

FIL Life Insurance Limited

Company registration number: 03406905

Annual Report and Financial Statements

for the year ended

31 December 2022

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FIL Life Insurance Limited

Annual report and financial statements
for the year ended 31 December 2022

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FIL Life Insurance Limited

Directors, officers and principal advisors
for the year ended 31 December 2022

Directors, officers and principal advisors

Directors

D C Huntley	(Retired on 1 April 2023)
M Jaekel	
S Maher	
J M Holohan	
G M Reid	
Rita Bajaj	(Appointed on 20 February 2023)
D Robertson	(Resigned on 12 December 2022)

Chief Executive

M Jaekel

Company Secretary

FIL Investment Management Limited
4 Cannon Street
London
EC4M 5AB

Actuaries

Milliman LLP
11 Old Jewry
London
EC2R 8DU

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

Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey,
England,
KT20 6RP

Company registration number

03406905

FIL Life Insurance Limited

Strategic report for the year ended 31 December 2022

The Directors present their Strategic report for the year ended 31 December 2022.

Principal activities

The principal activity of FIL Life Insurance Limited ("the Company" or "FIL Life") is to provide insured pension products linked to funds managed by the FIL Limited group of companies ("FIL Group") 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 PRA.

Business review

During the year, the Company added a further 22 new clients (31 December 2021: 21 new clients) but as a result of volatile markets, total assets held to cover linked liabilities came down to £37,866m (31 December 2021: £42,113m) including reinsurance assets. The Company added 124 new funds and 72 client-specific funds (31 December 2021: 27 new funds and 143 client-specific funds). 15 clients were lost during the year (31 December 2021: 10 clients).

The Company offers a broad range of life funds that invest in funds managed both by FIL Group and third-party fund managers. Where the funds are invested via a reinsurance contract with another life insurer, the assets are separately disclosed.

During the year, the company issued for cash £125m new shares, fully paid at par value. Please refer to note 19 for more details.

A loan was made to the ultimate parent undertaking, FIL Limited at a three-year fixed term loan. Please refer to note 13 more details. As part of a group reorganisation, FIL Financial Services Holdings Limited ("FFSH") became the beneficial owner of the company on 22 December 2022. Legal ownership moved on 15 February 2023.

The profit for the year amounted to £4.7m (December 2021: £2.9m). This amount has been retained in shareholders' funds. Total shareholders' funds were £191.9m (December 2021: £62.3m).

Key performance indicators ("KPIs")

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

	31 December 2022 £000	31 December 2021 £000
Assets held to cover linked liabilities	22,672,720	24,767,207
Assets held to cover linked liabilities – reinsured funds	15,193,541	17,345,939
Total assets held to cover linked liabilities	37,866,261	42,113,146

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 existing markets and products during the coming year. The Company is UK focussed only.

FIL Life Insurance Limited

Strategic report (continued)
for the year ended 31 December 2022

War in Ukraine

We continue to monitor the war in Ukraine very closely, with relevant teams across Fidelity International meeting to assess ongoing impacts, reacting swiftly where necessary to meet the needs of our clients. We have well established processes in place to deal with market volatility and robust Business Continuity Plans in place to deal with fund liquidity, cyber related issues and other operational risks should they arise.

In consultation with our key stakeholders, we regularly review and promptly comply with any economic sanctions imposed by the US, EU and UK and other governments, adjusting portfolios if, and where required. Additionally, on the asset management side of the business, the firm-wide prohibition on any new or additional purchases of Russian and Belarusian securities, which came into effect at the start of the war, remains in place. We continue to address our existing exposure and, where it is possible and appropriate, we will look at options to reduce it in a thoughtful way which protects the interests of our clients and mitigates unintended consequences.

From a supplier perspective, FIL Life has no material exposure to Russia or Belarus involving counterparties or vendors at this time. The FIL Group has a system in place to evaluate counterparties and vendors in line with our policies and sanctions-related obligations. We will continue to implement this policy and system.

Outlook

There remains continuing market volatility and heightened awareness of counterparty risk due to the recent events in the banking sector. The company continues to closely monitor the situation and maintains its controls over counterparty risk. There are no direct exposure concerns to the company.

Statement on Section 172(1) of the Companies Act

Section 172 of the Companies Act 2006 ("s172") places a duty on Directors to promote the success of the company for the benefit of shareholders as a whole, having regard to a number of broader matters including the likely consequence of decisions for the long term, the need to act fairly between members of the company, and the Company's wider relationships.

The Directors have acted in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of the company's ultimate parent ("FIL Limited"). In doing so, they have had regard to a range of matters, including the impact of decisions in the long term, the interests of key stakeholders including employees, suppliers, customers, the community and the environment, and the reputation of the company for high standards of business conduct.

The FIL Group's purpose and goals are set out in its Corporate Governance Statement contained in the Directors' Report within the FIL Limited Group's financial statements. As part of the FIL Group, the company shares the FIL Group's purpose and goals. The board makes decisions with regard to the long-term interests of its sole shareholder with due regard to the impact of decisions on all relevant stakeholders. In working towards the Company's goals, the board have had due regard for the key stakeholders of the company and the FIL Group, as set out as follows.

Customers

The company's purpose, working together to build better financial futures, stresses the importance of collaboration to its business, working together both as colleagues and in partnership with its clients. It also underlines our focus on sustainable, long-term outcomes, together with an aspirational focus on the future. The business aims to provide the best investment services and products to suit customer needs and desired outcomes. The Company aims to give people the power to get and stay in great financial health as they move towards their retirement. The FIL Group's core values of Integrity and Trust are implemented throughout its engagement with customers.

