

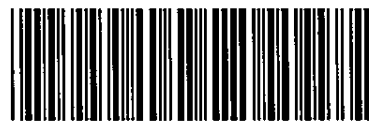
FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Report for the year ended 30 June 2008

Registered in England number 3406905

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FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

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FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Directors, officers and principal advisors

Directors

R D Corley
D Naismith
S M Haslam – Resigned 14 August 2007
K H McBrien
S Fraser
C A Williams

Chief Executive

D Naismith

Company Secretary

FIL Investments International

Actuaries

Watson Wyatt Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Solicitors

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Auditors

PricewaterhouseCoopers LLP
1 Hay's Lane
Hay's Galleria
London
SE1 2RD

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

(Formerly Fidelity Investments Life Insurance Limited)

Report of the Directors for the year ended 30 June 2008

The Directors present their report and the audited financial statements for the year ended 30 June 2008

Principal activity

The principal activity of the Company is to provide insured pension products linked to funds managed by the FIL Limited (formerly Fidelity International Limited) Group of companies and selected fund partners

Business review and future developments

During the year, the Company added a further 37 new clients (2007 46 new clients) bringing total assets held to cover linked liabilities to £3,098,994,000 (2007 2,600,490,000) including reinsurance assets. The Company added 61 new funds and 15 client-specific funds (2007 48 new funds and 18 client-specific fund)

The Company continues to offer funds from external fund providers which supplement the range of Fidelity funds offered by FIL Life Insurance Limited. Where the funds are invested via a reinsurance contract with another Life Insurer, the reinsurance premiums and share of claims are separately disclosed. Funds reinsured increased in the current year as depicted in the key performance indicators section below.

The Company continues to focus its selling efforts on the UK corporate pensions market while building the organisational and systems infrastructure for expansion.

Key performance indicators (KPIs)

The Board monitors the progress of Company including the following KPIs,

	2008	2007
	£'000	£'000
Assets held to cover linked liabilities	1,381,728	1,761,519
Reinsurers' share of technical provision for linked liabilities	1,717,266	838,971
Total unit linked business	3,098,994	2,600,490
Surplus of capital resources over regulatory requirements	12,561	12,268

Change of name

The company changed its name from Fidelity Investments Life Insurance Limited to FIL Life Insurance Limited on 30 June 2008.

Results, dividends and transfer to reserves

The profit for the year, after taxation, amounted to £619,000 (2007 £1,236,000). This amount has been retained in shareholder funds.

No dividends were declared or proposed during the year (2007 Nil).

Directors

The Directors of the Company at 30 June 2008 and those that held office within the year are listed on page 2.

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Report of the Directors for the year ended 30 June 2008 (continued)

Actuary

M Hawes of Watson Wyatt Limited replaced M Chaplin of Watson Wyatt Limited as the Actuarial Function Holder for the year ended 30 June 2008

Principle risks and uncertainties

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

Insurance risk

Insurance risk arises on immediate annuity business through exposure to mortality and to variances between assumed and actual experience in factors such as persistency levels and inflation. The Company manages this risk by ensuring that adequate reserves are held, based on past experience and future expected trends. The Company mitigates this risk by the reinsurance of the annuity book.

There are no guarantees or options in respect of unit linked business policyholders that would give rise to insurance risk.

Financial instruments and risk management

Financial risk management objectives

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

For unit-linked contracts the liabilities to policyholders are matched with assets in the portfolio. There is therefore no price, currency, credit or interest risk for these contracts.

The Company does not use hedge accounting.

a) Market risk

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. Term deposit balances earn fixed rates of interest, and overnight deposits are subject to the interest rate available on the day.

Equity price risk

The Company has no significant net exposure to equity price risk as all holdings in investments exposed to equity price risk are matched by liabilities to policyholders.

Currency risk

The Company has no significant net exposure to currency risk as all holdings in investments exposed to currency risk are matched by liabilities to policyholders and no international operations are conducted.

