back Forum.

The following functions are outsourced by Life Ltd:

- Life Ltd has outsourced investment management of the unit-linked funds via an intra-entity Investment Management Agreement with UBS Asset Management (UK) Ltd. In return for the provision of investment management services, UBS Asset Management (UK) Ltd receives 40% of the management fees from the passive funds, there are no actively managed accounts at Life Ltd. As a result, the majority of Life Ltd's cost base is variable and directly linked to the revenues earned;
- Life Ltd has also outsourced distribution activities intra-entity to UBS Asset Management (UK) Ltd;
- Life Ltd has outsourced funds administration to JP Morgan. Custody Services and Securities Lending are performed externally by JP Morgan as a 3rd party service provider;
- The control of release of assets by Life Ltd's custodian is governed by a Directed Lending Agreement with JP Morgan as custodian and as a security lender. Life Ltd determines the collateral requirements for stock lending and these are implemented by JP Morgan as Life Ltd's agent;
- Transfer Agency is outsourced to Northern Trust;
- UBS Business Solutions AG provides shared services such as Finance, Legal, C&ORC (including Anti Money Laundering) and Risk Management via an inter-entity Master Service Agreement, with designated staff accountable for AM UK delegated back to the AM UK entities. 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;
- The actuarial function is performed externally by Willis Towers Watson as a 3rd party service provider; and
- Internal Audit services are delegated intra group to the Group Internal Audit function.

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 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.

Life Ltd adheres to the UK AM Outsourcing Policy which is the local implementation of the Group Outsourcing Policy and ensures compliance with the Requirements of Chapter 7 Outsourcing of Conditions Governing Business of the PRA Rule Book and Article 274 of the associated Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.

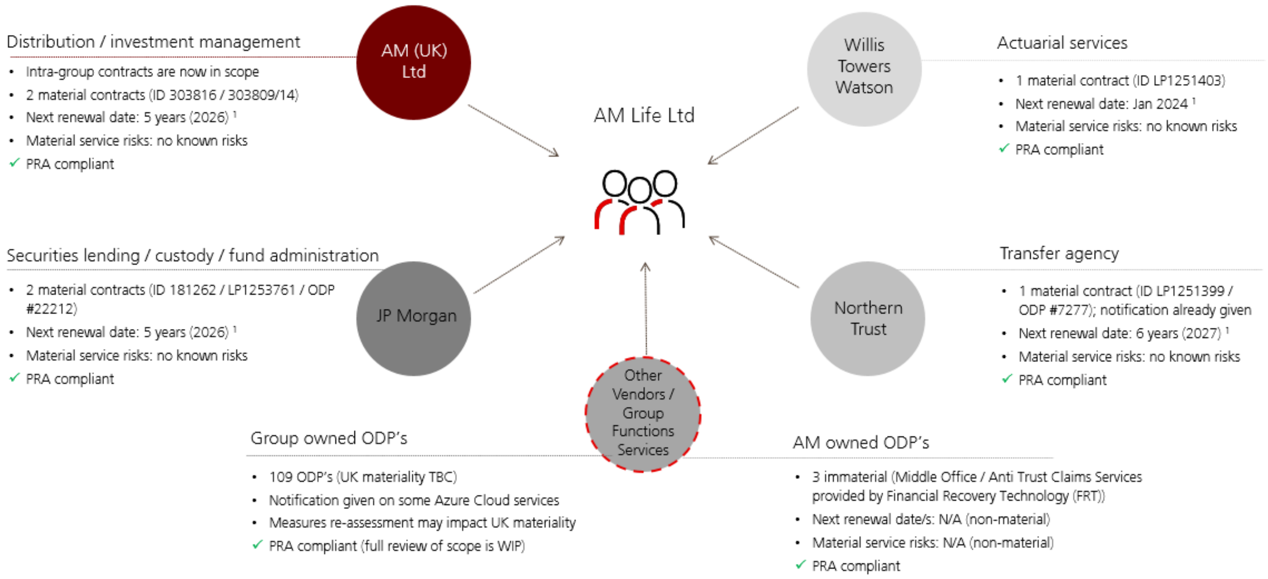
**PRA Supervisory Statement SS 2/21**

- PRA SS 2/21 requirements provides detailed expectations regarding the identification and management of material outsourcing and non-outsourcing arrangements
- Life Ltd met the due date for compliance which was 31 Mar 2022 covering all new / amended (material) outsourcing / non-outsourcing arrangements issued after 31 Mar 2021
- Legacy (pre-31 Mar 2021) (material) outsourcing / non-outsourcing arrangements are being dealt with upon contract renewal, with the earliest contract renewal date being 2024. Notification of intent to start or significantly change a material arrangement remains an ongoing requirement for Life Ltd
- A robust control environment already exists within Life Ltd to ensure PRA requirements are met and can be evidenced, which has been enhanced to include clarification of roles and responsibilities and alignment of the EMEA Front to Back governance forum agenda

<u>Life Ltd has the following processes and controls in place to ensure their responsibilities are met:</u>

- The Life Ltd *Management Responsibility Map* provides the FCA and PRA with a comprehensive and up-to-date single document that describes Life Ltd management and governance arrangements, including the EMEA Front to Back Forum
- In addition, Life Ltd adheres to the *UK AM Outsourcing Policy*, which is the local implementation of the Group Outsourcing Policy (1-P-004943) and the Third-Party Risk Management Policy (1-P-008361)
- UBS leverages the existing *Vendor Risk Framework* (VRF) and the *Group Crisis Management Framework*, which ensures a proportionate and risk-based approach for the provision of exit strategies or plans for our most vulnerable and material UK relationships
- Life Ltd leverages already existing reporting from Fund Product Control / SMF24, as well as annual updates to the Life Board given by the critical vendors

Life Life receives material services from both external and internal provider/s




[1] Given the extended timeframe to complete the contract renewal lifecycle, it was agreed that notification will be given at least 1 year in advance of the current contract end dates, which for perpetual contracts was agreed as 5 years; Willis Towers Watson and Northern Trust are fixed term contracts of 5 and 6 years respectively, for which notification will also be given one year in advance