FIL Life Insurance Limited

Strategic report (continued)
for the year ended 31 December 2022

Statement on Section 172(1) of the Companies Act 2006 (*continued*)

Suppliers

Key considerations around suppliers are discussed in the Engagement with Key Stakeholders section of the Directors' Report on page 6.

Communities and environment

More detail on engagement with Customers and the Environment is included within the Engagement with Key Stakeholders section of the Directors' Report on page 7.

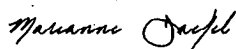
Having reviewed the likely direct financial impact of climate change on the Company, and considering the type of business it writes, the Directors consider the Company is not exposed to insurance risk or direct financial risks relating to climate change. The Directors will continue to carefully monitor and plan to mitigate the risks of climate change to the business operations.

Reputation and high standards of business conduct

The reputation of the FIL Group is vital to the confidence of customers and is a significant focus for the Board. As set out in the Corporate Governance Statement contained in the Directors' Report within the FIL Limited's financial statements, the FIL Group seeks to operate to the highest standards of conduct. All staff employed by the FIL Group are subject to the Fidelity International Code of Conduct and Ethics, which emphasises the FIL Group's commitment to keeping its reputation untarnished and provides a framework for employees to manage their personal affairs in a way consistent with that reputation, and this is further supported by the Whistleblowing Policy, which is covered in further detail within the Corporate Governance Statement within the FIL Group's financial statements. The company performs regulated activities and maintains an open and proactive relationship with the PRA.

Approval

This Strategic Report was approved on behalf of the Board on 4 April 2023.



M Jaekel
Chief Executive Officer

4 April 2023

FIL Life Insurance Limited

Directors' report for the year ended 31 December 2022

The Directors present their report together with the audited financial statements for the year ended 31 December 2022.

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 £4.7m (December 2021: £2.9m). This amount has been retained in shareholders' funds. Total shareholders' funds were £191.9m (December 2021: £62.3m).

No dividends were declared or proposed during the year (December 2021: Nil).

During the year, the company issued for cash £125m new shares, fully paid at par value. Please refer to note 19 for more details.

A loan was made to FIL Limited at a three-year fixed term loan. Please refer to note 13 for more details.

As part of a group reorganisation, ownership of the company changed effective 15 February 2023, refer to note 27.

Actuary

Mr J Jenkins of Milliman LLP performed the role of the Company's Actuary for the valuation.

Financial Instruments

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in notes 18 and 24.

Engagement with Key Stakeholders

Suppliers

The company recognises suppliers as critical to its ongoing success and depends upon them to fulfil a broad range of services including, but not limited to, fund administration, accounting, custody, market data, and technology. The company seeks to partner with third parties who operate in accordance with the company's own business values, which are reflected in our Supplier Code of Conduct.

The company engages with its key suppliers regularly, to undertake due diligence, risk assessment, and ongoing oversight, in order to ensure that they meet the high standards and behaviours the company and its clients expect. Additionally, the company works with key suppliers in order to build ongoing partnerships and collaborate towards short-and long-term goals.

FIL Life Insurance Limited

Directors' report for the year ended 31 December 2022

The company is committed to the fair treatment of suppliers and ensures prompt payment for all third parties that it works with.

Customers

The company's purpose, working together to build better financial futures, is based on the premise it believes it fulfils a vital role in society. The work that FIL Life does, together with the FIL Group, and the services it offers to its clients, across all its business areas has one focus in mind - to help those clients have a better future because their financial situation allows them to. It also underlines the focus on sustainable, long-term outcomes, together with an aspirational focus on the future. The company operates within the FIL business line Workplace and Personal Financial Health ("WPFH"). WPFH aims to give people the power to get and stay in great financial health throughout every stage of their lives. The company's core values of Integrity and Trust are implemented throughout its engagement with customers. The company interacts with clients in a number of ways and actively listens to clients' needs by seeking feedback, for example through client surveys, which informs continuous improvements to client experience.

Communities and environment

The FIL Group has a pro-active approach to Corporate Social Responsibility and seeks to build better futures by supporting a number of charitable causes to improve the lives of others and support the environment in which we operate, which is adopted by the company within the FIL Group. The FIL Group partners with local charities to help to build better futures for the community in which it operates. It also aims to conduct current and future business operations in a sustainable manner which helps create a better future for the environment, with key focus areas of Pollution, Prevention, Carbon Reduction, Waste minimisation and responsible use of resources. FIL Life is a member of the wider Fidelity International Group and further information on sustainable investing and climate change can be found on the group website at www.fidelityinternational.com.

Streamlined Energy and Carbon reporting ("SECR")

FIL Life has no employees and no physical presence, with all its operations outsourced to other FIL Group entities and therefore qualifies as a low energy user and is not required to make any SECR disclosures. The SECR related disclosures for the UK entities of the FIL Group, to which most operations are outsourced, can be found in the consolidated financial statements of FIL Holdings (UK) Limited ("FHL").

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.

Independent auditors

The Directors appointed PricewaterhouseCoopers LLP as auditors to the company.

There is no requirement under the Companies Act 2006 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 with the need to appoint auditors annually.

Going Concern

The Director's assessment is that the company can continue to adopt the going concern basis. Having due regard to the company's solvency and capital projections.

FIL Life Insurance Limited

Directors' report
for the year ended 31 December 2022

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

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 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).

Under company law, 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 the financial statements, the Directors are required to:

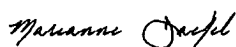
- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also 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.

Approval

The financial statements on pages 16 to 39 were approved by the Board of Directors on 4 April 2023 and signed on its behalf by:



M Jaekel
Chief Executive Officer

4 April 2023

FIL Life Insurance Limited

Independent auditors' report to the members 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 31 December 2022 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, including 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 Statement of financial position as at 31 December 2022; the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; 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 Audit Committee.

