UBS Asset Management Life Ltd

Report and Financial Statements

For the year ended 31 December 2016

Registered No. 3280762

DIRECTORS
E.C.S. Byrne
P. Davis (Non-executive)
N.L. Lakin (N.L. Smith)
J.C. Stannard (Non-executive)

SECRETARY
R. Beechey

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

REGISTERED OFFICE
5 Broadgate
London
EC2M 2QS

STRATEGIC REPORT
For the year ended 31 December 2016

The directors present their strategic report of UBS Asset Management Life Ltd (the "Company") for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of the Company, which is a wholly owned subsidiary undertaking of UBS Asset Management Holding Ltd, is to provide long-term insurance benefits in the United Kingdom, namely pensions.

REVIEW OF THE BUSINESS

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and PRA.

The Directors do not anticipate any significant change in the ongoing activities of the Company in the foreseeable future.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Key Performance Indicators

	2016	*2015*
	£'000	*£'000*
• Management fees	5,209	5,532
• Operating and investment expenses	4,202	4,164
• Assets under management	7,384,918	6,773,450

Management fees decreased by 6% compared to 2015 as a result of net new money outflows and lower average assets under management throughout the year, although the overall assets under management has increased towards the end of the year due to favourable market conditions in the fourth quarter of 2016.

The majority of expenses are variable to revenue, in particular management fees. Overall, the expenses remained unchanged over year.

Assets under management have increased relative to the previous year as reflected above. These increases have been primarily within the passive funds which earn lower revenues. The business remains competitive with expectations of growth in assets under management.

Profit before taxation for 2016 amounted to £1.1m (2015: £1.5m).

PRINCIPAL RISKS AND UNCERTAINTIES

Given that the Company only offers unit linked products, the risks to which the Company is exposed are principally those of a fiduciary nature and are managed according to UBS Group AG guidelines. As a wholly-owned subsidiary of UBS Group AG, the Company operates in line with UBS Group AG group policies, including environmental and ethical standards. The Company's risk management policy has been outlined in note 21 of the financial statements.

The principal risks and uncertainties facing the business are broadly grouped as: Operational Risk, Credit Risk, Insurance Risk, Competitive Risk, Regulatory Risk and Financial Instrument Risk.

Operational risks

Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events, including reputational risk and legal risk.

The Company is principally at risk from mis-pricing of units, breaches of investment powers and a potential breakdown of the control environment.

Credit risk

The primary credit risk faced by the Company is based on its obligation to hold a certain amount of cash to cover its business needs and that in relation to fee debtors.

This cash is primarily held as an investment in UK Treasury Bonds, with the remainder deposited in a segregated client account with a custodian. The risk on fee related debtors is controlled by having an efficient process around payments of fees, specifically to ensure fees are paid in a timely manner.

Insurance risk

The Company underwrites unit linked contracts which offer no guarantees or options thus there is no insurance risk for the company.

Competitive risk

There is the risk that customers may switch to other providers of life funds due to other competitors offering similar products.

Closure to new business and the possible rapid exit of most of the business could cause charges to reduce more rapidly than expenses can be removed.

Regulatory risk

The Company is regulated by the FCA and PRA and the rules stipulate that sufficient margins of regulatory solvency are maintained and customers are treated fairly. The Company ensures that it meets and exceeds these targets on a continual basis. The entity has evaluated the Solvency II requirements and as a part of this evaluation an Own Risk and Solvency Assessment ("ORSA") will be submitted in May 2017.

Financial instruments risk

The financial risk management objectives and policies of the Company are in place to protect the Company's ability to meet cash flow requirements.

The main risks facing the Company are:

- **Interest rate risk:** Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

  There are no interest rate issues other than the impact on the value of the fixed interest linked funds. Since the funds are mainly invested in equities, the impact of a change in interest rates would be less material than a fall in the value of equities, which is covered below.

- **Equity price risk**: Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 December 2016

- **Currency risk**: Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

  The Company is exposed to minimal currency risk as the majority of transactions are conducted in Sterling.

FUTURE DEVELOPMENTS

The Directors intend to continue to assess relevant opportunities to develop or expand the Company's activities provided these are consistent with the UBS business strategy and direction.