## Operational Resilience

- As part of the PRA's third wave of Life firm reviews, they raised a series of questions regarding the work that Life firms have done on Operational resilience, which they sent across to UBS on the 11th November 2022, requesting a response by the 9th January 2023
- The team completed the templates the PRA provided, and in response to the questions raised, pointed the PRA to the areas in the self-assessment report which addressed the points raised.
- Also included in the response was the "Operational Resilience Self-Assessment Report" dated March 2022. This assessment was discussed and approved at the AM UK Management and Risk Committee (MRC) on the 16th March 2022. The AM UK MRC is the primary committee in the UK that oversees, challenges and manages material risks for the UK business, and comprises key SMF's across the Business (including Life Ltd SMFs). The report was also shared with key executives and non-executives of the Life Ltd Board prior to finalisation
- Note: the document is updated and approved annually; the next version of the document will be approved by the AM UK MRC after the 31st March 2023

### 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 and approved by the Board on an annual basis. The table below contains a breakdown of SCR by risk category. The risk profile below does not include any adjustment related to recent COVID-19 pandemic. Please refer to section A for details.

As per the PRA guidance, the company recognises loss absorbing capacity of deferred tax (“LACDT”) equal to the amount provisioned as the current year tax in the statutory accounts. The company does not recognise any deferred tax assets other than allowing losses to offset any deferred tax liability reported held on the IFRS balance sheet.

| Risk Type | Solvency II £'000 | Percentage of SCR |
|---|---|---|
| **Underwriting Risk** | **1,138** | **45.7%** |
| Lapse | 758 | 30.4% |
| Expense | 551 | 22.1% |
| Diversification Benefit | (171) | (6.8)% |
| **Market Risk** | **1,253** | **50.3%** |
| Interest rate risk | 184 | 7.4% |
| Equity risk | 877 | 35.2% |
| Spread risk | - | 0.0% |
| Currency risk | 557 | 22.3% |
| Diversification | (365) | (14.6)% |
| **Counterparty Default Risk** | **227** | **9.1%** |
| **Diversification Benefit** | **(643)** | **(25.8)%** |
| **Non-financial Risk** | **732** | **29.4%** |
| **Loss Absorbing Capacity of Deferred Tax ('LACDT')** | **(215)** | **(8.7)%** |
| **Solvency Capital Requirement** | **2,492** | |
| **Minimum Capital Requirement** | 3,445 | |
| **Regulatory Capital Requirement** | 3,445 | |

### 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 30.4% (2021 :34.9%) of the SCR. Expense risk represents 22.1% (2021: 25.5%) 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, the market risk which Life Ltd is exposed to consists of 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;
- 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-fee 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, in particular due to equity risk as most of the underlying investments are currently in equities. Market risk accounts for 50.3% (2021: 44.8%) of the SCR. The market risks and returns relating to the unit-linked assets are incurred by the policyholders.

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 short-dated Gilts and held as 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 £). 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 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. Counterparty Default Risk

Solvency II defines counterparty default risk as "losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors". Life Ltd does not take proprietary trading positions outside that taken by the unit-linked fund holders.

The direct counterparty default risks faced by Life Ltd arise from the legal entity needing 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 to the policyholder of the client. As a result, Life Ltd's only counterparty default risk exposure is in respect of its excess assets, i.e. its own funds.

Life Ltd's cash balance of £2.7m (2021: £5.3m) deposited in a JP Morgan Interest bearing deposit account. A further £2.8m (2021: £4.7m) is held in a Barclays account. Both positions give rise to counterparty default 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 counterparty default risk by carefully selecting the counterparties with whom it places company assets. The exposures outlined above constitute 9.1% (2021: 11.6%) of the SCR.

## C.4. Liquidity Risk

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

Liquidity of traded asset unit-linked products is considered to be satisfactory and is assessed on a regular basis through analysis of liquidation capacity and the cost of liquidation. The analysis is carried out by the Risk Control function independently of portfolio managers and reviewed by the Product and Customer Outcome Committee on a monthly basis.

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.

Settlement of unit activity with the clients/funds is performed on a gross basis, meaning that cash will flow out of the fund for redemptions and independently flow into the funds for client subscriptions. Due to the structure of the unit-linked funds (as funds of funds), failure to settle from a subscribing client may generate a loss due to overdraft charge in the dealing account at the TA. In the worst case of a client delaying settlement of subscription over 10% AUM, the funds will not be able to settle trades. Mitigation of the risk is achieved through a manual oversight process with the transfer agent and the custodian to ensure orderly settlement is maintained.

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

The expected profit included in future premiums as the difference between the best estimate liabilities calculated with and without future premiums is zero because Life Ltd's contracts have no such premium payment requirement.

## C.5. Non-financial 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".

UBS defines Non-financial Risk as:

"the risk of undue monetary loss and/or non-monetary adverse consequences resulting from inadequate or failed internal processes, people, and systems, failure to comply with laws and regulations and internal policies and procedures, or external events (deliberate, accidental, or natural) which have an impact to UBS, its clients or the markets in which it operates. The resultant risks are clustered as Compliance, Financial Crime and Operational Risk".

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 and other fixed fees. Life Ltd continues to use the same approach as in last year's assessment which is in line with EIOPA's guidance on Solvency II assessment.

Mitigation of Non-financial Risks is achieved through a strong and robust framework for controlling risks. UBS Group's Non-financial Risk framework involves significant reporting and analysis of risks, including review by the AM UK Front-to-Back Forum. The exposures outlined above constitute 32.3% (2021: 25.6%) of the SCR.

A key underlying risk driver for Life Ltd is the overall risk culture, which comprises aspects such as staff behaviour and mindset, accountability, resourcing, delineation of roles and responsibilities as well as supervision. This includes Conduct Risk, which is the risk that the conduct of the firm or its individuals unfairly impacts clients or counterparties, undermines the integrity of the financial system, or impairs effective competition to the detriment of consumers. Because risk culture and conduct risk are firm-wide considerations, touching every function and each of our management and control frameworks, these risks are incorporated into our Non-financial Risk Framework.

