FIL Life Insurance Limited

Company registration number: 03406905

Annual Report and Financial Statements

Year ended

30 June 2017

Contents

Directors, Officers and Principal advisors
for the year ended 30 June 2017

Directors	D C Huntley K Isherwood A S Lanser A Morris R Parkin J Webb
Chief Executive	J Webb
Secretary	FIL Administration Limited 25 Cannon Street London EC4M 5TA
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 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

The directors present their strategic report for the year ended 30 June 2017.

Principal activities

The principal activity of FIL Life Insurance Limited (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 (PRA) and regulated in the UK by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority.

Business review and position

During the year, the Company added a further 14 new clients (2016: 19 new clients) bringing total assets held to cover linked liabilities to £27,077,610,000 (2016: £22,861,675,000) including reinsurance assets. The Company added 5 new funds and 99 client-specific funds (2016: 79 new funds and 74 client-specific funds). 14 clients were lost during the year (2016: 14).

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.

Key performance indicators ("KPIs")

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

	2017 £000	2016 £000
Assets held to cover linked liabilities	7,114,259	5,702,760
Assets held to cover linked liabilities – reinsured funds	19,963,351	17,158,915
Total assets held to cover linked liabilities	**27,077,610**	**22,861,675**

Principal Risks and Uncertainties

Details of the principal risks and uncertainties to which the Company is exposed are set out in note 24.

Future Developments

The Company expects to operate in exsting markets and products during the coming year.

Approval

This strategic report was approved on behalf of the Board on 12 October 2017.

J Webb
Chief Executive Director

12 October 2017

The directors present their report together with the audited financial statements for the year ended 30 June 2017.

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

Directors

The directors of the company who were in office throughout the year, and up to the date of signing the financial statements are listed on page 2.

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.

Results, dividends and transfer to reserves

The profit for the year amounted to £2,247,000 (2016 loss: £3,017,000). The prior year loss arose on the restatement of the account to the FRS102 basis of accounting. This amount has been retained in shareholders' funds. Total shareholders' funds were £41,278,000 (2016: £39,031,000).

No dividends were declared or proposed during the year (2016: Nil).

Actuary

Mr D Addison of Towers Watson Limited was the Company's Actuary for the year ended 30 June 2017.

Financial Instruments

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in note 17.

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.

Statement of directors' responsibilities

Independent auditors

The directors appointed PricewaterhouseCoopers LLP as auditors to the company.

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, the 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 prepared the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102").

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, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 use in the preparation of 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.

Approval

This directors' report was approved on behalf of the Board on 12 October 2017.

J Webb
Chief Executive Director

12 October 2017

FIL Life Insurance Limited

Independent auditors' report to the member of FIL Life Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, FIL Life Insurance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet at 30 June 2017, and the profit and loss account, the statement of cash flows, and the statement of changes in equity for the year ended 30 June 2017, and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company in the period from 1 July 2016 to 30 June 2017.

Our audit approach

Overview

	All in £'ooo	Shareholder	Unit linked funds business
Materiality	Overall materiality	£208 (2016: £229)	£271,663 (2016: £229,666)
	Benchmark	Based on 0.5% of net assets	Based on 1% of total assets
Audit scope	• We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). • We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements.		
Key audit matters	• The risk of fraud in revenue recognition.		

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Risk of fraud in revenue recognition	• Tested a sample of management and distribution fees and agreed back to the underlying agreements; • Obtained comfort over the net asset value ("NAV") of the fund through mixture of external confirmations and controls testing; • Performed recalculation for a sample of management and distribution fees; • Tested general access controls for IT systems used in the calculation of revenue; and • Performed substantive analytics over predictable revenue streams We found no material exceptions in our testing.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements by focusing on the material financial statement line items.

In addition, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Shareholder	***Unit linked funds business***
Overall materiality	£208,373 (2016: £229,469)	£271,663,688 (2016: £229,666,640)
How we determined it	0.5% of net assets	1% of total assets
Rationale for benchmark applied	The entities business comprises proprietary transactions (management fees and corporate transactions), an annuity business in run-off (of which risk and rewards, net of reinsurance remains with the company), and an asset management portion (unit linked funds where primary risk and rewards rest with the policyholders). As a result, we have determined two separate local materiality levels one relating to 'Shareholder' (proprietary transactions and annuity business) and one for the unit linked funds business. As there is no particular emphasis on company's profitability given where it sits in the wider group therefore we consider it appropriate to use balance sheet based benchmark.	