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.

Other than those disclosed in Note 9, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- We performed a full scope audit of the complete financial information of the Company in accordance with our materiality and risk assessment.

Key audit matters

- Risk of fraud in revenue recognition

FIL Life Insurance Limited

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

Materiality

- Overall materiality: £1,919,000 (2021: £622,916) based on 1% of Net Assets ("Total shareholder's funds"), for all balances other than Assets held to cover linked liabilities and Technical provisions - Investment contract liabilities and the associated line items in the Statement of comprehensive income for which £378,662,000 (2021: £421,131,445) has been used based on 1% of Assets held to cover linked liabilities.
- Performance materiality: £1,439,250 (2021: £467,187), for all balances other than Assets held to cover linked liabilities and Technical provisions for investment contract liabilities and associated Statement of comprehensive income line items, for which £283,996,500 (2021: £315,848,584) is applied.

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.

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.

The key audit matter below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of fraud in revenue recognition Auditing standards state that there is a rebuttable presumption that the auditors will identify the risk of fraud in revenue recognition as a significant audit risk. We have assessed each revenue stream and isolated the risk of fraud in revenue recognition to the posting of fraudulent journals. There is a presumption that management always has the opportunity to manipulate revenue through manual journals, therefore we have focused on testing manual revenue journals.	<p>We have performed the following procedures with regards to the risk of fraud in revenue recognition:</p> <ul style="list-style-type: none">• Identifying and testing a sample of journal entries based on fraud risk criteria, particularly journal entries with unusual words, unusual amounts, unusual account combinations, posted by IT super/unexpected users, backdated items; and• performed unpredictability procedures, including those relating to revenue. <p>In addition, we have performed the following procedures over revenue:</p> <ul style="list-style-type: none">• Validated the design and, where applicable, the operating effectiveness of key controls relating to revenue and the calculation of NAVs;• Assessed the revenue recognition accounting policy for compliance with accounting standards;• On a sample basis re-performed the calculation of asset management fees;• Agreed a sample of inputs to the calculation related to asset management rates to supporting

FIL Life Insurance Limited

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

	<p>documentation and to net asset values (NAVs) to the underlying system; and</p> <ul style="list-style-type: none"> Agreed a sample of asset management and policy administration fees to supporting evidence, including invoices and cash receipts. <p>Based on the audit procedures performed and evidence obtained we have not identified any instances of fraud in revenue recognition.</p>
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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 have performed a full scope audit, taking into account our determination of materiality and of the risks of material misstatement in the financial statements.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

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:

<i>Overall company materiality</i>	£1,919,000 (2021: £622,916).
<i>How we determined it</i>	1% of Net Assets ("Total shareholder's funds"), for all balances other than Assets held to cover linked liabilities and Technical provisions - Investment contract liabilities and the associated line items in the Statement of comprehensive income for which £378,662,000 (2021: £421,131,445) has been used based on 1% of Assets held to cover linked liabilities.
<i>Rationale for benchmark applied</i>	The company's primary focus is on its regulatory capital and satisfying its capital requirements. As such we deem that net assets ("Total Shareholder's funds") is the most appropriate benchmark in determining materiality. The company issues unit-linked pension policies. As a result Technical provisions - Investment contract liabilities are covered by Assets held to cover linked liabilities and (Loss)/Return on investment contracts derived on the assets is offset by the change in investment contract liabilities. In accordance with the guidance on the audit of insurers issued in the United Kingdom by the Financial Reporting Council we have applied a higher materiality for these balances for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities. This materiality is based on 1% of Assets held to cover linked liabilities.

FIL Life Insurance Limited

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

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £1,439,250 (2021: £467,187) for the company financial statements, except for Assets held to cover linked liabilities and related items where £283,996,500 (2021: £315,848,584) is used.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £95,950 (2021: £31,146), except Assets held to cover linked liabilities and related items where £18,933,000 (2021: £21,056,000), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and evaluating the Directors' Going Concern assessment, based on the Company's projected Solvency coverage and liquidity position driven from the Company's Own Risk and Solvency Assessment, and challenging the basis and any material assumptions using our knowledge of the Company's business;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern; and
- Reviewing and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report 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.

FIL Life Insurance Limited

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

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 Director's report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Director's report for the year ended 31 December 2022 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 Director's 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 Director's responsibilities, 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

FIL Life Insurance Limited

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to increase the revenue of the company, and management bias in accounting estimates and judgemental areas of the financial statements. Audit procedures performed by the engagement team included:

- Discussions with the Board, internal audit and senior management involved in Risk and Compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee, and Board of Directors;
- Identifying and testing journal entries based on fraud risk criteria, particularly journal entries with unusual words, unusual amounts, unusual account combinations, posted by IT super/unexpected users, backdated items; performed unpredictability procedures; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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

FIL Life Insurance Limited

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

- 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 Audit Committee, 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 25 years, covering the years ended 31 December 1998 to 31 December 2022.