By order of the Board

R. Beechey
Company Secretary
15 May 2017

DIRECTORS' REPORT
For the year ended 31 December 2016

The directors present their report and the audited financial statements of UBS Asset Management Life Ltd (the "Company") for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The result for the year ended 31 December 2016 is set out on page 9 of the financial statements. During the year no dividend was paid (2015 – £nil). The Directors do not recommend payment of a final dividend for the year 2016 (2015 - £nil).

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year and up to the date of signing the financial statements were as follows:

I.F. Barnes	(resigned 14 October 2016)
R. Beechey	(resigned 15 February 2017)
E.J. Bennett	(resigned 16 September 2016)
E.C.S. Byrne	(appointed 15 February 2017)
A.J. Davies	(resigned 8 April 2016)
P. Davis	
N.L. Lakin (N L Smith)	(appointed 4 November 2016)
J.C. Stannard	(appointed 31 August 2016)

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITORS

Ernst & Young LLP, the Company's auditor will be deemed to be re-appointed at the end of their term under s487 of the Companies Act 2006.

By order of the Board

R. Beechey
Company Secretary
15 May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UBS ASSET MANAGEMENT LIFE LTD

We have audited the financial statements of UBS Asset Management Life Ltd for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UBS ASSET MANAGEMENT LIFE LTD (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Richard Page (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 May 2017

INCOME STATEMENT
As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Investment income	4	1,162,402	1,326,534
Other technical income, net of reinsurance	2	5,209	5,532
TOTAL TECHNICAL INCOME		1,167,611	1,332,066
CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE			
Technical provisions for linked liabilities	3	1,375,297	207,078
Net operating expenses	5	782	554
Investment expenses and charges	6	3,427	3,610
Unrealised (gains) / losses on investments	4	(215,967)	1,117,002
Tax attributable to the long-term business	9	3,220	2,654
		(208,538)	1,123,820
BALANCE ON THE TECHNICAL ACCOUNT – LONG-TERM BUSINESS		852	1,168

Non-Technical account

	Notes	£'000	£'000
BALANCE ON THE LONG-TERM BUSINESS TECHNICAL ACCOUNT		852	1,168
Tax credit attributable to balance on the long-term business technical account		212	297
Shareholders' pre-tax profit from long-term business		1,064	1,465
Investment income	4	177	236
Unrealised losses on investments	4	(80)	(146)
Investment expenses and charges	6	(20)	(18)
Other charges		(65)	(4)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,076	1,533
Taxation on profit on ordinary activities	9	(224)	(308)
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		852	1,225

All of the amounts above are in respect of continuing operations.

STATEMENT OF TOTAL COMPREHENSIVE INCOME

There are no components of other comprehensive income recognised as a part of total comprehensive income outside the income statement.

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	*2016* *£'000*	*2015* *£'000*
ASSETS			
OTHER FINANCIAL INVESTMENTS	15	23,050	23,393
ASSETS HELD TO COVER LINKED LIABILITIES	16	7,384,918	6,773,450
DEBTORS			
Debtors arising out of direct insurance operations - policyholders	11	997	1,082
OTHER ASSETS			
Cash at bank and in hand		7,438	6,152
PREPAYMENTS AND ACCRUED INCOME	12	153	95
TOTAL ASSETS		7,416,556	6,804,172
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	19	15,000	15,000
Profit and loss account		15,006	14,154
TOTAL CAPITAL AND RESERVES		30,006	29,154
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	18	7,384,918	6,773,450
PROVISION FOR LIABILITIES	14	109	132
CREDITORS			
Other creditors including taxation and social security	13	1,324	1,256
ACCRUALS AND DEFERRED INCOME		199	180
TOTAL LIABILITIES		7,416,556	6,804,172

Approved by the Board of directors on 15 May 2017 and signed on its behalf by:

Pete Davis

P. Davis
Director

N.L. Lakin
Director

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
As at 31 December 2016

	Share Capital	Retained Earnings	Total Equity
At 1 January 2015	15,000	12,929	27,929
Profit for the financial year	-	1,225	1,225
	15,000	14,154	29,154
Equity dividends paid	-	-	-
At 31 December 2015	15,000	14,154	29,154
Profit for the financial year	-	852	852
At 31 December 2016	15,000	15,006	30,006

The accompanying notes form an integral part of these financial statements

1. ACCOUNTING POLICIES

Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment and certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies.