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Report of the Directors for the year ended 30 June 2008 (continued)

b) Credit risk

The Company has credit risk exposures relating to credit institutions, reinsurers and investments in collective scheme funds. There is credit risk associated with the settlement of premiums and claims which includes debts from an Authorised Corporate Director (ACD).

Credit risk policy and controls are in place. Bank balances are held with approved credit institutions and investments in collective scheme funds are limited to money market funds within defined credit rating parameters.

If a reinsurer fails to pay a claim in respect of immediate annuity business, the Company remains liable for the payment to the policy holder. The creditworthiness of reinsurers is considered on an ongoing regular basis by reviewing their financial strength. In respect of unit linked business, the policyholders bear the credit risk arising from reinsurance.

Appropriate provision is made where an amount is not considered to be recoverable.

c) Liquidity risk

The Company has no significant exposure to liquidity risk as its material policyholder liabilities are in linked funds and the Company has the ability to defer the payment on these claims if it is necessary to do so.

Statement of disclosure of information to auditors

Each of the persons who is a Director at the date of this report confirms that

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 30 June 2008 of which the auditors are unaware, and
- the Director has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

PricewaterhouseCoopers LLP have signified their willingness to continue in office.

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Report of the Directors for the year ended 30 June 2008 (continued)

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year that 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 year. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable 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 confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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
and signed on behalf of the board

A handwritten signature in black ink, appearing to read 'S Fraser', with a long horizontal stroke extending from the bottom of the signature.

S Fraser
22 September 2008

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIL LIFE INSURANCE LIMITED

We have audited the financial statements of FIL Life Insurance Limited for the year ended 30 June 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2008 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors,
London

22 September 2008

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Profit & loss account for the year ended 30 June 2008

Technical account – Long term Business

	Notes	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Earned premiums, net of reinsurance			
Gross premiums written	2	1,370,287	1,528,981
Outward reinsurance premiums		(979,857)	(720,463)
		390,430	808,518
Investment income			
	3	109,089	355,066
Other technical income, net of reinsurance			
		5,561	4,377
		505,080	1,167,961
Claims incurred, net of reinsurance			
Claims paid – gross amount		(722,831)	(1,570,796)
Reinsurers' share		92,053	16,932
		(630,778)	(1,553,864)
Change in the provision for claims – gross amount			
		(139)	5,692
		(630,917)	(1,548,172)

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Profit & loss account for the year ended 30 June 2008

Technical account – Long term Business (continued)

	Notes	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Change in long term business provisions, net of reinsurance			
Gross amount		(2,693)	(948)
Reinsurers' share		1,642	779
		(1,051)	(169)
Change in other technical provisions, net of reinsurance			
Technical provision for linked liabilities – gross amount		(498,504)	(277,650)
Reinsurers' share		878,295	734,914
		379,791	457,264
		378,740	457,095
Net operating expenses			
	4	(5,473)	(3,982)
Unrealised losses on investments			
	3	(247,404)	(71,745)
Taxation attributable to the Long Term Business			
	7	(8)	(347)
Balance on the long term business technical account			
		18	810

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Profit & loss account for the year ended 30 June 2008

Non – Technical account

	Notes	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Balance on the long term business technical account		18	810
Tax credit attributable to balance on long term business technical account	7	8	347
Shareholders' pre tax profit from long term business		26	1,157
Investment income	3	852	609
Profit on ordinary activities before tax		878	1,766
Tax on profit on ordinary activities	7	(259)	(530)
Retained profit for the financial year	12,13	619	1,236

All of the amounts above are in respect of continuing activities

The Company has not prepared a Statement of Total Recognised Gains and Losses as there are no recognised gains and losses other than its profit for the year

FIL Life Insurance Limited

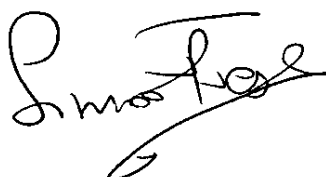
(Formerly Fidelity Investments Life Insurance Limited)