Emma Padmore (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

4 April 2023

FIL Life Insurance Limited

Statement of comprehensive income for the year ended 31 December 2022

Technical account – Long-term business

	Note	31 December 2022 £000	31 December 2021 £000
(Loss)/Return on investment contracts		(4,261,180)	5,253,847
Other technical income, net of reinsurance	7	63,414	67,273
Claims incurred, net of reinsurance			
Claims paid	8		
- Gross amount		457	488
- Reinsurer's share		(457)	(488)
		-	-
Change in other technical provision, net of reinsurance			
- Gross amount		3,175	1,302
- Reinsurer's share		(3,032)	(1,215)
		143	87
Change in investment contract liabilities		4,261,180	(5,253,847)
Net operating expenses	9	(60,956)	(63,944)
Taxation attributable to long term business		(554)	(395)
Balance on the long-term business technical account		<u>2,047</u>	<u>3,021</u>

Non-technical account

	Note	31 December 2022 £000	31 December 2021 £000
Balance on long-term business technical account		2,047	3,021
Tax credit attributable to balance on long-term business technical account		554	395
Shareholders' pre-tax profit from long term business		<u>2,601</u>	<u>3,416</u>
Investment income	10	2,965	94
Profit on ordinary activities before tax		5,566	3,510
Tax on profit on ordinary activities	11	(914)	(606)
Profit for the financial year		<u>4,652</u>	<u>2,904</u>
Total comprehensive income for the year		<u>4,652</u>	<u>2,904</u>


All the amounts above are derived from continuing activities. The notes on pages 20 to 39 form an integral part of these financial statements. All recognised gains and losses are dealt with in the profit and loss account.

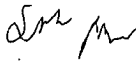
FIL Life Insurance Limited

Statement of financial position for the year ended 31 December 2022

<u>Assets</u>	Note	31 December 2022 £000	31 December 2021 (restated) £000
Other financial investments	12	1,498	1,364
Loan to group undertakings	13	125,000	-
Assets held to cover linked liabilities	14	37,866,261	42,113,146
Reinsurer's share of technical provisions			
Long-term business provisions	15	8,128	11,617
Trade and other receivables			
Debtors: amounts due within one year	16	15,859	10,074
Other assets			
Cash at bank and in hand	17	14,957	21,691
Investments in liquidity fund	17	126,893	108,849
Prepayments and accrued income			
Other prepayments and accrued income		612	607
Total assets		38,159,208	42,267,348
<u>Liabilities</u>			
Called up share capital	19	137,000	12,000
Capital contribution		22,000	22,000
Retained earnings		32,944	28,292
Total shareholders' funds		191,944	62,292
Technical provisions			
Long-term business provision	20	8,287	11,918
Investment contract liabilities	21	37,866,261	42,113,146
Creditors			
Other creditors including taxation	22	55,996	60,705
Claims outstanding		36,720	19,287
		92,716	79,992
Total liabilities		37,967,264	42,205,056
Total equity and liabilities		38,159,208	42,267,348

The notes on pages 20 to 39 form an integral part of these financial statements. The financial statements were approved by the Board of Directors on 4 April 2023 and signed on its behalf by:


Chief Executive Officer


Director

4 April 2023
Company registration number: 03406905

FIL Life Insurance Limited

Statement of change in equity for the year ended 31 December 2022

	Called up share capital £000	Capital contribution £000	Retained earnings £000	Total equity £000
At 1 January 2021	12,000	22,000	25,388	59,388
Total comprehensive income for the year	-	-	2,904	2,904
At 31 December 2021	12,000	22,000	28,292	62,292
Proceeds from issue of ordinary share capital during the year	125,000	-	-	125,000
Total comprehensive income for the year	-	-	4,652	4,652
At 31 December 2022	137,000	22,000	32,944	191,944

The notes on pages 20 to 39 form an integral part of these financial statements.

FIL Life Insurance Limited

Statement of cash flows for the year ended 31 December 2022

	Note	31 December 2022 £000	31 December 2021 (restated) £000
Profit for the year		4,652	2,904
Add non-cash expenditure			
Net loss on insurance business		143	87
Accrued Interest		(719)	(11)
Cash flows from operating activities			
Net movement in operational assets & liabilities		4,869	4,500
Restricted cash movement		(300)	(120)
Net cash (outflow)/inflow from operating activities		8,645	7,360
Cash flows from investing activities			
Loan made to group company		(125,000)	-
Interest received		2,365	11
Net cash inflow from investing activities		(122,635)	11
Cash flows from finance activities			
Proceeds from issue of ordinary share capital		125,000	-
Net cash inflow/(outflow) from finance activities		125,000	-
Net increase in cash and cash equivalents		11,010	7,371
Cash and cash equivalents at beginning of year		129,265	121,894
Cash and cash equivalents at end of year		140,275	129,265
Cash and cash equivalents at end of year		140,275	129,265
Investments in liquidity fund	17	(126,893)	(108,849)
Restricted cash *		13,382	20,416
		1,575	1,275
Cash at bank and in hand	17	14,957	21,691

Included in the Cash and Cash Equivalents are £74.0m (December 2021: £48.6m) 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.

* An amount of £1.6m (December 2021: £1.3m) for the funds held with respect to Master Trust is included within a restricted bank account, which has been represented and separated from cash and cash equivalents in the current and prior period as a result of the restriction.

The notes on pages 20 to 39 form an integral part of these financial statements.

FIL Life Insurance Limited

Notes forming part of the financial statements for the year ended 31 December 2022

1. General Information

FIL Life Insurance Limited is a private company limited by shares and incorporated in England. The registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. The Company's principal activities are set out in the Strategic Report.

The start date for the year covered by reporting is 1 January 2022 and the end date for the year covered by reporting is 31 December 2022. 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. The FIL Life financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance groups.

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 a reporting entity's financial position and profit or loss (or income and expenditure) for a period.

FRS 103 is applicable for accounting of insurance contracts. As per FRS 103, an 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's main business is defined contribution (unit linked) business. There is also a small legacy book of annuity business which is fully reinsured by Hannover Re. As per the above definition only the annuity business and associated reinsurance fall under the ambit of being insurance contracts.

For the defined contribution business, there is no embedded insurance risk and it does not fall within FRS 103.