As a result of the outsourcing agreements which Life Ltd has entered into, the nature of the Non-financial Risks to which Life Ltd is exposed is primarily to ensure the service level agreements (SLAs) for those duties which have been outsourced to third parties have been met (both UBS Group and non-UBS Group entities). In addition , Life Ltd closely monitors those outsourced activities to ensure its operations are not disrupted by external factors. .

## 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 Business Risk

Like any business, Life Ltd faces the risk of making poor business decisions, the risk of poor execution of those decisions, and the risk of inadequate resource allocation or resource constraints.

### C.7.2 Group Risk

Life Ltd is reliant on UBS Group for various services including day-to-day management of Life Ltd. Life Ltd do not directly employ any staff, with staff seconded from either UBS AG or UBS Business Solutions AG. 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.7.3 Financial Risks from Climate Change

For the purposes of proportionality, Life Ltd is not a complex insurance company. Life Ltd only provides Life Funds to institutional investors, either UK approved pension schemes or insurance companies acting for such pension schemes. The policy is a contract between the Life Ltd and the pension scheme (or other insurance company). Life Ltd maintains 29 Life Funds as of 31 December 2022, including 5 Sustainability aligned funds, which, for practical purpose, 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 Life Fund at the time of redemption. Similar to contract terms in peer company products, the contracts give Life Ltd the unilateral right at any time to terminate the contract subject to giving three months' notice. This is an important risk mitigant that allows Life Ltd to reduce losses, and if necessary, wind up the company at relatively short notice if it ceases to be viable.

Although the assets relating to the policies are held on Life Ltd's balance sheet, any investment or financial risk (including Climate Change Risk) arising from the performance of these assets is borne solely by the life policyholders because it is wholly passed through to the value of their units. As such, Life Ltd is not directly subject to financial risks from climate change. (This is very different to, say, a general insurance company which may: i) experience increased claims arising from physical loss due to climate events; and ii) may hold assets on its own balance sheet to meet these claims whose value may be affected over time by Climate Change Risks).

Over time, Life Ltd's business is dependent on being able to sell Life policies that meet its investor pensions funds' demands. Pension fund trustees are increasingly being required to take Climate Change Risks into account in their own investment policies. In this context, as well as in the context of the development of wider EU rules which will require investment managers to take sustainability into account in their investment and other processes (where relevant to the product), it is appropriate for Life Ltd to consider to what extent, and how, it takes Climate Change Risks into account in its investment and other processes both now and how this may develop over time.

It should also be noted that Life Ltd does not have unfettered discretion as to the assets it invests in (as, say, a general insurance company may have) because the investments are dictated by clients and the Life Funds strategy they demand. As such, the integration of Climate Change Risk for Life Ltd into its investment process is not wholly within its control and is a complex process including client interaction.

Life Ltd invests its own funds in low risk investment such as cash and short dated UK gilts, where Climate Change Risks are less relevant at the moment.

### 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 risks 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 offers 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

We carry out stress tests for the major sources of risk to Life Ltd. The impact of extreme yet plausible events is measured by stressing the business plan, in order to assess the ability of the firm to withstand such events and to calculate the impact on own funds. The vulnerabilities of the business are identified in risk identification workshops, both for AM UK as a whole and for Life Ltd specifically, and these are used to inform the stress test construction. We also stress test the Life Ltd business plan to failure under the Reverse Stress Testing framework.

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 Scenarios

Stress tests are extreme yet plausible scenarios that can be expressed in terms of shocks to various factors in the business plan and are used to assess the overall resilience of the plan to negative events.

Typical scenarios are:

- Redemption by the largest revenue-generating clients and reduced fee margin for all existing clients
- Sudden asset growth without capital injection;
- Mass lapse
- Non-financial Risk stress test
- Business risk of climate-aware / ESG products

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 a 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 31 December 2022. There were no changes made to the recognition and valuation bases used or to estimates of assets during the reporting period.

| **Total Assets** | **31 December 2022** *£'000* | **31 December 2021** *£'000* |
|---|---|---|
| Debt and other fixed income securities | 16,090 | 21,138 |
| Assets held to cover linked liabilities (net of unit linked derivative liabilities) | 10,932,681 | 15,865,937 |
| Cash at bank and in hand | 5,521 | 9,905 |
| Debtors | - | - |
| Other Receivables | 14 | 363 |
| **Total Assets** | **10,954,306** | **15,897,343** |

The Solvency II balance sheet is valued using the valuation principles set out in the PRA Rulebook for Solvency II firms. The assets in the SII balance sheet are valued at market consistent value, in accordance with the PRA Rulebook and the Solvency II regulations.

Life Ltd's statutory financial statements have been prepared in accordance with Financial Reporting Standard 101 ("FRS 101") for all periods presented. FRS 101 sets out a reduced disclosure framework which addresses the financial reporting requirements and disclosure exemptions for the Company that otherwise apply the recognition, measurement and disclosure requirements of UK-adopted International Financial Reporting Standards ("IFRS").

Under IFRS 15, a Company shall recognize as an asset the incremental costs of obtaining a contract if the following criteria are met:

- Costs are incurred to obtain a contract with a customer;
- These costs are incremental;
- The Company expect to recover these costs; and
- The amortization period of the asset is more than one year.

Under Solvency II, such costs are treated as fully expensed in the year they are incurred. The impact on Total Assets for the year ending 31 December 2022 was a reduction of £895k (2021: £1,172k) in other receivable compared to the financial statements.

Under Solvency II amounts which are not past due for payment will not be included as debtors but will be taken into account in cash flow projections in the calculation of Solvency II technical provisions. This led to a reduction of £856k (2021: £1,048k) in debtors related to accrued for management fees compared to the financial statements.

Under Solvency II Assets held to cover linked liabilities is presented net of unit linked derivative liabilities. The impact on Total Assets for the year ending 31 December 2022 was a reduction of £50,440k (2021: £3,951k) in Assets held to cover linked liabilities compared to the financial statements. This was offset by reduction of £50,440k (2021: £3,951k) in unit linked derivative liabilities.

There are no other differences in asset valuation between Solvency II and the financial statements.