Balance sheet as at 30 June 2008

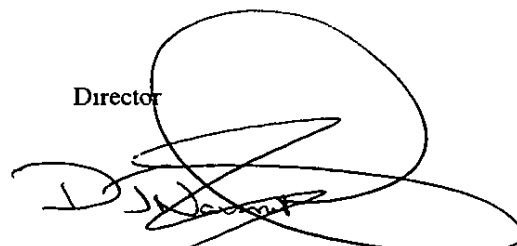
	Notes	2008 £'000	2007 £'000
ASSETS			
Investments			
Other financial investments	8	23,234	22,980
Assets held to cover linked liabilities	9	1,381,728	1,761,519
Reinsurers' share of technical provision			
Long term business provision		3,037	1,395
Technical provision for linked liabilities		1,717,266	838,971
		1,720,303	840,366
Debtors			
Other debtors	10	2,602	1,649
Other assets			
Cash at bank and in hand		752	1,624
Prepayments and accrued income			
Other prepayments and accrued income		153	513
Total assets		3,128,772	2,628,651
LIABILITIES			
Capital and reserves			
Called up share capital	11	12,000	12,000
Profit and loss account	12	4,269	3,650
Total shareholders' funds	13	16,269	15,650
Technical provisions			
Long term business provision		4,367	1,674
Claims outstanding		2,449	2,310
		6,816	3,984
Technical provisions for linked liabilities		3,098,994	2,600,490
Creditors			
Other creditors, including taxation and social	15	6,038	8,335
Accruals and deferred income		655	192
Total liabilities		3,128,772	2,628,651

The financial statements on pages 8 to 25 were approved by the Board of Directors on 22 September 2008 and were signed on its behalf by -

Director



Director



FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Statement of Cash Flows for the year ended 30 June 2008

	Notes	2008 £'000	2007 £'000
Profit on ordinary activities before tax		878	1,766
Profit relating to long term business		(26)	(1,157)
Investment return		(852)	(609)
Movement in other assets/liabilities		(1,512)	4,152
Net cash (outflow)/inflow from operating activities		(1,512)	4,152
Returns on investments			
Investment income received		852	609
Taxation			
Corporation tax paid		(183)	(45)
Net cash (outflow)/inflow	17	(843)	4,716
Cash flows were (applied)/ invested as follows			
Decrease in cash holdings		(784)	(119)
Net portfolio investments (excluding long term business)			
- Shares, other variable yield securities and unit trusts	17	(59)	4,835
Net (application)/investment of cash flows	17	(843)	4,716

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Notes to the financial statements for the year ended 30 June 2008

1. Principal accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A, to the Companies Act 1985 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') in December 2005 and revised in December 2006. The financial statements have been prepared in accordance with applicable accounting standards. A summary of the Company's more important accounting policies is set out below.

(b) Premiums

Unit linked premiums, including reinsurance premiums, are accounted for when the liability to the client is established.

(c) Claims

Maturity claims and annuities are recognised when the claim becomes due for payment. Surrenders are accounted for when paid, or if earlier on the date when the policy ceases to be included within the calculation of the long term business provisions and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified.

Claims payable include all related internal and external handling costs. Reinsurance recoveries are accounted for in the same year as the related claim.

(d) Long term reinsurance contracts

Long term business is ceded to reinsurers under contracts to transfer market and insurance risk. Such contracts are accounted for as insurance as risk transfer is significant.

(e) Other technical income

Other technical income relates to management fees and record keeping fees earned in connection with the investment management and administration of contributions received.

(f) Technical provision for linked liabilities

The technical provision for linked liabilities represents the unit liabilities on linked business.

(g) Long term business provision

The long-term business provision is computed by the Actuarial Function Holder following annual investigations of the long-term fund, and is calculated initially on a statutory solvency basis to comply with the reporting requirements under the FSA Handbook. Adjustments to the valuation for the statutory solvency purposes are made to eliminate certain reserves, notably the contingency reserve covering the scenario of a closure to new business, for the purposes of these financial statements. The valuation methodology adopted for the annuity business is the discounted present value of future annuity payments. The assumptions reflect a prudent assessment of the future experience of mortality, interest and inflation and provide for the risk of credit default by the reinsurer. Additional provision is made to cater for reinsurer failure for retail investor business where the risk cannot be legally passed on to the policyholders.