The Company transitioned from previously extant United Kingdom Generally Accepted Accounting Policies ("UK GAAP") to Financial Reporting Standard 101 ("FRS 101") 'Reduced Disclosure Framework' for all periods presented.

The Company has taken advantage of the following exemptions under FRS 101:

(a) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1
(b) the requirements of paragraphs 10(d), 10(f), 16, 38A-38D, 40A-40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements.
(c) the requirements of IAS 7 Statement of Cash Flows.
(d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
(e) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures.
(f) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Investments

Other financial investments

The financial assets held by the Company are UK Treasury Bonds. The Company, upon initial recognition, designates these financial investments at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

Product Classification

The Company offers only unit-linked investment products. These do not contain significant insurance risk and have been accounted for as financial instruments.

Valuation of investments and assets held to cover linked liabilities

Investments are valued at the balance sheet date as follows:

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

1. ACCOUNTING POLICIES (CONTINUED)

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

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

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

Assets held to cover linked liabilities are held at fair value to back the underlying liabilities to which these relate. Fair value of quoted investments and unit trust units are based on bid price. See note 21 for details of the policy for classification of investments into the fair value hierarchy.

Derivative financial instruments

Financial assets at fair value through profit or loss include derivative financial instruments.

Derivative financial instruments are classified as held for trading and are carried as 'assets' when the fair values are positive and as 'liabilities' when the fair values are negative. These instruments are initially recorded at fair value. Subsequent to initial recognition, these instruments are re-measured at fair value. Fair value adjustments and realised gains and losses are recognised in the profit and loss account.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value, because its fair value can not be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset.

Derecognition of financial assets

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender at substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees are recognised in profit or loss.

1. ACCOUNTING POLICIES (CONTINUED)

Technical provision for linked liabilities

Linked liabilities are established by reference to the value of the underlying assets which are held to meet those liabilities. There is no reinsurance of linked liabilities.

Unit-linked contracts that are investment contracts (i.e. do not involve the transfer of significant insurance risk) are accounted for by using the 'deposit accounting' basis. Fees receivable from policyholders on such unit linked investment contracts are recognised as 'Other technical income' in the Technical account - long term business.

Investment income

Investment income and expenses includes dividends, interest, gains and losses on the realisation of investments and related expenses.

Dividends are included as investment income on the date that shares become quoted ex-dividend. Interest is included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

Investment income and expenses attributable to long term business are included in the long term business technical account. Other investment income and realised gains are included in the non-technical account.

Unrealised gains and losses on investments are calculated as the difference between the carrying value of investments at the balance sheet date and their valuation at the last balance sheet date or purchase price if acquired during the year and reversal of previous unrecognised gains and losses in respect of disposals in the current period.

Foreign currencies

The Company's presentational and functional currency is Sterling. Transactions denominated in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling on the balance sheet date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Current tax

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

In respect of long term insurance business, the tax charge is analysed between policyholders' tax and shareholders' tax, where the former represents the movement in current and deferred tax recognised in respect of items of income, gains and expenses which arise to the benefit of the policyholders.

1. ACCOUNTING POLICIES (CONTINUED)

The transfer of the balance on the long term business technical account to the non technical account is grossed up by attributable tax using the effective rate of tax applicable for the year.

Deferred taxation

Deferred tax assets are recognised for temporary differences that will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will results in taxable amounts in future periods. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates at the balance sheet date.

Deferred tax assets and liabilities are offset when they arise from the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realised simultaneously.

Deferred taxes are recognised as a tax benefit or expense in the income statement except for deferred taxes recognised on items recognised in equity, where such taxes are recognised directly in equity.

