

# FIL Life Insurance Limited

Report for the period ended 30 June 2016

Registered in England number: 03406905

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# **FIL Life Insurance Limited**

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# **FIL Life Insurance Limited**

## **Directors, officers and principal advisers**

### **Directors**

D C Huntley  
K Isherwood  
A Morris  
T Lanser  
R Parkin  
J Webb

### **Chief Executive**

J Webb

### **Company Secretary**

FIL Investments International

### **Actuaries**

Willis Towers Watson Limited  
Watson House  
London Road  
Reigate  
Surrey  
RH2 9PQ

### **Solicitors**

Slaughter and May  
One Bunhill Row  
London  
EC1Y 8YY

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

### **Principal bankers**

Barclays Bank plc  
PO Box 46116  
London  
EC4N 8WB

### **Registered Office**

Oakhill House  
130 Tonbridge Road  
Hildenborough  
Kent  
TN11 9DZ

# FIL Life Insurance Limited

## Strategic Report for the year ended 30 June 2016

The directors present their Strategic report for the year ended 30 June 2016.

### Principal activity

The principal activity of the Company is to provide insured pension products linked to funds managed by the FIL Limited group of companies and selected fund partners.

The company is authorised in the UK by the Prudential Regulation Authority and regulated in the UK by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

### Business review and future developments

During the year, the Company added a further 19 new clients (2015: 57 new clients) bringing total assets held to cover linked liabilities to £22,861,675,000 (2015: £20,808,872,000) including reinsurance assets. The Company added 79 new funds and 74 client-specific funds (2015: 30 new funds and 126 client-specific funds). 14 clients were lost during the year (2015: 20).

The Company offers a broad range of life funds that invest in funds managed both by Fidelity and third party fund managers. Where the funds are invested via a reinsurance contract with another life insurer, the assets are separately disclosed. Funds reinsured increased in the current year as depicted in the key performance indicators section below.

The Company has implemented compliance with Solvency II, which became effective 1 January 2016.

### Key performance indicators (KPIs)

The Board monitors the progress of the Company using a number of metrics. These include the following KPIs;

	2016	2015
	£000	£000
Assets held to cover linked liabilities	5,702,760	5,373,814
Assets held to cover linked liabilities – reinsured funds	17,158,915	15,435,058
<b>Total assets held to cover linked liabilities</b>	<b>22,861,675</b>	<b>20,808,872</b>

### Transition to FRS 102 and adoption of Solvency II for insurance contract liabilities

This is the first year that the group has presented its results under FRS 102 'The Financial Reporting Standard, applicable in the UK and Republic of Ireland'. The last financial statements, under previous UK GAAP, were for the year ended 30 June 2015. The date of transition to FRS 102 was 1 July 2014. In accordance with FRS 102, the group has identified its insurance contracts and accounted for them in accordance with FRS 103 'Insurance Contracts'. In addition, as a change in accounting policy, the Company has also adopted Solvency II to measure its insurance contract liabilities.

The impact of the transition to FRS 102 and adoption of Solvency II is set out in Note 27 'Transition to FRS 102 and adoption of Solvency II for insurance contract liabilities'. The overall change on the 2015 profit after tax was an increase of £781,000 which consists of the impact of transition to FRS102 of £793,000 (increase) and the impact of change in the accounting policy of £12,000 (decrease). The overall change in opening equity at 1 July 2014 was an increase of £4,589,000 which consist of the impact of transition to FRS102 of £4,081,000 and the impact of change in the accounting policy £508,000.

# **FIL Life Insurance Limited**


## **Strategic Report for the year ended 30 June 2016 (continued)**

### **Principal Risks and Uncertainties**

Details of the principal risks and uncertainties to which the Company is exposed are set out in note 23.

### **Approval**

This Strategic Report was approved on behalf of the Board on 11 October 2016.

A handwritten signature in black ink, appearing to read 'J Webb', is positioned above the printed name and title.

J Webb  
**Director**

# **FIL Life Insurance Limited**

## **Directors' report for the year ended 30 June 2016**

The directors present their report and the audited financial statements of the Company for the year ended 30 June 2016.

Details of the business review and future developments are included within the Strategic report on page 3.

### **Results, dividends and transfer to reserves**

The loss for the year amounted to £3,017,000 (2015 profit: £2,464,000). This amount has been retained in shareholders' funds. Total shareholders' funds were £39,031,000 (2015: £42,048,000). This loss arose due to the adoption of Solvency II and the restatement of prior years' results which has resulted in a mismatch on income and expenditure. The release of the unit-linked provisions (see note 27 for further details) has been included within the opening equity at 1 July 2014 but the associated expenses are included within the current year.

No dividends were declared or proposed during the year. (2015: Nil)

### **Directors**

The directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page 2, with the exception of Mr S Mulley who resigned as a Director on 26<sup>th</sup> February 2016 and Mr T Lanser who was appointed as a Director on 26<sup>th</sup> February 2016.

### **Directors' indemnities**

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

### **Actuary**

Mr D Addison of Towers Watson Limited was the Company's Actuary for the year ended 30 June 2016.

### **Financial Instruments**

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in note 24.

### **Statement of disclosure of information to auditors**

So far as the directors are aware there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

# FIL Life Insurance Limited

## Directors' report for the year ended 30 June 2016 (continued)

### Statement of directors' responsibilities

#### Independent auditors

The Company has appointed PricewaterhouseCoopers LLP as independent auditors.

There is no requirement under the Companies Act or the Company's Articles of Association to hold an Annual General Meeting or lay the Company's Report and Financial Statements before the shareholders. The Company has also elected to dispense the need to appoint auditors annually.

