

FIL Life Insurance Limited

Solvency and Financial Condition Report

As at
31 December 2023



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Introduction

About this Document

This Solvency and Financial Condition Report (SFCR) is intended to provide essential information about the solvency and financial position of FIL Life Insurance Limited (referred to hereafter as “FIL Life” or “the Company”) as at 31 December 2023.

The report is produced annually and made publicly available on the Fidelity International website:

<https://retirement.fidelity.co.uk/about-us/regulators-and-regulatory-disclosures/>

The report has been reviewed and approved by the Directors of the Company, prior to publication deadline of 7 April 2024.

Regulatory Context

The requirement for an annual SFCR arises under Solvency II regulation. The Solvency II framework came into effect on 1 January 2016 and established a new set of capital requirements, risk management and disclosure standards across the European Union (EU).

Although the United Kingdom (UK) left the EU on 31 January 2020, it is still subject to the Solvency II regulation. The Company must therefore continue to comply with this regime which aims to reduce the likelihood of an insurer failing and seeks to provide policyholders with increased protection.

This SFCR is made in accordance with the Prudential Regulation Authority’s (PRA) Rulebook chapter on Reporting, the PRA Supervisory Statement (SS11/16) on ‘Solvency II: External audit of, and responsibilities of the governing body in relation to, the public disclosure requirement’ and all applicable onshored Delegated Regulation, collectively the “UK Solvency II Regulations”.

Report Structure and Content

The structure and content of this report is prescribed by the Solvency II Regulations.

- **Section A** provides details on the Company’s business and performance, including details of current year performance.
- **Section B** provides a description of the governance structure, policies and procedures.
- **Section C** provides an overview of the material risks to which FIL Life is exposed and how these are monitored and managed.
- **Section D** provides information on the valuation of FIL Life’s assets and liabilities under the Solvency II Regulations.
- **Section E** provides details on the capital management of FIL Life under the Solvency II Regulations, including details of the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).
- **Appendix 1** provides a statement by the Directors.
- **Appendix 2** provides the Independent Auditors’ Report.
- **Appendix 3** provides the Quantitative Reporting Templates (QRTs) as at 31 December 2023.
- **Appendix 4** provides a glossary of terms and abbreviations.

Basis of Preparation

FIL Life does not use an internal model and therefore, internal model comparisons are not applicable.

FIL Life does not use the volatility adjustment, matching adjustment or transitional measures.

Summary

Business and Performance

FIL Life is a regulated life insurance provider based in the UK. FIL Life is authorised by the PRA and regulated by both the Financial Conduct Authority (FCA) and the PRA.

FIL Life's ultimate parent is FIL Limited, a company registered in Bermuda. It is part of the international FIL Limited Group of companies, referred to hereafter as the "FIL Group".

The Company provides unit-linked pension products which enable members of company pension schemes in the UK to save for their retirement. Investments are made into life funds, which invest in underlying funds managed by the wider FIL Group and other selected fund managers and insurers. There is also a small annuity legacy book of business.

FIL Pensions Management (FPM), another FIL Group company, provides administration services to FIL Life. Annuity reinsurance and administration is outsourced to Hannover Re, UK Life Branch (Hannover Re).

FIL Life's business strategy does not involve the acceptance of material insurance risk and, therefore, information relating to underwriting performance is not available.

Investment performance has no material direct impact on the Company, except for a small amount of seed capital placed into funds. Investment risks on underlying holdings are borne by policyholders. Investment performance impacts the Company indirectly through management charges on Assets under Administration (AUA). These charges due to FIL Life are based on a percentage of the AUA.

The time horizon for business planning is 5 years. The Company's strategy is to continue to grow the business through organic growth and the acquisition of new clients.

Following the invasion of Ukraine by Russia, the US, EU and UK and other governments have issued sanctions against Russia targeting individuals, companies, and sectors.

In consultation with our key stakeholders, we will continue to review and comply with any economic sanctions imposed where required.

The Company made an additional loan of £20m to FIL Limited on 15 December 2023 for a three-year fixed term loan at 6% interest.

Summary Table 1: UK GAAP Results comparison of 12 months to 31 December 2022 versus 12 months to 31 December 2023

Results	31 Dec 2023	31 Dec 2022
Profit after Taxation	£10.7m	£4.7m
Shares in Issue	£137m	£137m
Dividend	Nil	Nil
Assets under Administration	£41.5bn	£37.9bn
Total Schemes	442	437
New Schemes	24	22
Total Members	697,074	669,050
Fee Income	£70.6m	£63.4m
Total Administrative Expenses	£67.2m	£61.0m
Regulatory Expenses	£0.9m	£1.4m
Audit Expenses	£0.2m	£0.2m
Actuarial Fees	£0.3m	£0.1m

Other than those items noted under A.1.7, there are no significant matters with a material impact on the solvency and financial condition of the Company.

Further details on the business and performance of FIL Life can be found in Section A.

System of Governance

The FIL Life Board of Directors (the Board) has ultimate responsibility for the Company's strategy and business activities. It is

supported by management groups and committees to run the business day-to-day and oversee performance.

FIL Life has been in compliance with the Senior Managers and Certification Regime (SMCR) since December 2018. All allocated senior management functions have Statements of Responsibility (SoR), and map to the firm's Management Responsibilities Map submitted to the FCA. These SoRs clearly define the roles of each Senior Management function to ensure that all members are clear on their areas of accountability.

The Board is responsible for ensuring that an effective governance structure, risk management and general control environment are in place for FIL Life. It is supported by key oversight functions such as Risk, Compliance, Internal Audit and the Actuarial function. Matters relating to Audit are overseen by a dedicated Audit Risk and Compliance Committee.

The Company has adopted the FIL Group's FIT Assessment Policy and Framework (FIT Policy) as its own FIT Policy to ensure all senior managers, non-executive directors and key function holders have the necessary authority, resources, and operational independence to carry out their tasks.

FIL Life's risk management system encompasses key elements including the Risk Appetite Statement, Risk Taxonomy, Risk and Control Self-Assessments (RCSAs), Key Risk Indicators (KRIs), Risk Reporting and the Own Risk and Solvency Assessment (ORSA), which is integrated into the Company's structure and decision-making.

The Company uses a "three lines of defence" internal control system which is designed to support the risk management framework.

The Chief Risk Officer is responsible for the performance of the ORSA process. The Board takes an active role in its production, in line with the Company's ORSA Policy and process. ORSA results are used by the Board to inform strategic decisions. The Company will undertake a full ORSA for the year ended on 31 December 2023 and will report its findings to the PRA no later than 30 June 2024.

FIL Life's system of governance is supported by an External Outsourcing and Supplier Management Policy and an Intragroup Material Outsourcing Policy (IMOA). These policies outline the delegation and outsourcing arrangements within the Company.

The Company outsources the Actuarial function to Milliman LLP and operational activities to other companies within the FIL Group, pre-dominantly to FPM which is regulated by the FCA.

Administration for the small annuity legacy book is provided by Hannover Re. The Company also works with ZEDRA (formerly known as PTL) in respect of the Independent Governance Committee and the Fidelity Master Trust. Details of these arrangements are provided in B.7.

The Company's Sustainable Investing Policy has committed its FutureWise default fund to net zero carbon emissions by 2050, and halving carbon emissions in FutureWise by 2030.

FIL Life has also made progress in developing tools to enable its trust-based clients' access to a Stewardship Dashboard and their members access to a Voting and Engagement tool. FIL Life has also assessed and implemented changes to its policies; namely its Risk Management policy, and where applicable in relation to Capital Management, Liquidity and Credit policies reflecting the financial risks associated with climate change.

Further details on the system of governance of FIL Life can be found in Section B.

Risk Profile

The Company has a robust process for identifying and managing its risks. Risks are managed and monitored to a risk appetite defined in the Risk Appetite Statement which is approved by the Board on an annual basis.

FIL Life undertakes an ORSA at least annually to determine the capital required to meet the Company's strategic objectives based on its risk profile. The ORSA covers all material risks to which the Company is exposed, is forward looking and proportionate to the size and complexity of the business.

The Company has identified its material risks, which largely relate to counterparty exposures and risks to its clients and reputation from FPM's service provision.

FIL Life also assumes a level of liquidity risk during large scheme transitions and transfers out. There has been no material change to the risk profile during the reporting period.

FIL Life does not have material exposure to underwriting, operational and market risk as the Company is protected both through an Insurance Agency & Services Agreement (IASA) with FPM, and because the majority of policyholder liabilities are unit-linked and do not offer life assurance benefits beyond a return on the value of investments.

The Board oversees the performance of FPM. It monitors FPM's financial position and its ability to withstand severe scenarios as considered in its own capital assessment as part of the FIL Holdings (UK) Ltd ICARA (Internal Capital Adequacy and Risk Assessment) process.

The FIL Group monitors geopolitical events and their humanitarian, economic and global financial market impact.

The Company will continue to monitor market developments and counterparty exposures carefully and respond as appropriate.

Further details on the risk profile of the Company can be found in Section C.

Valuation for Solvency Purposes

FIL Life's assets are primarily those held to back the unit-linked liabilities, with the surplus held as cash or similarly liquid investments.

The value of these assets is stated at either market value or the expected realisable value.

There are no material differences between the basis, methods and assumptions used for the valuation of assets for solvency purposes and those used in the financial statements.

The main components of the Company's liabilities are the Technical Provisions. The Technical Provisions are made up of:

- the Unit Liability

- the Best Estimate Liability (BEL)
- the Risk Margin (RM)

The methodology employed is proportionate to the nature, scale and complexity of the risks accepted by the business.

There are no material differences between the basis, methods and assumptions used for the valuation of assets for solvency purposes and those used in the financial statements, except for the valuation of the intragroup loans and risk margin. 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 4% (31 December 2022: 6%).

The solvency position has increased over the year due to retained income on account of the profits made in 2023.

Further details on the valuation for solvency purposes of the Company can be found in Section D.

Capital Management

The Company is regulated by the 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 all times.

FIL Life has adequate capital to meet its capital requirements under Solvency II. As at 31 December 2023 there are no plans to issue, repay or otherwise change the Company's capital management position.

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

All Own Funds are considered as Tier 1 capital, in accordance with the guidelines on loss absorption and repayment of capital and dividends.

The Company's capital position and solvency capital ratio are shown in the following table:

Summary Table 2: Capital Position and Solvency Ratio

Own Funds, SCR, MCR & Coverage Ratio	31 Dec 2023 £'m	31 Dec 2022 £'m
Solvency Capital Requirement	£33.51m	£35.0m
Minimum Capital Requirement	£15.08m	£15.7m
Eligible Own Funds	£208.28m	£196.8m
Ratio of Eligible Own Funds to SCR	621.45%	563.0%
Ratio of Eligible Own Funds to MCR	1,380.99%	1,251.0%

The solvency capital requirement calculated in accordance with regulations exceeds the minimum capital requirement of £15.08m.

In line with the Capital Management Policy, the firm seeks to hold a discretionary buffer over the total of the greater of the SCR, plus the Master Trust guarantee amount and ORSA requirements.

The discretionary buffer is subject to ongoing monitoring by management and the Board.

During 2023 the minimum target capital solvency ratio, including the internal buffer, was 122%. As at 31 December 2023 and at all times during the year, the Company's capital exceeded this target.

There have been no periods of non-compliance with either the MCR or SCR and there is no reasonable, foreseeable risk of non-compliance with the MCR or SCR in the future.

Integration of Risk and Capital Management

Risk and capital management are embedded within the Company's business and decision-making processes. Strategic business decisions are risk-assessed and evaluated for their capital impact prior to being finalised.

The Risk function and the Finance function evaluate and challenge such assessments.

FIL Life's Own Funds continued to be managed such that they have low liquidity and market risk. Daily monitoring of liquidity requirements proceeded as usual.

Further details on the capital management of the Company can be found in Section E.

Any Other Information

Rita Bajaj was approved by regulators as Audit Chair on 20 February 2023.

George Reid resigned as Chair of the Audit Committee on 20 February 2023.

David Huntley resigned as a Director from the Board on 1 April 2023.

Marianne Jaekel was appointed as permanent CEO of FIL Life on 09 May 2023.

Jamie Bullock was approved by regulators as Executive Director on 13 December 2023.

James Carter was approved by regulators as Executive Director on 19 December 2023.

A. Business and Performance

A.1. Business

A.1.1. Information regarding the Company

The legal name of the undertaking is FIL Life Insurance Limited.

FIL Life was founded in 1998 to provide a selection of unit-linked Defined Contribution (DC) pension products to members of UK company pension schemes to save for their retirement.

The Company's business mainly comprises unit-linked pension funds, with a small legacy annuity book.

There are two levels of service offered:

- **Investment Only** – Pension schemes can access FIL Life's investment platform to offer a range of investment opportunities to their plan members. The platform links to the scheme's chosen plan administrator, usually a specialist third party administrator.
- **Full Service** – FIL Life offers a comprehensive administration and record keeping service to pension trustees and employers, in addition to providing access to its investment platform.

FIL Life operates an open architecture investment platform. The life funds are invested in a range of underlying funds managed by companies within the FIL Group and other fund managers and insurers.

This provides pension trustees and employers with the ability to construct an investment solution which meets their needs and those of the plan members. Trustees or employers often engage the services of an investment adviser to help with investment strategy and design of the portfolio.

As at 31 December 2023, the Company provided pension solutions for a total of 442 schemes (December 2022: 437) and 697,074 members (December 2022: 669,050). There were 24 new schemes taken on during the period (December 2022:22).

As at 31 December 2023, the Company has AUA of £41.5bn (December 2022: £37.9bn).

The Company has accepted premium fees on contracts, classified as investment contracts, amounting to £4.0bn (December 2022: £3.3bn) and incurred claims of £4.8bn (December 2022: £3.2bn).

The Company made a profit after taxation of £10.7m (December 2022: £4.7m). This amount has been transferred to the retained reserves.

The Directors do not propose a dividend for the full year end 31 December 2023 (December 2022: Nil).

The Company is expected to remain profitable in line with the IASA with FPM. The agreement ensures that costs for operational expenses relating to FIL Life's activities do not exceed 95% of net income.

In the event that AUA falls by more than 40% in any 12-month period, operational expenses will not exceed 92.5% of FIL Life's net income.

A.1.2. Regulatory Supervisor

The Company is authorised and regulated for prudential purposes by the Prudential Regulation Authority, Bank of England, 20 Moorgate, London, EC2R 6DA.

The Company is regulated for conduct purposes by the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

The Company is the Scheme Funder and Strategist for the Fidelity Master Trust, which is regulated by The Pensions Regulator, Napier House, Trafalgar Place, Brighton BN1 4DW.

A.1.3. Auditor

The Company's external auditor is PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. PricewaterhouseCoopers LLP have been the

auditors of the Company for 26 uninterrupted years. As a Public Interest Entity this was the last year, they were able to be appointed as auditors. After a rigorous tender exercise, the Board have decided to appoint Grant Thornton UK LLP to be the new auditors.

A.1.4. Ownership

FIL Life is a wholly owned subsidiary of FIL Financial Services Holdings Ltd, a company incorporated in Bermuda and wholly owned by FIL Limited.

The ultimate parent undertaking of FIL Life is FIL Limited, a company incorporated in Bermuda.

FIL Life has £137m of ordinary share capital, which is fully paid-up, as well as distributable reserves.

FIL Life has no direct ownership connection with any other company in the FIL Group, other than its parent undertakings, FIL Limited and FIL Financial Services Holdings Ltd.

A.1.5. Group Structure

FIL Life is part of the wider FIL Group, as shown in Chart A.1. FIL Life is not part of an Insurance Group under the definition of Solvency II.

The group is structured as follows:

- **FIL Limited** is the parent company of FIL Financial Services Holdings Limited and is the ultimate holding company within the FIL Group. FIL Limited is regulated by the Bermuda Monetary Authority (BMA).
- **FIL Financial Services Holdings Ltd** (FFSH) is the parent company of FIL Life and FIL Holdings (UK) Ltd. FFSH is a wholly owned subsidiary of FIL Limited.

