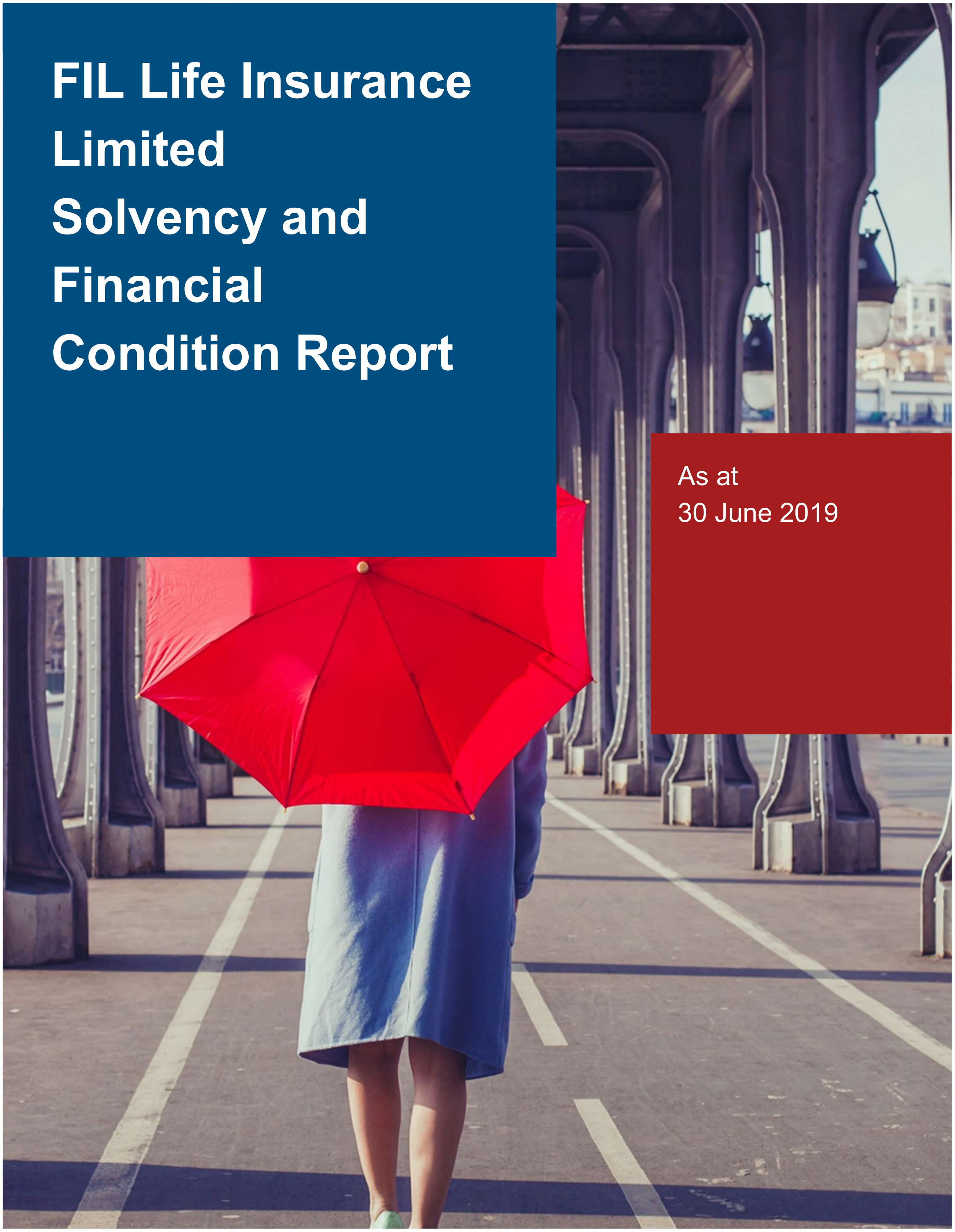
FIL Life Insurance Limited
Solvency and Financial Condition Report

As at
30 June 2019



FIL Life Insurance Limited

Fidelity INTERNATIONAL

Contents

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 30 June 2019. 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 on 4 October 2019.

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). The Company is subject to 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, 'Solvency II Firms: Reporting Instrument 2015 (PRA 2015/23)', which incorporates the requirements set out in Article 51, paragraph 1 of the Directive 2009/138/EC, 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 EU Regulations adopted in accordance with this Directive, collectively the "Solvency II Regulations". It also takes into account the European Insurance and Occupational Pensions Authority's (EIOPA) Guidelines on reporting and public disclosure and its Supervisory Statement on Solvency and Financial Condition Report.