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £10,418 (2016: £11,473) relating to 'Shareholder' and £13,583,184 (2016: £11,483,332) relating to Unit linked funds business as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

Conclusions relating to going concern (continued)

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report and Financial Statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

IIn our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 30 June 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board of Directors, we were appointed by the directors on 17 December 1998 to audit the financial statements for the year ended 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement is 20 years, covering the years ended 31 December 1998 to 30 June 2017.

Thomas Robb

Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 October 2017

FIL Life Insurance Limited

Profit and loss account
for the year ended 30 June 2017

Technical account – Long-term business

	Note	2017 £000	2016 £000
Return on investment contracts		**4,226,317**	935,707
Other technical income, net of reinsurance	7	**43,607**	34,028
Claims incurred, net of reinsurance			
Claims paid	8		
- Gross amount		**497**	489
- Reinsurer's share		**(497)**	(489)
		-	-
Change in other technical provision, net of reinsurance			
- Gross amount		**(3,049)**	2,151
- Reinsurer's share		**3,193**	(2,216)
		144	(65)
Change in policyholder liabilities under investment contracts		**(4,226,317)**	(935,707)
Net operating expenses	9	**(41,187)**	(37,024)
Taxation attributable to long term business		**(531)**	(546)
Balance on the long-term business technical account		**2,033**	(3,607)

Non-technical account

	Note	2017 £000	2016 £000
Balance on long-term business technical account		2,033	(3,607)
Tax credit attributable to balance on long-term business technical account		531	546
Shareholders' pre-tax profit/(loss) from long term business		**2,564**	(3,061)
Investment income	10	**228**	590
Profit/(loss) on ordinary activities before tax		**2,792**	(2,471)
Tax on profit/(loss) on ordinary activities	11	**(545)**	(546)
Profit/(loss) for the financial year		**2,247**	(3,017)
Total comprehensive income/(expense) for the year		**2,247**	(3,017)

All the amounts above are derived from continuing activities. The notes on pages 15 to 33 form an integral part of these financial statements. All recognised gains and losses are dealt with in the profit and loss account.

FIL Life Insurance Limited

Balance sheet
at 30 June 2017

	Note	2017 £000	2016 £000
Assets			
Investments			
Other financial investments	12	**594**	912
Assets held to cover linked liabilities	13	**27,077,610**	22,861,675
Reinsurer's share of technical provisions			
Long-term business provisions	14	**13,769**	16,818
Trade and other receivables			
Debtors: amounts due within one year	15	**7,171**	4,550
Other Assets			
Cash at bank and in hand	16	**61,014**	86,470
Prepayments and accrued income			
Other prepayments and accrued income		**1,070**	176
Total assets		**27,161,228**	22,970,601
Liabilities			
Capital and reserves			
Called up share capital	18	**12,000**	12,000
Capital contribution		**13,000**	13,000
Profit and loss account		**16,278**	14,031
Total shareholder's fund		**41,278**	39,031
Technical provisions			
Long-term business provision	19	**14,119**	17,312
Investment contract liabilities	20	**27,077,610**	22,861,675
Provisions for other risks and charges			
Provision for taxation		**209**	260
Creditors			
Other creditors including taxation	22	**13,833**	40,753
Claims outstanding		**14,179**	11,570
		28,012	52,323
Total Liabilities		**27,119,950**	22,931,570
Total equity and liabilities		**27,161,228**	22,970,601

The notes on pages 15 to 33 form an integral part of these financial statements. The financial statements were approved by the Board of Directors on 12 October 2017. They were signed on their behalf:

J Webb
Chief Executive Director
12 October 2017

R Parkin
Director

Company registration number: 03406905

FIL Life Insurance Limited

Statement of changes in equity
for the year ended 30 June 2017

	Called up share capital £000	Capital contribution £000	Retained earnings £000	Total equity £000
At 1 July 2016	**12,000**	**13,000**	**17,048**	**42,048**
Capital contribution	-	-	-	-
Total comprehensive expense for the year	-	-	(3,017)	(3,017)
At 30 June 2016	**12,000**	**13,000**	**14,031**	**39,031**
Capital contribution	-	-	-	-
Total comprehensive income for the year	-	-	2,247	2,247
At 30 June 2017	**12,000**	**13,000**	**16,278**	**41,278**

The notes on pages 15 to 33 form an integral part of these financial statements.