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 103), 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. Values in tables are rounded to the nearest £000 whereas values in wording are rounded to the nearest £m.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

3. Principal accounting policies (*continued*)

(b) *Going concern*

The Directors have, at the time of approving the financial statements, a reasonable expectation that the company 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 at bank, deposits held at call with banks and other short-term highly liquid investments with original maturity of three months or less but excludes restricted cash.

(d) *Other technical income*

Fees charged for investment management services and policy administration charges are recognised net of rebates (for contracts where the company acts in an agency capacity, otherwise they are shown gross) when the related services are provided. Investment management performance related fees are recognised at the point when entitlement arises.

(e) *Investment income*

Finance Income represents the interest earned on Institutional Liquidity Funds ("ILF") and loan provided to the ultimate parent entity. 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 reinsurers' share*

The Company in the past has written annuities that transfer significant insurance risk. The legacy annuity policies relate to benefits due for 976 (2021: 979) individuals. No new annuity business has been written since 2011. The annuity portfolio is fully reinsured to Hannover Re. The reinsurance treaty also consequently transfers significant insurance risk. No collateral is held in relation to the reinsurance assets.

The technical provisions and associated reinsurers' share are computed by the Company's Actuary. A Solvency II basis has been adopted with the technical provisions measured as the best estimate liability plus a risk margin. The best estimate liability is the discounted present value of future annuity payments using best estimate assumptions to reflect an assessment of the future experience of mortality and inflation. The reinsurers' share is on a best estimate basis and also provides for the risk of credit default by the reinsurer. The risk margin is presented in the technical provisions and reinsurers' share of technical provisions on a gross of reinsurance basis (unlike Solvency II which is net of reinsurance). Further details are contained within note 20.

(h) *Return on Investment contracts*

Return on investment contracts includes dividends, interest income and net fair value gains/(losses) on the assets held to cover linked liabilities. Dividends are recorded on the date on which the shares are quoted ex dividend. Interest income is accounted for on an accruals basis.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

3. Principal accounting policies (*continued*)

(i) *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% (December 2021: 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.

(j) *Investment contract liabilities*

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Unit-linked contracts written by the Company, where the liability under the contract is dependent on the value of the underlying financial assets 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 Statement of comprehensive income 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.

(k) *Dividend policy*

Dividends and other distributions to the Company'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 Directors.

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

(l) *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: Assets held to cover linked liabilities and Other financial investments. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date. Purchases and sales of investments are accounted for using trade date accounting.

i) Other financial investments – Seed capital

Financial assets are classified into this category 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. They are held at fair value through profit and loss and represent funding provided by the shareholder to launch new funds.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

3. Principal accounting policies (*continued*)

ii) *Other financial investments - Intercompany loans*

The loan is measured at the amount provided at initial recognition. Subsequently, it is measured at amortised cost taking into account any difference between that initial amount and the maturity amount, and any impairment allowance. Interest income is calculated using the effective interest method and is recognised in the Statement of comprehensive income. Changes in fair value are recognised in comprehensive income when the asset is derecognised or reclassified. The Company provided a three-year fixed term loan of £125m to the ultimate parent entity, FIL Limited, at a fixed interest rate of 7%.

iii) *Assets held to cover linked liabilities*

Financial assets classified into this category are also assets whose performance is evaluated on a fair value basis. They are held at fair value through profit and loss and represent assets held to back the associated unit-linked investment contracts on behalf of policyholders.

For both of the prior categories, 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 18.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit and loss are presented in the Statement of comprehensive income account within 'Return on Investment Contracts' in the period in which they arise.

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 Statement of comprehensive income over the period of the borrowings using the effective interest method.

(m) Foreign currencies

The functional currency of the company is Sterling and all figures are stated in Sterling. There are no transactions in currencies other than Sterling.

(n) Cash at bank and in hand

Cash at bank and in hand consist of cash at banks deposits held at call with banks.

(o) Liquidity fund holdings

Liquidity fund holdings consist of short-term highly liquid investments, with underlying holdings with less than 90 days maturity from the date of acquisition.

(p) Debtors

Short-term debtors, with no stated interest rate and receivable within one year, are measured at transaction price less any impairment. A provision for the entire outstanding balance is recognised on any debtors older than 90 days. Any losses arising from impairment are recognised in the Statement of comprehensive income.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

3. Principal accounting policies (continued)

(q) 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.

(r) Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, 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 tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.

(s) Restatement of Prior year classification

In the prior year financial statements, 'cash at bank and in hand' and 'Investments in liquidity funds' ("ILF") were classified as a consolidated balance under the balance sheet line 'cash at bank and in hand'. As per the requirements of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance groups, 'Cash at bank and in hand' should be included as a separate line item within current assets. The balances have now been appropriately classified in the balance sheet under the line item 'Cash at bank and in hand' and 'Investments in liquidity funds'. This classification restatement does not have any impact on the Statement of comprehensive income, the net assets or net current assets on the balance sheet and statement of changes in equity as at 31 December 2021.

The impact of this restatement has caused cash and cash in hand to move from £123,049k to £21,691k and the liquidity funds to be shown as £108,849k.

We have also restated the Net cash (outflow)/inflow from operating activities in the cash flow statement to include the profit for the year and restricted funds being restated to £7,360k from £4,576k.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

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 policies

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.

Annuity valuation

The company makes estimates for the discount rate, mortality, longevity and inflation in the valuation of the annuity business, of which the discount rate is the most critical and caused the largest movement in the assets and liabilities. Further details are contained within note 15.

5. Staff costs

With the exception of any non-executive Directors (see note 6), the Company does not employ any staff itself. There are no direct staff costs. Staff are provided as part of the Insurance Agency and Services Agreement by FIL Pensions Management ('FPM').