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

Debt and other fixed income securities represent investments in UK government bonds. These are valued at amortized costs on the basis that there is an immaterial difference of £2k (2021: £13k) when compared to their fair value under Solvency II (use of quoted, unadjusted, prices in active markets for identical assets). For Solvency II reporting, interest accrued and due are included in valuation of debt and other fixed income securities.

### 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 categorised into different fair value hierarchy level following the below approach. This is consistent with the IFRS fair value hierarchy and with Solvency II valuation requirements in Article 10 of the Solvency II Delegated Regulation.

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

Valuation technique: *Quoted (unadjusted) prices in active markets for identical assets or liabilities*. These are investments whose fair value is determined using observable, unadjusted quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Listed debt instruments, equities securities and derivatives in active markets, as well as 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 are significant to the fair value measurement are observable, either directly or indirectly*. All level 2 products in the Company are primarily Forward FX contracts which are valued using the FX spot rate adjusted for forward pricing points observed from standard market-based sources. Inputs to the option valuation models include spot FX rates, FX forward points, and FX volatilities. The markets for both FX spot and FX forward pricing points are actively traded and observable and therefore such FX contracts are classified as Level 2.

Apart from FX forwards, unlisted collective investment vehicles are 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*. This includes certain less liquid debt and equity instruments, certain exchange-traded derivatives and all derivatives transacted in the Over-The-Counter (OTC) market. UBS uses widely recognized valuation techniques for determining the fair value of financial and non-financial instruments that are not actively traded and quoted.

Level 3 inputs include the following:
Securities for which no indication or comparable prices are available and financial information such as P&L, Balance sheet, cash flows and other ratios are used to calculate the valuation, would typically be classified within Level 3 of the fair value hierarchy. The most frequently applied valuation techniques include discounted value of expected cash flows and relative value. Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued.

The table details the breakdown of assets held to cover linked liabilities by fair value hierarchy excluding a balance of £66m (2021: £70m) relating to cash and £59m (2021: £54m) relating to net other receivables/payables which are measured at amortised cost. Unit Linked Derivative Liabilities represents short position in derivatives transaction managed within Assets held to cover linked liabilities This is considered materially equivalent to the value required under Solvency II.

Unit-linked liabilities drive their value from the underlying Asset held to cover linked liabilities and is reported as Level 2.

| **2022**<br>**Assets held to cover linked liabilities** | **Level 1**<br>**£'000** | **Level 2**<br>**£'000** | **Level 3**<br>**£'000** | **Total**<br>**£'000** |
|---|---|---|---|---|
| Fixed maturity securities | 2,206,935 | - | - | 2,206,935 |
| Equity securities | 8,600,803 | - | 147 | 8,600,950 |
| Other investments (including derivatives) | 18,501 | 31,925 | 6 | 50,432 |
| **Total** | **10,826,239** | **31,925** | **153** | **10,858,317** |
| Unit Linked Derivative Liabilities | (2,280) | (48,160) | - | (50,440) |
| **Assets held to cover linked liabilities (net of unit linked derivative liabilities)** | **10,823,959** | **(16,235)** | **153** | **10,807,877** |

| **2021 (restated)**<br>**Assets held to cover linked liabilities** | **Level 1**<br>**£'000** | **Level 2**<br>**£'000** | **Level 3**<br>**£'000** | **Total**<br>**£'000** |
|---|---|---|---|---|
| Fixed maturity securities | 2,962,294 | - | - | 2,962,294 |
| Equity securities | 12,522,358 | - | 4,060 | 12,526,418 |
| Other investments (including derivatives) | 114,738 | 142,255 | 6 | 256,999 |
| **Total** | **15,599,390** | **142,255** | **4,066** | **15,745,711** |
| Unit Linked Derivative Liabilities | (18) | (3,933) | - | (3,951) |
| **Assets held to cover linked liabilities (net of unit linked derivative liabilities)** | **15,599,372** | **138,322** | **4,066** | **15,741,760** |

In 2021 Unit Linked Derivative Liabilities was net down with other investments (including derivatives). The same is now reflected as gross in line with the IFRS requirement.

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

Cash balances are held in JP Morgan and Barclays (current accounts).

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

### D.1.5 Debtors, Other receivables

Debtors represent revenue from management fees and therefore have not been included within the Investment valuation under Solvency II. Other receivables include amounts due from other UBS subsidiaries and do not include costs incurred in obtaining contracts of £895k (2021: £1,172k). These costs were fully expensed in the first year for Solvency II, however in the financial statements they are capitalized and subsequently will be amortised for a total period of 8 years.

### 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. The technical provisions calculations adopt 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 and 13 July 2018 on the interpretation of Article 18 of the Delegated Acts. The main sources of uncertainty in the calculation of the technical provisions relate to the assumed surrender rates and management actions and are not considered to have a material impact on the technical provisions. There are no changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

Being a large unit linked fund, the level of Technical Provision is close to the bid value of units £10.9bn (2021:£15.87bn). The bid value of units is known and effectively market listed, so not something that is affected by forward looking assumptions. Best Estimate (PVFP) is approx. 0.0077% (2021: 0.0004%) of total technical provision. Risk Margin is approx. 0.0038% (2021: 0.004%) of total technical provision, so in terms of technical provisions, changing the future assumptions such as surrender values and future closure costs, only affects the Best Estimate (PVFP) and Risk Margin as a whole which leads to immaterial impact in technical provision for Solvency II.

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

| **Technical provisions** | **31 December 2022** ***£'000*** | **31 December 2021** ***£'000*** |
|---|---|---|
| Technical provisions as a whole[1] | 10,932,681 | 15,865,937 |
| Best estimate[2] | 846 | 62 |
| Risk margin | 420 | 710 |
| **Technical provisions - Solvency II** | **10,933,947** | **15,866,709** |
| Technical provisions - financial statements | 10,932,681 | 15,865,937 |
| Difference | 1,266 | 772 |

[1] Sum of the face value of the units
[2] Present value of the excess of fees over expenses

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. The variance between Solvency II technical provisions and technical provisions per the financial statements relates to the risk margin less the Best estimate.