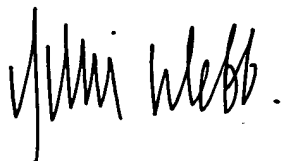
The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

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 UK GAAP. 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 judgements and accounting 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; and
- 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.

Approved by the Board of Directors on 11 October 2016 and signed on behalf of the Board



J Webb

11 October 2016

# FIL Life Insurance Limited

## Independent auditors' report to the members of FIL Life Insurance Limited

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### Report on the financial statements

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#### Our opinion

In our opinion, FIL Life Insurance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### What we have audited

The financial statements, included within the Report (the "Annual Report"), comprise:

- the balance sheet as at 30 June 2016;
- the profit and loss account for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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#### Opinion on other matter prescribed by the Companies Act 2006

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In our opinion, 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.

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#### Other matters on which we are required to report by exception

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#### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



# FIL Life Insurance Limited

## Independent auditors' report to the members of FIL Life Insurance Limited (continued)

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### Responsibilities for the financial statements and the audit

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#### Our responsibilities and those of the directors

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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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.



Thomas Robb (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
11 October 2016

# FIL Life Insurance Limited

## Profit and loss account for the year ended 30 June 2016:

### Technical account – Long-term business

	Note	2016 £000	2015 £000
Return on investment contracts		935,707	270,770
Other technical income, net of reinsurance	5	34,028	30,563
Claims incurred, net of reinsurance	6		
Claims paid			
- Gross amount		489	498
- Reinsurer's share		(489)	(498)
		-	-
Change in other technical provision, net of reinsurance			
- Gross amount		2,151	772
- Reinsurer's share		(2,216)	(939)
		(65)	(167)
Change in policyholder liabilities under investment contracts		(935,707)	(270,770)
Net operating expenses	7	(37,024)	(28,570)
Taxation attributable to long term business	10	(546)	(285)
<b>Balance on the long-term business technical account</b>		<b>(3,607)</b>	<b>1,541</b>

## Profit and loss account for the year ended 30 June 2016:

### Non-technical account

	Note	2016 £000	2015 £000
<b>Balance on long-term business technical account</b>		<b>(3,607)</b>	<b>1,541</b>
Tax credit attributable to balance on the long-term business technical account		546	285
Shareholders' pre-tax profit from long term business		(3,061)	1,826
Investment income	11	590	940
<b>Profit on ordinary activities before tax</b>		<b>(2,471)</b>	<b>2,766</b>
Tax on profit on ordinary activities	10	(546)	(302)
<b>Profit/(loss) for the financial year</b>		<b>(3,017)</b>	<b>2,464</b>
<b>Total comprehensive income for the year</b>		<b>(3,017)</b>	<b>2,464</b>

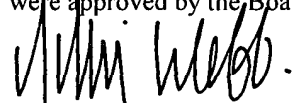
All the amounts above are derived from continuing activities. The notes on pages 13 to 30 form an integral part of these financial statements. All recognised gains and losses are dealt with in the Statement of Comprehensive Income.

# FIL Life Insurance Limited

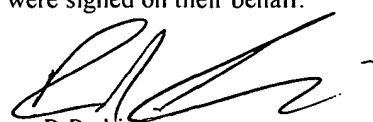
## Balance Sheet as at 30 June 2016

	Note	2016 £000	2015 £000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	12	912	661
<b>Assets held to cover linked liabilities</b>	13	22,861,675	20,808,872
<b>Reinsurers' share of technical provisions</b>			
Long-term business provisions	14	16,818	14,517
<b>Debtors</b>			
Other debtors	15	4,550	5,864
<b>Other assets</b>			
Cash at bank and in hand	16	86,470	72,345
<b>Prepayments and accrued income</b>			
Other prepayments and accrued income		176	373
<b>Total assets</b>		<b>22,970,601</b>	<b>20,902,632</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Share Capital	18	12,000	12,000
Capital contribution		13,000	13,000
Profit and loss account		14,031	17,048
<b>Total shareholders' funds</b>		<b>39,031</b>	<b>42,048</b>
<b>Technical provisions</b>			
Long-term business provision	19	17,312	14,946
<b>Investment contract liabilities</b>	20	22,861,675	20,808,872
<b>Provisions for other risks and charges</b>			
Provision for taxation	21	260	300
<b>Creditors</b>			
Other creditors including taxation	22	40,753	29,142
Claims outstanding		11,570	7,324
		<b>52,323</b>	<b>36,466</b>
<b>Total Liabilities</b>		<b>22,931,570</b>	<b>20,860,584</b>
<b>Total equity and liabilities</b>		<b>22,970,601</b>	<b>20,902,632</b>

The notes on pages 13 to 30 form an integral part of these financial statements. The financial statements were approved by the Board of Directors on 11 October 2016. They were signed on their behalf:



J Webb  
Chief Executive Director  
11 October 2016



R Parkin  
Director  
11 October 2016

# FIL Life Insurance Limited

## Statement of changes in equity for the year ended 30 June 2016

	<b>Called up share capital £000</b>	<b>Capital contribution £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
<b>At 30 June 2014 (restated)</b>	12,000	3,000	14,584	29,584
Total comprehensive income of the year	-	-	2,464	2,464
Capital contribution	-	10,000	-	10,000
<b>At 30 June 2015 (restated)</b>	<b>12,000</b>	<b>13,000</b>	<b>17,048</b>	<b>42,048</b>
Total comprehensive income of the year	-	-	(3,017)	(3,017)
Capital contribution	-	-	-	-
<b>At 30 June 2016</b>	<b>12,000</b>	<b>13,000</b>	<b>14,031</b>	<b>39,031</b>