6. Directors' remuneration

	31 December 2022 £000	31 December 2021 £000
Directors' emoluments	145	145
Aggregate emoluments	145	145
Highest paid Director	80	80

Executive directors receive no incremental emoluments for performing their roles as Directors of the company.

7. Other technical income, net of reinsurance

	31 December 2022 £000	31 December 2021 £000
Policy administration and asset management fees	63,414	67,273
Total technical income	63,414	67,273

All income was earned in the UK.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

8. Annuity payments

The Annuity business is fully reinsured with Hannover Re.

Claims incurred, net of reinsurance

	31 December 2022 £000	31 December 2021 £000
Gross amount	457	488
Reinsurer's share	(457)	(488)
	<u>-</u>	<u>-</u>

9. Net operating expenses

	31 December 2022 £000	31 December 2021 £000
Insurance agency services payments (see note 25)	45,884	49,665
Rebate payments	10,891	11,281
Compliance fees	1,384	958
Consultancy fees	310	178
Other administrative expenses	2,487	1,862
Total other expenses	60,956	63,944

Auditors' remuneration

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

	31 December 2022 £000	31 December 2021 £000
Fees payable to the Company's auditor and their associates for the audit of the financial statements	148	155
Fees payable to the Company's auditor and their associates for other services		
-Stakeholder audit fees	20	19
-Solvency II audit work	24	18
Total auditors' expenses	192	192

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

10. Investment income

	31 December 2022 £000	31 December 2021 £000
Finance income	1,191	94
Intercompany loan interest	1,774	-
Total investment income	2,965	94

11. Tax on profit on ordinary activities

Long term business technical account

	31 December 2022 £000	31 December 2021 £000
<u>UK corporation tax at 19% (December 2021: 19%):</u>		
Current tax on income for the year	712	475
Adjustment in respect of prior years	(16)	268
Current tax on ordinary activities	696	743
Deferred tax	(142)	(348)
Tax on profit on ordinary activities	554	395

Non-technical accounts

UK corporation tax at 19% (December 2021: 19%):

Current tax on income for the year	360	211
Tax attributable to balance on long term business technical account	554	395
Tax on profit on ordinary activities	914	606

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

11. Tax on profit on ordinary activities (*continued*)

Factors affecting the tax charge for the year

The tax assessed for the year is lower than (December 2021: is lower than) the standard rate of corporation tax in the UK of 19% (December 2021: 19%). The difference is explained below:

	31 December 2022 £000	31 December 2021 £000
Profit on ordinary activities before tax	5,566	3,510
Profit on ordinary activities before tax at the standard rate of UK corporation tax of 19% (December 2021: 19%)	1,057	667
Adjustment in respect of prior years	(16)	268
Other disallowable expenses	57	(19)
Movement in prior year deferred tax	(184)	(310)
Total tax charged for the year	914	606

Deferred tax

The movement on the deferred tax asset which relates to a transitional difference arising from a change in the taxation basis of Insurance companies and deferred tax asset which relates to tax credits recovered for policyholders (tax deductible when paid to policyholders' accounts) is as follows:

	31 December 2022 £000	31 December 2021 £000
Deferred Tax (Asset)/Liability at 1 January	(310)	38
Deferred tax credit in the profit and loss account	(142)	(348)
Deferred Tax (Asset) at 31 December	(452)	(310)

A deferred tax asset or 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. A deferred tax asset is recognised for tax credits which are deductible when paid to policyholders.

In the Budget 2020, the government announced that the corporation tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. In the Autumn Statement in November 2022, the government confirmed the increase in corporation tax rate to 25% from April 2023.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

12. Other financial investments

	31 December 2022 £000	31 December 2021 £000
Seed capital - units in funds		
Carrying value	1,498	1,364
Purchase price	1,139	699

Seed capital represents funding provided by the shareholder to launch new funds. The fair value of seed capital is based on bid prices. The Board has authorised the use of capital for the purpose of seeding new funds or share classes. Each share class of a Fund is seeded with £4,000 until assets within that share class reach £10,000.

13. Loan to group undertakings

The Company provided a three-year fixed term loan of £125m to the ultimate parent entity, FIL Limited, at a fixed interest rate of 7%. This is a new loan, therefore no balance in prior year.

14. Assets held to cover linked liabilities

	31 December 2022 £000	31 December 2021 £000
Carrying value		
Fund assets	22,672,720	24,767,207
Reinsured assets	15,193,541	17,345,939
Policyholder financial assets	37,866,261	42,113,146
Purchase price		
Fund assets	21,301,586	19,575,174
Reinsured assets	13,190,115	13,189,548
Policyholder financial assets	34,491,701	32,764,722

15. Reinsurer's share of technical provisions - long-term business provisions

	31 December 2022 £000	31 December 2021 £000
Annuity life business at start of year	11,617	13,320
Claims recovered under reinsurance	(457)	(488)
Change in technical provisions	(3,032)	(1,215)
Annuity life business at end of year	8,128	11,617

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

- Discount rate – the GBP risk-free interest rate term structure prescribed (basic risk-free rate curve including the credit risk adjustment but with no matching or volatility adjustment) and provided by PRA and EIOPA as at 31 December 2022 and 31 December 2021 respectively.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

15. Reinsurer's share of technical provisions - long-term business provisions (*continued*)

- Mortality – base mortality assumptions are 98% of the PMA16 tables for males and 97% of the PFA16 table for females (31 December 2021; 99% of the PMA16 tables for males and 98% of the PFA16 table for females).
- Longevity – longevity improvements are the CMI 2021 mortality projections model with a 1.5% long-term rate of mortality improvement for both males and females (December 2021: 2020 CMI and 1.5%). All parameters are otherwise as per the Core parameterisation, 31 December 2022 and 31 December 2021.
- Inflation – the UK Government's liability forward rate inflation curve provided by the Bank of England as at 31 December 2022 and 31 December 2021.