Dividend payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

Judgements and key sources of estimation uncertainty

(a) Taxation: Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in the deferred taxation section above.
(b) Fair value of financial instruments: The Company categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information. Further details of these valuations are described in note 21.

2. OTHER TECHNICAL INCOME, NET OF REINSURANCE

	2016	*2015*
	£'000	*£'000*
Management Fees	5,209	5,532
Total other technical income	5,209	5,532

The turnover was principally earned in the UK.

3. SEGMENTAL INFORMATION AND RECONCILIATION TO MOVEMENT IN ASSETS HELD TO COVER LINKED LIABILITIES

The Company's main source of income is from the provision of unit-linked policies for pension schemes in the United Kingdom. As a result no analysis by business type or geographical segment is provided. All income arises from continuing activities.

	2016	*2015*
	£'000	*£'000*
Policy inflows	358,070	487,996
Policy outflows	(1,121,898)	(1,178,390)
Net policy outflows	(763,828)	(690,394)
Other changes in the value of assets held to cover linked liabilities	1,375,297	207,078
Changes in the value of assets held to cover linked liabilities	611,469	(483,316)

4. INVESTMENT INCOME

	2016	*2015*
	£'000	*£'000*
Technical account		
Investment (expense) / income	(17,966)	206,258
Gains on the realisation of investments	1,180,368	1,120,276
Total investment income	1,162,402	1,326,534
Unrealised gains / (losses) on investments	215,967	(1,117,002)
	1,378,369	209,532
Non technical account		
Investment income	177	236
Total investment income	177	236
Unrealised losses on investments	(80)	(146)
	97	90

5. NET OPERATING EXPENSES

	2016	*2015*
	£'000	*£'000*
Auditors' remuneration:		
Audit of financial statements	36	36
Audit-related assurance services	31	6
Other administrative expenses	715	512
Net operating expenses	782	554

8. TRANSACTIONS WITH DIRECTORS AND CONNECTED PERSONS

Directors are entitled to deal in securities with UBS AG group companies in accordance with the UBS Asset Management Group's personal account dealing rules. These provide that the directors obtain prior permission and must comply with restrictions designed to avoid conflicts of interest or dealing of a speculative nature.

9. TAXATION

a) Taxation on profit on ordinary activities

	2016	*2015*
	£'000	*£'000*
The amounts for taxation comprise:		
Long term business technical account		
Overseas tax suffered	3,011	2,389
UK Corporation tax at 20.00% (2015 – 20.25%)	232	293
Total current tax	3,243	2,682
Deferred tax:		
Originating and reversal of temporary differences	(20)	(20)
Change in UK taxation rate	(3)	(8)
Total deferred tax for year	(23)	(28)
Tax on profit on ordinary activities	3,220	2,654
Non technical account		
Tax charge attributable to balance on the long term business technical account	212	297
UK Corporation tax at 20.00% (2015 – 20.25%)	2	13
Under/(over) provision in prior periods	10	(2)
Tax on profit on ordinary activities	224	308

b) Factors affecting tax charge for the year

	2016	*2015*
	£'000	*£'000*
Profit on ordinary activities before tax	1,076	1,533
Current tax charge at standard UK corporation tax rate of 20.00% (2015 – 20.25%)	214	310
Adjustment in respect of prior years	10	(2)
Total tax charge for the year	224	308

9. TAXATION (CONTINUED)

c) Deferred Tax Liability

	2016 £'000	2015 £'000
Provision at start of period	(132)	(160)
Credit to the profit and loss account	23	28
Provision at end of period (Note 14)	(109)	(132)

The UK corporation tax rate during 2015 was 21% reducing to 20% effective from 1 April 2015. Further reductions to 19% from 1 April 2017 and 18% from 1 April 2020 were enacted as part of Finance (No. 2) Act 2015. Further legislation was introduced in the Finance Act 2016 to reduce the main rate of corporation tax to 17% from 1 April 2020 (this supersedes the 18% rate). The deferred tax liability has been measured at the tax rates that are expected to apply when the liability will be settled based on enacted rates at the balance sheet date.

10. DIVIDEND

	2016 £000	2015 £000
On Ordinary Shares		
Nil per share (2015: Nil per share)	-	-

No interim or final dividend was declared or paid for in 2016.

11. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS – POLICYHOLDERS

	2016 £000	2015 £000
Due from policyholders	997	1,082

12. PREPAYMENTS AND ACCRUED INCOME

	2016 £000	2015 £000
Other prepayments and accrued income	90	41
Corporation tax receivable	63	54
	153	95

6. INVESTMENT EXPENSES AND CHARGES

	2016	*2015*
	£'000	*£'000*
Technical account		
Investment management charges	3,004	3,148
Losses on the realisation of investments	7	15
Custody charges	416	447
Investment expenses and charges	3,427	3,610

	2016	*2015*
	£'000	*£'000*
Non technical account		
Losses on the realisation of investments	20	18
Investment expenses and charges	20	18

7. DIRECTORS AND EMPLOYEES

The Company had no employees during the year (2015 – nil).

Directors' remunerations are payable by another Group company and are not separately recharged to UBS Asset Management Life Ltd. The below disclosures are therefore in respect of directors' remunerations in respect of qualifying services to the Group rather than to the Company alone.

Remuneration of directors

	2016	*2015*
	£'000	*£'000*
Aggregate remuneration in respect of qualifying services to Group companies	735	1,410
Directors to whom benefits are accrued under defined contribution schemes	5	4
Highest paid director:		
Aggregate remuneration	225	502

13. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016	*2015*
	£000	*£000*
Amounts owed to group undertakings	272	329
Corporation tax payable	1,052	927
	1,324	1,256

14. PROVISION FOR LIABILITIES AND CHARGES

	2016	*2015*
	£000	*£000*
Deferred tax liability (Note 9)	109	132

15. OTHER FINANCIAL INVESTMENTS

	2016	*2015*
	£'000	*£'000*
Market value:		
Debt securities and other fixed-income securities	23,050	23,393
Cost:		
Debt securities and other fixed-income securities	23,160	23,555

All investments shown above are listed and classified as "fair value, and are classified as Level 1 under the "Fair Value Hierarchy" described in Note 21. Investments with a fair value of £5.1m (2015: £5.2m) were held within the long term business fund, the balance of £18.0m (2015: £18.2m) being held within the shareholders fund.

16. ASSETS HELD TO COVER LINKED LIABILITIES

	2016	*2015*
	£'000	*£'000*
Market value:		
Assets held to cover linked liabilities	7,384,918	6,773,450
Cost:	5,988,561	6,770,143

The investments shown above include both listed and unlisted securities. These investments are classified as "fair value through profit or loss" and are classified as Level 1, 2 or 3 under the "Fair Value Hierarchy" described in Note 21. Included in the above investments is a balance of £56.551m (2015: an overdraft of £12.879m) relating to cash and £64.977m (2015: £120.558m) relating to other receivables which are not fair valued; the balance being assets recognised at fair value though profit or loss.

17. FINANCIAL INVESTMENTS – DERIVATIVES

The Company purchases derivative financial instruments to match the liabilities arising on insurance contracts and participating investments with return on the respective assets. These derivatives are included within assets held to cover linked liabilities.

	2016	*2015*
	£'000	*£'000*
Futures contracts	800	1,507
Forward contracts	(8,604)	(34,011)
	(7,804)	(32,504)

18. TECHNICAL PROVISIONS FOR LINKED LIABILITIES

The technical provisions in respect of linked business are equal to the value of the assets to which the contracts are linked.

	2016	*2015*
	£'000	*£'000*
At 1 January 2016	6,773,450	7,256,766
Deposits received from policyholders	358,069	487,996
Payments made to policyholders	(1,121,898)	(1,178,390)
Fees deducted in respect of management services	(22)	(23)
Investment return	1,378,329	209,490
Taxation	(3,010)	(2,389)
At 31 December 2016	7,384,918	6,773,450

The fair value hierarchy of the technical provisions for linked liabilities follow those for the unit linked assets as disclosed in Note 21.