The notes on pages 13 to 30 form an integral part of these financial statements

# FIL Life Insurance Limited

## Statement of Cash flows for the year ended 30 June 2016

	Note	2016 £000	2015 £000
(Loss)/profit for the year		(3,017)	2,464
Add:- non cash expenditure			
Net loss on insurance business		(65)	(167)
Accrued interest		(296)	(212)
<b>Cash flows from operating activities</b>			
Net movement in assets & liabilities		17,207	(8,036)
<b>Net cash generated from operating activities</b>		16,846	(8,415)
<b>Cash flows from investing activities</b>			
Interest received		296	213
<b>Net cash generated from investing activities</b>		296	213
<b>Cash flows from financing activities</b>			
Capital contribution		-	10,000
<b>Net cash generated from financing activities</b>		-	10,000
<b>Net increase in cash and cash equivalents</b>		14,125	4,262
Cash and cash equivalents at beginning of year		72,345	68,083
<b>Cash and cash equivalents at end of the year</b>		<b>86,470</b>	<b>72,345</b>
<b>Cash and cash equivalents comprise:</b>			
Cash in hand		11,567	8,007
Institutional liquidity funds		74,903	64,338
<b>Cash and cash equivalents at end of the year</b>		<b>86,470</b>	<b>72,345</b>

Included in the Cash and Cash Equivalents are £39,836,000 (2015: £25,205,000) in respect of liabilities to customers, where the funds have not yet been invested or are in the process of being settled; these assets are not available for use by the Company.

The notes on pages 13 to 30 form an integral part of these financial statements.

# **FIL Life Insurance Limited**

## **Notes to the financial statements for the year ended 30 June 2016**

### **1. General Information**

FIL Life Insurance Limited (the Company) is a private limited company incorporated in the United Kingdom under the Companies Act 2006. The registered office of the Company is in England and Wales, with its registration number 03406905. The Company's principal activities are set out in the Strategic Report.

The start date for the period covered by reporting is 1 July 2015 and the end date for the period covered by reporting is 30 June 2016. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

This is the first year in which the financial statements have been prepared under FRS 102. Refer to note 27 for an explanation of the transition.

### **2. Statement of compliance**

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006.

### **3. Principal accounting policies**

#### **(a) Basis of preparation**

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

#### **(b) Going concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual report and financial statements.

#### **(c) Statement of cash flows**

For the purposes of the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturity of three months or less.

#### **(d) Fee income and rebates**

Fees charged for Investment Management Services and policy administration charges are recognised net of rebates when the related services are provided. Investment management performance related fees are recognised at the point when entitlement arises.

#### **(e) Finance income**

Finance Income represents the interest earned on Institutional Liquidity Funds ("ILF"). Interest is accounted for on an accruals basis.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 3. Principal accounting policies (continued)

#### (f) Claims

Claims incurred comprise claims paid in the year and changes in provisions for outstanding claims, together with any other adjustments to claims from previous years. Reinsurance recoveries are accounted for in the same period as the related claim.

#### (g) Technical provisions – Long-term business provision and associated reinsurers' share

The Company in the past has written annuities that transfer significant insurance risk. The legacy annuity policies relate to benefits due for 1,056 individuals. No new annuity business has been written since 2011. The annuity portfolio is fully reinsured to Hannover Rück SE. The reinsurance treaty also consequently transfers significant insurance risk. No collateral is held in relation to the reinsurance assets.

The technical provisions and associated reinsurers' share is computed by the Company's Actuary. A Solvency II basis has been adopted with the technical provisions measured as the best estimate liability plus a risk margin. The best estimate liability is the discounted present value of future annuity payments using best estimate assumptions to reflect an assessment of the future experience of mortality and inflation. The reinsurers' share is on a best estimate basis and also provides for the risk of credit default by the reinsurer. The risk margin is presented in the technical provisions and reinsurers' share of technical provisions on a gross of reinsurance basis (unlike Solvency II which is net of reinsurance). Further details are contained within note 19.

#### (h) Investment return

Investment return includes dividends, interest income on fixed interest rate debt securities and net fair value gains/(losses) on the investments. Dividends are recorded on the date on which the shares are quoted ex dividend. Interest income is accounted for on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or if they have been previously valued, their valuations at the last balance sheet date.

#### (i) Investments

Listed investments held are stated at market value. Other investments are included at directors' valuation, having prudent regard to their realisable value.

Purchases and sales of investments are accounted for using trade date accounting.

#### (j) Investment management expenses

Investment management expenses are recognised on an accruals basis. These expenses relate to the outsourcing of the investment management process and policyholder administration to other group companies. As a result of this, an arrangement fee of 95% (2015: 93%) of the Company's total fee income is distributed between the group companies providing outsourced services.

All new business costs are incurred by the outsourced provider. No allowance has therefore been made for any deferred acquisition costs.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 3. Principal accounting policies (continued)

#### (k) Investment contract liabilities

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Unit-linked contracts written by the Group, where the liability under the contract is dependent on the value of the underlying financial assets, derivatives and/or investment property, are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

Amounts received in respect of unit-linked investment contracts, which principally involve the transfer of financial risk, are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet, as an adjustment to the liability to the policyholder. Financial liabilities in respect of unit-linked investment contracts are measured at fair value through profit and loss and are presented in the balance sheet as 'Liabilities to customer under Investment Contracts'.

Fees receivable from unit-linked investment contracts and investment income and interest payable on contract balances are recognised in the profit and loss account in the year they are assessed unless they relate to services to be provided in future years, in which case they are deferred and recognised as the service is provided. There are no front end fees and so no deferral is made.