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 and the Independent Auditors' Report.

Appendix 2 provides the Quantitative Reporting Templates (QRTs) at 30 June 2019.

Appendix 3 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.

FIL Life has not received, nor applied for, any waiver not to disclose any information as required by the regulations.

Rounding has been applied throughout the SFCR by using the Excel ROUND function to round to thousands.

Summary

Business and Performance

FIL Life is a regulated life insurance provider based in the United Kingdom (UK) and authorised by the PRA.

FIL Life is a subsidiary of 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 the UK branch of Hannover Rück SE.

FIL Life has operated a Master Trust since 2013. This forms a key product in the Company's client offering. A new regime of regulatory supervision of Master Trusts was introduced by the Pensions Regulator (TPR) in October 2018. The Fidelity Master Trust, of which FIL Life is the Scheme Funder, applied to that regulator for authorisation to continue to operate during 2019/20. Permission was granted on 29 June 2019. FIL Life now provides a guarantee to the Master Trust under a new financial reserving requirement. The guarantee acts as additional security for the Master Trust.

FIL Life's business does not involve the acceptance of material insurance risk and therefore, underwriting performance information 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 only 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.

Summary Table 1: Year End Results

Year End Results	30 Jun 2019	30 Jun 2018
Profit after Taxation	£2.6m	£2.4m
Shares in Issue	£12m	£12m
Dividend	Nil	Nil
Assets under Administration	£31.9bn	£29.5bn
Total Schemes	431	413
New Schemes	16	21
Total Members	564,100	512,365
Fee Income	£47.3m	£49.3m
Administrative Expenses	£43.7m	£44.7m
Regulatory Expenses	£706k	£1.3m
Audit Expenses	£197k	£106k
Actuarial Fees	£163k	£141k

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.

The Company has plans in place to address the exit of the UK from the EU and does not expect this to have a significant impact on FIL Life's current or future business plans.

There are no other significant matters with a material impact on this report.

Further details on the business and performance of the Company 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 is registered as part of 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 Financial Conduct Authority (FCA). These SoRs clearly define the roles of each

Senior Manager 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 control functions such as Risk, Compliance, Internal Audit, and the Actuarial function. Matters relating to Audit are overseen by a dedicated Audit Committee.

The Company has a Fit and Proper Policy in place 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 UK 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 undertakes a full ORSA at least annually and reports on its findings within six months of its accounting year end of 30 June.

FIL Life's system of governance is supported by an Outsourcing Policy. The policy outlines 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, predominantly to FPM which is regulated by the FCA. Administration for the small annuity legacy book is provided by the UK branch of Hannover Rück SE. Details of these arrangements are provided in section B.7. The Company also works with PTL UK in respect of the Independence Governance Committee membership.

Other than the introduction of the SMCR and a change in provider of the Actuarial function and Chief Actuary role, from Willis Towers Watson to Milliman LLP, there have been no material changes to the system of governance during the reporting period.

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

Risk Profile

FIL Life adopts a low risk strategy. Where a medium or high risk exists, the Company will seek to reduce this risk. 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.

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 due to the majority of policyholder liabilities being unit-linked and not offering 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 the company's own capital assessment.

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.

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 30 June 2019 there are no plans to issue, repay or otherwise change the Company's capital management position.

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	30 Jun 2019 £'m	30 Jun 2018 £'m
Solvency Capital Requirement	20.2	19.4
Minimum Capital Requirement	9.1	8.7
Eligible Own Funds	55.0	44.5
Ratio of Eligible Own Funds to SCR	272.3%	229.1%
Ratio of Eligible Own Funds to MCR	605.1%	509.1%

The solvency capital requirement calculated in accordance with regulations exceeds the minimum capital requirement of £9.1m. All own funds are considered as Tier 1 capital, in accordance with the guidelines on loss absorption and repayment of capital and dividends.

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. 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. In 2019 the target capital solvency ratio, including the internal buffer, was 122%. The Company's capital exceeded this target throughout the year.

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 will evaluate and challenge such assessments.

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

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.

FIL Life's business mainly comprises of unit-linked pension funds, with a small legacy annuity book.

There are two main product groups:

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 services to pension trustees and employers, in addition to its investment capability.