FIL Life Insurance Limited

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Notes to the financial statements for the year ended 30 June 2008

(h) Investment return

Investment return comprises investment income, including realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges

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 valuation at the last balance sheet date.

Investment return relating to investments which are directly connected with the carrying on of long term business is recorded in the long term business technical account. The investment return arising in relation to all other investments is recorded in the non-technical account.

(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) 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 FRS19. 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 balance on the long-term business technical account to the non-technical account is grossed up by attributable tax, using the effective rate of tax applicable for the year.

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Notes to the financial statements for the year ended 30 June 2008

2. Segmental analysis

In the opinion of the Directors, the Company operates in a single business segment, being that of long-term insurance business. The Company accepts reinsurance inwards. This represented 1% (2007: 1%) of gross premiums written.

	For the year ended 30 June 2008	For the year ended 30 June 2007
	Gross premiums written	Gross premiums written
	£'000	£'000
Non-participating		
Annuity	2,449	1,045
Linked pensions		
Non-profit group pension	1,367,838	1,527,936
	1,370,287	1,528,981
Periodic premiums	474,946	299,815
Single premiums	895,341	1,229,166
	1,370,287	1,528,981

	Year ended 30 June 2008		Year ended 30 June 2007	
	Gross new premium income	Net of Reinsurance	Gross new premium income	Net of Reinsurance
	£'000	£'000	£'000	£'000
Non-participating				
Annuity	2,449	-	1,045	-
Linked pensions				
Non-profit group pension	918,642	198,481	1,266,937	620,024
	921,091	198,481	1,267,982	620,024
Periodic premiums	25,750	12,370	38,816	28,034
Single premiums	895,341	186,111	1,229,166	591,990
	921,091	198,481	1,267,982	620,024

In classifying new business premiums the following bases of recognition have been adopted:

- Recurrent single premium contracts, including Department for Work and Pensions rebates on certain pension products, are included as new business, single premiums
- Periodic premiums relating to new group pension schemes funded during year are classified as new business premiums
- Pensions vested into annuity contracts during the year are included as new annuity single premium business at the annuity purchase price

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Notes to the financial statements for the year ended 30 June 2008

2. Segmental analysis (continued)

Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis

Geographical analysis

All premiums relate to contracts concluded in the United Kingdom

Reinsurance balance

The reinsurance balance amounted to a debit on the long-term business technical account at 30 June 2008 of £5.5 million (2007 a credit of £32.2 million)

3 Investment return

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Technical account		
Investment Income		
Fund distributions received	31,499	32,536
Other investment income	989	932
Net gains on the realisation of investments	76,601	321,598
	109,089	355,066
Net unrealised loss on investments	(247,404)	(71,745)
Net investment return included in the long term business technical account	(138,315)	283,321
Non-technical account		
Investment Income		
Interest income	852	609
Net investment return included in the non-technical account	852	609
Total investment return	(137,463)	283,930

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Notes to the financial statements for the year ended 30 June 2008

4. Net operating expenses

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Administrative expenses	5,473	3,982
Administrative expenses include the following		
Auditors' remuneration		
For audit services	68	75
Non-audit services		
Services relating to taxation	18	12
Other services pursuant to legislation	16	15
	102	102

5. Staff costs

With the exception of two non-executive Directors, 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, formerly Fidelity Pensions Management.

6. Directors' emoluments

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Aggregate emoluments	40	33

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Notes to the financial statements for the year ended 30 June 2008

7 Taxation

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Tax on profit on long term technical account		
UK corporation tax at 29.5% (2007: 30%)		
Current tax on income for the year	8	347
Total tax charged in the long term technical account	8	347

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Tax on profit on non technical account		
UK corporation tax at 29.5% (2007: 30%)		
Current tax on income for the year	251	183
Tax attributable to balance on the long term technical account	8	347
Tax on profit on ordinary activities	259	530

Factors affecting the tax charge for the year

The tax assessed for the current year is a composite rate of 29.5% as the rate of corporation tax reduced from 30% to 28% on 01 April 2008. The prior year is at the then standard rate of corporation tax in the UK of 30%.