#### (l) Dividend policy

Dividends and other distributions to the Group's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders.

These amounts are recognised in the statement of changes in equity.

#### (m) Financial instruments

The Company has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

#### Financial assets

The Company classifies its financial assets into the following categories: Shares and other variable yield securities and units in unit trusts – at fair value through profit or loss and Debt securities and other fixed-income securities – held-to-maturity. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

- *Shares and other variable-yield securities and units in unit trusts; and debt securities and other fixed income securities – at fair value through profit or loss*

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.



# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 3. Principal accounting policies (continued)

#### Financial assets (continued)

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The investment strategy is to invest in listed and unlisted equity securities and fixed interest rate debt securities, as designated upon initial recognition at fair value through profit or loss.

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. The fair values of financial instruments that are not traded in an active market (for example, unlisted equities and over-the-counter derivatives), are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take between market participants. The specific valuation techniques used are described in Note 16.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

- *Debt securities and other fixed-income securities – held-to-maturity*

Redeemable fixed interest securities, in respect of which there is a positive intention to hold to maturity, are valued at amortised cost. The amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security, using the effective interest method.

#### Financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as interest expense. Creditors are also financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest method.

#### (n) Foreign currencies

All figures are stated in Sterling. There are no transactions in currencies other than Sterling.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 3. Principal accounting policies (continued)

#### (o) Taxation

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the year.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 102. Deferred tax is recognised in respect of all material timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not discounted.

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

#### (p) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition.

### 4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (a) Critical judgments in applying the entity's accounting policy

The company currently does not have any critical judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### (b) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The company makes an estimate of the fair value of its investments by using a prudent valuation technique with regards to its likely realisable value.

#### (i) Annuity valuation

The company makes estimates for the discount rate, mortality, longevity and inflation in the valuation of the annuity business. Further details are contained within note 14.

### 5. Other technical income, net of reinsurance

	2016	2015
	£000	£000
Policy administration and asset management fees	34,028	30,563
<b>Total technical income</b>	<b>34,028</b>	<b>30,563</b>

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 6. Annuity payments

The Annuity business is fully reinsured with Hannover Rück SE.

#### Claims Incurred, net of reinsurance

	2016	2015
	£000	£000
Gross amount	489	498
Reinsurer's share	(489)	(498)
	-	-

### 7. Net operating expenses

	2016	2015
	£000	£000
Insurance agency services payments (see note 25)	35,111	27,067
Compliance fees	1,055	1,017
Consultancy fees	276	155
Other administrative expenses	582	331
<b>Total other expenses</b>	<b>37,024</b>	<b>28,570</b>

#### Auditors' remuneration

During the year the Company obtained the following services from the Company's auditors and its associates at costs as detailed below;

	2016	2015
	£000	£000
Fees payable to the Company's auditor and its associates for the audit of the financial statements	131	100
Fees payable to the Company's auditor and its associates for other services		
Stakeholder audit fees	18	18
Solvency II audit preparatory work	36	-
<b>Total other expenses</b>	<b>185</b>	<b>118</b>

The transition to FRS102 and the required restatement of the prior year financial statements has resulted in a mismatch on income and expenditure. The release of the unit-linked provisions (see note 27 for further details) has been included within the opening equity at 1 July 2014 but the associated expenses are included within the current year.

### 8. Staff costs

With the exception of any non-executive Directors (see note 9), the Company does not employ any staff itself. There are therefore no direct staff costs. Staff are provided as part of the Insurance Agency and Services Agreement by FIL Pensions Management.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 9. Directors' emoluments

	2016	2015
	£000	£000
Aggregate emoluments	36	28
Highest paid director	36	28
<b>Aggregate emoluments</b>	<b>36</b>	<b>28</b>

### 10. Tax on profit on ordinary activities

Long term business technical account	2016	2015
	£000	£000
UK corporation tax at 20% (2015; 20.75%)		
Current tax on income for the period	599	445
Adjustment in respect of prior years	(13)	(120)
Current tax on ordinary activities	586	325
Deferred tax	(40)	(40)
<b>Tax on profit on ordinary activities</b>	<b>546</b>	<b>285</b>

Non-technical account	2016	2015
	£000	£000
UK corporation tax at 20% (2015; 20.75%)		
Current tax on income for the period	-	17
Tax attributable to balance on long term business technical account	546	285
<b>Tax on profit on ordinary activities</b>	<b>546</b>	<b>302</b>

### Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 20.75%). The difference is explained below.

	2016	2015
	£000	£000
(Loss)/profit on ordinary activities before tax	(2,471)	2,766
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.75%)	(494)	574
Adjustment in respect of prior years	(13)	(120)
Solvency II adjustments taxable in 2016	1,062	(162)
Disallowable items	(9)	10
<b>Total tax charged for the year</b>	<b>546</b>	<b>302</b>

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 10. Tax on profit on ordinary activities (continued)

#### Deferred tax

The deferred tax liability has been recognised in accordance with the transitional provision agreement between the Company and HMRC as a result of the new tax regime applicable for insurance companies which became effective from 1 January 2013.

	2016	2015
	£000	£000
At 1 July	300	340
Deferred tax charge in the statement of comprehensive income for the year	(40)	(40)
At 30 June 2016	<u>260</u>	<u>300</u>

A reduction in the UK corporation tax rate from 21% to 20% took effect from 1 April 2015. Following Budget 2015 announcements, further reductions in the main rate of UK corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020 have been enacted. At Budget 2016, a further reduction to 17% from 1 April 2020 was announced but has not been substantively enacted at the balance sheet date.