FIL Life operates an open architecture investment platform. Its 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 the needs 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 30 June 2019, the Company provided pension solutions for a total of 431 schemes (2018: 413) and 564,100 members (2018: 512,365). There were 16 new schemes taken on during the period (2018: 21).

As at 30 June 2019, the Company has AUA of £31.9bn (2018: £29.5bn). The Company has accepted premium fees on contracts, classified as investment contracts, amounting to £3.2bn (2018: £2.9bn) and incurred claims of £1.8bn (2018: £1.9bn).

The Company made a profit after taxation of £2.573m (2018: £2.425m) for the year. This amount has been transferred to the retained reserves.

The Directors do not propose a dividend for the year ended 30 June 2019 (2018: Nil).

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

A.1.2. Regulatory Supervisor

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

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

The Company is regulated for certain products, including its Master Trust, by TPR, Napier House, Trafalgar Pl, Brighton BN1 4DW

A.1.3. Auditor

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

A.1.4. Ownership

FIL Life is 100% owned by FIL Ltd, a company incorporated in Bermuda. FIL Life has £12m authorised share capital, and £12m 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.

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 Ltd is the parent company of FIL Life** and is the ultimate holding company within the FIL Group. FIL Ltd is regulated by the Bermuda Monetary Authority (BMA).

- **FIL Ltd is also the parent of the FIL Holdings (UK) Ltd (FHL).** FHL is regulated on a consolidated basis by the FCA, making it an "FCA consolidation group" under the EU Capital Requirements Regulation.

- **FIL Life outsources its operational activities to FIL Pensions Management (FPM)** under an IASA. FPM is an FCA regulated subsidiary of FHL.

- **FIL Retirement Services Limited (FRS) provides pre- and at-retirement guidance and advice** for FIL Life's pension scheme members. FRS is an FCA regulated subsidiary of FHL.

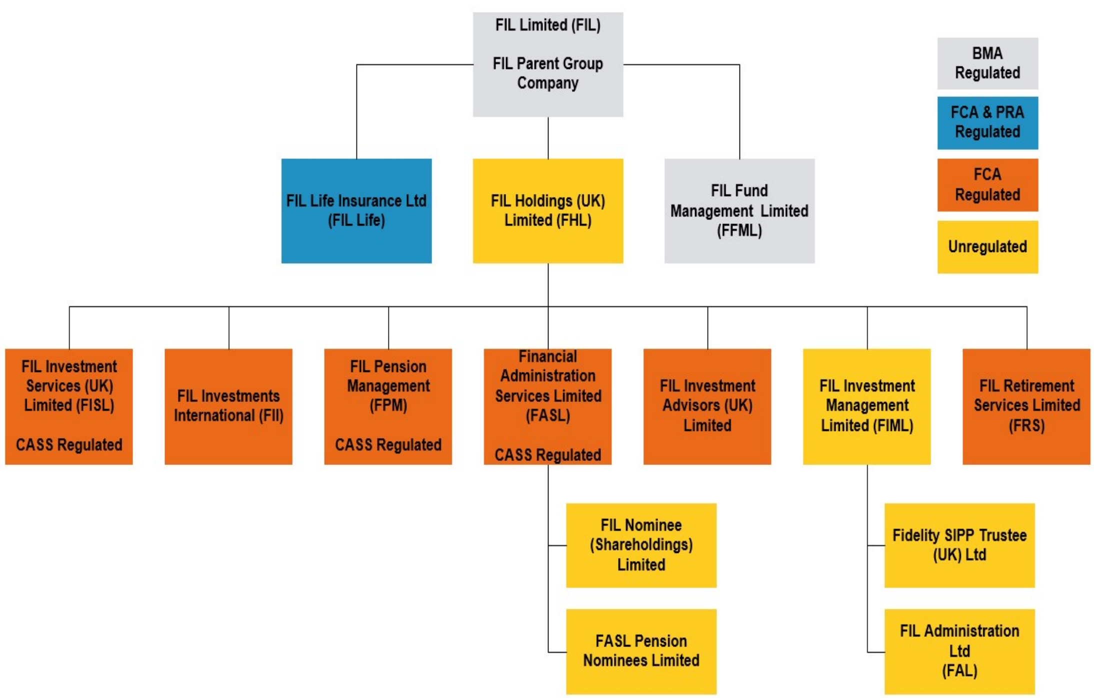
- **FIL Investment Services (UK) Limited (FISL) is the Authorised Corporate Director for Fidelity's UK fund range.** FIL Life selects a number of these funds for inclusion on its pension platform. FISL is an FCA regulated subsidiary of FHL.