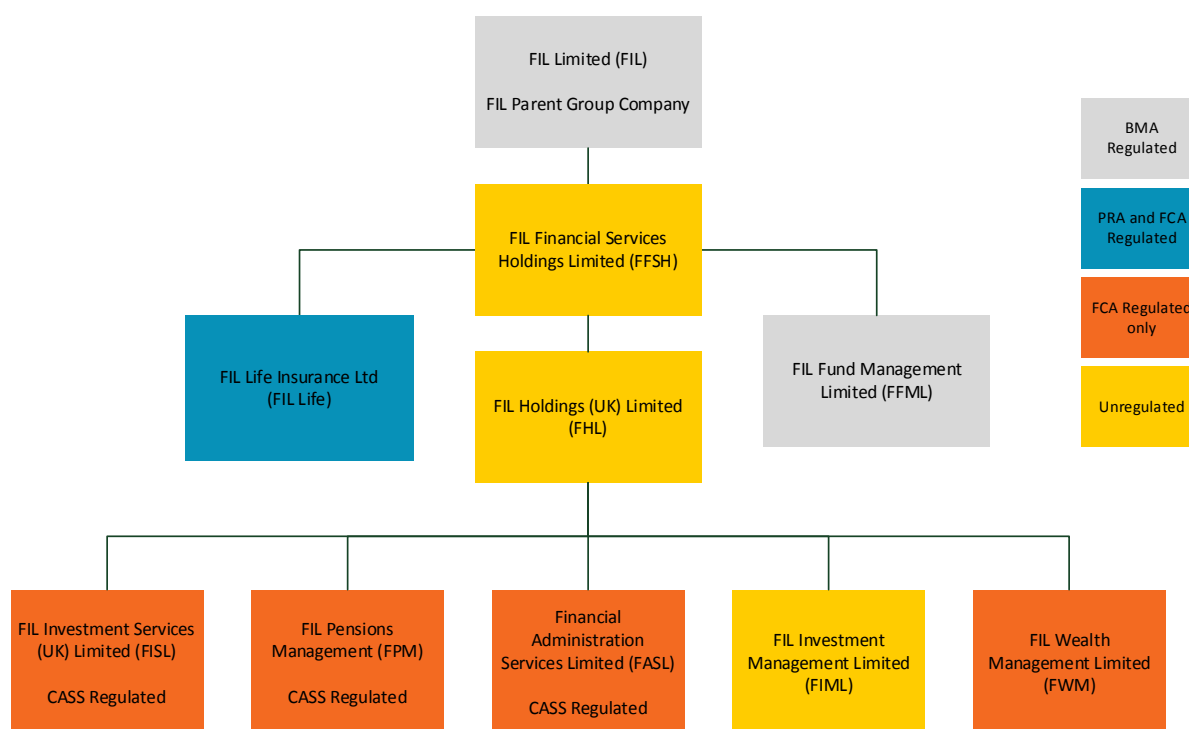
Pursuant to a Sale and Purchase Agreement effective 22 December 2022, FIL Limited agreed to transfer ownership of FIL Holdings (UK) Limited (“FHL”) and FIL Life Insurance Limited (“FIL”) to a

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.

- **FIL Holdings (UK) Ltd** (FHL) is regulated on a consolidated basis by the FCA, making it an “FCA consolidation group”.
- FIL Life outsources its operational activities to **FIL Pensions Management** (FPM) under an IASA. FPM is an FCA regulated subsidiary of FHL.
- **FIL Wealth Management Limited** (FWM), formerly named FIL Retirement Services Limited provides pre- and at-retirement guidance and advice for FIL Life’s pension scheme members. FWM is an FCA regulated subsidiary of FHL.
- **FIL Investment Services (UK) Limited** (FISL) is the Authorised Corporate Director for Fidelity’s UK fund range. FIL Life selects a number of these funds for inclusion on its pension platform. FISL is an FCA regulated subsidiary of FHL.
- **FIL Fund Management Limited** (FFML) is the investment manager for Fidelity’s Luxembourg fund range. FIL Life selects a number of these funds for inclusion on its pension platform. FFML is a BMA regulated subsidiary of FIL Limited.
- FIL Life uses **FIL Investment Management Limited** (FIML) as paymaster for expenses. FIML is a non-regulated subsidiary of FHL.
- FIL Life uses **Financial Administration Services Limited** (FASL) as settlement agent for the buying and selling of third-party funds. FASL is an FCA regulated subsidiary of FHL.

Chart A.1 Simplified Group Structure Chart



A.1.6. Material Lines of Business and Geographical Areas

FIL Life offers the following unit-linked savings products, written as life insurance contracts, to trustees, employers, and employees of UK pension schemes:

- Personal Pensions, including a Group Personal Pension Plan, Stakeholder Pension Plans and Buy-out Plans.** These pension products are not marketed to individuals; FIL Life distributes these products via employers as plan sponsors, or via trustees in the case of buy-out plans.
- Investment and administration services to Occupational Pension Schemes,** including Additional Voluntary Contribution Plans.
- Investment Services for Occupational Pension Schemes** without associated plan administration.

- Master Trust Scheme** which acts as a multi-employer occupational pension scheme.
- FIL Life also has a small, **legacy annuity book**, but has not written annuities since July 2010.

FIL Life does not operate in any geographical area other than the UK and does not write 'with-profits' business.

A.1.7. Significant Business or External Events

A.1.7.1. Geopolitical Events

FIL Life continues to monitor global events with the potential to cause major financial instability. The Company has no direct exposure to Ukraine, Russia or Belarus, nor to Israel and the Middle East. However, the company is keeping the situation under review as it develops.

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.

A.1.7.2. Other

There were no significant internal or external events which had a material impact on the solvency or financial condition of the Company.

A.1.8. Financial Position

FIL Life has continued to grow its business and gain market share in its target market. New unit-linked premiums are currently being earned at a steady rate within FIL Life. Assets and liabilities are shown in FIL Life's balance sheet as linked assets and liabilities.

FIL Life has no direct employees as services are provided through an outsourcing agreement with FPM.

FIL Life outsources insurance agency and services provision to FPM, including marketing services, issuing of policies and record keeping for a monthly fee. FIL Life's costs are set to be no greater than 95% of its net income, where the IASA calculation is simply 95% of the net income received by FIL Life, excluding any capital and reserving items as required under Solvency II, that would impact the profit & loss account. If AUA fall by 40% or more over a one-year period, the proportion of costs within this arrangement is reduced to 92.5%. There is a provision for FPM to repay monies to FIL Life to comply with this condition, if required. Therefore, FPM's share of net revenue is referred to as 92.5%-95% in this document. In order to terminate the IASA, FPM would need to provide 36 months' notice to FIL Life.

A.1.9. External Environment

The FIL Life strategy and operating environment continue to be influenced by the following key factors:

- Pensions continue to be a key focus area for the UK Government resulting in a range of regulatory change initiatives, for example, Master Trust Authorisation,

auto-enrolment, charge caps, pension dashboard, cost disclosure, pension flexibilities and independent governance committees. FIL Life aims to implement all regulatory changes, including any future changes to the Solvency II regime, in an effective and efficient manner whilst guiding its clients and providing value for members.

- The shift in occupational pension schemes from defined benefit to DC products, the move from trust-based to contract-based arrangements and the increased move to Master Trust products are continuing themes. Operational procedures are in place to handle these transitions.
- The pensions industry has evolved into a market with lower margins, greater competition and increased margin pressure. External developments are closely monitored and continuously assessed to understand the impacts on FIL Life's strategy and its customers.

A.1.10. Strategy

The Board does not anticipate any material departures from the current business model over the next year and will continue to focus on unit-linked pensions products. Pension flexibility provides members with increased choice at retirement and the Company works with fellow subsidiaries to provide the full range of pension flexibilities to its members. Annuities are not part of the ongoing strategy of FIL Life.

FIL Life will continue to focus on acquiring new customers of high-value, large Full-Service schemes. However, it will selectively target large Investment Only schemes with the future possibility of moving them to a more cost-efficient Full-Service structure. Growth in DC assets will be driven by both Full Service and Investment Only new clients, as well as continued strong organic flows from existing clients.

The UK DC market is heavily intermediated. Whilst large employers are happy to engage with suppliers more directly than was historically the case, they still look for any decision around provider selection to be ratified by an adviser. FIL Life therefore

continues to focus its distribution efforts on large employee benefit firms, while also cultivating links with second tier firms to reduce this dependency.

FIL Life provides a personalised service model with a named relationship team for each client to ensure a high level of client engagement and service. The directors are pursuing a strategy of simplification and automated client and member self-service, while building an employee engagement model.

The relationship team achieves high levels of client retention, and they do this by focusing on client satisfaction. The primary measure of this is the Net Promotor Score. Clients are surveyed annually to provide quantitative and qualitative feedback. This feedback is used to prioritise our development agenda which is shared with clients. In addition to this, FIL Life has introduced an additional measure for client satisfaction called the Green Client Score which monitors client satisfaction across a range of service areas. The output from this is then used to identify areas where increased focus may be required either on an individual client basis or where a common theme may be present that requires prioritisation within our development agenda.

The current management team and existing planned resourcing levels are sufficient to deliver the strategy and future growth by:

- Targeting large, high quality corporate clients
- Distribution via the employee benefit consultants supplemented with direct referrals
- Providing an open architecture investment platform
- Focusing on client retention and improving client service.

A.2. Underwriting Performance

A.2.1. Overview

FIL Life's business does not involve accepting any material insurance risk and therefore, no traditional underwriting is required. Accordingly, there is no quantitative

information on underwriting performance to report.

The Company has limited exposure to pricing underwriting risk due to the IASA with FPM. FIL Life's pricing model aims to develop a framework to support flexible pricing options required to meet the needs of the business. Pricing is tailored to each scheme and is dependent upon the metrics of the plan at take on and projected into the future.

The Company's Underwriting and Pricing Policy sets out the terms on which new business is written.

FIL Life has a small portfolio of GBP denominated single and joint life annuity policies, all of which are currently in-payment. These consist of policies, with an average annual payment of approximately £543 (December 2022: £541) and a current average age of approximately 74 years (December 2022: 73 years).

No new annuities have been written since July 2010. At 31 December 2023, the BEL in respect of these contracts, before allowing for reinsurance, amounted to £7.6m (December 2022: £7.7m).

This annuity book is fully reinsured thereby removing any mortality and longevity risks from FIL Life.

A.2.2. Underwriting Performance

During the year there were gross premiums of £4.0bn (net of reinsurance £2.7bn) and claims of £4.8bn (net of reinsurance £2.9bn), resulting in a gross outflow of £704m (net of reinsurance outflow of £144m).

Table A.1: Performance

S.05.01 Underwriting Performance	Gross	Re- insurance	Net
	£'000	£'000	£'000
Premiums	3,986	1,277	2,709
Claims	4,781	1,927	2,853
Net Premiums/ Claims	(795)	(650)	(144)

With regards to the unit-linked pensions business, the primary costs and rewards of investing are passed on to pension scheme members.

The assets and liabilities of the Company are therefore, closely matched. FIL Life earns a management fee based upon the level of AUA.

Table A.2: Total Fee Income

Income	31 Dec 2023 £'m	31 Dec 2022 £'m
Total Fees	70.6	63.4

During the year ended 31 December 2023, the Company accepted premiums on contracts classified as investment contracts amounting to £4.0bn (December 2022: £3.3bn) and claims of £4.8bn (December 2022: £3.2bn).

There were 24 new schemes on-boarded in the financial period to 31 December 2023 (December 2022: 22). The increase in fee income was a result of the increase in the average AUA.

A.3. Investment Performance

A.3.1. Overview

FIL Life funds are fully invested in funds managed by FIL Group companies and other fund managers and insurers. FIL Life's funds are all unit-linked and so the risks and rewards of investing are directly attributable to the members. The performance of the funds only impacts FIL Life in so far as the Company earns an Annual Management Charge (AMC) on the AUA.

The investment performance has no direct impact on the Company's performance, other than through the small amount of seed capital that FIL Life places into new funds. Market risk exists on this capital, as the units seeded are owned by the shareholders. The return on the seed capital is considered immaterial to the Company.

Investment performance indirectly impacts the business through the effect it has on AMCs. The valuation of the AUA adjusts to market movements and consequently, the fees due to the Company will be impacted.

There is no material market risk on investments backing the annuity liabilities as they are fully reinsured.

The Company does not actively invest surplus shareholder funds. Funds are held in cash or cash equivalents i.e., liquidity funds, except where they have been loaned to the ultimate parent company. The cash, cash equivalents and loans generate interest which is recognised in the profit and loss account as earned income. Performance information on underlying funds is presented to the Board on a quarterly basis.

A.3.2. Investment Performance

Table A.3: Change in Value of Investments

Performance	31 Dec 2023 £'m	31 Dec 2022 £'m
Investment	4,529.2	(4,261.2)

The increase in the investment performance was mainly due to the improved markets, political changes, and cost of living/energy costs during 2023.

Income and expenses by asset class are not applicable as the Company is a unit-linked business only. There are no gains/losses recognised directly in equity. There are no investments in securitisation.

A.4. Performance of Other Activities

A.4.1. Material Income

FIL Life's income is primarily the AMC from Fidelity funds and those managed by fund partners, together with record keeping fees as shown below:

Table A.4: AMC and Record Keeping Income

Income	31 Dec 2023	31 Dec 2022
	£'m	£'m
AMCs and other income	68.2	60.6
Record-keeping Fees	1.2	2.8

A.4.2. Material Expenses

FIL Life's material expenses relate to charges for administration services provided by FPM under the IASA. Other significant expenses incurred by FIL Life include regulatory, audit and actuarial fees as shown below.

Table A.5: Expenses

Expenses	31 Dec 20223	31 Dec 2022
	£'m	£'m
Total Administration	67.2	61.0
Regulatory Fees	0.9	1.4
Audit Fees	0.2	0.2
Actuarial Fees	0.3	0.1

FIL Life's financial profile is expected to remain stable over the planning period, although income, and the expected payments made to FPM under the IASA, will change in line with the income generated on assets.

The regulatory, audit and actuarial fees are incurred by FIL Life, and this would reduce any payment under IASA.

A.4.3. Leasing

There are no leasing arrangements.

A.5. Any Other Information

There is no other material information relevant to the Company's business and performance.

B. System of Governance

B.1. General Information on the System of Governance

B.1.1. The FIL Life Board

The Board is collectively responsible for the effective stewardship of the Company. The Board has the overall responsibility for business decisions and for compliance with the regulatory system.

The main responsibilities of the Board include:

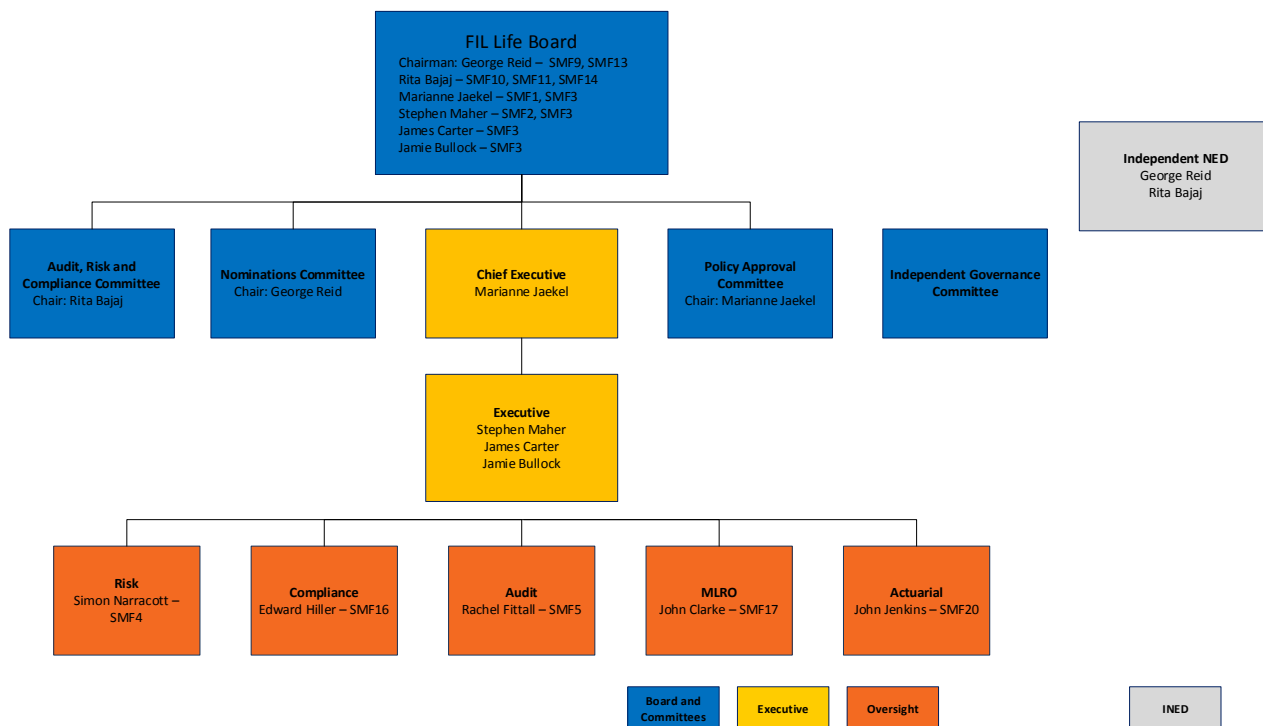
- Setting the Company's strategic aims and objectives.
- Ensuring the Company has an effective system of governance.
- Establishing the risk appetite of the business and ensuring that there is an

appropriate risk management framework and control environment.

- Approving the annual financial statements and key actuarial assumptions.
- Approving changes to the Company's capital structure or regulatory capital.
- Providing oversight of the outsourced service providers, including FPM.

The Board considers the Company's system of governance as appropriate and adequate given the business model, which is neither large, nor complex. Although FIL Life is part of the FIL Group, the Board is mindful of the requirement for a governance structure which enables it to function as the sole life insurance company in the UK.

Chart B.1: FIL Life Governance Structure



The Company's Board comprised of seven Directors as at 31 December 2023 - two independent, non-executive Directors and five executive Directors.

FIL Life has procedures in place to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively. Each

director is required to notify the Board of any actual or potential situational or transactional conflicts of interest. The directors are also required to update the Board with any changes to the facts and circumstances surrounding such conflicts.

The FIL Life Governance structure is illustrated in Chart B.1. It shows the Board, its sub-committees and management groups. The Board is also supported by key control functions such as Risk, Internal Audit, Compliance, the Money Laundering Reporting Officer (MLRO) and the Actuarial function.