19. CALLED UP SHARE CAPITAL

	2016	*2015*
	£'000	*£'000*
Authorised, allotted and fully paid:		
15,000,000 ordinary shares of £1 each	15,000	15,000

20. CAPITAL STATEMENT

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

The Company became subject to the Solvency II prudential regime on 1 January 2016.

Solvency II requires insurers, as part of their risk management system, to perform an Own Risk Solvency Assessment (ORSA). This represents a new form of capital assessment under the Solvency II guidelines and requires insurers to determine the level of capital they should hold commensurate with the risks to which they may be exposed through their daily operations and strategic objectives. This is in the context of a sound risk management and control framework.

Under Solvency II, firms are required to maintain a minimum level of capital, which is the greater of the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR). The MCR is represented by the Sterling amount of the €3.7m absolute floor.

In 2015, the Board of the Company elected to request permission to apply a simplified approach to calculating the SCR. The rationale for this decision was based on Board's assessment of the business' nature, scale and complexity. The PRA did not object to the simplifications proposed by the Company.

The MCR exceeded the SCR for both periods and the capital requirement for 2016 was £3.3m (2015: £2.7m). The Company had excess capital of £26.5m as at 31 December 2016 (2015: £26.6m).

The PRA has recently decided to review this approach in 2017 following new guidance from EIOPA. However, they have said that they are content for Life Ltd to continue to use its simplified approach until its review has been completed and so this was used for the year ended 31 December 2016. Any changes that might result from the PRA's review are not expected to materially impact the Company's capital position, with the regulatory solvency capital ratio still expected to be in the range of 700% - 900%. The available capital resources per Solvency II at the end of 2016 was £29,828,000 giving a solvency capital ratio of 895%.

21. RISK MANAGEMENT

(a) Governance framework

As a wholly-owned subsidiary of UBS Group AG, the Company operates in line with UBS Group AG group policies and risk framework. The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Group has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Group policy framework which sets out the risk profiles for the Group, risk management, control and business conduct standards for the Group's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

The board of directors approves the Group risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Group's identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. The Group places significant emphasis on assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

(b) Operational and Group risks

The nature of the Company's business means that the risks to which the company is exposed are principally of a fiduciary nature. The Company has no employees other than its Board by virtue of the outsourcing arrangement it has entered into with other, primarily UBS Asset Management UK companies.

Under these outsourcing agreements, other legal entities (including UBS Group companies) are responsible for the vast majority of the day to day operational activity that occurs. As a result, the outsource providers

21. RISK MANAGEMENT (CONTINUED)

assume responsibility for negligence, wilful default, or fraud in the performance of the outsourcing services subject to any specific limits within the individual agreements. However, the ultimate accountability and governance duties remain with the Company.

The Company is a profit making entity and therefore does not rely on further financing support from its parent. As identified above, the Company does rely on other UBS group entities to provide services to support the operations it undertakes. The Company has set aside capital to cover this risk within its operational risk scenario analysis.

(c) Assets held to cover linked liabilities

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces due to the nature of its investments and liabilities is interest rate risk. The Company manages these positions within an Asset Liquidity Management (ALM) framework that has been developed to achieve long term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Group's ALM also forms an integral part of the insurance risk management policy to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

For unit-linked contracts the Company matches all the assets on which the unit prices are based with assets in the portfolio. Therefore the Company is not exposed to price, currency, credit, or interest risk in respect of these contracts. The Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due.

(d) Other financial investments

The Company invests in other financial instruments in the form of UK Government Gilts whose credit ratings do not fall below a Standard & Poors rating of AA.

21. RISK MANAGEMENT (CONTINUED)

(e) Credit risk

Maximum credit exposure

Other financial investments:

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the other financial investments.

	2016	*2015*
	£'000	*£'000*
Neither past due nor impaired	23,050	23,393
Past due	-	-
Impaired	-	-
	23,050	23,393

The table below provides information regarding the credit exposure of the Company at 31 December 2016 by classifying the assets according to Standard & Poor's credit ratings of the counterparties. Gilts have been downgraded from AAA to AA during the year which is now the highest rating. There are no assets that fall outside AA rating.