- **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 Ltd.

- **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 a selection of unit-linked savings products, written as life insurance contracts, to trustees, employers and employees of UK pension schemes. Specific products are:

- **Individual Pensions, including Group Personal Pension Plan, Stakeholder Pension, and Buy-out Plans.** These pension products are not marketed to individuals; FIL Life distributes these products via employers and other plan sponsors.
- **Trust-based Pension Plans,** both Group Money Purchase Plans and Additional Voluntary Contribution Plans, including member record keeping.
- **Investment Services for Trust-based Plans** 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. Master Trust

In October 2018 a new authorisation and supervisory regime came into effect for all master trust providers. Any existing master trusts, or providers intending to launch a master trust product, were required to apply to TPR for authorisation by 31 March 2019 and provide evidence that they meet the authorisation criteria as laid out in Pension Schemes Act 2017, the Occupational Pension Schemes (Master Trusts) Regulations 2018 and also TPR's Code of Practice (15). The Fidelity Master Trust, of which FIL Life is the Scheme Funder, applied to that regulator for authorisation to continue to operate and was granted permission on 29 June 2019.

FIL Life now provides a guarantee to the Master Trust under a new financial reserving requirement. The Master Trust itself does not hold its own regulatory capital and the guarantee acts as additional security for the Master Trust.

A.1.7.2. Capital Contribution

A capital contribution of £9m was received by FIL Life from FIL Ltd during the year.

A.1.7.3. Senior Managers & Certification Regime

The SMCR replaced the Senior Insurance Managers Regime with effect from 10 December 2018. Section B1 provides further details.

A.1.7.4. Brexit

Following the UK vote to leave the EU on 23 June 2016, the Company and wider FIL Group have been considering the implications and taking action as necessary. While the ultimate outcome is still uncertain, the FIL Group has based Brexit implementation on the worst-case scenario, whereby the UK leaves the EU without an agreement. Key risks to the business and response plans have been formulated and shared with senior management. Impact on FIL Life has been minor with little disruption to investors.

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

A.2. Underwriting Performance

A.2.1. Background

The Company'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 bespoke to each scheme and is dependent upon the metrics of the plan at take on and projected into the future.

The 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 £509 and a current average age of approximately 70 years. No new annuities have been written since July 2010. At 30 June 2019, the BEL in respect of these contracts, before allowing for reinsurance, amounted to £12.0m (2018: £11.8m). This annuity book is fully reinsured thereby removing any mortality risks from FIL Life.

A.2.2. Underwriting Performance

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.1: Total Fee Income

Income	30 Jun 2019 £'m	30 Jun 2018 £'m
Total Fees	47.3	49.3

Whilst AUA at the end of the year was higher than at the beginning of the year, the average AUA, together with renegotiated fees, resulted in a lower level of fee income.

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 Company does not actively invest surplus shareholder funds. Funds are held in cash or cash equivalents i.e. liquidity funds. These cash and cash equivalents generate interest income which is recognised in the profit and loss account as earned.

Performance information on underlying funds is presented to the Board on a quarterly basis.

A.3.2. Investment Performance

Table A.2: Change in Value of Investments

Performance	30 Jun 2019 £'m	30 Jun 2018 £'m
Investment	1,369.97	1,651.20

The decrease in investment performance reflects changes in underlying markets.

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 or those managed by fund partners, together with record keeping fees as shown below:

Table A.3: AMC and Record Keeping Income

Income	30 Jun 2019 £'m	30 Jun 2018 £'m
AMCs	46.0	47.9
Record-keeping Fees	1.3	1.4

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 included regulatory, audit and actuarial fees.

FIL Life's financial profile is expected to remain the same 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.

Table A.4: Expenses

Expenses	30 Jun 2019 £'000	30 Jun 2018 £'000
Administration	43,748	44,649
Regulatory Fees	706	1,294
Audit Fees	197	106
Actuarial Fees	163	141

The regulatory, audit and actuarial fees are covered under the terms of the IASA.

A.4.3. Leasing

There are no leasing arrangements.