In addition, functions such as Finance and Technology have vital roles to play in the sound and prudent management of the business.

The FIL Life Board reports and escalates matters to the FIL Limited Board. Although the Board may delegate authority to sub-committees or management to act on its behalf in respect of certain matters, where it does so, it has mechanisms in place for documenting the delegation and monitoring the exercise of delegated functions. The Board cannot abrogate its responsibility for functions delegated.

The Board will satisfy itself as to the appropriateness of all policies and functions for the Company and in particular that these take full account of UK laws and regulations and the supervisory requirements of the PRA and FCA, where appropriate.

B.1.2. Committees to the Board

The following committees have delegated authorities from the Board:

- The **Audit Risk and Compliance Committee** is responsible for: (i) monitoring the integrity of FIL Life's annual financial statements and advising the Board whether the financial statements show a fair, balanced and understandable assessment of the financial position, (ii) monitoring the independence of the auditors,

recommending to the Board the appointment or re-appointment of the auditors, (iii) approving non-audit services, (iv) reviewing the annual Actuarial Valuation, including the underlying methodology and assumptions and (v) monitoring the effectiveness of the Internal Audit function. This committee is chaired by Rita Bajaj.

- The **Nominations Committee** is responsible for the identification and nomination for the approval of the Board of candidates to fill Board vacancies. In fulfilling its responsibilities, the committee reviews the structure, size and composition of the Board, including the balance of skills, knowledge, experience and diversity. This committee is chaired by George Reid.
- The **Policy Approvals Committee** reviews each of the Company's policies and recommends the approval or amendment of policies to the Board. This committee is chaired by Marianne Jaekel.
- The **Independent Governance Committee** (IGC) is responsible for assessing the value for money of the Company's Group Personal and Stakeholder Pension Plans. It operates on behalf of members of workplace investing pensions which are not in trust-based schemes. Critically, the IGC must be independent. As a result, there is no reporting line into the FIL Life Board or any other FIL Group board or committee.

B.1.3. Management Groups

The Chief Executive Officer (CEO) is supported by various Senior Manager Function holders and management groups in the performance of her duties:

- The **FIL Life Senior Managers Meeting** is to assist the Senior Manager Function holders in the performance of their Senior Manager duties within the bounds of their authority.

- The **FIL Life Outsource Oversight Group** is responsible for overseeing outsourced activities and monitors outsourced providers. This forum receives input and data feeds from other management forums.
- The **Global Platform Solutions Executive Committee** (GPS ExCo) implements the overall business strategy, including that of WI, in line with the broader group strategic direction. It sets the business objectives and priorities and oversees the day-to-day running of WI to deliver on the overarching corporate vision.

It is supported by the business which oversee matters such as operations, change, commercial arrangements, risks and investment performance.

B.1.4. Oversight Functions

FIL Life benefits from the support of certain centralised governance functions within the FIL Group:

- Section B.3 gives an overview of the Risk function.

- Section B.4 describes the responsibilities of the Compliance function and MLRO.
- Section B.5 describes the responsibilities of the Internal Audit function.

FIL Life has outsourced the Actuarial function and the Chief Actuary position to Milliman LLP. The Chief Finance Officer in conjunction with the FIL Oversight Group have responsibility for the oversight of the outsourced Actuarial function. The Actuarial function is described in more detail in B.6.

B.1.5. Senior Managers & Certification Regime

The Company has been subject to SMCR since 10 December 2018.

Under the SMCR, FIL Life had several Senior Management Functions (SMF) in place as at 31 December 2023, as listed in Table B.1.

Table B.2 outlines the Senior Management Functions not applicable and explains why FIL Life does not require these functions.

Table B.1: Senior Management Functions

Ref	Senior Management Function	Role Allocation	Holder and Responsibilities
SMF 1	Chief Executive Function	Chief Executive Function	Marianne Jaekel who is a Board Director & Head of UK business Legal, and responsible for the day-to-day running of the business and staff conduct.
SMF 2	Chief Finance Function	UK Chief Finance Function	Stephen Maher who is responsible for the management of financial resources, the production and reporting of financial statements and the identification and management of financial risks associated with climate change.
SMF 3	Executive Director	Executive Director	Stephen Maher
SMF 3	Executive Director	Executive Director	Jill Holohan (resigned 1 February 2024)
SMF 3	Executive Director	Executive Director	James Carter
SMF 3	Executive Director	Executive Director	Jamie Bullock
SMF 3	Executive Director	Executive Director	Marianne Jaekel
SMF 4	Chief Risk Function	Chief Risk Function	Simon Narracott who is responsible for firm-wide risk management and the performance of the ORSA.
SMF 5	Head of Internal Audit	Head of Internal Audit	Rachel Fittall who is responsible for the management of the Internal Audit function
SMF 9	Chairman	Chairman	George Reid who is an Independent Non-Executive Director responsible for chairing the Board.
SMF10	Chair of Risk Committee	Chair of Risk Committee	Rita Bajaj who is an Independent Non-Executive Director.
SMF 11	Chair of Audit Committee	Chair of Audit, Risk & Compliance Committee	Rita Bajaj who is an Independent Non-Executive Director.
SMF13	Chair of the Nomination Committee	Chair of the Nomination Committee	George Reid who is an Independent Non-Executive Director
SMF 14	Senior Independent Director	Independent Director	Rita Bajaj
SMF 16	Compliance Oversight	Business Compliance Director	Edward Hiller who is responsible for the oversight of the firm's compliance with its obligations under the regulatory system in which the FCA and PRA have responsibility.
SMF 17	Money Laundering Reporting	UK MLRO	John Clarke who is responsible for the overall management and reporting of financial crime matters on temporary basis pending the approval of the application for a new MLRO SMF17.
SMF 20	Chief Actuarial Function	Chief Actuary	John Jenkins of Milliman LLP who is responsible for the actuarial services provided.

Table B.2: Senior Management Functions not applicable to FIL Life

Ref	Senior Management Function	Role Allocation	Holder and Responsibilities
SMF 6	Head of Key Business Area	N/A	N/A as FIL Life does not meet the quantitative criteria for this function.
SMF 7	Group Entity Senior Manager	N/A	N/A as due to outsourcing, FIL Life only has Board members and oversight functions.
SMF 12	Chair of Remuneration Committee	N/A	N/A as due to the extensive outsourcing arrangements, FIL Life itself does not have any employees and therefore does not have a Remuneration Committee
SMF 15	Chair of the With-Profits Committee	N/A	N/A as FIL Life does not write 'with profits' business.
SMF 18	Other Overall Responsibility	N/A	N/A as no business activities are done within FIL Life. All activities and operations are outsourced. The accountability for the oversight of each outsourced arrangement is held by an appropriate SMF.
SMF 20a	With-Profits Actuary	N/A	N/A as FIL Life does not write 'with profits' business
SMF 23	Chief Underwriting	N/A	N/A as FIL Life's business does not involve accepting any material insurance risk and therefore no traditional underwriting is required.
SMF 23a	Underwriting Risk Oversight Function	N/A	N/A as FIL Life neither offers guarantees, nor writes new annuity business. It is only applicable for Managing Agents in the Lloyd's Market.
SMF 23b	Conduct Risk Officer	N/A	It is only applicable for Managing Agents in the Lloyd's Market.
SMF 24	Chief Operations	N/A	N/A as all technology and operations are outsourced. The accountability for the oversight of this outsourced arrangement is held by an appropriate SMF.

B.1.6. Changes to the System of Governance

The Company's governance is reviewed regularly to ensure it meets best practice standards and external expectations. For regulatory purposes a governance map is reviewed on a quarterly basis.

B.1.7. Details of Remuneration

FIL Life has no employees as at 31 December 2023. All operational services are provided by FPM. Executive salaries for Directors are set outside of the Company at FIL Group level. For these reasons FIL Life does not have a separate Remuneration Committee.

Except for the Independent Non-Executive Directors, the Company does not remunerate any member of the Board for their service. Fees for the Independent Non-Executive Directors are set at an appropriate level to reflect the time commitment required to fulfil the role, the responsibilities and duties of the positions, and typical practice amongst other financial institutions.

The FIL Group has a Remuneration Policy which includes the relevant principles governing how the FIL Group remunerates its members of staff.

B.1.7.1. Remuneration Policy – Application

The FIL Group applies its Remuneration Policy and practices in a way and to the extent that is proportionate to its size, its internal organisation and the nature, scope and complexity of its activities. No individual is incentivised to put the capital of FIL Life at risk.

B.1.7.2. Remuneration Policy – Approach

The approach to remuneration has always been designed to support the long-term business interests of FIL Group shareholders, which in turn is based on delivering value to customers over the long-term, to reflect the asset management risk model and to deliver long-term sustainability.

This model is consistently applied locally to each subsidiary entity in the FIL Group. The Remuneration Policy is:

- Globally consistent, underpinned by a common philosophy and guiding principles which is overseen and supervised by the FIL Remuneration Committee (a sub-committee of the FIL Limited Board).
- Consistent with, and promotes, effective risk management.
- Consistent with the interests of both our clients and our shareholders.
- In line with business results.

B.1.7.3 Performance and Variable Remuneration Entitlements

At an individual level, employees are formally assessed at least once a year. The performance assessment of all employees includes both qualitative and quantitative elements, where appropriate. It is conducted in time to allow formal performance ratings to feed into the recommendations for fixed and variable awards.

The variable pay structure for rewarding high performers is fully discretionary. It is determined by individual performance and overall company affordability. Those who recommend/approve awards for employees are apprised of any risk and compliance issues, breaches or failure that may be relevant for those decisions and can make adjustments, as deemed appropriate, to reflect them.

B.1.7.4. Retirement Arrangements

The FIL Group provides a DC pension plan for its employees. Pensions and other core benefits, such as medical insurance, permanent health insurance and holidays, are intended to be competitive in the local markets in which they are awarded.

B.1.7.5. Remuneration Governance

Remuneration Policy at FIL Limited is set at group level, in keeping with FIL Group policies and practices. Subsidiary company Boards

have no formal responsibility for setting local remuneration policy, except where explicitly required by local legal or regulatory requirements, or for reviewing the compensation of locally employed staff.

The Board has reviewed the FIL Group Remuneration Policy to ensure that it is appropriate and aligned with the Company's regulatory responsibilities.

The Remuneration Policy Statement is prepared by the FIL Group Compensation team in conjunction with Compliance. It is approved by the FIL Remuneration Committee and noted by the FIL Life Board.

B.1.7.6. Annual Review

On an annual basis the FIL Remuneration Committee will review the terms of the Remuneration Policy. It assesses whether its overall remuneration system is operating as intended and is compliant with the obligations on remuneration, as set out within the relevant and applicable directives.

B.1.7.7. Material Transactions

Apart from the capital injection, there were no other material transactions related to FIL Life shareholders, persons who exercise a significant influence and with members of the administrative, management and supervisory bodies during the reporting period.

B.1.8. Integration of Risk Management, Internal Audit, Compliance and Actuarial Function into the Organisational Structure and Decision-Making Process

See B.3 for information about how the Risk Management function is integrated into the organisational structure and decision-making processes of the Company.

See B.4 for information about how the Compliance function is integrated into the organisational structure and decision-making processes of the Company.

See B.5 for information about how the Internal Audit function is integrated into the

organisational structure and decision-making processes of the Company.

See B.6 for information about how the Actuarial function is integrated into the organisational structure and decision-making processes of the Company.

B.2. Fit and Proper Requirements

B.2.1. Expertise Required

All senior management functions, non-executive directors and key function holders need to have the necessary authority, resources, and operational independence to carry out their tasks. The specific requirements concerning skills, knowledge and competence for the key function holder are that a person:

- Has the personal characteristics, including being of good repute and integrity.
- Possesses the level of competence, knowledge and experience.
- Has the qualifications.
- Has undergone or is undergoing all training to enable them to perform his or her function effectively and in accordance with any relevant regulatory requirements. This includes requirements under the regulatory system which enable sound and prudent management of the Company, including training on the UK regulatory code of conduct.

B.2.2. Process and Monitoring

As a regulated Life insurance firm, FIL Life is required to ensure that all individuals who carry out SMCR responsibilities or key functions are fit and proper and adhere to regulatory requirements in order to discharge the responsibilities allocated to them. As FIL Life has no employees, it has no certified staff.

The Fit and Proper process applies to all the individuals subject to the UK regulators' SMCR. The implementation of the Fit and

Proper process is subject to periodic monitoring by Business Compliance and review by Internal Audit.

As part of the Fit and Proper assessment, the following steps are carried out:

- Identification of the candidate through a clear job specification and a rigorous interview and selection process which is carried out to ensure only prospective employees who are able to meet, or meet with appropriate development, the competence levels (in terms of experience and formal qualifications, where appropriate) are recruited. Interviews are documented.
- References and background checks are carried out. Referral is made to the Financial Services Register and detailed independent reference and background checks are performed.
- The CEO or line manager manages an induction process for Board members and SMF holders, respectively.
- All newly appointed SMF holders are provided training by Compliance to ensure the individual understands their legal and regulatory responsibilities. All new directors are provided Director Induction Training according to their needs.
- The CEO or line manager assesses the skills gap of the Board member, or SMF holder respectively, and ensures appropriate training is arranged.
- Board members and all those subject to SMCR are expected to maintain and update their knowledge, particularly with regards to legal, regulatory, information technology, market and financial developments which could affect the future performance and development of FIL Life.
- SMF are required to confirm on an annual basis their requirement to remain fit and proper and to meet the expectations of the SMCR. The assessment is supported

by formal record keeping and the Prescribed Responsibility (PR) for this sits with the CEO.

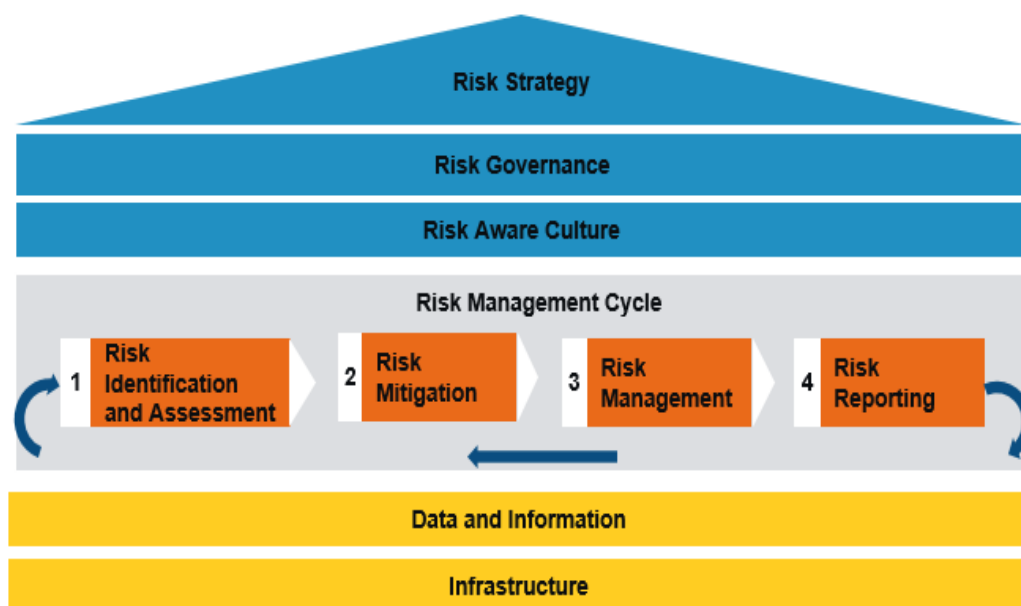
- Ongoing independent checks are carried out to ensure individuals remain fit and proper.
- When an individual who performs either an SMF or key function leaves FIL Life, and/or transfers to a new role within the FIL Group, the leaver must conduct a handover of all relevant information in line with FIL's Handover Policy. The leaver should be de-briefed by HR/other relevant parties to confirm the reasons for their departure and to gather information about their experience of performing their role.

The only exception to the above is for the SMF 20 Chief Actuary function which is outsourced to Milliman LLP. FIL Life confirms that Milliman LLP's own internal procedures meet the necessary requirements on an annual basis.

B.3. Risk Management System, including the ORSA

B.3.1. Enterprise Risk Management Framework

Chart B.2: Risk Management Framework



The robust management of risk plays a central role in the execution of FIL Life's strategy and is a key focus area for the Board, its Directors and all contributing business areas.

Risk management activities are designed to protect FIL Life's clients, policyholders, and assets. FIL Life aims to identify and manage its risks in line with an agreed risk management framework derived from industry practice.

FIL Life is part of the FIL Group and has therefore, adopted the group-wide Enterprise Risk Management (ERM) Policy, supported by individual policies specific to FIL Life.

The holistic management of risk is defined by the ERM Policy, which is designed to support the effective identification of risks, events and trends that may significantly affect FIL Life's ability to achieve its strategic goals or maintain its operations.

The ERM Policy includes the following core foundations:

- Application of a common enterprise-wide risk management framework, activities and processes across the organisation.
- Clear assignment of roles, responsibilities and accountabilities for risk management.
- Effective use of appropriate risk identification, mitigating and management strategies.
- Integration of relevant, reliable, and timely risk management information into reporting and decision-making processes.
- Identification and assessment of existing and uncertain future events that may influence the achievement of business plans and strategic objectives.