The main sensitivities to the result are the movements in discount rates, which are closely associated to the interest rates.

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

16. Debtors: amounts due within one year

	31 December 2022 £000	31 December 2021 £000
Other receivables	602	1,989
Recoverable from HM Revenue and Customs	15,257	8,085
Trade and other receivables	15,859	10,074

17. Cash and cash equivalents

Included in the Cash and Cash Equivalents are £74.0m (December 2021: £48.6m) 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 liabilities are shown in other creditors including taxation and claims outstanding.

	31 December 2022 £000	31 December 2021 £000
Cash at bank and in hand	14,957	21,691
Investments in liquidity fund	126,893	108,849
Cash and cash equivalents	141,850	130,540

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

18. 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).
- 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 31 December 2022.

	31 December 2022 £000	31 December 2021 £000
Assets (Level 1)		
Financial assets at fair value through profit and loss:		
• Policyholder assets	37,866,261	42,113,146
• Seed capital	1,498	1,364
Total financial assets	37,867,759	42,114,510

Included in the amounts above are investments for the benefit of life insurance unit-linked policyholders who bear the investment risk totalling £37,866.2m (December 2021: £42,113.2m).

The fair value of the liabilities follows 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.

19. Called up share capital

	31 December 2022 £000	31 December 2021 £000
Allocated, called up and fully paid		
137,000,000 (December 2021: 12,000,000) ordinary shares at £1 each	137,000	12,000

During the year, the company issued £125m new shares, fully paid at par value. This additional capital is intended to enable the company to maintain a strong solvency margin to facilitate business development.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

20. Long-term business provision

	31 December 2022 £000	31 December 2021 £000
Long-term business provision at start of year	11,919	13,709
Claims recovered under reinsurance	(457)	(488)
Change in technical provisions	(3,175)	(1,303)
Long-term business provision at end of year	8,287	11,918

The below table shows the sensitivity analysis to the movement in interest rates:

	Base £000	Interest rates up (1%) £000	Interest rates down (1%) £000	Longevity up (20%) £000
Best estimate liabilities (gross)	7,748	6,810	8,711	8,393
Reinsurance asset	7,708	6,777	8,663	8,346
Net exposure	40	33	48	47

The annuity business is fully reinsured to Hannover Re 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 £8k due to the change in the amount recoverable from the reinsurer.

Refer to note 15 regarding main assumptions used in calculating the best estimate liability.

21. Investment contract liabilities

	31 December 2022 £000	31 December 2021 £000
Policyholder liabilities under investment contracts	37,866,261	42,113,146

22. Other creditors including taxation

	31 December 2022 £000	31 December 2021 £000
Other payables, including fund purchases	55,473	59,144
Amounts payable to group companies	523	1,561
	55,996	60,705

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

23. Capital risk management

The Company is authorised by the PRA and regulated by the 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.

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

In order to ensure that the Company retains a capital surplus, the capital management 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 plus the Master Trust capital requirement, less any amounts held; (i) as security in favour of the Master Trust; and (ii) by the Master Trust for the purpose of meeting the capital requirement ("MT"); and
- ii) the requirements identified through the Own Risk & Solvency Assessment ("ORSA") also known as the Pillar 2 requirement.

The capital management 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 Chief Financial Officer function holder (Senior Management Function ("SMF") 2) and an annual review by the Board.

The Company's total available capital resources are £191.9m (December 2021: £62.3m). 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 since 1 January 2016 and established a new set of EU-wide capital requirements, risk management and disclosure standards.

As part of the Brexit process, the PRA have incorporated these requirements into UK legislation. The Company 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.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

23. Capital risk management (continued)

Capital position statement

The following table has been included for information and is based upon the PRA' interpretation of the Solvency II Delegated Acts.

	31 December 2022 £000	31 December 2021 £000
Total shareholders' funds as per financial statements	191,944	62,292
<i>Adjustments to restate in accordance with regulatory requirements:</i>		
a) Value in force business (VIF)	4,307	4,885
b) Estimated risk margin on unit-linked business	(3,548)	(3,532)
c) Ring fenced asset	(1,575)	(1,275)
d) Deferred taxation (SII)	(2,120)	(225)
e) Loan revaluation under Solvency II	7,840	
Total capital resources available to meet regulatory requirements	196,848	62,145
Regulatory capital requirement	(34,967)	(25,259)
Surplus of capital resources over regulatory requirements	161,881	36,886
 Own funds at 1 January 2022	 62,145	 58,716
Increase in Share Capital	125,000	-
Change in value in force business (VIF)	(578)	1,023
Change in unit-linked risk margin	(16)	(197)
Change in ring fenced asset	(300)	(120)
Change in deferred taxation	(1,895)	(181)
Change in loan revaluation under Solvency II	7,840	-
Comprehensive income for the year	4,652	2,904
Own funds at 31 December 2022	196,848	62,145

Analysis of liabilities

Sensitivity to insurance risk

The only insurance risk in the company relates to a small book of annuity business. As described in note 8 the business is fully reinsured and the sensitivity to any insurance risk is not considered material. Under Solvency II, the capital position is not sensitive to lapse and persistency under the short contract boundary and value in force business (VIF).

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

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 and has adopted the FIL Group-wide risk management and policy framework supported by individual policies specific to FIL Life. 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 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 PRA, 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. Further details are contained within note 23.