FIL Life Insurance Limited

Statement of cash flow
for the year ended 30 June 2017

	2017 £000	2016 £000
Profit/(Loss) for the year	**2,247**	(3,017)
Add non cash expenditure		
Net profit/(loss) on insurance business	**144**	(65)
Accrued interest	**(152)**	(296)
Cash flows from operating activities		
Net movement in assets & liabilities	**(28,071)**	17,207
Net cash/(outflow) inflow from operating activities	**(28,079)**	16,846
Cash flows from investing activities		
Interest received	**152**	296
Net cash inflow from investing activities	**152**	296
Net (decrease)/increase in cash and cash equivalents	**(25,680)**	14,125
Cash and cash equivalents at beginning of year	**86,470**	72,345
Cash and cash equivalents at end of the year	**60,790**	86,470
Cash and cash equivalents comprise:		
Cash in hand	**50**	11,567
Institutional liquidity funds	**60,964**	74,903
Cash at bank and in hand	**61,014**	86,470
Bank overdraft	**(224)**	-
Cash and cash equivalents at the end of the year	**60,790**	86,470

Included in the Cash and Cash Equivalents are £10,519,000 (2016: £39,836,000) 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 15 to 33 form an integral part of these financial statements.

1. General information

FIL Life Insurance Limited is a private company limited by shares and incorporated in England. The registered office is Oakhill House, 130 Tonbridge Road, Hildenborough, Kent TN11 9DZ. The Company's principal activities are set out in the Strategic Report.

The start date for the period covered by reporting is 1 July 2016 and the end date for the period covered by reporting is 30 June 2017. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

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.

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 Life have two business lines, 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.

Solvency II best estimate liability (BEL) and risk margin have been used to measure insurance liabilities in the financial statements.

3. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(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.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £000.

3. Principal accounting policies *(continued)*

(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.

(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 reinsurer's share*

The Company in the past has written annuities that transfer significant insurance risk. The legacy annuity policies relate to benefits due for 1,049 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 reinsurer's 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 reinsurer's 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 reinsurer's 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.

3. Principal accounting policies (continued)

(h) *Investment return (continued)*

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. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

(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% (2016: 95%) 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.

(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 'Investment contract liabilities'.

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.

3. Principal accounting policies (continued)

(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.

(i) 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.

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 17.

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.

ii) 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.

3. Principal accounting policies (continued)

(m) *Financial instruments (continued)*

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.

(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.

(q) *Current asset investments*

Current asset investments comprise investments in mutual and collective funds and money market deposits and are measured at fair value with changes in fair value recognised in profit or loss.

(r) *Debtors*

Short-term debtors, with no stated interest rate and receivable within one year, are measured at transaction price less any impairment. Any losses arising from impairment are recognised in the profit and loss account. All debt instruments which are basic financial instruments are measured at amortised cost using the effective interest method, less any impairment.

(s) *Creditors*

Short-term creditors, with no stated interest rate and payable within one year, are measured at transaction price. Other financial liabilities are measured at amortised cost.

3. Principal accounting policies (continued)

(t) *Current and deferred tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

(i) the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and

(ii) any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.

4. Critical accounting judgements and estimation uncertainty (continued)

(c) *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 Staff costs

With the exception of any non-executive Directors (see note 6), 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.

6 Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	**36**	36
Highest paid director	**36**	36
Aggregate emoluments	**36**	36

7 Other technical income, net of reinsurance

	2017 £000	2016 £000
Policy administration and asset management fees	**43,607**	34,028
Total technical income	**43,607**	34,028

All income is earnt in the United Kingdom.

8 Annuity payments

The Annuity business is fully reinsured with Hannover Rück SE.

Claims Incurred, net of reinsurance	2017 £000	2016 £000
Gross amount	**497**	489
Reinsurer's share	**(497)**	(489)
	-	-

9 Net Operating expenses

	2017 £000	2016 £000
Insurance agency services payments (see note 25)	**37,814**	35,111
Compliance fees	**868**	1,055
Consultancy fees	**323**	276
Other administrative expenses	**2,182**	582
Total other expenses	**41,187**	37,024

Auditors' remuneration

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

	2017 £000	2016 £000
Fees payable to the Company's auditor and its associates for the audit of the financial statements	**121**	131
Fees payable to the Company's auditor and its associates for other services		
Stakeholder audit fees	**16**	18
Solvency II audit preparatory work	**51**	36
Total other expenses	**188**	185

10 Investment income

	2017 £000	2016 £000
Interest income	**76**	80
Finance income	**152**	510
Total investment income	**228**	590

11 Tax on profit on ordinary activities

Long term business technical account	2017 £000	2016 £000
UK corporation tax at 19.75% (2016: 20%)		
Current tax on income for the period	**578**	599
Adjustment in respect of prior years	**4**	(13)
Current tax on ordinary activities	**582**	586
Deferred tax	**(51)**	(40)
Tax on profit on ordinary activities	**531**	546

Non-technical account	2017 £000	2016 £000
UK corporation tax at 19.75% (2016: 20%)		
Current tax on income for the period	**14**	-
Tax attributable to balance on long term business technical account	**531**	546
Tax on profit on ordinary activities	**545**	546

11 Tax on profit on ordinary activities (contined)

Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2016: higher than) the standard rate of corporation tax in the UK of 19.75% (2016: 20%). The difference is explained below.