Chart B.2 reflects how core elements of the ERM Framework applied across Operational, Strategic, Financial and Investment risk-types align to support FIL Life's Risk Strategy.

FIL Life carries out an ORSA to determine its overall solvency and risk needs and to ensure that it maintains sufficient financial resources

at all times. This is performed in line with the Company's approved ORSA Policy.

B.3.2. Risk Management Strategy & Appetite

B.3.2.1. Risk Strategy

FIL Life's risk strategy is to ensure that effective risk management is embedded in all core operating and decision-making processes across the Company. It aims to ensure that existing and emerging risks are identified and managed within acceptable risk limits for financial risk and within agreed risk tolerances for non-financial risks.

FIL Life's overall approach recognises that risk-taking is an essential part of doing business and therefore, cannot always be eliminated. FIL Life's risk management strategy aims to achieve the following:

- Operate in a legal and ethical manner to safeguard clients, members, and assets, whilst allowing sufficient operating freedom to secure a satisfactory return.
- Risks must be fully understood and adequately measured to ensure that the risk exposure is appropriate for the returns anticipated.
- Operate a governance structure that ensures that risk-taking is controlled in an appropriate manner.
- Take proactive actions to address issues, negative risk trends or control weaknesses, or changes in the external or internal business environment.

B.3.2.2. Risk Appetite

The Risk Strategy is supplemented by a risk appetite framework (the framework) which includes Risk Appetite Statements and related metrics. These reflect the aggregated level of risk that the Company is willing to assume, or tolerate, to achieve its business objectives.

This is an essential part of the framework which ensures that the business is carried out safely and within pre-defined boundaries.

The Board reviews and approves the Risk Appetite Statement annually.

B.3.3. Risk Governance

The FIL Life Board has ultimate responsibility for risk management within the organisation. Its risk responsibilities include:

- Promoting an effective risk culture within the organisation by setting the tone from the top.
- Adopting group-wide Risk Management policies and approving the FIL Life Risk Appetite Statements and Policies.
- Ensuring clear accountability for risk management.
- Seeking regular assurance that the risk management system is functioning effectively and that significant risks are being managed in line with policy.

The Risk function is an independent function which assists FIL Life in the identification, evaluation, and management of risks. It provides oversight and challenge of FIL Life's risk profile and produces independent risk reports for the FIL Life Board.

B.3.3.1. The Three Lines of Defence

FIL Life operates a 'three lines of defence' model, as summarised below:

Functions:

- **1st line defence:** Business Line Management and Employees Management Groups
- **2nd line defence:** Oversight and specialist functions such as Legal, Compliance and Risk
- **3rd line defence:** Internal Audit

Role:

- **1st line defence:** Responsible for day-to-day operations, for adhering to relevant policies and maintaining an effective and efficient system of risk management and internal control.
- **2nd line defence:** Provides policies, standards and objectives, and

independent oversight of performance and risk management within FIL Life.

- **3rd line defence:** Provides independent assurance on the effectiveness of the systems and controls in FIL Life, including financial, operational, compliance and risk management.

B.3.4. Risk Aware Culture

A strong risk aware culture is critical to reinforce and support FIL Life's ERM framework and processes. A risk aware culture is defined as the aspect of the organisation's culture and behaviour which determines its ability and willingness to identify, understand and action risk in a timely and effective manner.

FIL Group has adopted an approach to promote, embed, and measure a strong risk aware culture across the organisation, including reinforcing individual behaviours and capabilities that are aligned to FIL Life's core values and beliefs.

This approach also includes the consideration of risk accountability and the right risk behaviours in the compensation and performance management decisions:

- Customer treatment by the firm: demonstrate value-for-money, good outcomes, and no foreseeable harm to the customer.
- Impartiality, and consistently put client interests before their own.
- Risk awareness of employees: demonstrate proactive identification and timely escalation of risks and issues, and proper ownership in remediation.

B.3.5. Risk Identification and Assessment

The Risk Taxonomy, reviewed and updated at least annually, provides a consistent approach for the classification, identification and definition of risk, and covers all relevant risks across the organisation. Risk owners are responsible for ongoing and timely risk identification, in alignment with the Risk

Taxonomy, considering multiple sources of internal and external emerging risk.

All staff are responsible for identifying and escalating risk events. Each risk event is assessed for its severity according to a pre-defined impact matrix. Significant events are escalated and notified to senior stakeholders within 24 hours of becoming apparent. Internal and external risk events are used to inform risk assessment and scenario analysis activities.

As part of the risk management cycle, risk self-assessments are conducted regularly by 1st line teams to confirm risk levels and impacts. Defined processes and principles are followed to establish risk materiality, and to identify root causes, drivers, themes, and impacts of individual and aggregated risks. Mitigating actions are determined for risks outside of appetite. The Chief Risk Officer reviews and challenges the aggregated risks identified and assessed by the risk owners.

To gain a complete view of the risk profile and a view of idiosyncratic risks, risk assessments are supplemented by scenario analysis activity. Scenario analysis is used to assess the impact of extreme but plausible risks. The scenarios assess the exposures that could significantly affect FIL Life's financial performance or reputation. They are an important component of the risk framework. Scenario analysis and stress testing are carried out annually as part of the ORSA process or on an ad-hoc basis if triggered by a significant change in risk profile.

B.3.6. Risk Mitigation

Risk mitigation strategies at FIL Life are crucial for ensuring levels of residual risk are managed within risk appetite. They include a defined control environment, action management processes (remediation), strategic de-risking processes, risk transfer (insurance) or reduction of exposure.

A risk profile view is currently obtained on a quarterly basis by assessing all available information for each material risk. Risks are compared against risk appetite thresholds and

mitigation actions are recommended to the Board, where appropriate.

FIL Life and its service provider FPM have established RCSAs which include the identification and documentation of key risks and controls.

B.3.7. Risk Management

All risk exposures are aggregated and reported, where appropriate. Key risk concentrations are identified and analysed. Root cause themes are assessed across the population of risk events to drive prioritisation and management action. Aggregated risks are identified and assessed against risk appetite, prior to evaluation by the Board. The risks are also benchmarked against the Risk Taxonomy and internal/external information.

All material risks are underpinned by KRIs, used to monitor, and track changes to risk exposures over time.

Actions are identified from various risk management activities, for example risk assessments, risk events, thematic reviews, and scenario analysis activity. These are prioritised by management on a regular basis and monitored to completion. The FIL Life Board receives regular updates on the status of material risks and related risk management actions.

B.3.8. Risk Monitoring and Reporting

The Company's risk profile is monitored by senior management, including assessment of changes in the internal and external risk environments and consideration of risk events, including near misses. Monthly risk reports are produced and discussed with accountable business heads. These detail the relevant risk profile and activity; material operational losses and other key risk matters to enable Management of the business to form an ongoing view on the overall effectiveness of the internal control environment and risk management framework.

Quarterly reporting is provided by the 2nd line of defence to the FIL Life Board.

FIL Life has adopted the FIL Group's centralised risk and data repository system, which is used to capture, aggregate and report risk data, including risk events, risk assessments, controls and evidence of escalation, review, and challenge.

B.3.9. Integration of Risk and Capital Management

Capital provides the ultimate buffer for a firm to withstand financial shocks arising from severe risk events. As such, the assessment of an appropriate level of capital to hold is both an essential element of the Company's risk management framework and a mandatory requirement of the PRA.

The Company is required to meet minimum regulatory capital standards at all times. These capital reserves are monitored by the Finance and Risk functions form the basis of financial reporting to the PRA.

Risk and capital management are embedded within FIL Life's business and decision-making process as follows:

- Strategic business decisions are risk-assessed by the business and evaluated for their capital impact prior to being finalised.
- The business submits its plan based on the evaluation of macroeconomic scenarios, internal risk assessments, and in consideration of stress conditions and capital implications.
- The Board reviews risk appetite thresholds and limits for appropriateness.
- Consideration of risk and capital implications of the FIL Life strategy, new products and other material business initiatives is undertaken prior to launch.
- The Company's Pricing Policy ensures minimum payback periods and profitability are achieved.
- Proactive liaising to ensure FIL Life's capital implications and ORSA requirements are considered for any

developments, for example, ensuring FPM is sufficiently capitalised to provide the necessary level of service to FIL Life.

FIL Life has entered into a settlement agency agreement with another group company. This Company provides liquidity where there are settlement mismatches on trading. FIL Life has also entered into a custody arrangement with an external bank to provide additional liquidity for the transition to its house default FutureWise.

FIL Life has an approved liquidity policy to ensure it holds sufficient liquidity in a stressed situation to fund client deal transactions.

The FIL Life Board authorises the use of capital for the use of seeding funds and share classes in accordance with the agreed limits taking into account market movements.

B.3.10. Completion of the ORSA

FIL Life undertakes a full ORSA annually, with the aim of it being completed within six months of the accounting year end. An ORSA may be completed more frequently if significant changes to the risk profile of the business occur. The Chief Risk Officer assumes overall accountability for the performance of the risk and solvency assessment. The FIL Life Board takes an active role in the process. The Board reviews and approves the ORSA report.

The overall ORSA process requires risks to be identified that FIL Life might face during its strategic planning period. These risks are assessed to derive an overall picture of the risks in quantitative (capital figures) and qualitative (management actions) terms.

Stress tests are performed to simulate severe circumstances which might impact FIL Life's current and future capital requirements. Reverse stress tests assess potential scenarios that would result in the failure of the Company's business model.

The ORSA process includes stress and scenario testing for each capital bearing risk. It considers the risk profile related to the Standard Formula assumptions, identifies

scenarios and stress tests that deviate from the Standard Formula and explains this rationale.

The Standard Formula is a series of calculations prescribed by the Solvency II Regime in order to calculate on a consistent basis between firms, the assets and liabilities or Technical Provisions. FIL Life uses the Solvency II Standard Formula for its Pillar I calculations and reporting.

In line with this approach, the ORSA forms a key input into the strategic planning process of FIL Life. Material risks and risk limits are considered in relation to business planning, decision-making and capital management.

Commensurate with its size, capital is considered at entity level and not allocated further. Explicit budgets and targets are agreed at business level, taking into account risk and capital outcomes.

B.3.11. Prudent Person Principle

FIL Life fulfils the obligations of the prudent person principle as set out in Article 132 of the onshored Solvency II Directive. The business is almost exclusively long-term, and unit linked.

Unit Linked Policyholders and schemes select their own investments, often with the assistance of investment consultants, under the rules and criteria permitted by FIL Life, and the Permitted Links Regulations.

The unit-linked funds are only invested in a range of underlying regulated funds managed by companies within the FIL Group and other fund managers and insurers. As a result, the Company holds the underlying assets for policyholders' unit-linked investments with no unit shorting. There is no need for asset liability management in respect of unit linked liabilities and the annuity business is fully reinsured, so not material.

To ensure that FIL Life retains a capital surplus, the Capital Management Policy sets out the maintenance of a buffer over and

above the SCR. FIL Life invests its surplus assets in low-risk investments, typically cash and liquidity funds.

Neither policyholders nor FIL Life hold complex instruments, such as securitisations, non-traded assets or any other 'non-routine' investments. There are no plans for any future change.

B.4. Internal Control System

B.4.1. Framework

The FIL Life Board has ultimate responsibility for FIL Life's system of internal control. It has responsibility for compliance with applicable laws, regulations, business standards, rules of conduct and established industry practices.

A key part of the internal control environment is the three lines of defence model described in B.3.3.1.

Primary responsibility for identifying the full range of risks faced in their areas of responsibility rests with the 1st line of defence business management. They are responsible for ensuring that those risks are appropriately managed by designing and operating effective controls.

Internal Audit, Compliance, the Risk function, Actuarial function, Oversight Groups and the Board of Directors oversee the Company's Internal Control framework. Material outsourcing agreements and the role of the FIL Life Oversight Group are described in B.7.

B.4.2. Compliance Function

The Compliance team is part of the 2nd line of defence. It provides oversight and challenge the business in performing their responsibilities in respect to compliance with regulatory requirements.

Compliance is comprised of Compliance Advisory and Compliance Monitoring:

Compliance Advisory provides support and technical guidance to the business on

regulatory matters and assists FIL Life to meet its regulatory obligations.

Compliance Monitoring performs ongoing monitoring of compliance with rules and any other relevant regulations. The team works with other oversight functions and the business to establish and maintain a focused, risk-based and comprehensive monitoring programme.

The Compliance function assists FIL Life in the identification, evaluation, and management of regulatory risks. It produces independent compliance reports for the FIL Life Board. The Compliance function will manage any interaction with the Company's regulators.

B.4.2.1. The Money Laundering Reporting Officer

The FIL Global Head of Financial Crime Compliance is responsible for maintaining a governance framework of policies for the FIL Group. The Global Head of Financial Crime Compliance provides interpretation of the policy across the Group and offers support and guidance to local MLROs, including the UK MLRO who is responsible for FIL Life.

The UK MLRO is responsible for overseeing FIL Life's compliance with the FCA's rules on systems and controls against money laundering.

Compliance provides a quarterly report to the Board on key compliance matters.

B.5. Internal Audit Function

B.5.1. Overview

The Internal Audit function is performed by Group Internal Audit, responsible for the evaluation of the adequacy and effectiveness of the internal control system and all other elements of the system of governance.

The Internal Audit function is objective, independent and not subject to influence from any operating function of the Company that could impair its independence and impartiality.

To ensure appropriate independence, Internal Audit has a functional reporting line directly to the Audit & Risk Committee of FIL Limited. In performing its functions, Internal Audit has no direct responsibility or authority over any other function across the business. It is completely independent and as a result, may perform its functions and report its findings to the Audit Committee without impairment.

The Group's Internal Audit function acts as the 3rd Line of Defence. It is responsible for the independent assessment of the Company's system of governance and internal control framework to the nature, scale and complexity of the risks inherent in its business.

This is achieved through delivery of a risk-based audit plan which is updated quarterly on a rolling basis to provide committed and proposed coverage for the following twelve months, as approved by the FIL Life Audit, Risk & Compliance Committee, on behalf of the Board.

Any relevant findings and recommendations are reported to the FIL Life Audit, Risk & Compliance Committee and escalated to the Board as appropriate.

Management actions are tracked to resolution by Internal Audit and status is reported quarterly to the FIL Life Audit, Risk & Compliance Committee.

B.6. Actuarial Function

The Actuarial function is currently outsourced to Milliman LLP, the global insurance consultancy firm, under a formal Statement of Work agreed with FIL Life. The position of Chief Actuary for the Company is held by John Jenkins, a senior partner of Milliman LLP.

The Financial SMF 2 role holder provides the internal oversight of the Actuarial function.

At a high-level, the regulatory role of the Actuarial function is to provide FIL Life's Board with a measure of quality assurance through technical actuarial advice. The specific regulatory responsibilities of the Actuarial function in FIL Life are as follows:

- Recommendation for the basis and methodology for the calculation of the Technical Provisions, RM and SCR for both unit-linked and annuity business.
- Ensuring the appropriateness of the methodologies and underlying models used, as well as the assumptions made in the calculation of the Technical Provisions.
- Coordination of the calculation of the Technical Provisions.
- Assessment of the sufficiency and quality of the data used in the valuation.
- Monitoring of experience.
- Assessment of the reliability and adequacy of the Technical Provisions.
- Express an opinion on the Underwriting Policy and the adequacy of the reinsurance arrangements contribute to the effective implementation of the risk-management system.

For FIL Life, the Actuarial function also provides advice and opinion on the following items:

- The current and prospective solvency position.
- Stress and scenario testing of Technical Provisions.

- ORSA processes, implementation and reporting.
- Internal and external regulatory reporting.
- Other forms of risk transfer or risk mitigation techniques for insurance risks.
- Any other matters of an actuarial nature requested by FIL Life.

FIL Life has three key outsource relationships for critical or important operational functions or activities.

The Company also works with ZEDRA in respect of its membership of, and provision of secretarial services to, the Independence Governance Committee and the Fidelity Master Trust.

B.7. Outsourcing

Outsourced services are monitored by the FIL Life Oversight Group. The Oversight Group, which meets monthly, is responsible for overseeing outsourced activities on behalf of the Board. It monitors outsourced service providers, using a balanced scorecard comprised of key performance indicators.

Table B.9: Key Outsource Relationships

Company and Delegation or Outsource Party	Delegation/Outsourced Function
FPM (UK based jurisdiction)	Provision of insurance agency and services, including workforce management services; policy administration / record keeping; and the technology and operations to support these services.
Hannover Re (UK based jurisdiction)	Reinsurer for FIL Life's annuity book and administrator of FIL Life's annuity book
Milliman LLP (UK based jurisdiction)	Provider of Actuarial Function and role of Chief Actuary

B.8. Any Other Information

B.8.1. Responsible Investment

It is the FIL Group's duty, as part of its obligations as a fund manager, to be satisfied that mutual funds and segregated accounts managed by the FIL Group only invest in companies which are managed responsibly, and which are in compliance with the legal regimes to which they are subject. This responsibility is an important element of the FIL Group's commitment to always act in the best interests of its clients.

The Company updated its Sustainable Investing Policy at the end of 2022 which commits its house default to net zero carbon emissions by 2050, and to halve these by 2030.

The Company is fully committed to improving its investment choice and developing tools to support its policyholders' investment decisions. During the year the Company expanded the range of Sustainable funds offered to its clients alongside further embedding ESG into FutureWise.