### 11. Investment income

	2016	2015
	£000	£000
Interest income	80	34
Finance income	510	906
Total investment income	<u>590</u>	<u>940</u>

### 12. Financial assets held at fair value through profit and loss

	Carrying Value		Purchase Price	
	2016	2015	2016	2015
	£000	£000	£000	£000
Seed capital	<u>912</u>	<u>661</u>	<u>862</u>	<u>621</u>

Seed capital represents funding provided by the shareholder to launch new funds. The fair value of seed capital is based on bid prices.

### 13. Assets held to cover linked liabilities

	Carrying Value		Purchase Price	
	2016	2015	2016	2015
	£000	£000	£000	£000
Fund assets	5,702,760	5,373,814	5,016,814	4,675,005
Reinsured assets	17,158,915	15,435,058	14,432,263	13,089,712
Policyholder financial assets	<u>22,861,675</u>	<u>20,808,872</u>	<u>19,449,077</u>	<u>17,764,717</u>

Policyholder Unit Linked investments are investments in collective investment funds ("UCITS"). The investment risk is borne by the policyholder. They are carried at fair value at the Statement of Position date. The fair values are based on bid prices of the investments at the Statement of Financial Position date.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 14. Reinsurers' share of technical provisions – Long-term business provision

	2016	2015
	£000	£000
Annuity life business	14,175	12,474
Risk margin	2,643	2,043
<b>Total business</b>	<b>16,818</b>	<b>14,517</b>

The main assumption in calculating the best estimate liability are as follows:-

- Discount rate – the GBP risk-free interest rate term structure prescribed (basic risk free rate curve including the credit risk adjustment but with no matching or volatility adjustment) and provided by EIOPA as at 30 June 2016 and 30 June 2015.
- Mortality – base mortality assumptions are 100% of the PNMA000 tables for males and 100% of the PNFA00 table for females, for both 30 June 2016 and 30 June 2015.
- Longevity – longevity improvements are the 2013 CMI core mortality projections model with a 2.00% and 1.75% long term rate of mortality improvement for males and females respectively. All parameters are otherwise as per the Core parameterisation, 30 June 2016 and 30 June 2015.
- Inflation – the UK Government's liability forward rate inflation curve provided by the Bank of England.

As set out in accounting policy (g), the reinsurer's share of technical provisions includes a risk margin calculated on the reinsurers share following the principles set out in the Solvency II Delegated Act 2015/35. The risk margin is based upon the forecast future longevity risk and counterparty risk relating to the annuity business only, discounted using EIOPA discount rate as noted above and the prescribed cost of capital of 6%.

### 15. Trade and other receivables

	2016	2015
	£000	£000
Receivables arising from investment contracts for management fees	3,611	3,138
Other receivables	939	2,726
<b>Trade and other receivables</b>	<b>4,550</b>	<b>5,864</b>

### 16. Cash and cash equivalents

Included in the Cash and Cash Equivalents are £39,836,000 (2015: £25,205,000) in respect of assets of customers, where the funds have not yet been invested or are in the process of being settled; these assets are not available for use by the Company. The corresponding liability is shown in other creditors, including taxation (see note 22).

	2016	2015
	£000	£000
Cash in hand	11,567	8,007
ILF	74,903	64,338
<b>Total cash and cash equivalents</b>	<b>86,470</b>	<b>72,345</b>

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 17. Financial asset measurement basis

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Recent transactions in an identical asset if there is unavailability of quoted prices (Level 2).
- Inputs for the asset or liability that are based on observable and non-observable market data (Level 3).

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2016.

Assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss\				
Policyholder assets	22,861,675	-	-	22,861,675
Seed capital	912	-	-	912
Total assets	22,862,587	-	-	22,862,587

Included in the amounts above are investments for the benefit of life insurance unit-linked policyholders who bear the investment risk totalling £22,861,675,000 (2015: £20,808,872,000). The fair value of the liabilities follow the fair value of the linked assets matching these linked liabilities and are considered to be Level 1.

The unit linked investment contracts are included in the financial statements at fair value and are classified within Level 1. The fair value of cash and cash equivalents are classified as Level 1.

### 18. Share capital

	2016 £000	2015 £000
Allocated, called up and fully paid		
12,000,000 (2015: 12,000,000) ordinary shares of £1 each	12,000	12,000

### 19. Long-term business provision

	2016 £000	2015 £000
Annuity contracts	14,352	12,625
Risk margin on annuity contracts	2,960	2,321
	17,312	14,946

The main assumptions in calculating the best estimate liability are as follows:-

- Discount rate – the GBP risk-free interest rate term structure prescribed (basic risk free rate curve including the credit risk adjustment but with no matching or volatility adjustment) and provided by EIOPA as at 30 June 2016 and 30 June 2015.
- Mortality – base mortality assumptions are 100% of the PNMA000 tables for males and 100% of the PNFA00 table for females, for both 30 June 2016 and 30 June 2015.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 19. Long term business provision (continued)

- Longevity – longevity improvements are the 2013 CMI core mortality projections model with a 2.00% and 1.75% long term rate of mortality improvement for males and females respectively. All parameters are otherwise as per the Core parameterisation, 30 June 2016 and 30 June 2015.
- Inflation – the UK Government's liability forward rate inflation curve provided by the Bank of England.

The risk margin is calculated in accordance with the Solvency II Delegated Act 2015/35 grossed-up for reinsurance. The risk margin is based upon the forecast future longevity risk and counterparty risk relating to the annuity business only, discounted using EIOPA discount rate as noted above and the prescribed cost of capital of 6%.