	2017 £000	2016 £000
Profit/(loss) on ordinary activities before tax	2,792	(2,471)
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.75% (2016: 20%)	552	(494)
Adjustment in respect of prior years	4	(13)
Solvency II adjustments taxable in 2016	-	1,062
Disallowable items	-	(9)
Movement in prior year deferred tax	(11)	-
Total tax charged for the year	545	546

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.

The net reversal of deferred liability expected in 2018 is £40,000 (2017: £40,000).

	2017 £000	2016 £000
At 1 July	260	300
Deferred tax charge in the statement of comprehensive income for the year	(51)	(40)
At 30 June	209	260

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.

12 Other financial investments

	2017 £000	2016 £000
Seed Capital		
Carrying Value	594	912
Purchase Price	524	862

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

	2017 £000	2016 £000
Carrying Value		
Fund assets	**7,114,259**	5,702,760
Reinsured assets	**19,963,351**	17,158,915
Policyholder financial assets	**27,077,610**	22,861,675
Purchase Price		
Fund assets	**5,773,416**	5,016,814
Reinsured assets	**15,179,425**	14,432,263
Policyholder financial assets	**20,952,841**	19,449,077

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 balance sheet date. The fair values are based on bid prices of the investments at the balance sheet date.

14 Reinsurer's share of technical provisions – Long-term business provisions

	2017 £000	2016 £000
Annuity life business - best estimate liabilities	**12,485**	14,175
Annuity life business - risk margin	**1,284**	2,643
Total business	**13,769**	16,818

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 2017 and 30 June 2016.

• Mortality – base mortality assumptions are 100% of the PMA08 tables for males and 100% of the PFA08 table for females, for both 30 June 2017 and 30 June 2016.

• Longevity – longevity improvements are the 2016 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 2017 and 30 June 2016.

• Inflation – the UK Government's liability forward rate inflation curve provided by the Bank of England as at 30 June 2017 and 30 June 2016.

As set out in principle 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

	2017 £000	2016 £000
Receivables arising from investment contracts for management fees	**6,129**	3,611
Other receivables	**1,042**	939
Trade and other receivables	**7,171**	4,550

16 Cash at bank and in hand

Included in the Cash and Cash Equivalents are £10,519,000 (2016: £39,836,000) 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).

	2017 £000	2016 £000
Cash in hand	**50**	11,567
Institutional liquidity fund (ILF)	**60,964**	74,903
Total cash at bank and in hand	**61,014**	86,470

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 2017.

	2017 £000	2016 £000
Assets (Level - 1)		
Financial assets at fair value through profit and loss		
Policyholder assets	**27,077,610**	22,861,675
Seed capital	**594**	912
Total Assets	**27,078,204**	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 £27,077,610,000 (2016: £22,861,675,000). 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 Called up share capital

	2017 £000	2016 £000
Allocated, called up and fully paid		
12,000,000 (2016: 12,000,000) ordinary shares of £1 each	**12,000**	12,000

19 Long-term business provision

	2017 £000	2016 £000
Annuity contracts	**12,612**	14,352
Risk margin on annuity contracts	**1,507**	2,960
	14,119	17,312

Sensitivity

	Base £000	Interest rates up 1% £000	Interest rates down 1% £000	Longevity £000
Best estimate liabilities (gross)	12,612	11,469	13,898	13,803
Reinsurance asset	12,485	11,352	13,751	13,652
Net exposure	127	117	147	151

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 2017 and 30 June 2016.
• Mortality – base mortality assumptions are 100% of the PMA08 tables for males and 100% of the PFA08 table for females, for both 30 June 2017 and 30 June 2016.
• Longevity – longevity improvements are the 2016 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 2017 and 30 June 2016.
• Inflation – the UK Government's liability forward rate inflation curve provided by the Bank of England.

As set out in principle 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%.

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

	2017 £000	2016 £000
Liabilities to customers under investment contracts	**27,077,610**	22,861,675

21 Provision for taxation - Deferred tax liabilities

A deferred tax liability of £209,000 (2016: £260,000) 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

	2017 £000	2016 £000
Payable to HM Revenue & Customs	**367**	54
Other payables, including fund purchases (see note 16)	**10,519**	39,836
Bank Overdraft	**224**	-
Amounts payable to group companies	**2,723**	863
	13,833	40,753

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.