During 2022 the Company introduced ESG scoring, sustainability, a stewardship dashboard for Trustee clients and an investment tool to improve member engagement.

The Company also developed a solution to provide climate metrics to enable its Master Trust client to meet its regulatory Task Force on Climate-Related Financial Disclosures (TCFD) reporting requirements. The Company will publish its first TCFD report in 2024.

B.8.2. Climate Change

FIL Life has taken into account the PRA's requirements of SS3/19 as it continues to work with the wider FIL Group to develop the Corporate Sustainability and Sustainable Investing governance framework. The framework will ensure consistency in the use of solutions that support increased disclosure of climate change metrics, including FIL Life's own TCFD report.

There is no other material information relevant to the Company's system of governance.

C. Risk Profile

Overview

FIL Life employs a robust process for identifying and managing its key risks including those related to climate change. Risks are managed and monitored to a risk appetite defined in the Risk Appetite Statement and approved by the Board on an annual basis. There has been no material change to the Company's risk profile during the period.

Table C.1: Key Risks as at 31 December 2023

Risk Type	Description	Solvency Capital Requirement
Operational Risk**	<p><i>Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes strategic and reputational risk. It includes conduct risk, the risk that actions (or failures to act) by FIL Life or FPM and its employees have a detrimental impact on customer outcomes or undermine the integrity of (and public confidence in) financial markets or the financial services industry.</i></p> <p>The Company outsources administration operations to FPM. The operations undertaken include carrying out insurance administration and investment management services such as devising and implementing investment policy and managing allocation of investments of the Company's funds, where those funds comprise more than one underlying collective investment scheme. Under the Standard Formula, operational risk is calculated as 25% of the previous 12 months' expenses.</p> <p>The Company also outsources its Actuarial function to Milliman LLP.</p>	£16.8m
Counterparty Credit Risk**	<p><i>Counterparty/credit risk is the risk of loss due to counterparties failing to meet all or part of their obligations.</i></p> <p>The Company has counterparty default risk exposures arising from any amounts due from the settlement agent and the placement of its funds and working capital with bank counterparties and the Fidelity Institutional Liquidity Fund plc (ILF). In respect of certain pre-July 2008 contracts and annuity business, counterparty default risk is assessed against the Company's reinsurers.</p>	£8.8m
Insurance/ Underwriting Risk**	<p><i>Insurance Risk is the risk to the Company posed by total potential exposure to insurance contract commitments. Potential for deviations stem from the frequency of losses, severity of losses and the correlation of losses between contracts.</i></p> <p>The Company does not have any material underwriting concentrations as it does not write new annuity business. The Company engages in unit-linked business and as the Company neither currently offers guarantees, nor writes further annuity business, Insurance risk is not deemed to be a major risk facing the business. However, the small volume of in-force annuity business does have some exposure to longevity risk.</p>	£1.5m

Risk Type	Description	Solvency Capital Requirement
Market Risk**	<p><i>Market risk can arise on the seed capital investment, as well as on the intragroup loans, and any exposure is managed within limits agreed by the Board.</i></p> <p>The Company is not directly exposed to material market risk. The Company writes a single line of long-term unit-linked business where any changes in values are to the benefit of policyholders. There is no direct investment, other than the Company having a limited amount of seed capital investment for new fund launches. Market risk can arise on the seed capital investment and any exposure is managed within limits agreed by the Board.</p> <p>However, there is a secondary impact from market risk as the majority of the Company's fee income is based on the value of policyholders' assets and therefore may change in line with market movements.</p>	£12.3m
Liquidity Risk	<p><i>Liquidity is the availability of cash or near cash assets or credit that can be utilised to support continuing business operations. Liquidity risk relates to an entity's ability to meet its liabilities/obligations as they become due, whether such liabilities can be reasonably foreseen or otherwise stem from a risk event or series of such events.</i></p> <p>Settlements are managed for the Company by a fellow subsidiary and a custody arrangement with a third-party. Liquidity risk is managed through ongoing cashflow management and forecasting, liquidity scenario stress testing, together with maintaining appropriate working capital balances and the availability of a contingency funding line with a FIL Group entity.</p>	-
Capital and Funding Risk	<p><i>The risk of FIL Life not having sufficient regulatory capital to meet relevant minimum regulatory requirements, with a reasonable margin of safety.</i></p> <p>This risk is managed through the Company's Capital Management Policy and the maintenance of a discretionary buffer over and above the minimum capital requirements.</p>	-
Concentration Risk	<p><i>Risk concentration refers to an exposure with the potential to produce losses large enough to threaten FIL Life's health or ability to maintain its core operations.</i></p> <p>Risk concentrations arise from the size of exposures to counterparties, in particular banking and fund providers. These are kept under review, to enable the Company to take action should the risk approach tolerance limits.</p>	-
Strategic Risk	<p><i>Strategic risk is the risk associated with an inappropriate or non-performing strategy.</i></p> <p>The Board approves the strategy and oversees its execution.</p>	-

** These risk metrics are included in SCR calculation.

C.1. Underwriting Risk

C.1.1. Definition

Solvency II defines underwriting risk as *‘the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.*

C.1.2. Risk Exposure, Concentration and Mitigation

FIL Life is only exposed to life underwriting risks. This exposure is not material. Since the annuity portfolio is fully reinsured and serviced by Hannover Re, the exposure is treated primarily as a counterparty risk. It is considered under the Credit Risk Policy, although certain stresses are required for the purposes of the Solvency II Standard Formula calculations.

For the unit-linked liabilities, risks associated with the volatility of future charges and expenses are mitigated by both the IASA and by FIL Life’s ability to unilaterally terminate policies subject to a short notice period. Beyond this, FIL Life does not have any exposure to underwriting risk in the traditional sense. Consequently, FIL Life has no Chief Underwriting Officer.

The terms of the IASA limit FIL Life’s exposure to pricing underwriting risk. Pricing is tailored to each client and is dependent upon the profile of the plan at take on and projected into the future.

The Underwriting Pricing Policy includes the terms on which new business is written. The Actuarial function advises on the impact on the Technical Provisions and the SCR of any material changes in the terms on which FIL Life writes new business, including the introduction of any new products.

In line with Solvency II regulations, an amount of £1.5m has been calculated in respect of the underwriting risk within the SCR.

C.1.3. Risk Sensitivity

As FIL Life’s exposure to this risk is limited, there is no material sensitivity to changes in this risk.

C.1.4. Any Other Disclosure

The Company does not have any further disclosure to make in relation to its underwriting risk profile.

C.2. Market Risk

C.2.1 Definition

Solvency II defines Market risk as *‘the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.’*

C.2.2. Risk Exposure, Concentration and Mitigation

Under Solvency II’s Standard Formula, market risk can be divided between the following sub-risks:

- **Interest rate risk** – market risk from changes in the term structure of interest rates, or in the volatility of interest rates. FIL Life’s main exposure to interest rate risk relates to interest bearing assets in the form of deposits and cash held with FIL Life’s banks or other approved institutions.

A small interest rate risk exists in relation to the annuity Technical Provisions net of reinsurance with Hannover Re, with the exposure being a fall in interest rates. The loan of £125m made in 2022 to the ultimate parent company is for an initial period of 3 years, at a fixed interest rate of 7% p.a along with another £20m loan in 2023 for a period of 3 years at a fixed rate of 6% p.a. These loans are revalued at £151.8m under SII basis, results of these contained in Section D.

Under Solvency II this gives rise to an interest rate risk when the fixed rate is compared to current interest rates. An inflation stress test has been applied to the closure reserve

and compared to the interest rate stress with the conclusion that no additional capital is required due to the diversification between these scenarios.

In line with Solvency II regulations, an amount of £7.1m (before diversification benefit) has been calculated as part of the SCR market risk for interest rate movements.

- **Property risk** - market risk from changes in the level or in the volatility of market prices of real estate. FIL Life has no direct exposure to property risk.
- **Equity risk** – market risk from changes in the level or in the volatility of market prices of equities. There are no guarantees of investment performance. FIL Life holds no derivatives.

In line with Solvency II regulations, an amount of £2.5m (before diversification benefit) has been included within the SCR for equity market risk in relation to future charges falling and changes in the loan values, plus a further £0.0.5m (before diversification benefit) for equity risk on the seed capital.

The effect of market movements on the value of the AUA is monitored and reported to senior management. The management group will review the risk and determine if additional monitoring or escalation to the Board is required.

- **Spread risk** – market risk from changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. FIL Life's only spread risk exposure is in respect of the intragroup loans.

In line with Solvency II regulations, an amount of £8.1m (before diversification benefit) has been included within the SCR for spread

risk in relation to the two loans to FIL Limited.

- **Currency risk** – market risk from changes in the level or in the volatility of currency exchange rates. FIL Life is not directly exposed to currency rate risk. As at 31 December 2023 all cash and holdings in investments are denominated in GBP.
- **Concentration risk** – market risk from either the lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers. FIL Life is not exposed to high degrees of concentration.

Except for the annuity business, which is fully reinsured, all policyholder assets and liabilities are linked. Shareholder assets are invested mainly in a liquidity fund but may also provide seed capital for new funds.

FIL Life has direct exposure to market risk from the provision of seed capital and the investment of shareholders' funds in a liquidity fund. FIL Life also has indirect market risk exposure through the AMC on unit-linked funds.

All direct market risk on unit-linked assets lies with policyholders, except for seed capital.

FIL Life has an indirect exposure to market risk on unit-linked assets through the credit taken for future administration fees. FIL Life earns AMCs based on a fixed percentage of AUA, and movements in the value of these assets will affect the AMCs.

As future profits are only projected up to the point when FIL Life is able to unilaterally terminate the liabilities, which is within twelve months for most policies, the exposure is not significant.

Seed Capital Management

FIL Life places seed capital into new funds. Market risk exists on this capital as the units

seeded are owned by the shareholders and the risk is not passed over to the policyholders.

The market risk appetite is linked to the seed capital, where all seed capital exposures must consider the impact on capital and thresholds trigger remedial action. The Board has set a limit for the total value of seed capital, which constitutes the aggregate risk appetite against which total seeding is regularly monitored. This limit is agreed on an annual basis by the Board.

C.2.3. Risk Sensitivity

Although the risk is affected by the impact of changes in investment markets on the value of seed capital, the direct impact is not material to the Company.

C.2.4. Any Other Disclosure

The Company does not have any further disclosure to make in relation to its market risk profile.

C.3. Credit Risk

C.3.1. Definition

Solvency II defines credit risk as *'the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations.'*

C.3.2. Risk Exposure, Concentration and Mitigation

Credit risk is assumed whenever FIL Life is exposed to loss from another party failing to honour its financial obligations to the Company, including failing to perform them in a timely manner.

This includes cases in which a party is unable to fulfil its obligations due to the realisation of financial risks associated with climate change.

A Credit Risk Policy and related controls are in place to manage this risk.

FIL Life is exposed to counterparty risk through its cash holdings, its receivable balances and its investment in the ILF.

The four principal counterparties to which the Company is exposed are:

Fund Partners (Reinsurers and Others)

Fund partners, including reinsurers, present a credit risk if they fail to fulfil a financial obligation to pay FIL Life upon submission of a valid claim. The risk of default is generally borne by policyholders, however, in the case of pre-July 2008 policies where the burden is less certain, the risk is assessed on a regular basis and monitored by the Board. Exposures also arise during scheme transitions, where funds are moved from one fund provider to another. These can be sizeable, resulting in short-term increases in exposure.

The risk of Hannover Re default, which would leave FIL Life liable to meet the annuity payments until another provider could be sourced, has been considered. Business volumes are actively managed and monitored by FIL Life. There have been no new annuities since July 2010. The service performance and credit rating of Hannover Re are also monitored regularly.

Banks and Liquidity Funds

The Company may be exposed to the default of FIL Life's banking and liquidity fund counterparties where there are corporate cash balances held. 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.

FIL Group Companies

FIL Life is reliant upon FPM for the provision of services and the management of credit risks in respect of management fee collection. FWM performs specific services for FIL Life in relation to pension cash withdrawals.

Counterparty risk also exists with FASL through its provision of settlement agent services. A loan has been made to ultimate parent company which carries a counterparty risk and is revalued under Solvency II.

In 2022, FIL Life's company surplus liquidity was loaned to the then parent company, FIL Limited, (now the ultimate parent company) at a three-year fixed term loan for £125m, with further surplus liquidity, loaned £20m in December 2023, which is also a three-year fixed term loan. The loan agreement contains early repayment clauses if FIL Life has a requirement for the liquidity.

Counterparty and credit risk are managed against agreed financial limits in accordance with the FIL Life Credit Risk Policy and are monitored and reported to senior management and the Board of Directors on a quarterly basis.

FIL Life 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. 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.

FIL Life undertakes ongoing monitoring of the credit quality of the counterparty and an assessment of the claims payment ability where the counterparty is a reinsurer.

In the event of any counterparty achieving a credit rating below investment grade or a banking partner no longer being on the FIL approved list, the FIL Life business will convene a meeting with representatives from Risk, Finance, Corporate Treasury and Legal.

The attendees will assess an exception to policy, or, in the event of a banking partner, Treasury will suspend deposit placements

immediately, pending further analysis and guidance from senior management. Decisions are subject to approval by the FIL Life CEO, who will notify the Board.

Counterparty creditworthiness is monitored on a regular basis and, where appropriate, additional mitigants, such as charges over assets and assurance on segregation of funds, are applied.

A credit risk exposure report is produced monthly for the FIL Life Oversight Group and submitted to the FIL Life Board quarterly which provides information regarding the Company's counterparties, their credit ratings, size of the exposures, limit values and any changes to counterparty credit ratings during the period under review.

In line with Solvency II regulations, an amount of £6.4m (before diversification benefit) has been calculated within the SCR counterparty risk for type 1 exposures (banks and reinsurance counterparties) and £3.0m (before diversification benefits) has been calculated for type 2 exposures (intermediaries and other Group firms). The full SCR is set out in E.2, together with the prior year's requirement.

C.3.3. Risk Sensitivity

The Company is exposed to counterparty credit risk through indebtedness from outstanding settlement balances on certain policies issued prior to July 2008, as well as amounts held with banking institutions. Pillar 1 reserves are held against this risk and a number of scenarios are assessed in the ORSA for reductions in credit ratings.

C.3.4. Any Other Disclosure

The Company does not have any further disclosure to make in relation to its credit risk profile.

C.4. Liquidity Risk

C.4.1. Definition

Solvency II defines liquidity risk as *'the risk that insurance and reinsurance undertakings*

are unable to realise investments and other assets in order to settle their financial obligations when they fall due.'

C.4.2. Risk Exposure, Concentration and Mitigation

Liquidity risk for FIL Life is that it will encounter difficulties obtaining funds to meet commitments associated with financial and other liabilities.

All policyholder assets can be readily liquidated. The liquidity risk relating to the redemption of 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.

Liquidity requirements arising from significant client transitions are carefully monitored against risk appetite. Settlement liquidity risk rests with the Company's settlement agent, FASL.

For the transition to the amended FutureWise house default investment strategy the Company entered into a separate custody arrangement and settlement facility with an external bank.

The majority of FIL Life's capital is held within the ILF. This investment has a rating of Aaa-mf (Moody's) and AAAm (S&P). It is liquid and readily realisable, with same day settlement for sterling instructions placed prior to 1.30 pm London time.

Liquidity Risk is continually monitored and is reported to senior management in Finance monthly. Forecast of significant liquidity positions are distributed to senior management and the wider business on a weekly basis.

Reports are provided regularly to FIL Life senior management and to the Board of Directors on a quarterly basis.

C.4.3. Risk Sensitivity

Liquidity risk changes according to the amount of transition activity. For example, default investment strategies changed in a number of schemes, resulting in large fund movements. As noted, primary exposure for such liquidity risk is borne by FASL. The liquidity exposure for FutureWise is managed through an external custody arrangement and settlement facility.

C.4.4. Any Other Disclosure

The Company does not have any further disclosure to make in relation to its liquidity risk profile.

C.5. Operational Risk

C.5.1. Definition

Solvency II defines operational risk as *'the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. These risks take into account the potential for climate change related risk drivers to impact them.'*

C.5.2. Risk Exposure, Concentration and Mitigation

Operational risk is FIL Life's largest risk for which regulatory capital is held under the Solvency II formula.

For FIL Life, operational risk arises in FPM as service provider from the people, systems and processes through which that company operates. The IASA indemnifies FIL Life against any errors attributable to FPM. As a result, this removes the majority of the operational risk to which an insurer like FIL Life might otherwise be exposed.

Operational risk includes risks related to operational delivery, business process disruption, information security and cyber-resilience, legal risk, regulatory compliance,

financial crime, record and data management and financial reporting.

C.5.2.1. Duties to Customers

Operational risk also includes Duties to Customer risks. These relate to a wide range of risks, including pricing and costs, disclosures, complaint handling, marketing, and product design and management. They are underpinned by good conduct which, when embedded throughout the business, results in a number of benefits, including:

- Strengthening of customer trust and loyalty through decision-making that has customer interests at heart.
- Products that meet customers' needs and provide simple and transparent pricing structures.
- Good behaviour and integrity in market conduct reinforces confidence in the financial system.
- Fewer issues, events and complaints, leading to improved customer experience and operational efficiencies.
- Positive impact on shareholder value and effectiveness of the organisation.