The following methodology is used to calculate the technical provisions under Solvency II:

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 Technical provisions under Solvency II are calculated as the sum of the face value of the units, best estimate and Risk margin.

c) Best estimate is present value of the excess of fees over expenses. 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 guidance on 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 reflects the annual management charges that the company is entitled to deduct and the future expected investment returns implied by the PRA 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 £1,250k (2021: £1,130k) is assumed to be incurred at the time of closure; this has been set using management’s judgement.

In calculating the risk margin, the projection of future SCR (Solvency Capital Requirement) for each future year over the lifetime of the business was considered. The prescribed 6% cost of capital was applied to the projected SCRs with the resulting amounts discounted back using PRA's GBP risk free curve. This utilises the PRA recommended approach which allows an approximate approach to be used to project the required future SCR amounts (and does not require supervisory approval).

In 2022, there is no change in overall guidance. The table below provides a breakdown of how the risk margin is determined.

| **Risk Margin** | **31 December 2022** ***£'000*** | **31 December 2021** ***£'000*** |
|---|---|---|
| Counterparty Default Risk | 227 | 389 |
| Life Risk | 1,138 | 1,769 |
| Market Risk | 1,253 | 1,509 |
| Diversification benefit | (643) | (923) |
| **BSCR for risk margin** | **1,975** | **2,744** |
| Non-financial Risk | 732 | 860 |
| **SCR for risk margin** | **2,707** | **3,604** |
| **Loss Absorbing Capacity of Deferred Tax ('LACDT')** | (215) | (238) |
| **SCR after LACDT adjustment** | **2,492** | **3,366** |
| Cost of Capital | 6% | 6% |
| Risk Margin | 420 | 710 |

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;
- The valuation in the financial statements does not include the Risk Margin.
- Insurance receivables amounts which are not past due are transferred to technical provisions for the purposes of Solvency II

There are no material approximations and Life Ltd does not follow any simplified approaches in the calculation of the best estimate liabilities or risk margin. A reconciliation of the financial statements and Solvency II technical provisions as at 31 December 2022 is shown at the beginning of this section.

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 PRA 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 recoverable 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 apart from deferred tax liabilities as explained below. There are no other changes to the recognition and valuation basis in the reporting period:

| **Other Liabilities** | **31 December 2022** ***£'000*** | **31 December 2021** ***£'000*** |
|---|---|---|
| Deferred tax liabilities | - | - |
| Creditors | 507 | 777 |
| Accruals and deferred income | 705 | 564 |
| **Other Liabilities** | **1,212** | **1,341** |

D.3.1 Deferred tax liabilities

Deferred tax liabilities ("DTL") 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.

The Company has a DTL of £nil (2021: £19k) in the FRS 101 balance sheet. In 2022, the Company had a reduction in assets between IFRS and Solvency II of £1,751k (2021: £2,220k), of which an element relates to costs incurred to obtain a contract which were capitalized under IFRS 15 in the financial statements. The reduction in assets creates a deductible temporary difference and results in a potential deferred tax asset under Solvency II. In 2022, the Company also had an increase of £1,266k (2021: £772k) in technical provisions calculated for Solvency II purposes. This results in a further potential Deferred Tax Assets ("DTA"). The company followed a prudence approach and has not recognised any DTA for the year.

Changes to the UK corporation tax rate were announced in the 2021 Budget on 3 March 2021, with the corporation tax rate expected to increase to 25% from 1 April 2023 for companies with profits in excess of £250,000. This was substantively enacted on 24 May 2021. The DTL has fully unwound as at 31 December 2022 on the IFRS Balance sheet and the company has correctly used the 19% rate. Life Ltd has used the 25% (2021: 19%) rate to calculate the DTA arising on the SII balance sheet. As it is not recognising any DTA on the SII balance sheet, the rate change does not impact Life Ltd.

A reconciliation of deferred tax is provided below:

| DTL Calculation | 31 December 2022<br>*£'000* | 31 December 2021<br>*£'000* |
|---|---|---|
| **DTL as per IFRS Balance Sheet** | **-** | **(19)** |
| Best estimate | 846 | 61 |
| Risk Margin | 420 | 710 |
| Different treatment of IFRS and Solvency II BS | 1,751 | 2,220 |
| **Total difference between Solvency II and IFRS BS** | **3,017** | **2,991** |
| Calculated DTA/ (DTL) as per Solvency II | 754 | 568 |
| Net DTA/ (DTL) | 754 | 549 |
| Recognised in Solvency II | - | - |

D.3.2 Creditors

Creditors comprise corporation tax payable and 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 2022.

## 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 as per IFRS balance sheet. 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 Ltd, 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. Life Ltd's capital risk appetite is currently set as the ratio of eligible own funds over the SCR not falling below 200%.

Life Ltd's own funds are made up of only Tier 1 basic own funds including £15,000k (2021: £15,000k) ordinary share capital and £4,147k (2021: £14,293k) reconciliation reserve. The reconciliation reserve is not materially volatile for Life Ltd as it is only limited to the revenue earned from the pooled fund assets, dividend paid and own non linked assets. There are no availability or eligibility restrictions on basic own funds for Life Ltd. A summary of the own funds, SCR and MCR are shown in the table below. The company paid an interim dividend of £10,960k (2021: £3,235k) during the year.

| **Summary** | **31 December 2022** ***£'000*** | **31 December 2021** ***£'000*** |
|---|---:|---:|
| Ordinary share capital | 15,000 | 15,000 |
| Reconciliation reserve | 4,147 | 14,293 |
| **Own Funds - Tier 1 unrestricted** | **19,147** | **29,293** |
| Solvency capital requirement | 2,492 | 3,366 |
| Minimum capital requirement | 3,445 | 3,126 |
| Ratio of eligible own funds over the SCR | 768% | 870% |
| Ratio of eligible own funds over the MCR | 556% | 937% |

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

| **Reconciliation Reserve** | ***£'000*** |
|---|---:|
| At 1 January 2022 | 14,293 |
| Profit for the financial year | 859 |
| 2022 Solvency II adjustment for PV of future profits and risk margin | (1,266) |
| 2021 Solvency II adjustment for PV of future profits and risk margin | 772 |
| 2022 Deferred Tax liability adjustment under Solvency II | - |
| 2021 Deferred Tax liability adjustment under Solvency II | (19) |
| Transition cost Amortisation included in P&L | 277 |
| 2022 Fees accrued in IFRS B/s reclassed to Solvency II technical provision | (856) |
| 2021 Fees accrued in IFRS B/s reclassed to Solvency II technical provision | 1,048 |
| Dividend paid | (10,960) |
| At 31 December 2022 | **4,147** |

The decrease in own funds is primarily driven by dividend of £10,960k in 2022 (2021: £3,235k).