31 December 2016

	AA	**Total**
	£'000	*£'000*
Other financial investments	23,050	23,050
	23,050	23,050

31 December 2015

	AAA	**Total**
	£'000	*£'000*
Other financial investments	23,393	23,393
	23,393	23,393

During the year, no credit exposure limits were exceeded. The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The Securities Lending function is performed by J.P. Morgan.

21. RISK MANAGEMENT (CONTINUED)

(f) Liquidity risk

Liquidity risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Maturity profiles

The table below summarises the maturity profile of the financial investments of the Company based on remaining undiscounted contractual obligations.

31 December 2016	*Up to a year* *£'000*	*1-3 years* *£'000*	*Total* *£'000*
Other financial investments	23,050	-	23,050

31 December 2015	*Up to a year* *£'000*	*1-3 years* *£'000*	*Total* *£'000*
Other financial investments	23,393	-	23,393

(i) For investments carried at fair value, we have categorised the measurement basis into a "fair value hierarchy" as follows:

The carrying value of short term receivables and payables are assumed to approximate their fair values where discounting is not material because of the short term maturity of these instruments.

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

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

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

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

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

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

Level 2 inputs include the following:
- Evaluated prices based on a compilation of primary observable market information or a broker quote in a non-active market
- Prices based on a Net Asset Value ("NAV") from a fund manager
- Quoted prices for *similar (ie not identical)* assets in active markets
- Inputs other than quoted prices that are observable for the asset (for example, benchmark yields, base spreads, adjustment for corporate actions and reported trades)

21. RISK MANAGEMENT (CONTINUED)

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

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

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

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

(ii) An analysis of investments according to fair value hierarchy is given below:

	Fair value hierarchy			**2016**
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets held to cover linked liabilities				
Fixed maturity securities	218	414,965	-	415,183
Equity securities	6,678,637	13,695	58,783	6,751,115
Other investments (including derivatives)	55,727	41,366	-	97,093
Total assets	6,734,582	470,026	58,783	7,263,391

21. RISK MANAGEMENT (CONTINUED)

An amount of £44.532m (2015: £107.678m) relating to cash and receivables included within assets held to cover linked liabilities on the balance sheet is excluded from the fair value hierarchy summary above.

	Fair value hierarchy			**2015**
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets held to cover linked liabilities				
Fixed maturity securities	354,314	37,118	-	391,432
Equity securities	6,120,868	-	64,271	6,185,139
Other investments (including derivatives)	92,422	(3,223)	-	89,199
	6,567,604	33,895	64,271	6,665,770

(iii) The table below show movements in the assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only).

	2016
	£'000
At 1 January 2016	64,271
Total net gains recognised in the income statement	(806)
Purchases	171
Disposals	(4,899)
Transfers into Level 2	(19)
Foreign exchange rate movements	65
At 31 December 2016	58,783

The change in value between 2015 and 2016 is primarily the result of disposals of securities categorised as Level 3 during the year. The transfers into level 2 relate to certain securities for which previously non observable inputs are now determined as observable. The Company's policies around categorising Level 3 securities are outlined in Note 21 (f)(i). There are no liabilities categorised as Level 3 during the year.

21. RISK MANAGEMENT (CONTINUED)

(g) Interest rate risk

Change in variables

31 December 2016	*Impact on profit before tax* *£'000*
+100 basis points	238
-100 basis points	(238)
+50 basis points	119
-50 basis points	(119)

31 December 2015	*Impact on profit before tax* *£'000*
+100 basis points	228
-100 basis points	(228)
+50 basis points	114
-50 basis points	(114)

22. PARENT UNDERTAKINGS

The Company's immediate parent undertaking is UBS Asset Management Holding Ltd. The group into which the Company is consolidated and the ultimate parent undertaking and controlling party is UBS Group AG, a company incorporated in Switzerland. This is the largest group company preparing consolidated financial statements which include the Company's financial statements.

Copies of the financial statements of UBS Group AG can be obtained from:

Company Secretary
UBS AG London Branch
5 Broadgate
London EC2M 2QS

Or can be downloaded from:

https://www.ubs.com/global/en/about_ubs/investor_relations/annualreporting/2016.html