The FCA's Consumer Duty has codified similar principles into regulation. The Company has developed metrics to monitor customer outcomes and avoiding foreseeable harm, which are reported to the Board each quarter.

C.5.2.2. Conduct Risk

Conduct touches every aspect of the FIL Life business and all other FIL Group companies. By its nature, it is behavioural and therefore relies on a culture that ensures that everyone does the right thing at all times.

FIL Group, including FIL Life, continually looks for opportunities to strengthen its culture and focus on client outcomes and has always managed conduct risk as an integral part of the business. Conduct risk forms an important element of any assessment of new products and initiatives.

The Board receives regular risk updates on the topic and monitors the performance of FIL Life and its service providers. Risk appetite metrics have been developed as part of the group-wide Risk Management Framework.

C.5.2.3. Operational Resilience

Operational Resilience is the embedding of capabilities, processes, behaviours and systems which allows an organisation to prevent or respond to, recover and learn from major operational disruptions.

As key services are provided by FPM, the Company has been monitoring activity to demonstrate resiliency, including mapping important business services with specific impact tolerances applied dependent upon the disruption scenario.

This allows FIL Life to evidence how the business is operating within these impact tolerances and to set appropriate monitoring to ensure that business activities remain resilient.

C.5.2.4. Cyber Resilience

FIL Group is committed to the protection of its client and customer details, along with its own information and data. There is a comprehensive framework of protection in place with security policies, standards and procedures which are executed to protect customers from threats and frauds.

A dedicated Information Security and Technology Risk team assesses security risks and address threats on a continuous basis to ensure the confidentiality, integrity and availability of our information systems and data. FIL Group has a dedicated Cyber Defense Operations (CDO) team, whose core focus is Cyber breach prevention, detection and response.

The mission of the CDO is to develop an intelligence-led, proactive cybersecurity response to defend the FIL Group and its assets from known and unknown cyber threats and to reduce risk and impact to the business.

C.5.2.5. Mitigation

The IASA indemnifies FIL Life against all operational risks except risks for gross negligence by the Company, or any of its officers or employees, any breach of trust by FIL Life or its officers or employees or any failure by FIL Life to comply with the terms of the IASA or any law or regulation. These risks are overseen by the Board and reviewed each quarter.

A holistic view of FIL Life's financial and non-financial risks, including operational risks, is discussed at Board level on a quarterly basis.

In addition, risk tolerances are set for operational risk based on a residual financial impact level. Prior to breaching any of the levels defined, remedial actions will be triggered. In line with Solvency II regulations, an amount of £16.8m has been calculated within the SCR for operational risk.

C.5.3. Risk Sensitivity

The indemnity provided under the terms of the IASA with FPM mean that FIL Life is not exposed to fluctuations in this risk. The operational risk component of the Solvency II Standard Formula is based on, and therefore changes with, annual expenditure.

C.5.4. Any Other Disclosure

The Company does not have any further disclosure to make in relation to its operational risk profile.

C.6. Other Material Risks

C.6.1. Capital and Funding Risk

Capital and Funding risk is defined as the risk of FIL Life not having sufficient regulatory capital to meet relevant regulatory requirements, with a reasonable margin of safety.

The Company has adopted a Capital Management Policy, which includes a discretionary buffer above the greater of the SCR and ORSA requirements.

The Board is responsible for determining the size of the buffer as appropriate to the circumstances of the Company at the time, and any changes anticipated in the future.

The discretionary buffer is subject to ongoing review by the Chief Finance Function holder and an annual review by the Board.

The SCR and the solvency ratio are estimated daily and presented to senior management monthly. A new SCR is calculated quarterly and presented to the Board.

For most of its reinsurance counterparties, FIL Life is reliant on their solvency capital ratios as these are not independently rated. There is a capital risk if one of these counterparties were to have a lower solvency capital ratio than had been previously advised.

C.6.2. Risk Concentrations

Concentration risk can be defined as the overall spread of a company's assets and outstanding accounts over the number or variety of debtors. The financial and counterparty risks are largely mitigated through legal agreements and are considered above. The main risk from concentration risk is the impact, in terms of resource effort and reputation, should a large fund partner default. There is also a risk from the service provision by FPM.

FIL Life's assets can be split into the following categories:

- Balances with credit institutions
- Other debtors

Under Solvency II these assets are admissible, however, appropriate reserves need to be maintained against the asset based upon its risk. As noted under counterparty risk, the counterparty exposure is monitored daily and forms part of the daily estimate of the SCR and free assets.

The concentration risk for each reinsurer is reported monthly to senior management and quarterly to the Board.

The Board accepts that there is some concentration risk with BlackRock Life by virtue of the value of AUA invested in BlackRock funds. This is an accepted business strategy and is reflected in the Company's Standard Formula counterparty default risk capital requirements. The solvency ratio of BlackRock Life, together with a strong focus on the level of AUA, forms part of a suite of KRIs which are regularly assessed and shared with the Board.

FIL Life mitigates risks through Hannover Re' annuity reinsurance and the IASA outsourcing agreement with FPM, as previously stated. No derivatives are used as risk mitigation techniques.

The reinsurance treaty with Hannover Re is not considered material in view of the absolute and relative size of this business. The rating of the counterparty is monitored regularly.

Reinsurance is allowed for in the SCR calculation since it mitigates FIL Life's longevity risk. There is no material allowance for any financial mitigation techniques or future management actions in the SCR calculation.

The reinsurance treaties with the fund partners are not traditional reinsurance treaties. These are investment contracts only, chosen by the policyholder and are used as an investment vehicle. In most respects there is no difference between these investments and any similar investment, for example an Open-ended Investment Company (OEIC).

The investment risk remains at all times with the policyholder and not the Company. Except for a small part of the book, the counterparty risk also lies with the policyholder. For those policies where it is not certain who retains the counterparty risk, a reserve is included within the SCR and calculated according to the onshored Delegated Regulation.

C.6.3. Strategic Risk

Strategic Risk is defined as the risk of the Company not meeting its strategic business objectives which could affect its long-term positioning and performance. FIL Life

manages a range of strategic risks, including risks relating to clients, pricing, distribution, competition, regulation and infrastructure. It uses risk management tools such as scenario analysis, stress testing and wind-down analysis to understand the scale and impact of each risk and to test implementation plans in place.

The strategy for FIL Life is defined based on a 5-year time horizon. It is underpinned by clearly articulated objectives and supported by qualitative and quantitative measures. Strategic Risk is directly managed by the Board and the CEO of FIL Life.

The Board has overall responsibility for issues of strategy and business risk management pertaining to the business activities of FIL Life. The Board approves the strategy and/or material changes in the same and will receive such information to monitor performance against the strategic goals of the business.

A strategy day is held every year with the Board and relevant business stakeholders to assess client needs and experience, the competitive environment, as well as threats from internal and external market events, and how these may impact the current strategy and financial position as assessed through the ORSA process.

C6.4 Climate Risk

FIL Life is continually assessing its exposure to the risk of climate change. It does not have a material direct exposure due to the nature of its activities and the type of insurance cover that it provides. However, it recognises that there are indirect risks through the potential impact on financial markets, and on its counterparties, suppliers (including fellow subsidiaries) and clients by virtue of the industries in which they operate. The changes to the FutureWise default strategy include the embedding of sustainable investing, while the work described in Section B8.2 will enhance governance and reporting around climate risk.

C.7. Any Other Information

C.7.1 Stress and Scenario Testing

The outcome of stress testing and sensitivity analysis for material events is completed as part of the ORSA and business planning process.

Scenario analysis - The ORSA capital requirement is derived through prescribing 1-in-200-year level shocks to capital-bearing risks and aggregating the resulting Own Funds impacts. The capital requirement is aggregated assuming no diversification and compared to capital resources.

Stress tests - Stress tests are concluded separately to explore potential threats to the business over the 5-year planning period, incorporating both plausible, single factor stresses and more severe multi-factor scenarios. They are determined by senior stakeholders and subject matter experts. A loss scenario is developed on the possible outcomes of those risks with a financial impact after controls and mitigations have been considered.

The individual stress tests are combined to create a very extreme stressed result and compared to the internal and regulatory capital requirements.

The stress testing projections show that FIL Life will meet its capital requirements in all but the very extreme scenarios which are considered to be beyond the 1-in-200 confidence interval.

C.7.2. Actions in response to adverse events

In response to adverse events, FIL Life may take several actions to protect the interests of policyholders in a fund, for example, suspend trading or pricing, defer dealing or diverge from the stated investment policy. These practices would only be used to the minimum extent possible. FIL Life retains the discretion as to whether or not, and if so how, to implement these measures.

C.7.3. Economic Impact on the Risk Profile

There has been no material change to FIL Life's risk profile as a result of the change in the global and local economic climate. The Company does, however, recognise that there may be an increased likelihood of emerging risks and vulnerabilities from ongoing

economic uncertainty, inflation and relatively high interest rates. FIL Life's suppliers are expected to experience an increase in costs to ensure adequate levels of staff resourcing are maintained for all services, including Technology. The Company's ORSA adopts a forward-looking risk assessment and will consider emerging risks as appropriate.

C.7.4. Investment or loan of Surplus Shareholders' Funds

Surplus Shareholders' Funds are invested with a primary emphasis on quality, security and liquidity (availability), not investment returns, since they are the primary source of funds in adverse financial circumstances and other adverse scenarios.

All funds other than seed capital are invested in bank deposits or liquidity funds. Any deviation requires Board approval. The Company does not lend or pledge corporate assets. These funds are managed, monitored and reported by Treasury and Finance. They are valued in accordance with accounting principles.

FIL Life may also, subject to Board and Chief Actuary (SMF 20) approval, lend surplus funds to another group company.

The Company must be able to demonstrate that its available capital and liquidity after any such loan exceeds the capital requirement of the Capital Management Policy and the Liquidity policy at any time.

C.7.5 Prudent Person Principle

As set out in section B.3.11 FIL Life fulfils the obligations of the prudent person principle as set out in Article 132 of the Solvency II Directive.

There is no other material information relevant to the Company's risk profile.

D. Valuation for Solvency Purposes

D.1. Assets

D.1.1. Valuation, Methodology and Assumptions

Table D.1: Breakdown of Material Assets by Solvency II Value

Classes of Material Assets	31 Dec 2023 £'000	31 Dec 2022 £'000
Investments (other than assets held for index/unit-linked funds)	133,486	128,391
Assets held for index-linked and unit-linked contracts	26,051,352	22,672,720
Reinsurance Recoverable	15,490,300	15,201,249
<i>Of which relates to fixed annuity liabilities</i>	4,688	4,923
<i>Of which relates to inflation-linked annuity liabilities</i>	2,840	2,785
<i>Of which relates to unit-linked liabilities</i>	15,482,772	15,193,541
Deferred tax asset	892	452
Receivables (trade not insurance)	3,678	458
Intercompany loan	151,833	132,840
Cash and cash equivalents	6,652	13,381
Any other assets, not elsewhere shown	11,661	15,561
Total Assets	41,849,854	38,165,052

FIL Life's assets are primarily those held to back the unit-linked liabilities, with the surplus held as cash or similarly liquid investments.

All assets are held at market value or expected realisation value, if more appropriate. All policyholder investments are in regulated collective investment schemes. All of these are priced on a daily basis.

The assets are stated at either market value, in accordance with Financial Reporting Standard 102, or nominal value, in the case of cash deposits. The methodology for valuing and recognising these assets is therefore, not expected to change in the foreseeable future.

The valuation methodology and assumptions for these assets, including reasons for aggregation, are summarised below.

D.1.1.1. Investments: Other than Assets Held for Unit-linked Funds

These represent listed investments in quoted liquidity funds. The assets are stated at market value using quoted market prices in active markets or expected realisable value, in the case of cash deposits.

The amounts held in the liquidity funds have increased mainly due to timing differences on premium receipts awaiting settlement and other timing differences.

There are no differences in valuation basis between FRS102 and Solvency II.

D.1.1.2. Assets Held for Index-linked and Unit-linked Contracts

Assets held for unit-linked funds are all forms of publicly available collective investment schemes, primarily UCITS (Undertakings for Collective Investment in Transferable Securities).

The received prices are reviewed against agreed tolerances for daily movements. A Service Level Agreement (SLA) is agreed with each fund manager for timeliness and accuracy of pricing data, and these are regularly followed up with meetings and

Transferable Securities) and are stated at the market value provided by the fund managers. questionnaires to assess the quality of the prices and other data received.

D.1.1.3. Reinsurance Recoverable from Annuity Liabilities

This represents the value to FIL Life of the reinsurance treaty with Hannover Re which covers FIL Life's fixed annuity liabilities. It has been calculated using consistent methodology and assumptions as the corresponding Technical Provisions. Full details about the valuation of this asset are provided in D.2.

D.1.1.4. Reinsurance Recoverable from Unit-linked Liabilities

The Reinsurance Recoverable Asset relates to fund partners and is the AUA for those unit-linked policies where the policyholder and/or scheme has chosen to invest with a fund partner. This is stated at market value. Full details are in D.2.

D.1.1.5. Deferred Tax Asset

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

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

There are differences in valuation basis between FRS 102 and Solvency II relating to the change in the value of deferred tax, caused by the impact of adjustments made to balance sheet items in compliance with Solvency II regulations. The largest impact arises from the revaluation of technical provisions.

D.1.1.6. Receivables (Trade not Insurance) and any Other Assets, not Elsewhere Shown

Receivables and other assets, such as debtors, are included at current value in accordance with FRS 102.

D.1.1.7. Cash and Cash Equivalents

Cash and cash equivalents represent cash at bank and are valued market value or at amortised cost. This is a good proxy for market value due to the short-term nature of the assets.

D.1.1.8 Intragroup Loan

FIL Life has issued a new intragroup loan of £20 million to FIL Limited. The intragroup loan arrangement was established during the year with its Solvency II balance sheet value being calculated as the present value of the future payments receivable under the loan. The present value of the loan is calculated using discount rates based on the yield curve in force at the valuation date. An allowance has been made for probability of default based on the credit rating of FIL Limited. This loan is in addition to, and treated consistently with, the previous loan of £125 million made to FIL Limited in 2022. Because of the valuation differences between SII and FRS 102, this results in loans being valued differently at £151.8m as compared to £145m as per UK GAAP.

D.1.1.9. Other Assets

Other assets consist of taxation recoverable. There are no intangible assets in the balance sheet.

D.1.2. Reconciliation to Financial Statements

The valuation bases between statutory accounts and Solvency II are consistent for certain asset classes, such as financial investments, but there are presentational and valuation differences, most notably on intragroup loans, reinsurance, and gross technical provisions.

The methodologies used in these valuations are consistent with those used in previous reports, except for the loan made in October 2022 to ultimate parent company which currently has a higher valuation under SII than FRS 102 reporting.

Table D.2: Reconciliation to Financial Statements

	31 Dec 2023
	£'000
Net Assets	202,618
VIF (Value in Force business)	5,083
Master Trust Ring-Fenced Account	(1,800)
Deferred Tax on Technical Provisions	(2,448)
Risk Margin	(2,011)
Loan revaluations	6,833
Own Funds per Solvency II	208,275

D.2. Technical Provisions

D.2.1. Valuation, Methodology and Assumptions

There are three components of the Technical Provisions for FIL Life. These are:

- the Unit Liability
- the Best Estimate Liability (BEL)
- the Risk Margin (RM)

Table D.3: Technical Provisions as per QRT S.02.01 & S.12.01 Comparison

Technical Provisions	31 Dec 2023	31 Dec 2022
	£'000	£'000
Technical Provisions Calculated as a Whole	41,534,124	37,866,261
BEL	2,479	3,440
Risk Margin	2,122	3,666
Gross Technical Provisions	41,538,725	37,873,367

Contracts classified as investment business for UK GAAP are valued using a fair value principle whereas Solvency II uses a discounted cash flow methodology.

Where a liability can be replicated using financial instruments, for which a reliable market value is available, the value of the Technical Provisions for that liability is determined as the market value.

Otherwise, the value of Technical Provisions equals the sum of the BEL and the RM.

The BEL is the expected present value of the probability-weighted average of future cash-flows, using a relevant risk-free interest rate term structure.

The RM is the cost of holding the SCR over the lifetime of the business. The cost of capital rate is set to be 4% p.a. in line with the UK Government's 'Insurance and Reinsurance undertakings (Prudential Requirements) (Risk Margin) Regulations 2023' which took effect from 31 December 2023. This represents a reduction in the cost of capital rate which was previously set at 6% p.a. The UK Government's proposal also includes the introduction of a new tapering parameter which reduces the future SCR.

Under Solvency II, the Technical Provisions only reflect insurance liabilities for business in-force at the valuation date, and not any future insurance business. Since future contributions on pensions policies are discretionary, these are treated as future new insurance business and are excluded when valuing the liabilities.

The policies written by FIL Life fall into two main categories:

- Unit-linked pension policies
- Index-linked and fixed annuities

Within the unit-linked pension policies there are Section 32 (S32) unit-linked policies, which are non-cancellable by the Company.

All other unit-linked policies can be cancelled by the Company after having given relevant

notice. The S32 policies amount to 6.4% of unit-linked policies or 5.3% of gross AUA.

For the purpose of reporting QRT S.12.01 (Life and Health SLT Technical Provisions), we have classified the annuity contracts as “Contracts without options and guarantees”.