The annuity business is fully reinsured to Hannover Rück SE and is not considered sensitive to a change in interest rates. A 1% fall in interest rates would increase the net balance sheet liabilities by £22,000 due to the change in the risk of credit default by the reinsurer.

### 20. Investment contract liabilities

	2016 £000	2015 £000
Liabilities to customers under investment contracts	<u>22,861,675</u>	<u>20,808,872</u>

### 21. Provision for taxation - Deferred tax liabilities

A deferred tax liability of £260,000 (2015: £340,000) has been recognised to reflect future liabilities arising on transition to the new tax regime (which became effective from 1 January 2013).

### 22. Other creditors including taxation

	2016 £000	2015 £000
Payable to HM Revenue & Customs	54	260
Other payables, including fund purchases	39,836	25,205
Amounts payable to group companies	863	3,677
	<u>40,753</u>	<u>29,142</u>

### 23. Capital risk management

FIL Life Insurance Limited maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the company's risk profile and the regulatory and market requirements of its business.

In order to ensure that FIL Life retains a capital surplus, the capital policy is to maintain a buffer over and above the minimum capital requirement of the higher of:

- i) the Solvency Capital Requirement ("SCR") also known as the Pillar 1 requirement; and
- ii) the requirements identified in through the Own Risk & Solvency Assessment ("ORSA") also known as the Pillar 2 requirement.

The capital policy goal is to hold a discretionary buffer over the greater of the SCR and ORSA requirements, as determined by the Board. The discretionary buffer is subject to a quarterly review by the UK CFO and an annual review by the Board.

FIL Life is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and PRA to carry out contracts of insurance and is required to maintain adequate financial resources. It must be able to demonstrate that its available capital exceeds the capital requirement at any time.



# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 23. Capital risk management (continued)

To ensure compliance with the minimum requirement, FIL Life has set a higher capital policy goal against which its capital is monitored.

The Company's total available capital resources are £35.507m (2015: £39.948m) the total capital is held by the insurance business and is constrained by regulatory requirements. This means it may not be possible for the capital to be used to provide funding for other businesses.

The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. FIL Life Insurance is subject to these regulations and is required to meet a Solvency Capital Requirement (SCR) which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a reasonable but prudent fit for the Company's risk profile. In the period leading up to Solvency II's implementation the Company has been managing its capital having regard to Solvency II's capital requirements and definition of capital.

#### Capital position statement

The following table is not required under UK GAAP, but has been included for information and is based upon the Directors' interpretation of the Solvency II Delegated Acts. These figures have not been subject to audit as there is no requirement for the unit-linked risk margin or capital requirement to be audited until 2017.

	2016	2015
	£000	£000
Total shareholders' funds as per financial statements	39,031	42,048
Adjustments to restate in accordance with regulatory requirements		
Estimated risk margin on unit-linked business	(3,524)	(3,136)
Total capital resources available to meet regulatory requirements	35,507	38,912
Regulatory capital requirement	23,992	21,418
Surplus of capital resources over regulatory requirements	11,515	17,494

#### Analysis of liabilities

#### Sensitivity to insurance risk

As described in note 14 the only insurance risk in the company relates to a small book of annuity business. The business is fully reinsured and the sensitivity to any insurance risk is not considered material.

### 24. Risk management policies

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of its performance objectives, including failing to exploit opportunities. The Board of Directors recognise the critical importance of having efficient and effective risk management systems in place. The Company's key operational indicators (such as accounts and key performance indicators) and the Company's key operational policies and guidelines are periodically reviewed and approved by the Board.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 24. Risk Management Policies (continued)

As part of this, the Company is also subject to periodic internal audit by FIL Group's Internal Audit department. In addition, FIL Life Insurance (UK) Limited engages external advisors including an external Appointed Actuary and legal advisors, as appropriate.

The Company monitors its identified key risks on a regular basis. This enables the Company to assess the overall risk exposure and to determine which risks and what level of risk the Company is prepared to accept and the adequacy of planned mitigating actions.

The Company's business is subject to the regulatory requirements of the Solvency II and Prudential Regulatory Authority, which prescribe the type, quality and concentration of investments, and the level of assets to be maintained in order to meet insurance liabilities. These requirements also impose certain rules upon the valuation of the Company's assets and liabilities and certain minimum capital requirements to minimise the risk of insolvency.

The Company's risk management objectives and policies are primarily designed to protect the Company's regulatory capital, thereby safeguarding policyholders' interests whilst ensuring the ability to meet cash flow requirements.

### Principal risks and uncertainties

#### Insurance risk

The Company engages primarily in unit linked business and has a small annuity book. The inherent risk in annuity is Longevity Risk. The company has reinsured its entire portfolio of annuity from Hannover Rück SE. There is a minimal insurance risk for the company.

#### Financial risk

The Company is exposed to financial risk through its cash holdings, its receivable balances and its investment in the Fidelity Institutional Liquidity Fund plc. The most important components of this financial risk are market risk (including interest rate risk and currency risk), credit risk and liquidity risk.

##### a) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values of financial instruments from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices. Market risk to the Company is limited as, through a 100% matching of policyholder assets and liabilities, the risk on the valuation of assets is borne by the policyholders. There is a minimal market risk for seed capital investments.

##### Interest rate risk

The Company's main exposure to interest rate risk relates to interest bearing assets in the form of deposits and cash held with the Company's banks or other approved institutions. The impact of a fall or increase in interest rates has not been shown on the basis of materiality following sensitivity analysis.

The other interest rate risk is on account of discounting of future annuity payments under the legacy annuity business. The annuity portfolio this is now completely reinsured by Hannover Rück SE. The company has no principal risk on account of this.