8. Investments

	Market Value 2008 £'000	Cost 2008 £'000	Market Value 2007 £'000	Cost 2007 £'000
Units in collective investment scheme – listed	23,234	19,797	22,980	20,508

FIL Life Insurance Limited

(Formerly Fidelity Investments Life Insurance Limited)

Notes to the financial statements for the year ended 30 June 2008

9. Assets held to cover linked liabilities

	Market Value 2008 £'000	Cost 2008 £'000	Market Value 2007 £'000	Cost 2007 £'000
Assets held to cover linked liabilities	1,381,728	1,267,260	1,761,519	1,399,648

10. Other debtors

	2008 £'000	2007 £'000
Fees due	487	459
Due from HM Revenue & Customs	1,589	249
Amounts owed by group undertakings	235	941
Other debtors	291	-
	2,602	1,649

11. Called up share capital

	2008 £'000	2007 £'000
Authorised		
20,000,000 (2007 20,000,000) ordinary shares of £1 each	20,000	20,000
Allocated, called up and fully paid		
12,000,000 (2007 12,000,000) ordinary shares of £1 each	12,000	12,000

FIL Life Insurance Limited

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Notes to the financial statements for the year ended 30 June 2008

12. Profit and loss account

	Year ended 30 June 2008	Year ended 30 June 2007
	£'000	£'000
Balance at beginning of the year	3,650	2,414
Profit for the financial year	619	1,236
Balance at year end	4,269	3,650

13. Reconciliation of movement in shareholders' funds

	Year ended 30 June 2008	Year ended 30 June 2007
	£'000	£'000
Retained profit for the financial year	619	1,236
Opening shareholders' funds	15,650	14,414
Shareholders' funds at year end	16,269	15,650

14. Assets attributable to the long term business fund

At 30 June 2008, the total amount of assets representing the long-term fund is £ 3,108,438,000 (2007 £2,608,067,000)

15. Other creditors, including taxation and social security

	2008	2007
	£'000	£'000
Other creditors	5,695	7,210
Amounts owed to group undertakings	343	1,125
	6,038	8,335

FIL Life Insurance Limited

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Notes to the financial statements for the year ended 30 June 2008

16. Management of insurance risk

Capital position statement

	2008	2007
	£'000	£'000
Shareholder funds inside the shareholder fund	13,641	13,040
Shareholder funds inside the long-term insurance fund	2,628	2,610
Total shareholder funds as per accounts	16,269	15,650
Adjustments to restate in accordance with regulatory		
Asset valuation adjustments	-	(243)
Liability valuation differences	(1,000)	(1,000)
Total capital resources available to meet regulatory	15,269	14,407
Regulatory capital requirement	2,708	2,139
Surplus of capital resources over regulatory requirements	12,561	12,268

Analysis of liabilities

	2008	2007
	£'000	£'000
Unit-linked business	3,098,994	2,600,490
Other life assurance business (immediate annuity business)	4,367	1,674
Gross of reinsurance technical provisions in the balance	3,103,361	2,602,164

The firm does not write any with-profits business

The adjustments to the regulatory basis shown in the capital statement above reflect the expense reserve included in the regulatory reserves. As this has been determined on the contingency of closure to new business and the cessation of the current services agreement, it is thought appropriate to exclude it from the accounts of a Company preparing its accounts as a going concern. The asset valuation adjustments comprises £nil (2007 £243,000) of assets in excess of FSA counterparty exposure limits.