MCR is based on absolute floor of EUR 4,000k (2021 EUR 3,700k) converted the latest EUR / GBP exchange rate published by BoE.

The decrease in SCR is primarily due to the decrease in revenue in 2022, which is a result of decrease in overall AuM.

As explained in Section D.1, Under IFRS 15, a Company shall recognize as an asset the incremental costs of obtaining a contract if the following criteria are met:

- Costs are incurred to obtain a contract with a customer;
- These costs are incremental;
- The Company expect to recover these costs; and
- The amortization period of the asset is more than one year.

Under Solvency II, such costs are treated as fully expensed in the year they are incurred. The impact on Total Assets for the year ending 31 December 2022 was reduction of £895k (2021: £1,172k) compared to the financial statements.

Under Solvency II amounts which are not past due for payment will not be included as debtor but will be taken into account in cash flow projections in the calculation of Solvency II technical provision. This led to a reduction of £856k (2021: £1,048k) in debtors related to accrued for management fees compared to the financial statements.

Deferred tax liabilities ("DTL") 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. Refer section D.3.1 for different treatment between IFRS and Solvency II for deferred tax.

Summary of Item impacting the Shareholder's funds per financial statements and Available capital resources per Solvency II

| **Capital resources** | **31 December 2022** ***£'000*** | **31 December 2021** ***£'000*** |
|---|---|---|
| Shareholder's funds per financial statements | 22,164 | 32,265 |
| Solvency II adjustment for best estimate liability and risk margin | (1,266) | (771) |
| Costs capitalized under IFRS 15 in the financial statements | (895) | (1,172) |
| Deferred Tax adjustment under Solvency II | - | 19 |
| Fees accrued in IFRS balance sheet reclassed to Solvency II technical provision | (856) | (1,048) |
| Available capital resources per Solvency II | 19,147 | 29,293 |

## 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 of the Solvency II Delegated Regulation, subject to a cap of 45% of the SCR, a floor of 25% of the SCR and an absolute floor of €4,000k (2021: €3,700k). The latter absolute floor results in a MCR of £3,445k (2021: £3,126k) as at 31 December 2022 using the prescribed exchange rates. MCR is based on the absolute floor. The SCR is below the MCR and the capital requirement for 2022 is £3,445k (2021: SCR £3,366k). In 2021 the biting point for the capital requirement was SCR, year on year decrease in SCR is driven by the decrease in revenue, (leading to decrease in future's expected profitability) experienced during 2022. Life Ltd has excess of own funds over the MCR/SCR of £15,703k (2021: £25,927k) as at 31 December 2022.

The SCR has been calculated in accordance with the methodology specified under the Standard Formula, which involves applying a series of prescribed stress tests. There are no specific underlying parameters used.

Life Ltd does not use any simplified calculations for the SCR. A breakdown of the SCR into contributing components is in the table below.

| **Solvency capital requirement (SCR)** | **31 December 2022** ***£'000*** | **31 December 2021** ***£'000*** |
|---|---|---|
| Market Risk | 1,253 | 1,509 |
| Counterparty Default Risk | 227 | 389 |
| Life Risk | 1,138 | 1,769 |
| Diversification benefit | (643) | (923) |
| **Basic Solvency Capital Ratio (BSCR)** | **1,975** | **2,744** |
| Non-financial Risk | 732 | 860 |
| **Total SCR** | **2,707** | **3,604** |
| **Loss Absorbing Capacity of Deferred Tax ('LACDT')** | (215) | (238) |
| **SCR after LACDT adjustment** | **2,492** | **3,366** |
| **Minimum Capital Requirement** | 3,445 | 3,126 |
| **Regulatory Capital Requirement** | **3,445** | **3,366** |

The solvency capital requirement (SCR) has decreased by 26.0% during 2022 from £3,366k to £2,492k, which is driven by the decrease in revenue, (leading to decrease in future's expected profitability) experienced during 2022. The decrease is driven by decrease in overall AuM. One of the key drivers of SCR is present value of future profit and as this profit decreases it shorten the projection period, as the entity would remain operative for a shorter period and ultimately have "Less to lose" in a stressed scenario.

The LACDT amount of £215k (2021: £238k) that is included within the SCR calculation and which has arisen in the shock loss scenario, has been recognised by way of the potential loss carry back claim that can be made against profits of the previous twelve months.

Diversification between risk capital requirements is calculated using the correlation coefficients detailed in Articles 136 (life risks) and 164 and 168 (market risk) of the Delegated Acts. The overall diversification among all risks is based on the Rule 3(2) of the Solvency Capital Requirement - Standard Formula Part of the PRA Rulebook.

### 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:

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

The templates are provided in £'000s. Template S.05.02.01 is not included as information regarding the home country represents 90% or more of the total gross written premiums.