A.5. Any Other Information

FIL Life has reported in previous years that during its review of the changes introduced by pension freedoms in 2015, some discrepancies were detected in administration records on how member lump sum protection, known as Protected Tax-Free Cash, was being calculated. FPM, who hold and maintain those records, set up a programme of work to identify the impact on members, contact those affected and where necessary, pay remediation.

Oversight of the programme is provided by FIL Life with completion still due to be achieved in the timeline communicated to the PRA and FCA. Under the terms of the IASA, FPM indemnifies the Company for any losses arising from the services it provides and will meet the costs of this exercise and any remediation. These costs are expected to be recovered under FPM's own insurance arrangements.

A.5.1. Responsible Investment

It is the Company'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 FIL Group's Responsible Investment Policy details its approach towards the stewardship of investments made for clients. Information is provided on the FIL Group's approach to engagement and integration of environmental, social and governance (ESG) issues into the investment process, as well as its approach to remuneration policy, voting, take-over bids and returns to investors.

For further information, please click on the link below to download the policy document.

https://www.fidelity.co.uk/about/responsible-investing

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

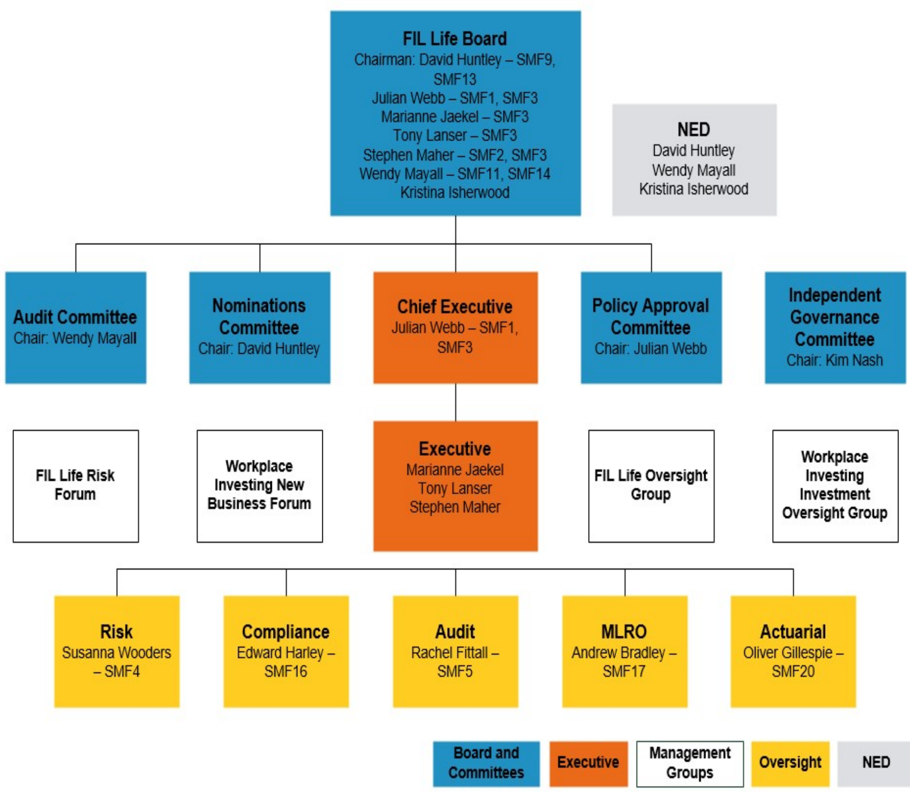
B.1.1. The Board

The FIL Life Board of Directors (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 Management Structure



The Company's Board is comprised of seven Directors as at 30 June 2019 - two independent, non-executive Directors, one other non-executive Director and five executive Directors. Carolyn Jones resigned as an Executive Director with effect from 16 February 2019.

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 Ltd Board.

There have been no material changes to the governance structure during the reporting period.

B.1.2. Committees to the Board

The following committees have delegated authorities from the Board:

- **The Audit Committee** is responsible for monitoring the integrity of FIL Life's annual financial statements. It advises the Board whether the financial statements show a fair, balanced and understandable assessment of the financial position. The committee is responsible for monitoring the independence of the auditors, recommending to the Board the appointment or re-appointment of the auditors and for approval of non-audit services. The committee monitors the effectiveness of the Internal Audit function. This committee is chaired by Wendy Mayall.
- **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 David Huntley.
- **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 Julian Webb.
- **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. Committee membership is outsourced to PTL UK. This committee is chaired by Kim Nash.