D.2.2. Unit-linked Liabilities

FIL Life’s liabilities are predominantly unit-linked pension policies held by individuals and institutional clients.

The unit-linked liability is £41,534,124 (December 2022: £37,866,261).

The unit liabilities are equal to the value of units allocated to policyholders and are matched by corresponding unit-linked assets held on behalf of policyholders. The value of units is calculated as the price per unit multiplied by the number of units. These are calculated by the policyholder administration system.

Approximately 40% of FIL Life’s unit-linked liabilities are invested in the funds of other insurance companies, via reinsurance treaties. These are insurance companies domiciled in the UK and regulated by the PRA.

In the unlikely event of a fund partner failing to honour its obligations under these reinsurance treaties, any loss would be passed onto policyholders under the terms of the policy.

The only exception is a subset of policies written prior to 2008. The wording in these policies did not provide sufficient clarity on who bore responsibility in the case of a default event. FIL Life holds an additional reserve against counterparty default risk for these policies, as an extra layer of prudence.

D.2.3. Unit-linked Best Estimate Liability

The unit-linked BEL is £41,534,124 (December 2022: £37,866,261).

For the unit-linked business, the BEL is the market value of the AUA, less the value in-force (VIF) of the business. The VIF is calculated as the present value of future AMC

income, less future charges and expenses. The VIF only allows for future cashflows on the contracts up to the date at which FIL Life can terminate the business.

The Reinsurance Recoverable Asset for the policies invested with fund partners is also the market value of the AUA with no adjustment for VIF, since the charges received by FIL Life are received net of the reinsurer’s share.

The discount rates and investment returns used are those provided by the PRA as at 31 December 2023 as reduced by the average AMC on the funds. These are based on market swap rates.

No adjustment has been made for any of the matching adjustment, volatility adjustment, or the transitional measure on risk-free interest rates.

The key assumptions in calculating the VIF are:

- The projection of future administration charges, less expenses, continues until the first point at which the Company may unilaterally terminate the contracts, after serving relevant notice. This period of notice is assumed to be 12 months, except for S32 policies. For the S32 policies, the projections continue until the planned retirement date of the policyholder, assuming no further contributions. These assumptions are unchanged from the previous reporting period valuation.
- The calculation of the VIF takes account of the expected lapse and mortality experience of the business. The assumed lapse rates are based on past experience and expert opinion. For the S32 policies a lapse assumption of 5.5% (December 2022: 5.5%) has been assumed, which is the historical average of lapses. For other types of policies, the assumed lapse rates are between 4.5% and 13.5% (December 2022: 4.5% and 15.0%) depending on recent actual experience.

- All unit-linked policyholders are assumed to retire once they reach age 70.
- Mortality – base mortality assumptions are 1000% of the PMA16 tables for males and 100% of the PFA16 table for females (December 2022: 100% of PMA16 and PFA16)
- Expenses are subject to the terms specified under the IASA.

D.2.4. Annuity Liabilities

FIL Life has a small portfolio of GBP denominated single and joint life annuity policies, all of which are currently in-payment.

Annuities are now closed to new business and no new policies have been written since July 2010.

The payments on some of these policies are linked to inflation, either the Retail Price Index (RPI) or Limited Price Index (LPI), with the remainder either having fixed percentage increases or no increases. The entire portfolio is fully reinsured to, and administered by Hannover Re.

The net impact of the Standard Formula SCR stresses which apply to the annuity portfolio are shown below. The calibration of the stresses are prescribed in the onshored Delegated Regulation.

Table D.4: Annuity Portfolio
Stress Tests

Stress Tests	31 Dec 2023 £'000
Interest Rates Up	29.1
Interest Rates Down	40.7
Longevity Stress	41.3

The annuity liability is £7.6m (December 2022: £7.7m).

D.2.5. Annuity Best Estimate Liability

For the annuity liabilities, the BEL and the Reinsurance Recoverable Asset have been valued in full, using a per-policy, cash flow projection methodology and using best estimate assumptions for mortality/longevity.

The discount rates used are those provided by the PRA as at 31 December 2023.

No allowance has been made for any possible matching adjustment, volatility adjustment or the transitional measure on interest rates. Nor is an allowance made for expenses, since the administration is the responsibility of Hannover Re.

All overhead expenses for the annuity policies are covered by the IASA with FPM. FIL Life's assets include a corresponding Reinsurance Recoverable Asset in respect of the Hannover Re reinsurance. This differs from the gross BEL only in the allowance for Hannover Re to default. This allowance is based on the credit rating agencies.

Mortality is the only demographic assumption relevant to the annuity BEL. This assumption can be decomposed into the base rates i.e., current mortality and projected longevity improvements. The assumptions are as follows:

- The base mortality assumptions are set as 101% of PMA16 and 98% of PFA16 for males and females respectively (December 2022: 98% and 97% respectively).
- The longevity improvements assumptions are the latest provided by the actuarial profession, known as the 2022 Continuous Mortality Investigation (CMI) core mortality projections model. This model has been parameterised with long-term rates of 1.5% and 1.5% for mortality improvements for males and females respectively (December 2022: 1.5% and 1.5%). All parameters are otherwise as per the "Core" parameterisation.

- The inflation assumption used is the UK Government implied inflation term structure as at 31 December 2023, subject to the 5% limit for LPI policies, which is provided by the Bank of England.
- The corresponding Reinsurance Recoverable Asset for these liabilities has been calculated in an identical manner and using the same assumptions, with the addition that each reinsurance cashflow includes an allowance for the cumulative probability of default and loss-given-default for Hannover Re. The probability of default assumption is based on those provided by the PRA for use within the matching adjustment calculations.
- These term dependent rates vary by credit rating. As at 27 July 2023, Hannover Ruck SE (which includes the Hannover Re UK Branch) was rated AA- by S&P, which is unchanged from last year and corresponds to credit quality step 1
- The loss-given-default is assumed to be 50% as per the requirements of the Standard Formula counterparty default calculation.

D.2.6. Master Trust Guarantee and Ring-Fenced Account

FIL Life provides a guarantee to the Fidelity Master Trust under a financial reserving requirement. An amount of £1.6m has been deposited in a ring-fenced bank account for use by the trustees of the Master Trust, in the event that the Company is unable to pay the costs of the Master Trust. Under SII, ring-fenced bank account is disallowed.

D.2.7. Deferred Tax on Technical Provisions

Deferred tax is provided on the net amount of the VIF, less the RM at the prevailing rate of tax.

D.2.8. Risk Margin

The RM is £2.1m as at 31 December 2023 (December 2022: £3.7m). The slight decrease in the RM is primarily due to the change in the cost of capital (see below).

The RM component of the liabilities reflects the cost of holding capital against current and future non-market risk capital requirements.

The RM is calculated based on the SCR for non-hedge able risks over the future lifetime of the obligations. The projection of the SCR for in-force contracts is the key input to this calculation.

The RM is calculated at a total portfolio level rather than at an individual policy level.

The RM is calculated using the updated cost of capital approach set out in the UK Government's 'Insurance and Reinsurance undertakings (Prudential Requirements) (Risk Margin) Regulations 2023' which took effect from 31 December 2023.

The RM calculation forecasts each future non-market SCR for the lifetime of the liabilities, applying a 4% cost of capital and a newly introduced lambda factor which tapers the future non-market SCR. The results are then discounted back to the valuation date using the relevant PRA risk-free interest rate.

This approach has been updated since 31 December 2022 to reflect the new methodology specified by the UK Government.

Apart from the reduction in the cost of capital, the approach is unchanged and is consistent with Method 1 in the hierarchy of methods for the calculation of the RM.

As previously stated, the majority of FIL Life's unit-linked policies may be unilaterally terminated within 12 months. For the remaining policies, the two main non-market risks under the SCRs are counterparty default risk and operational risk.

The future counterparty default risk is calculated by projecting the future AUA for

those policies and applying a fixed ratio based on current AUA for policies with counterparty default risk compared to the current counterparty default risk SCR. The future operational risk is calculated by projecting the future AUA for FIL Life's unit-linked liabilities, which will predominantly be S32 policies after one year, and assuming the current level of operational risk runs-off accordingly.

The future risks on the annuity policies are assumed to be proportional to future policy counts.

Reinsurance on unit-linked funds is where members or schemes have chosen to invest into pension funds issued by other insurance companies. This is not counted as traditional reinsurance.

Table D.5: Products, No. of Annuity Policies/No. of Scheme Members and Solvency II Results as at 31 December 2023

Product	Line of Business	No. of Policies/ Schemes	Gross BEL £'000	Reinsurance Recoverable £'000	Net BEL £'000	Net BEL 2022 £'000
Linked Annuities	Index-linked and unit-linked Insurance	369	2,853	2,840	13	15
Fixed Annuities	Other Life Insurance	596	4,709	4,688	21	25
Total Annuities		965	7,562	7,528	34	40
Individual Pensions	Index-linked and unit-linked Insurance	379,845	14,520,101	2,703,410	11,816,691	9,494,632
Group Money Purchase Pensions	Index-linked and unit-linked Insurance	317,189	13,947,690	4,090,834	9,856,856	7,747,921
Trustee Investment Plan	Index-linked and unit-linked Insurance	40	13,066,333	8,688,528	4,377,805	5,430,166
Value in Force Business	Index-linked and unit-linked Insurance		(5,803)		(5,803)	(4,307)
Total Unit-linked	Index-linked and unit-linked Insurance	697,074	41,528,321	15,482,772	26,045,549	22,668,412
Risk Margin	Annuities		40		40	119
	Unit-linked		2,082		2,082	3,547
Total Risk Margin			2,122	0	2,122	3,666
Total		698,039	41,538,003	15,490,300	26,047,705	22,672,119

D.2.9. Material Changes to the Calculation of the Technical Provisions

There have been no material changes to the calculation of the technical provisions, other than the change to the Risk Margin outlined in D.2.8.

D.2.10. Reinsurance Recoverable and Special Purpose Vehicles

There are no Special Purpose Vehicles. FIL Life has reinsurance arrangements covering both the unit-linked and annuity liabilities.

In both cases, the Reinsurance Recoverable Asset is valued using assumptions and methodology that are identical to the corresponding BEL, except for any counterparty default assumptions. Please refer to Section D.2.1 for details of the calculation.

D.2.11. Alternative Methods for Valuation

There is no alternative valuation method used.

D.2.12. Material Uncertainties

There are no material uncertainties relating to FIL Life's valuation.

D.2.13. Uncertainty associated with the Value of the Technical Provisions

The methodology employed is proportionate to the nature, scale and complexity of the risks accepted by the business.

The only simplification employed by FIL Life relates to the valuation of the unit-linked liabilities. Specifically, no credit has been taken for the present value of future charges expected to be earned after the first point at which FIL Life has the contractual right to terminate the policies.

The Company has performed calculations that show that extending the projection period to retirement for all unit-linked policies does not understate the Technical Provisions or lead to an underestimation of the risk, and that the simplification is therefore consistent with the Solvency II rules on proportionality.

The Chief Actuary has evaluated the contract boundaries simplification in light of the requirements of Article 56 of the onshored Delegated Regulation and does not believe that an error is introduced by the use of this proportionate method.

For the reinsured unit-linked liabilities, the best estimate Reinsurance Recoverable Asset makes no allowance for the expected reinsurance default on materiality grounds.

The methodology for calculating the RM is a simplification in line with Method 1 in the hierarchy of methods for the calculation of the RM. This is a known simplification and is consistent with the approach taken in previous years.

Excluding the assumptions underlying the projection of the RM, the only discretionary assumptions in FIL Life's valuation are the retirement age and mortality for unit-linked business and the mortality, counterparty default and inflation rate assumptions relating to the annuity portfolio.

These have been set using industry standard assumptions, because there are insufficient policies to facilitate an analysis of FIL Life's own portfolio. The lapse assumptions for unit-linked business have been set using an analysis of historic claims and expert opinion.

There are no material deficiencies in the data used for the Technical Provisions.

D.2.14. Reconciliation to Financial Statements

The accounting policies are consistent between the Financial Statements (Financial Reporting Standard 102). Where the asset assets and liability values differ, these are noted in table D.2

The annuity liabilities are calculated gross of reinsurance on a Solvency II basis, with a separate reinsurance asset then included on the asset side of the Solvency II balance sheet.

One further difference between Solvency II and the Financial Statements is the valuation of the intragroup loans. In the Financial statements the loan is valued using amortised cost, whereas under Solvency II it is the discounted value of future payments. The interest rate on the loan is higher than the RFR, resulting in a higher valuation and a reserve for deferred tax.

D.3. Other Liabilities

D.3.1. Valuation, Methodology and Assumptions

Other financial liabilities and payables are £102.8m at 31 December 2023.

Components of other liabilities are shown in table D.6. These amounts are based on a market consistent valuation and consistent with values included in the financial statements. Aggregation is not used in the calculation of other liabilities.

The same valuation basis, methods and assumptions, where relevant, are used for the Company's Financial Statements, as are used for Solvency II reporting purposes, with the exception of the inclusion of deferred tax on the difference between the VIF and the risk margin. Other financial liabilities and payables, such as premiums received in advance and general creditors are included at expected settlement value.

Table D.6: Other Liabilities

Other Liabilities	31 Dec 2023 £'m	31 Dec 2022 £'m
Premiums Received (due to be invested/ awaiting settlement)	56.6	54.4
Payable to Group Companies	3.0	1.6
Claims Outstanding	40.8	36.7
Deferred Tax Liability (see D.2.7)	2.4	2.1
Total Other Liabilities	102.8	94.8

There are no contingent liabilities or material provisions in the Financial Statements. FIL Life has no lease arrangements.

As outlined in B.1.7 staff are employed by other FIL Group companies. The expenses in relation to these employees are recharged on a cost plus 5% basis and are included in administrative expenses. There is no defined benefit pension plan for employees.

D.4. Alternative methods of valuation

The company has no alternative methods of valuation.

D.5. Any Other Information

Market movements to date, although volatile, have been less severe than the 40% market shock stress test scenario considered within the Company's ORSA.

FIL Life remains profitable, and the capital ratio is largely unaffected by the decrease in financial markets due to the following reasons:

- FIL Life's expenses are based on income earned from funds and will therefore reduce when markets fall, decreasing expenditure-based requirements.
- The market value of pre-2008 assets reduce as markets fall. This decreases FIL Life's counterparty risk.
- FPM is part of the FHL Group which has a significant capital buffer. FIL Limited, the ultimate parent company of FIL Life and FPM, is also sufficiently capitalised. There are no current concerns of FPM failing to meet its commitments under the IASA.

There is no other material information relevant to the Company's valuation for solvency purposes.

E. Capital Management

E.1. Own Funds

E.1.1. Capital Management Policy

The objectives of the Company's capital management policy is to ensure that capital continues to be adequate to maintain the safety and stability of FIL Life, assuring a high level of confidence in the Company.

It is the policy of FIL Life to maintain sufficient capital to readily absorb its material risks, based on current volumes of business and any new business expected to be written over the next year. Under normal circumstances, the Company will maintain a capital buffer in excess of its calculated SCR, the amount of which is determined in accordance with the Company's Risk Appetite.

Current levels of solvency coverage are monitored closely against both 'hard' or set limits and 'soft' or trigger levels which have been determined by the Board. Once these limits are breached a set of agreed actions will be undertaken to address the breach.

FIL Life matches policyholders' unit-linked funds with the underlying assets.

There have been no changes in the objectives, policies or processes over the reporting period.

E.1.2. Management of Own Funds

The Own Funds are managed to be in a "risk free" environment, such that they have low liquidity and market risk. FIL Life manages this objective by keeping the Own Funds that are not used on a day-to-day basis in the Fidelity Institutional Liquidity Fund plc (ILF), which is AAA rated. Funds maintained outside of the ILF are placed with approved FIL Group counterparties.

It is the Board's intention that the Company will maintain Own Funds of no less than 122% of the Company's Pillar 1 SCR and the capital requirement calculated under the ORSA. The

Board actively monitors this position on a regular basis, taking into consideration the time horizon used for the Company's business planning, which is 5 years.

The quality of Own Funds is continuously monitored to ensure that sufficient eligible Own Funds are maintained at all times. The Company has determined a list of actions which it could undertake in order to address any concerns which may arise in respect of the quantity or quality of Own Funds.

E.1.3. Components of Own Funds

The Company's Own Funds are all Tier 1 capital in accordance with the guidelines on loss absorption and repayment of capital and dividends. These are materially free from any liens and encumbrances.

Table E.1: Breakdown of Solvency II Own Funds as at per QRT S.23.01

Own Funds	31 Dec 2023 £'000	31 Dec 2022 £'000
Ordinary Share of £1 each, issued and full paid up	137,000	137,000
Reconciliation Reserve	71,275	59,848
Total Own Funds	208,275	196,848

E.1.4. Reconciliation to Financial Statements

The financial statements are prepared under UK GAAP (Financial Reporting Standards 102 & 103) accounting standards, whilst the Solvency II balance sheet is prepared in accordance with the Solvency II directive and associated regulations and guidance.

As noted in table D.2 there are a number of differences between the basis, methods and

assumptions regarding the valuation of Own Funds used for solvency purposes and those used in the financial statements.

The financial statements are not required to include the VIF or the RM and the associated deferred tax liability in relation to the unit-linked business. Under SII deferred tax is provided on the difference between the VIF and RM and on the revaluation of the loan.