Restrictions on available capital resources

Regulatory surplus of £1,628,000 (2007 £1,610,000) has been retained in the long-term insurance fund. Regulatory surpluses arising within the long term fund can be transferred to the shareholders' fund subject to ensuring that sufficient assets remain in the long-term fund to cover the regulatory reserves and subject to any additional constraints imposed by the management of the Company. The capital held within the shareholders' funds is available to meet the regulatory capital requirements without any restrictions. Subject to meeting these regulatory capital requirements and subject to constraints on distributing called up share capital, shareholders' funds may be distributed to the shareholder. However, it remains the intention of management to ensure that an excess of capital resources is maintained over that required to meet the Company's regulatory requirements.

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Disclosures relating to liabilities and capital

The regulatory capital requirement is shown in the table above

The Company is subject to a number of regulatory capital tests and also employs a number of realistic tests to allocate capital and manage risk. Overall, the Company meets all of these requirements

The Company is required to hold sufficient capital to meet the FSA's capital requirements, which are based on EU Directives. The Company must also retain sufficient capital resources to cover the Company's own Individual Capital Assessment which considers certain business risks not reflected in the statutory basis, but excludes the regulatory capital requirement. All of the Company's capital resources meet the FSA's definition of Core Tier 1 capital

The regulatory capital requirement (or capital resources requirement) is currently driven by the sum of the Long Term Insurance Capital Requirement of £2,650,000 plus the Resilience Capital Requirement of £58,000 which exceeds the Capital Resource Requirement of €3.2 million as at 30 June 2008 (2007 of €3.2 million). The long term insurance capital requirement reflects a formula which equates to a percentage of regulatory reserves and a percentage of net administrative expenses. The resilience capital requirement is a capital requirement that would enable the Company to have sufficient assets to continue to cover its long-term insurance liabilities in the event of specified adverse market movements

Capital management policies and objectives

The Company's objectives in managing its capital are

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business,
- To maintain financial strength to support new business growth,
- To satisfy the requirements of its policyholders and regulators, and
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets

Life assurance liabilities

The technical provisions have been determined using methodology and assumptions consistent with FSA rules governing the calculation of regulatory reporting reserves. The assumptions include appropriate margins for adverse deviation such that there is no significant foreseeable risk that liabilities to policyholders will not be met as they fall due

The technical provisions for unit-linked business have been set equal to the face value of the unit funds backing those contracts. For the unit-linked business no investment guarantees or options have been given of any kind

The technical provisions for the immediate annuity contracts have been determined as the discounted present value of future annuity payments. The immediate annuity contracts have been valued assuming a prudently low rate of interest of 4.25%, a prudently high rate of RPI inflation of 4.3% (where applicable) and a prudent mortality basis and assumed future mortality improvements. The economic assumptions take account of the economic conditions at the date of valuation. The mortality basis is believed to include a prudent margin over current industry experience and best estimate future improvements, based on research published by the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries

The immediate annuity contracts are fully reinsured to Hannover Life Re (UK). The immediate annuity contract technical provisions are largely offset by the value of the reinsurance ceded to Hannover Life Re (UK). A provision has been established for the credit risk arising from the exposure to Hannover Life Re (UK) by considering the market discount rates applied to value corporate bonds of a similar credit rating to that of Hannover Life Re (UK)

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Sensitivity of liabilities and capital components

As the technical provisions for unit-linked business have been set equal to the face value of the unit funds backing those contracts, unit-linked business assets and liabilities move together in line with changes in investment market conditions. An additional provision of £511,000 for credit risk on retail investor liabilities and a provision of £819,000 for credit risk of annuity reinsurance have been provided.

Other assets held are largely cash and so are not subject to changes in investment market conditions. As the immediate annuity contracts are fully reinsured to Hannover Life Re (UK), any changes in assumptions used to determine the technical provisions are largely offset by changes in the value of the reinsurance ceded to Hannover Life Re (UK). The net of reinsurance liability will be sensitive to the credit rating of Hannover Life Re (UK) and levels of corporate bond yields relative to gilt yields.