**Annex I**
**S.02.01.02**
**Balance sheet**

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Goodwill | **R0010** | |
| Deferred acquisition costs | **R0020** | |
| Intangible assets | **R0030** | |
| Deferred tax assets | **R0040** | |
| Pension benefit surplus | **R0050** | |
| Property, plant & equipment held for own use | **R0060** | |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 16,090 |
| Property (other than for own use) | **R0080** | |
| Holdings in related undertakings, including participations | **R0090** | |
| Equities | **R0100** | |
| Equities - listed | **R0110** | |
| Equities - unlisted | **R0120** | |
| Bonds | **R0130** | 16,090 |
| Government Bonds | **R0140** | 16,090 |
| Corporate Bonds | **R0150** | |
| Structured notes | **R0160** | |
| Collateralised securities | **R0170** | |
| Collective Investments Undertakings | **R0180** | |
| Derivatives | **R0190** | |
| Deposits other than cash equivalents | **R0200** | |
| Other investments | **R0210** | |
| Assets held for index-linked and unit-linked contracts | **R0220** | 10,932,681 |
| Loans and mortgages | **R0230** | |
| Loans on policies | **R0240** | |
| Loans and mortgages to individuals | **R0250** | |
| Other loans and mortgages | **R0260** | |
| Reinsurance recoverables from: | **R0270** | |
| Non-life and health similar to non-life | **R0280** | |
| Non-life excluding health | **R0290** | |
| Health similar to non-life | **R0300** | |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | |
| Health similar to life | **R0320** | |
| Life excluding health and index-linked and unit-linked | **R0330** | |
| Life index-linked and unit-linked | **R0340** | |
| Deposits to cedants | **R0350** | |
| Insurance and intermediaries receivables | **R0360** | - |
| Reinsurance receivables | **R0370** | |
| Receivables (trade, not insurance) | **R0380** | 14 |
| Own shares (held directly) | **R0390** | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | **R0400** | |
| Cash and cash equivalents | **R0410** | 5,521 |
| Any other assets, not elsewhere shown | **R0420** | |
| **Total assets** | **R0500** | 10,954,307 |

| Liabilities | | Solvency II value<br>C0010 |
|---|---|---|
| Technical provisions – non-life | **R0510** | |
| Technical provisions – non-life (excluding health) | **R0520** | |
| Technical provisions calculated as a whole | **R0530** | |
| Best Estimate | **R0540** | |
| Risk margin | **R0550** | |
| Technical provisions - health (similar to non-life) | **R0560** | |
| Technical provisions calculated as a whole | **R0570** | |
| Best Estimate | **R0580** | |
| Risk margin | **R0590** | |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | |
| Technical provisions - health (similar to life) | **R0610** | |
| Technical provisions calculated as a whole | **R0620** | |
| Best Estimate | **R0630** | |
| Risk margin | **R0640** | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | |
| Technical provisions calculated as a whole | **R0660** | |
| Best Estimate | **R0670** | |
| Risk margin | **R0680** | |
| Technical provisions – index-linked and unit-linked | **R0690** | 10,933,948 |
| Technical provisions calculated as a whole | **R0700** | 10,932,681 |
| Best Estimate | **R0710** | 846 |
| Risk margin | **R0720** | 420 |
| Other technical provisions | **R0730** | |
| Contingent liabilities | **R0740** | |
| Provisions other than technical provisions | **R0750** | |
| Pension benefit obligations | **R0760** | |
| Deposits from reinsurers | **R0770** | |
| Deferred tax liabilities | **R0780** | - |
| Derivatives | **R0790** | |
| Debts owed to credit institutions | **R0800** | |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | |
| Reinsurance payables | **R0830** | |
| Payables (trade, not insurance) | **R0840** | 507 |
| Subordinated liabilities | **R0850** | |
| Subordinated liabilities not in Basic Own Funds | **R0860** | |
| Subordinated liabilities in Basic Own Funds | **R0870** | |
| Any other liabilities, not elsewhere shown | **R0880** | 705 |
| **Total liabilities** | **R0900** | 10,935,159 |
| **Excess of assets over liabilities** | **R1000** | 19,147 |

**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** |
| **Premiums written** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0110** | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0120** | | | | | | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0130** | | | | | | | | | | | | | | | | | |
| Reinsurers' share | **R0140** | | | | | | | | | | | | | | | | | |
| Net | **R0200** | | | | | | | | | | | | | | | | | |
| **Premiums earned** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0210** | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0220** | | | | | | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | | | | | | | | | | | | | | | |
| Reinsurers' share | **R0240** | | | | | | | | | | | | | | | | | |
| Net | **R0300** | | | | | | | | | | | | | | | | | |
| **Claims incurred** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0310** | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0320** | | | | | | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0330** | | | | | | | | | | | | | | | | | |
| Reinsurers' share | **R0340** | | | | | | | | | | | | | | | | | |
| Net | **R0400** | | | | | | | | | | | | | | | | | |
| **Changes in other technical provisions** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0410** | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0420** | | | | | | | | | | | | | | | | | |
| Gross - Non- proportional reinsurance accepted | **R0430** | | | | | | | | | | | | | | | | | |
| Reinsurers' share | **R0440** | | | | | | | | | | | | | | | | | |
| Net | **R0500** | | | | | | | | | | | | | | | | | |
| **Expenses incurred** | **R0550** | | | | | | | | | | | | | | | | | |
| **Other expenses** | **R1200** | | | | | | | | | | | | | | | | | |
| **Total expenses** | **R1300** | | | | | | | | | | | | | | | | | |

| | | Line of Business for: **life insurance obligations** | | | | | | **Life reinsurance obligations** | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | |
| | | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** | **C0300** |
| **Premiums written** | | | | | | | | | | |
| Gross | **R1410** | | | 3,275,612 | | | | | | 3,275,612 |
| Reinsurers' share | **R1420** | | | | | | | | | - |
| Net | **R1500** | | | 3,275,612 | | | | | | 3,275,612 |
| **Premiums earned** | | | | | | | | | | - |
| Gross | **R1510** | | | 3,278,229 | | | | | | 3,278,229 |
| Reinsurers' share | **R1520** | | | | | | | | | - |
| Net | **R1600** | | | 3,278,229 | | | | | | 3,278,229 |
| **Claims incurred** | | | | | | | | | | - |
| Gross | **R1610** | | | 5,865,733 | | | | | | 5,865,733 |
| Reinsurers' share | **R1620** | | | | | | | | | - |
| Net | **R1700** | | | 5,865,733 | | | | | | 5,865,733 |
| **Changes in other technical provisions** | | | | | | | | | | - |
| Gross | **R1710** | | | (4,933,256) | | | | | | (4,933,256) |
| Reinsurers' share | **R1720** | | | | | | | | | - |
| Net | **R1800** | | | (4,933,256) | | | | | | (4,933,256) |
| **Expenses incurred** | **R1900** | | | 1,693 | | | | | | 1,693 |
| **Other expenses** | **R2500** | | | 1 | | | | | | 1 |
| **Total expenses** | **R2600** | | | 1,693 | | | | | | 1,693 |