##### Currency risk

The Company is not directly exposed to currency rate risk. At 30 June 2016, the Company has no exposure to currency risk as all cash and holdings in investments are currently denominated in Sterling Pound.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 24. Risk Management Policies (continued)

#### b) Credit risk

Credit risk is assumed whenever the Company is exposed to loss if another party fails to perform its financial obligations to the Company, including a failure to perform them in a timely manner.

The Company is exposed to the default of banks where there are cash balances held with those banks, and to the default of the managers of institutional liquidity funds. The Company holds cash on deposit with Barclays Bank plc. Barclays Bank is A- rated by Standard & Poor's. Accounts receivable balances are held predominantly with other FIL Group companies which are considered low risk.

The Company performs an assessment of the risk profile of counterparty prior to taking on a credit exposure. The factors to be considered will vary according to both the type of credit and the counterparty being considered. Only approved counterparties may be dealt with.

External credit ratings are monitored. An approved counterparty is one that is assigned an external rating of BBB+ or higher or a Dun & Bradstreet risk indicator of 3 or better. Cash balances or deposits are only placed with approved relationship banks or liquidity funds. The Company undertakes ongoing monitoring of the credit quality of the counterparty and an assessment of the claims payment ability where the counterparty is a reinsurer.

Appropriate provision is made where an amount is not considered to be recoverable. At 30 June 2016, no financial assets are past due or impaired.

A credit risk policy and related controls have been put in place.

#### 2016

Credit Rating (S&P)	AAA	AA	A-	BBB&BBB-	Below BBB- or unrated	Total
	£000	£000	£000	£000	£000	£000
Available for sale financial assets	35,067	-	-	-	-	35,067
Linked liabilities to customers under investment contracts	39,836	-	-	-	-	39,836
Cash and cash equivalents	-	-	11,567	-	-	11,567
<b>Total</b>	<b>74,903</b>	<b>-</b>	<b>11,567</b>	<b>-</b>	<b>-</b>	<b>86,470</b>

#### 2015

Credit Rating (S&P)	AAA	AA	A-	BBB&BBB-	Below BBB- or unrated	Total
	£000	£000	£000	£000	£000	£000
Available for sale financial assets	39,133	-	-	-	-	39,133
Linked liabilities to customers under investment contracts	25,205	-	-	-	-	25,205
Cash and cash equivalents	-	-	8,007	-	-	8,007
<b>Total</b>	<b>64,338</b>	<b>-</b>	<b>8,007</b>	<b>-</b>	<b>-</b>	<b>72,345</b>

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 24. Risk Management Policies (continued)

#### c) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulties obtaining funds to meet commitments associated with financial and other liabilities. All policyholder assets can be readily liquidated. The Liquidity risk for policyholder assets is minimal, as the proceeds will be provided by sale of underlying assets. Any deferment of sale proceeds can be matched by deferring payment to policyholders as per the policy contracts. Detailed investment and disinvestment policies and guidelines are in place and updated periodically.

For each main category of business, the following shows the gross liability at 30 June 2016 analysed by duration. The total liability is split by duration in proportion to the present value of cash-flows estimated to arise during that period. For unit linked liabilities, all liabilities are presented in the "Up to a year" category to reflect the contractual surrender basis.

#### 2016

	Up to a year	1-5 years	Over 5 years	Total
	£000	£000	£000	£000
Unit linked liabilities	22,861,675	-	-	22,861,675
Annuity liabilities	554	2,046	11,752	14,352
Risk margin	114	422	2,424	2,960
Other payables	52,583	-	-	52,583
<b>Total liabilities</b>	<b>22,914,926</b>	<b>2,468</b>	<b>14,176</b>	<b>22,931,570</b>

#### c) Liquidity risk (continued)

#### 2015

	Up to a year	1-5 years	Over 5 years	Total
	£000	£000	£000	£000
Unit linked liabilities	20,808,872	-	-	20,808,872
Annuity liabilities	511	2,003	10,111	12,625
Risk margin	94	368	1,859	2,321
Other payables	36,766	-	-	36,766
<b>Total liabilities</b>	<b>20,846,243</b>	<b>2,371</b>	<b>11,970</b>	<b>20,860,584</b>

#### d) Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people or systems or from external events. This definition is intended to include all risk exposures to which the Company is exposed, other than the financial risks described above and strategic and Company risks that are considered elsewhere. Hence operational risks include, for example, outsourcing arrangements to external providers, conduct, IT, information security, project, legal, and fraud and compliance risks.

Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational, policyholder/employee and reputation criteria. Operational risks are reported, as with other risks, on a quarterly basis. A holistic view of the Company's financial and non-financial risks, including operational risks, is discussed at Board level on a quarterly basis.

#### e) Expense risk

Expense risk is managed by the Company through the assessment of business unit profitability, and frequent monitoring of expense levels. Expense risk is mitigated under the terms of the Insurance Advisory and Sales Agreement in place between the Company and FIL Pension Management.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 24. Risk Management Policies (continued)

#### f) Derivatives risk

There are no derivatives in FIL Life Insurance Limited

#### g) Unit linked contracts

For unit-linked contracts the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Company on these contracts.

Amounts under unit-linked contracts are generally repayable on demand and 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. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions.

### 25. Related party transactions

#### (a) Transactions involving directors or key management

No contract of significance existed at any time during the year in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 102 Section 33 "Related Party Disclosures".