Movement in capital

The Company's shareholder funds increased from £15.7 million at 30 June 2007 to £16.3 million at 30 June 2008. The contingency reserve required under the regulatory reserving requirements has remained unchanged at £1 million, there are no inadmissible assets or assets in excess of market risk and counterparty limits have decreased by £0.2 million. Accordingly the Company's total capital resources available to meet regulatory requirements have increased from a surplus of £14.4 million at 30 June 2007 to a surplus of £15.3 million at 30 June 2008. A summary of the movement items is shown in the table below.

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Shareholder funds at the start of the year	15,650	14,414
Adjustments to restate in accordance with regulatory requirements	(1,243)	(2,527)
Capital resources available to meet regulatory requirements at start of year	14,407	11,887
Assets in excess of market risk and counterparty limits	243	484
Changes in assumptions (adjustment to actuarial closure reserve)	-	800
New business and other factors (long term business technical account operating result)	18	810
New business and other factors (non-technical account investment income net of tax on profits)	601	426
Capital resources available to meet regulatory requirements at the end of the year	15,269	14,407

The long term business technical account operating result is mostly comprised of the excess of charges received over expenses payable, including that arising from new business and interest on institutional cash funds.

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Notes to the financial statements for the year ended 30 June 2008

17. Notes to the statement of cash flows

(a) Movement in portfolio investments

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Increase in cash holdings	(784)	(119)
Net cash movement in portfolio investments (excluding long term business)	(59)	4,835
Movement arising from cash flows	(843)	4,716
Movement in long term business cash flows	225	(3,730)
Total movements in portfolio investments	(618)	986
Portfolio investments as at 1 July	24,604	23,618
Portfolio investments as at 30 June	23,986	24,604

(b) Net cash movement in portfolio investments

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Purchase of portfolio investments		
Shares and other variable yield securities and units in unit trusts	-	4,835
Disposal of portfolio investments		
Shares and other variable yield securities and units in unit trusts	(59)	-
Net cash movement in portfolio investments	(59)	4,835

(c) Movement in cash and portfolio investments

	At 1 July 2007 £000	Cash flow £000	Long term Business £000	At 30 June 2008 £000
Cash holdings	1,624	(784)	(88)	752
Shares and other variable yield securities and units in unit trusts	22,980	(59)	313	23,234
	24,604	(843)	225	23,986

	At 1 July 2006 £000	Cash flow £000	Long term Business £000	At 30 June 2007 £000
Cash holdings	1,655	(119)	88	1,624
Shares and other variable yield securities and units in unit trusts	21,963	4,835	(3,818)	22,980
	23,618	4,716	(3,730)	24,604

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Notes to the financial statements for the year ended 30 June 2008

18. 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 8 "Related Party Disclosures"

(b) Transactions involving other related parties

- (i) The Company has entered into an agreement with FIL Pensions Management, formerly Fidelity Pensions Management ('FPM') to receive insurance agency and other insurance intermediary services with effect from 1 January 2005 and amended on 27 June 2008. 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 year ended 30 June 2008 totalled £4,412,756 (2007 £3,223,679). The balance outstanding at the end of the year amounts to £341,101 (2007 £1,013,173).
- (ii) The Company has also entered into an agreement with FIL Investments Services Limited, formerly Fidelity Investments Services Limited ('FISL') and FIL Fund Management Limited, formerly Fidelity Fund Management Limited ('FFML'), 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 year ended 30 June 2008 amounted to £1,404,700 and £830,072 respectively (2007 £1,464,648 and £983,265 respectively). The balance owed by FISL and FFML at the end of the financial year amounts to £166,958 and £68,083 respectively (2007 £478,502 and £462,882 respectively).
- (iii) FIL Investment Management Limited, formerly Fidelity Investment Management Limited ('FIML'), a related party with common ownership to the Company, paid Directors' fees on behalf of the Company totalling £20,000 (2007 £32,550), of which £20,000 (2007 £32,550) was charged to the Company. The balance owed to FIML at the end of the year amounts to £1,822 (2007 nil).

19. Holding company

The Company is a fully owned subsidiary of its ultimate holding company, FIL Limited, formerly Fidelity International Limited, a company incorporated in Bermuda.