**Annex I**

**S.12.01.02**

**Life and Health SLT Technical Provisions**

| | | | 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)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Insurance with profit participation | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| | | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0150** | **C0160** | **C0170** | **C0180** | **C0190** | **C0200** | **C0210** |
| **Technical provisions calculated as a whole** | **R0010** | | 10,932,681 | | | | | | | | 10,932,681 | | | | | | |
| 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 | **R0020** | | | | | | | | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | | | | | | | |
| **Gross Best Estimate** | **R0030** | | | 846 | | | | | | | 846 | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0080** | | | | | | | | | | | | | | | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | **R0090** | | | 846 | | | | | | | 846 | | | | | | |
| **Risk Margin** | **R0100** | | 420 | | | | | | | | 420 | | | | | | |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | **R0110** | | | | | | | | | | | | | | | | |
| Best estimate | **R0120** | | | | | | | | | | | | | | | | |
| Risk margin | **R0130** | | | | | | | | | | | | | | | | |
| **Technical provisions - total** | **R0200** | | 10,933,948 | | | | | | | | 10,933,948 | | | | | | |

**Annex I**
**S.23.01.01**
**Own funds**

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **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) | R0010 | 15,000 | 15,000 | | | |
| Share premium account related to ordinary share capital | R0030 | | | | | |
| Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R0040 | | | | | |
| Subordinated mutual member accounts | R0050 | | | | | |
| Surplus funds | R0070 | - | - | | | |
| Preference shares | R0090 | | | | | |
| Share premium account related to preference shares | R0110 | | | | | |
| Reconciliation reserve | R0130 | 4,147 | 4,147 | | | |
| Subordinated liabilities | R0140 | | | | | |
| An amount equal to the value of net deferred tax assets | R0160 | | | | | |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | | | | | |
| **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 | R0220 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | | |
| **Total basic own funds after deductions** | R0290 | 19,147 | 19,147 | | | |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R0310 | | | | | |
| Unpaid and uncalled preference shares callable on demand | R0320 | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | | | | | |
| Other ancillary own funds | R0390 | | | | | |
| **Total ancillary own funds** | R0400 | | | | | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 19,147 | 19,147 | 0 | | |
| Total available own funds to meet the MCR | R0510 | 19,147 | 19,147 | | | |
| Total eligible own funds to meet the SCR | R0540 | 19,147 | 19,147 | 0 | | |
| Total eligible own funds to meet the MCR | R0550 | 19,147 | 19,147 | | | |
| **SCR** | R0580 | 2,492 | | | | |
| **MCR** | R0600 | 3,445 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 768% | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 556% | | | | |
| | | | | | | |
| | | C0060 | | | | |
| **Reconciliation reserve** | | | | | | |
| Excess of assets over liabilities | R0700 | 19,147 | | | | |
| Own shares (held directly and indirectly) | R0710 | - | | | | |
| Foreseeable dividends, distributions and charges | R0720 | - | | | | |
| Other basic own fund items | R0730 | 15,000 | | | | |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R0740 | - | | | | |
| **Reconciliation reserve** | R0760 | 4,147 | | | | |
| **Expected profits** | | | | | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | | | | | |
| Expected profits included in future premiums (EPIFP) - Non- life business | R0780 | | | | | |
| **Total Expected profits included in future premiums (EPIFP)** | R0790 | | | | | |

**Annex I**
**S.25.01.21**
**Solvency Capital Requirement - for undertakings on Standard Formula**

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0100 |
| Market risk | R0010 | 1,252 | | |
| Counterparty default risk | R0020 | 227 | | |
| Life underwriting risk | R0030 | 1,138 | | |
| Health underwriting risk | R0040 | | | |
| Non-life underwriting risk | R0050 | | | |
| Diversification | R0060 | -643 | | |
| Intangible asset risk | R0070 | | | |
| **Basic Solvency Capital Requirement** | R0100 | 1,975 | | |

| | | |
|---|---|---|
| **Calculation of Solvency Capital Requirement** | | C0100 |
| Operational risk | R0130 | 732 |
| Loss-absorbing capacity of technical provisions | R0140 | |
| Loss-absorbing capacity of deferred taxes | R0150 | -215 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| **Solvency capital requirement excluding capital add-on** | R0200 | 2,492 |
| Capital add-on already set | R0210 | |
| **Solvency capital requirement** | R0220 | 2,492 |
| **Other information on SCR** | | |
| Capital requirement for duration-based equity risk sub-module | R0400 | |
| Total amount of Notional Solvency Capital Requirement for remaining part | R0410 | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |
| Method used to calculate the adjustment due to RFF/MAP nSCR aggregation | R0450 | |
| Net future discretionary benefits | R0460 | |
| Approach to tax rate | | C0109 |
| Approach based on average tax rate | R0590 | 2 - No |

| | | | | |
|---|---|---|---|---|
| **Calculation of loss absorbing capacity of deferred taxes** | | Before the shock | After the shock | LAC DT |
| | | C0110 | C0120 | C0130 |
| DTA | R0600 | | | |
| DTA carry forward | R0610 | | | |
| DTA due to deductible temporary differences | R0620 | | | |
| DTL | R0630 | | | |
| | | | | |
| **LAC DT** | R0640 | | | -215 |
| LAC DT justified by reversion of deferred tax liabilities | R0650 | | | |
| LAC DT justified by reference to probable future taxable economic profit | R0660 | | | |
| LAC DT justified by carry back, current year | R0670 | | | -215 |
| LAC DT justified by carry back, future years | R0680 | | | |
| Maximum LAC DT | R0690 | | | |

**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 |
|---|---|---|
| $MCR_{NL}$ 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 |
|---|---|---|
| $MCR_{L}$ Result | R0200 | 76,535 |

| | | 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 | 10,933,527 | |
| 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 | 76,535 |
| SCR | R0310 | 2,492 |
| MCR cap | R0320 | 1,121 |
| MCR floor | R0330 | 623 |
| Combined MCR | R0340 | 1,121 |
| Absolute floor of the MCR | R0350 | 3,445 |
| | | C0070 |
| **Minimum Capital Requirement** | R0400 | 3,445 |

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