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 £41.046m (2016: £35.507m). 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 has been included for information and is based upon the Directors' interpretation of the Solvency II Delagated Acts.

23 Capital risk management (continued)

Capital position statement (continued)

	2017 £000	2016 £000
Total shareholders' funds as per financial statements	**41,278**	39,031
Adjustments to restate in accordance with regulatory requirements		
a) Value in force business (VIF)	**2,806**	-
b) Estimated risk margin on unit-linked business	**(3,038)**	(3,524)
Total capital resources available to meet regulatory requirements	**41,046**	35,507
Regulatory capital requirement	**(27,591)**	(23,992)
Surplus of capital resources over regulatory requirements	**13,455**	11,515

Own funds at 1 July	**35,507**
Value in force business (VIF)	**2,806**
Change in unit-linked risk margin	**486**
Comprehensive income for the year	**2,247**
Own funds at 30 June	**41,046**

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. The capital position is sensitive to lapse and persistency under the short contract boundary and value in force business (VIF).

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.

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 Limited engages external advisors including an external 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.

24 Risk management policies (continued)

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.The capital position will be sensitive to persistency when the short contract boundary is used.

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 2017, the Company has no exposure to currency risk as all cash and holdings in investments are currently denominated in Sterling Pound.

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.

24 Risk management policies (continued)

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 2017, no financial assets are past due or impaired.

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

b) Credit risk (continued)
2017
Credit Rating (S&P)

	AAA £000	A- £000	Total £000
Available for sale financial assets	50,445	-	50,445
Linked liabilities to customers under investment contracts	10,519	-	10,519
Cash and cash equivalents	-	50	50
Total	60,964	50	61,014

2016
Credit Rating (S&P)

	AAA £000	A- £000	Total £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
Total	74,903	11,567	86,470

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 2017 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.

24 Risk management policies (continued)

2017

	Upto a Year £000	1 - 5 Years £000	Over 5 Years £000	Total £000
Unit linked liabilities	27,077,610	-	-	**27,077,610**
Annuity liabilities	512	2,069	10,031	**12,612**
Risk margin	61	247	1,199	**1,507**
Other payables	28,221	-	-	**28,221**
Total	27,106,404	2,316	11,230	27,119,950

2016

	Upto a Year £000	1 - 5 Years £000	Over 5 Years £000	Total £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
Total	22,914,926	2,468	14,176	22,931,570

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.

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.

24 Risk management policies (continued)

g) Unit linked contracts (continued)

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 a revised agreement was entered into 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 2017 totalled £37,814,000 (2016: £35,110,000). The balance outstanding at the end of the year amounts to £3,853,000 (2016: £1,477,000). FPM indemnifies the Company for any losses arising from errors in providing these services. Provision for liabilities related to such errors are included in the Annual Report and Financial Statements of FPM and the Solvency & Financial Conditions Report ('SFCR') for the Company. Although the Company is fully indemnified, we draw attention to a provision of £21,961,000 (2016: £3,000,000) which FPM has recognised in its financial statements for the year ended 30 June 2017, to cover potential liabilities arising from a processing error identified in its defined contribution pension business. While FPM continues to investigate the extent of the error and the number of impacted clients, the current provision represents FPM's best estimate of the likely future redress at the balance sheet date. FPM has undertaken significant analysis to understand the cohort of clients impacted but there remains a reasonable level of judgement in making the final calculations.

The provision is shown gross of amounts recoverable from FPM's insurance arrangements. Insurance recoverable can only be recognised as an asset when it is virtually certain that the company will receive reimbursement on settlement of the provision. At 30 June 2017 FPM has recognised an insurance recoverable of £16,250,000 (2016: £2,622,000) which is included in debtors. FPM is in ongoing discussions with insurers and considers that an additional recovery of £5,711,000 (2016: £nil) is probable, but this amount has not been recognised in FPM's financial statements.

25 Related party transactions (continued)

(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 2017 amounted to £11,640,000 and £340,000 respectively (2016: £9,485,000 and £1,235,000 respectively). The balance owed by FISL and FFML at the end of the year amounts to £959,000 and £73,000 respectively (2016: £859,000 and £23,000 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 £36,000 (2016: £37,000), of which £36,000 (2016: £37,000) was charged to the Company. The balance owed to FIML at the end of the year amounts to £3,000 (2016: £3,000).

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.