The ring-fenced amount for the Master Trust is an inadmissible asset under the Solvency II regulations.

There are no basic own fund items subject to transitional arrangements. There are no ancillary Own Funds items.

There are currently no deductions from Own Funds. There is no subordinate debt included in the Company's Own Funds.

There are no restrictions or ring-fenced funds, other than that relating to the Master Trust.

There is no loss absorbency mechanism in relation to Own Funds.

**Table E.2: Assets over Liabilities
Reconciliation of Own Funds as
per QRT S.02.01, S12.01 and
S.23.01**

Reconciliation of Own Funds	31 Dec 2023 £'000	31 Dec 2022 £'000
Total of Reserves and Retained Earnings from Financial Statements	202,618	191,943
Add: VIF	5,083	4,307
Add: Loan Revaluation	6,833	7,840
Less: Master Trust ring-fenced fund	(1,800)	(1,575)
Less: Solvency II Deferred Taxation	(2,448)	(2,120)
Less: Risk Margin	(2,011)	(3,547)
Excess of Assets over Liabilities (Solvency II Own Funds)	208,275	196,848

As noted in D.2.6 allowance has been made for Master Trust ring-fenced account and the deferred taxation on the Technical Provisions.

There were no other significant changes to Own Funds over the reporting period.

E.1.5. Expected Developments in Own Funds

As at 31 December 2023 there are no plans to issue, repay or otherwise change the Company's Own Funds position.

Under both the current solvency position and forward-looking projection, FIL Life has sufficient capital to cover all identified risks.

Under the ORSA process, projections take into account the ways in which Own Funds may develop and change over time under stress tests and severe scenarios.

The primary purpose of the ORSA is to ensure that the Company engages in the process of assessing all of the material risks inherent in its business and has determined its related capital needs.

The Board does not consider the reconciliation reserve (total Own Funds, less the issued and paid-up ordinary share capital) to be significantly volatile. For the unit-linked policies the asset and liabilities are matched and all movements in values are for the benefit of the policyholders.

In addition, the IASA with FPM ensures that any fluctuation in operating costs is linked to the income generated by the Company.

On a statutory accounting basis, the Company made a profit for the year of £10.7m (December 2022: £4.7m).

These amounts have been retained in shareholders' funds. Total shareholders' funds are £202.6m (December 2022: £191.9m).

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Solvency Capital Requirement

The SCR has been calculated in accordance with the methodology specified under the Standard Formula, which involves applying a series of prescribed stress tests.

Expenses are not stressed within the SCR calculation on the basis that the expense risk is largely eliminated by the terms of the IASA with FPM.

Table E.4: Solvency Capital Requirement as per QRT S.25.01

SCR Module	31 Dec 2023 £'000	31 Dec 2022 £'000
Counterparty Default Risk	8,840	9,633
Market Risk	12,349	14,623
Life Underwriting Risk	1,522	1,276
Diversification Benefit	(5,285)	(5,679)
Total BSCR	17,426	19,854
Operational Risk	16,828	15,274
Loss absorbing capacity of deferred taxes	(740)	(160)
Total SCR	33,515	34,967

FIL Life applies the type 1 equity stress as this is more onerous than the type 2 equity stress.

This approach avoids the need to obtain and process the full look-through data on the underlying assets. Research carried out indicates that this is a prudent approach to calculating the stress.

An assumption is made that FIL Life's expenses are fully variable i.e., directly

proportional to AUA for the purposes of calculating the equity risk and lapse risk stresses. In practice there is a small component of fixed expenses that are unaffected by the level of AUA.

Allowance has been made within the SCR for the loss absorbing capacity of the deferred tax liability.

No other simplifications are used in the calculations.

E.2.1.1. Material Changes

The introduction of a new intragroup loan during 2023 resulted in an increased market risk exposure arising from interest rate and spread risk, offset by the unwinding of the 3-year loan made in 2022...

The change in SCR reflects changes in business assets (premiums received less claims paid) and market movements where any gains and losses are matched to the unit-linked policyholders' assets and liabilities.

There are no undertaking-specific parameters for the SCR components. There are no regulatory capital add-ons applied.

E.2.2. Minimum Capital Requirement

The MCR is £15.08m (December 2022: £15.7m).

Table E.5: MCR as per QRT S.28.01

MCR Module	31 Dec 2023 £'000	31 Dec 2022 £'000
SCR	33,515	34,967
MCR Cap (45% of SCR)	15,082	15,735
MCR Floor (25% of SCR)	8,379	8,742
Combined MCR	15,082	15,735
Absolute Floor of MCR	3,495	3,445
MCR	15,082	15,735

The calculation of the MCR is purely formula based as dictated by the Solvency II requirements. It is subject to a floor of the higher between 25% of the SCR or €4.0m or equivalent and a cap of 45% of the SCR.

E.2.2.1. Material Changes

In practice, for FIL Life the applicable requirement from this formula is 45% of the SCR, such that the MCR has moved in line with the SCR in the period. This is expected to remain the case for the foreseeable future.

E.3. Use of the Duration-Based Equity Risk Sub-Module in the Calculation of the SCR

The Company does not use the duration-based equity sub-module. This section is not relevant for FIL Life.

E.4. Differences between the Standard Formula and any Internal Model used

The Board has taken the view that the Standard Formula is appropriate for the Company to use in assessing its Pillar 1 capital requirement and that it does not therefore, need to develop its own internal model. This section is not relevant for FIL Life.

E.5. Non-Compliance with the MCR and SCR

The Company monitors the compliance with the MCR and SCR on a regular basis. This monitoring consists of a daily calculation, which excludes the pre-2008 revaluation, on movements in cash and a recalculation of significant debtors' positions on a quarterly basis.

Table E.6: Ratio of Eligible Own Funds to SCR/MCR as per QRT S.23.01

Own Funds, SCR, MCR & Coverage Ratio	31 Dec 2023 £'m	31 Dec 2022 £'m
SCR	33.52	35.0
MCR	15.08	15.7
Eligible Own Funds	208.28	196.8
Ratio of Eligible Own Funds to SCR	621.5%	563.0%
Ratio of Eligible Own Funds to MCR	1,380.99%	1,251.0%

There have been no periods of non-compliance with either the MCR or SCR and there is no reasonable, foreseeable risk of non-compliance with the MCR or SCR in the future.

E.6. Any Other Information

E.6.1. Market Events on Capital Management

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.

E.6.2. Geopolitical events impact on Capital Management

FIL Life's Own Funds have no direct exposure to the Ukraine, Russia or Belarus, nor to Israel and the Middle East as own funds are only invested to ensure they have low liquidity and market risk.

There is no other material information relevant to the capital management of the Company.

Appendix 1 - Directors' Statement

The Directors acknowledge their responsibility for the proper preparation of the Solvency and Financial Condition Report in all material respects in accordance with the PRA rules and Solvency II Regulations.

The Board is satisfied that to the best of its knowledge and belief:

(a) throughout the financial year to 31 December 2023, the firm has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the firm; and

(b) it is reasonable to believe that in respect of the period from 31 December 2023 to the date of the publication of the Solvency and Financial Condition Report, the firm has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2023.



S. Maher
Director



M. Jaekel
Director

Appendix 2 - Auditors' Opinion



Report of the external independent auditors to the Directors of FIL Life Insurance Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2023, (**'the Narrative Disclosures subject to audit'**); and
- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Introduction', 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company template S.05.01.02; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**'the Directors' Statement'**).

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to

public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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; and
- 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.

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 the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report 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.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially

inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report 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 in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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.

Based on our understanding of the Company/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 Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as the PRA rulebook applicable to Solvency II firms. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls) and determined that the principal risks were related to posting of inappropriate journal entries to increase the solvency position of the company, and management bias in accounting estimates and judgemental areas of the Solvency and Financial Condition Report. Audit procedures performed 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; 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 Solvency and Financial Condition Report. 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.

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

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. 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 in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

3 April 2024

Appendix 3 - Quantitative Reporting Templates (all figures in £000)

S.02.01.02: Balance Sheet

	Solvency II value
	C0010
<u>Assets</u>	
Intangible assets	0
Deferred tax assets	892
Pension benefit surplus	0
Property, plant & equipment held for own use	0
Investments (other than assets held for index-linked and unit-linked contracts)	133,486
Property (other than for own use)	0
Holdings in related undertakings, including participations	0
Equities	0
Equities - listed	0
Equities - unlisted	0
Bonds	0
Government Bonds	0
Corporate Bonds	0
Structured notes	0
Collateralised securities	0
Collective Investments Undertakings	133,486
Derivatives	0
Deposits other than cash equivalents	0
Other investments	0
Assets held for index-linked and unit-linked contracts	26,051,352
Loans and mortgages	151,833
Loans on policies	0
Loans and mortgages to individuals	0
Other loans and mortgages	151,833
Reinsurance recoverables from:	15,490,299
Non-life and health similar to non-life	0
Non-life excluding health	0
Health similar to non-life	0
Life and health similar to life, excluding health and index-linked and unit-linked	4,688
Health similar to life	0
Life excluding health and index-linked and unit-linked	4,688
Life index-linked and unit-linked	15,485,612

S.02.01.02: Balance Sheet (continued)

	Solvency II value
Deposits to cedants	0
Insurance and intermediaries' receivables	0
Reinsurance receivables	0
Receivables (trade, not insurance)	3,678
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	6,652
Any other assets, not elsewhere shown	11,661
Total assets	41,849,854

Liabilities

	C0010
Technical provisions – non-life	0
Technical provisions – non-life (excluding health)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - health (similar to non-life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding index-linked and unit-linked)	4,734
Technical provisions - health (similar to life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions – life (excluding health and index-linked and unit-linked)	4,734
TP calculated as a whole	0
Best Estimate	4,709
Risk margin	25
Technical provisions – index-linked and unit-linked	41,533,992
TP calculated as a whole	41,534,124
Best Estimate	-2,230
Risk margin	2,097
Contingent liabilities	0
Provisions other than technical provisions	0
Pension benefit obligations	0
Deposits from reinsurers	0

Deferred tax liabilities	2,448
Derivatives	0
Debts owed to credit institutions	0
Financial liabilities other than debts owed to credit institutions	0
Insurance & intermediaries payables	40,823
Reinsurance payables	0
Payables (trade, not insurance)	59,582
Subordinated liabilities	0
Subordinated liabilities not in Basic Own Funds	0
Subordinated liabilities in Basic Own Funds	0
Any other liabilities, not elsewhere shown	0
Total liabilities	41,641,579
Excess of assets over liabilities	208,275

S.05.01.02 - Premiums, Claims and Expenses by Line of Business

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	0	0	3,986,592	0	0	0	0	0	3,986,592
Reinsurers' share	R1420	0	0	1,277,365	0	0	0	0	0	1,277,365
Net	R1500	0	0	2,709,228	0	0	0	0	0	2,709,228
Premiums earned										
Gross	R1510	0	0	3,986,592	0	0	0	0	0	3,986,592
Reinsurers' share	R1520	0	0	1,277,365	0	0	0	0	0	1,277,365
Net	R1600	0	0	2,709,228	0	0	0	0	0	2,709,228
Claims incurred										
Gross	R1610	0	0	4,780,915	338	0	0	0	0	4,781,253
Reinsurers' share	R1620	0	0	1,928,021	338	0	0	0	0	1,928,360
Net	R1700	0	0	2,852,893	0	0	0	0	0	2,852,893
Changes in other technical provisions										

Gross	R1710	0	0	3,182,685	-346	0	0	0	0	3,182,339
Reinsurers' share	R1720	0	0	657,086	-338	0	0	0	0	656,748
Net	R1800	0	0	2,525,599	-8	0	0	0	0	2,525,591
Expenses incurred	R1900	0	0	67,177	0	0	0	0	0	67,177
Other expenses	R2500									0
Total expenses	R2600									67,177

S.05.02.02 - Premiums, Claims and Expenses by Country

Return S.05.02.01 has not been included because all business in the UK

S.12.01.02 - Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010	0	41,534,124			0			0	0	41,534,124
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020	0	15,482,772			0			0	0	15,482,772
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	R0030	0		-2,229	0		4,709	0	0	0	2,479
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0040	0		2,840	0		4,688	0	0	0	7,528
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	0		-5,070	0		21	0	0	0	-5,048
Risk Margin	R0100	0	2,097			25					2,122
Amount of the transitional on Technical Provisions											

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
Technical Provisions calculated as a whole	R0110	0	0		0			0	0	0	
Best estimate	R0120	0		0	0		0	0	0	0	
Risk margin	R0130	0	0		0			0	0	0	
Technical provisions - total	R0200	0	41,533,992		4,734			0	0	41,538,725	

S.23.01.01 - Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	137,000	137,000		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	71,275	71,275			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	0
Total basic own funds after deductions	R0290	208,275	208,275	0	0	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	208,275	208,275	0	0	0
Total available own funds to meet the MCR	R0510	208,275	208,275	0	0	
Total eligible own funds to meet the SCR	R0540	208,275	208,275	0	0	0
Total eligible own funds to meet the MCR	R0550	208,275	208,275	0	0	
SCR	R0580	33,515				
MCR	R0600	15,082				
Ratio of Eligible own funds to SCR	R0620	6.2145				
Ratio of Eligible own funds to MCR	R0640	13.8099				
Reconciliation reserve		C0060				
Excess of assets over liabilities	R0700	208,275				
Own shares (held directly and indirectly)	R0710	0				
Foreseeable dividends, distributions and charges	R0720	0				
Other basic own fund items	R0730	137,000				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	0				
Reconciliation reserve	R0760	71,275				
Expected profits						

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Expected profits included in future premiums (EPIFP) - Life business	R0770	0				
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	0				
Total Expected profits included in future premiums (EPIFP)	R0790	0				

S25.01.21 - Solvency Capital Requirement for Undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	12,349		
Counterparty default risk	R0020	8,840		
Life underwriting risk	R0030	1,522		
Health underwriting risk	R0040	0		
Non-life underwriting risk	R0050	0		
Diversification	R0060	-5,285		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	17,426		
Calculation of Solvency Capital Requirement		C0100		
Operational risk	R0130	16,828		
Loss-absorbing capacity of technical provisions	R0140	0		
Loss-absorbing capacity of deferred taxes	R0150	-740		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0		
Solvency capital requirement excluding capital add-on	R0200	33,515		
Capital add-on already set	R0210	0		
Solvency capital requirement	R0220	33,515		
Capital requirement for duration-based equity risk sub-module	R0400	0		
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	0		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0		
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0		
Diversification effects due to RFF SCR aggregation for article 304	R0440	0		

		Yes/No
Approach to tax rate		C0109
Approach based on average tax rate	R0590	1 - Yes
		C0130
DTA	R0600	
DTA carry forward	R0610	
DTA due to deductible temporary differences	R0620	
DTL	R0630	
LAC DT	R0640	-740
LAC DT justified by reversion of deferred tax liabilities	R0650	-740
LAC DT justified by reference to probable future taxable economic profit	R0660	0
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	0

Appendix 4 - Glossary of Abbreviations

Term	Meaning
AMC	Annual Management Charge
AUA	Assets under Administration
BEL	Best Estimate Liabilities
BMA	Bermuda Monetary Authority
The Board	The Life Insurance Limited Board of Directors
CDO	Cyber Defense Operations
CEO	Chief Executive Officer
The Company	FIL Life Insurance Limited
DC	Defined Contribution
Delegated Acts	Delegated Regulation (EU) 2015/35
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
EU	European Union
FASL	Financial Administration Services Limited
FCA	Financial Conduct Authority
FFML	FIL Fund Management Limited
FHL	FIL Holdings (UK) Ltd and its subsidiaries
FIL Group	The international group of companies with FIL Limited as the ultimate parent company
FIL Life	FIL Life Insurance Limited
FIL Limited	FIL Limited - the ultimate parent company of FIL Life
FIML	FIL Investment Management Limited
FISL	FIL Investment Services (UK) Limited
FPM	FIL Pensions Management
FRS	FIL Retirement Services Limited
GBP	Pounds Sterling
IASA	Insurance Agency & Services Agreement
ICAAP	Internal Capital Adequacy Assessment Process
IGC	Independent Governance Committee
ILF	Fidelity Institutional Liquidity Fund plc
KRI	Key Risk Indicator
LPI	Limited Price Index
MCR	Minimum Capital Requirement
MLRO	Money Laundering Reporting Officer
OEIC	Open-ended Investment Company
ORSA	Own Risk & Solvency Assessment
PR	Prescribed Responsibility
PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Template
RCSA	Risk and Control Self-Assessment
RM	Risk Margin
RPI	Retail Price Index
S32	Section 32 Policies (Finance Act 1981, 2004)
SCR	Solvency Capital Requirement

Term	Meaning
SFCR	Solvency & Financial Condition Report
SLA	Service Level Agreement
SMCR	Senior Managers and Certification Regime
SMF	Senior Management Function
SoR	Statement of Responsibility
Solvency II Regulations/ Solvency II	Together, the Delegated Acts, Solvency II Directive and PRA Rulebook: Solvency II Reporting Instrument 2015
TCFD	Task Force on Climate-Related Financial Disclosures
TPR	The Pensions Regulator
UK	United Kingdom
UK GAAP	Generally Accepted Accounting Practice in the UK
VIF	Value of in Force Business
WIIOG	Workplace Investing Investment Oversight Group