#### (b) Transactions involving other related parties

- (i) The Company has entered into an agreement with FIL Pensions Management ('FPM'), a related party with common ownership to the Company, to receive insurance agency and other insurance intermediary services with effect from 1 January 2005 and revised agreement was entered on 4 January 2016 with effect from 1 January 2016. Under the terms of the agreement, payments in consideration of the service are only made when the Company meets a targeted margin. Payments due to FPM in relation to the period ended 30 June 2016 totalled £35,110,000 (2015: £27,066,000). The balance outstanding at the end of the year amounts to £1,477,000 (2015: £1,488,000).
- (ii) The Company has entered into an agreement with FIL Investments Services Limited ('FISL') and FIL Fund Management Limited ('FFML'), both related parties with common ownership to the Company, to receive investment management services. During the year, the assets held to cover linked liabilities of the Company were invested in a number of unit trusts and open-ended investment companies managed by FISL and/or FFML. The investment management fees due from FISL and FFML during the period ended 30 June 2016 amounted to £9,485,000 and £1,235,000 respectively (2015: £9,007,000 and £1,785,000 respectively). The balance owed by FISL and FFML at the end of the year amounts to £859,000 and £23,000 respectively (2015: £716,000 and £189,000 respectively).
- (iii) FIL Investment Management Limited ('FIML'), a related party with common ownership to the Company, paid directors' fees on behalf of the Company totalling £37,000 (2015: £28,000), of which £37,000 (2015: £28,000) was charged to the Company. The balance owed to FIML at the end of the year amounts to £3,000 (2015: £2,000).

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 25. Related party transactions (continued)

- (iv) FIL Administration Service Limited ('FASL'), a related party with common ownership to the Company, have provided an interest free loan of £nil (2015: £3,000,000). The balance owed to FASL at the end of the year amounts to £nil (2015: £3,000,000).

### 26. Ultimate parent company

The Company's immediate and ultimate parent undertaking and controlling company is FIL Limited, a company incorporated in Bermuda which owns 100% of the Company's issued share capital. FIL Limited is the only parent undertaking to consolidate these financial statements.

### 27. Transition to FRS 102 and adoption of Solvency II for insurance contract liabilities

The financial statement of the Company for the period ended 30 June 2016 have been prepared in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) issued by the Financial Reporting Council. The date of transition to FRS 102 was 1 July 2014 and these are the Company's first set of financial statements prepared in accordance with FRS 102. FRS 102 replaces all existing FRSSs, SSAPs and UITF Abstracts.

As the new standard is based on IFRS, there are a number of key differences between existing UK GAAP and FRS 102.

FRS 102 applies to financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure) for a period.

FRS 103 also applies to an entity complying with FRS 102 and is intended to give a true and fair view of reporting entity's financial position and profit or loss (or income or expenditure) for a period.

FRS 103 is applicable for accounting of insurance contracts. As per FRS 103, insurance contract is "A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event occurs."

FIL have two business written one is annuity which is fully reinsured by Hannover Rück SE and other being the defined contribution (unit linked) business. As per the above definition only the annuity business and associated reinsurance falls under the ambit of insurance contract.

For the defined contribution business, there is no embedded insurance risk and does not fall within FRS 103. The report will not include commentary on FRS 103 except for the disclosures required by it.

The Company has adopted FRS 102 for the year ended 2016 and has restated the comparative prior year amounts. In addition, as a change in accounting policy, the Company has also adopted Solvency II to measure its insurance contract liabilities.

# FIL Life Insurance Limited

## Notes to the financial statements for the year ended 30 June 2016

### 27. Transition to FRS 102 and adoption of Solvency II for insurance contract liabilities (continued)

On transition to FRS102, the measurement and presentation of insurance liabilities has been changed:

- the unit linked business – this is pure unit linked pensions business and so has no significant insurance risk. As such it is no longer classed as insurance business, instead accounted for as an investment contract on transition to FRS102 / 103;
- annuity business – this continues to be accounted for as insurance business under both old and new UK GAAP. However, the company has decided to adopt Solvency II as their accounting basis which is a change in accounting policy.

As a result, the reserves held under Solvency I were released and Solvency II best estimate liability (BEL) and risk margin were recognised in their financial statements. This change in the accounting policy was applied retrospectively.

The overall change on the 2015 profit after tax was an increase of £781,000 which consists of the impact of transition to FRS102 of £793,000 (increase) and the impact of change in the accounting policy of £12,000 (decrease). The overall change in opening equity at 1 July 2014 was an increase of £4,589,000 which consist of the impact of transition to FRS102 of £4,081,000 and the impact of change in the accounting policy £508,000.

#### Restated statement of financial position

	2015 £000	2014 £000
Original shareholder's fund	36,678	24,995
Prior year restatement b/fwd	4,589	-
Revised opening shareholder's fund	41,267	24,995
Risk margin (accounting policy change)	(99)	(180)
Restatement of annuity asset & liability (accounting policy change)	(68)	(84)
Release of solvency I counterparty provisions: long-term business (accounting policy change)	155	772
Release of solvency I counterparty provisions: unit-linked business (transition change)	793	4,081
<b>Amount restated</b>	<b>781</b>	<b>4,589</b>
<b>Restated Shareholder's Funds</b>	<b>42,048</b>	<b>29,584</b>

	2016 £000	2015 £000
Profit on ordinary activities before tax (prior to transition and accounting policy change)	(2,406)	2,933
(-) Risk margin (accounting policy change)	(39)	(99)
(-) Restatement of annuity asset & Liability (accounting policy change)	(26)	(68)
	(2,471)	2,766
Tax on ordinary activities	546	302
Restated tax on profit on ordinary activities	546	302
<b>Restated profit for the financial year</b>	<b>3,017</b>	<b>2,464</b>