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 legacy annuity book. The inherent risk in Annuity business is Longevity Risk. The company has reinsured its portfolio of annuities with Hannover Re. There is a minimal insurance risk for the company. The capital position will also be sensitive to persistency under Solvency II.

Financial risk

The Company is exposed to financial risk through its cash holdings, its receivable balances, seed capital investments, reinsurance of annuities 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 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 in respect of seed capital investments.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (*continued*)

24. Risk management policies (*continued*)

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 set out in Note 15.

The other interest rate risk is on account of discounting of future annuity payments under the legacy annuity business. The annuity portfolio is completely reinsured by Hannover Re. Other than in the event of default by the reinsurer, the company has no principal risk on account of this.

Currency risk

The Company is not directly exposed to currency rate risk as all cash and holdings in investments are currently denominated in Pounds Sterling.

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, Bank of America and HSBC Bank plc.

Barclays Bank plc and Bank of America are A rated, and HSBC Bank plc is AA rated by Standard & Poor's. Accounts receivable balances are held predominantly with other FIL Group companies which are considered low risk.

The intercompany loan is with the ultimate parent company, FIL Limited which has a BBB credit rating (S&P). The loan has a repayment option should the credit rating of FIL Limited fall below BBB-.

The Company performs an assessment of the risk profile of a 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 against appetite. 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 31 December 2022, no financial assets included in the table below are past due or impaired.

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

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

24. Risk management policies (continued)

December 2022 Credit Rating (S&P)	AAA £000	AA £000	A £000	Total £000
Institutional liquidity fund ("ILF")	126,894	-	-	126,894
Cash at bank and in hand	-	5	14,951	14,956
	<u>126,894</u>	<u>5</u>	<u>14,951</u>	<u>141,850</u>
December 2021 Credit Rating (S&P)	AAA £000	AA £000	A £000	Total £000
Institutional liquidity fund ("ILF")	108,849	-	-	108,849
Cash at bank and in hand	-	3,000	18,691	21,691
	<u>108,849</u>	<u>3,000</u>	<u>18,691</u>	<u>130,540</u>

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 the 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.

Situations that could potentially result in liquidity strains on FIL Life's resources are supported by a formal agreement with Financial Administration Services Limited ("FASL") for the provision of liquidity. Both the Company and FASL meet regularly to identify upcoming liquidity needs.

For each main category of business, the following shows the gross liability at 31 December 2022 analysed by duration. The total liability is split by duration in proportion to the present value of cash-flows estimated to arise during that year. For unit linked liabilities, all liabilities are presented in the "Up to a year" category to reflect the contractual surrender basis.

December 2022	Up to a Year £000	1 - 5 Years £000	Over 5 Years £000	Total £000
Unit linked liabilities	37,866,261	-	-	37,866,261
Annuity liabilities	528	2,121	5,098	7,747
Risk margin	37	148	355	540
Other payables	92,716	-	-	92,716
Total	<u>37,959,542</u>	<u>2,269</u>	<u>5,453</u>	<u>37,967,264</u>

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

24. Risk management policies (continued)

<u>December 2021</u>	<u>Up to a Year</u> £000	<u>1 - 5 Years</u> £000	<u>Over 5 Years</u> £000	<u>Total</u> £000
Unit linked liabilities	42,113,146	-	-	42,113,146
Annuity liabilities	518	2,096	8,080	10,694
Risk margin	59	240	926	1,225
Other payables	79,992	-	-	79,992
Total	42,193,715	2,336	9,006	42,205,057

d) Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people or systems or from external events. It includes operational activities performed by outsourced service arrangements to providers, primarily FPM as described in note 25, covering areas such as, conduct, technology, information security, change management, legal, fraud and compliance risks.

Operational risks are assessed according to the potential impact 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.

g) Unit linked contracts

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

Amounts under unit-linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions.

FIL Life Insurance Limited

Notes forming part of the financial statements
for the year ended 31 December 2022 (continued)

25. Insurance Agency Services Agreement

The Company has entered into an agreement with FPM, a related party with common ownership to the Company, to receive insurance agency and other insurance intermediary services. Under the terms of the agreement, payments in consideration of the service are made subject to the Company making a sufficient return. FPM indemnifies the Company for any losses arising from errors in providing these services up to the value of the annual consideration. Provisions 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 £3.9m (December 2021: £6.8m) which FPM has recognised in its financial statements for the year ended 31 December 2022, to cover potential liabilities arising from processing errors 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.

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 31 December 2022 FPM has recognised an insurance recoverable of £1.9m (December 2021: £3.3m) which is included in debtors.

26. 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

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to the use of exemptions by FIL Life's shareholders.

The company has taken advantage of the exemption permitted by section 33.1A of FRS 102 not to disclose related party transactions with entities that are wholly owned subsidiaries of the FIL Group.

27. Ultimate parent undertaking and controlling party

Pursuant to a Sale and Purchase Agreement effective 22 December 2022, FIL Limited agreed to transfer ownership of FIL Life to a new intermediate holding company, FIL Financial Services Holdings Limited ("FFSH"). Beneficial ownership passed on this date. Legal ownership moved on 15 February 2023 when the transfer was adjudicated as exempt from stamp duty and the statutory books updated.

FFSH is a company registered in Bermuda. The consolidated financial statements of FFSH Limited may be obtained from Pembroke Hall, 42 Crow Lane, Pembroke, HM19, Bermuda.

The ultimate parent undertaking and controlling party is FIL Limited, a company incorporated in Bermuda. FIL Limited is the parent undertaking of the largest group of undertakings to consolidate these financial statements, which may be obtained from Pembroke Hall, 42 Crow Lane, Pembroke, HM19, Bermuda.