B.1.3. Management Groups

The Chief Executive Officer (CEO) is supported by various management groups in the performance of his duties.

- **The FIL Life Oversight Group** is responsible for overseeing outsourced activities and monitors outsourced providers.
- **The Workplace Investing Investment (WIIOG) Oversight Group** is responsible for overseeing products, funds and the platform to ensure these remain fit for purpose.
- **The Workplace Investing New Business Forum** is responsible for reviewing and approving new non-standard business and significant changes to existing schemes, prior to entering contractual obligations.
- **The FIL Life Risk Forum** is responsible for assessing and monitoring risks monthly, including operational risks arising from service provisions escalated by the FIL Life Oversight Group.

B.1.4. Control 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 Actuarial services and the Chief Actuary position to Milliman LLP with effect from 1 November 2018. Prior to the appointment of Milliman LLP, the Actuarial function was outsourced to Willis Towers Watson.

The Company's Finance team and other functions have responsibility for the oversight of this outsourced activity. The Actuarial function is described in more detail in section B.6.

B.1.5. Senior Managers & Certification Regime

The SMCR replaced the Senior Insurance Managers Regime with effect from 10 December 2018.

Under the SMCR, FIL Life had a number of Senior Manager functions in place at 30 June 2019, as listed below:

Table B.1: Senior Manager Functions as at 30 June 2019

Ref	Senior Management Function	Role Allocation	Holder and Responsibilities
SMF1	Chief Executive Function	Chief Executive Function	**Julian Webb** who is a Board Director & Head of Business, responsible for the day-to-day running of the business and staff conduct.
SMF2	Chief Finance Function	UK Chief Finance Function	**Stephen Maher** who is responsible for the management of financial resources, and the production and reporting of financial statements.
SMF3	Executive Director	Executive Director	**Julian Webb**
SMF3	Executive Director	Executive Director	**Stephen Maher**
SMF3	Executive Director	Executive Director	**Tony Lanser**
SMF3	Executive Director	Executive Director	**Marianne Jaekel**
SMF4	Chief Risk Function	Chief Risk Function	**Susanna Wooders** who is responsible for firm-wide risk management and the performance of the ORSA.
SMF5	Head of Internal Audit	Head of Internal Audit	**Rachel Fittall** who is responsible for the management of the Internal Audit function
SMF9	Chairman	Chairman	**David Huntley** who is an independent Non-Executive Director responsible for chairing the Board.
SMF11	Chair of Audit Committee	Chair of Audit Committee	**Wendy Mayall** who is an Independent Non-Executive Director.
SMF13	Chair of Nominations Committee	Chair of Nomination Committee	**David Huntley**
SMF14	Senior Independent Director	Independent Director	**Wendy Mayall**
SMF16	Compliance Oversight	Business Compliance Director	**Edward Harley** 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
SMF17	Money Laundering Reporting	UK MLRO	**Andrew Bradley** who is responsible for the overall management and reporting of financial crime matters.
SMF 20	Chief Actuarial Function	Chief Actuary	**Oliver Gillespie** 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 10	Chair of Risk Committee	N/A	N/A as FIL Life has a UK Chief Risk Officer responsible for the firm's Risk Framework. As all business operations are outsourced, it is not deemed necessary for the firm to have a Risk Committee.
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. It outsources all HR and remuneration, 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 Lloyds only
SMF 23b	Conduct Risk Officer	N/A	N/A as Lloyds only
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. 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 shareholders, which in turn, is based on delivering value to our 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
- 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 those issues.

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 Ltd 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.1.8. Material Transactions

There were no 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.1.9. Integration of Risk Management, Internal Audit, Compliance and Actuarial Function into the Organisational Structure and Decision-Making Process

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

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

See section B.5 for information about how the Internal Audit function is integrated into the organisational structure and decision-making processes of the Company.

See section 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 managers, 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 key 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 SMR responsibilities or key functions are fit and proper and adhere to regulatory requirements in order to discharge the responsibilities allocated to them. The UK regulators have extended the SMCR regime to insurers. This was effective for Insurance firms from 10 December 2018. 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 regulator's 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 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 the SMCR regime 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 SMR regime and/or the FCA approved persons regime. 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, he/she 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 agrees that Milliman LLP's own internal procedures meet the necessary requirements.

B.3. Risk Management System, including the ORSA

B.3.1. Enterprise 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.

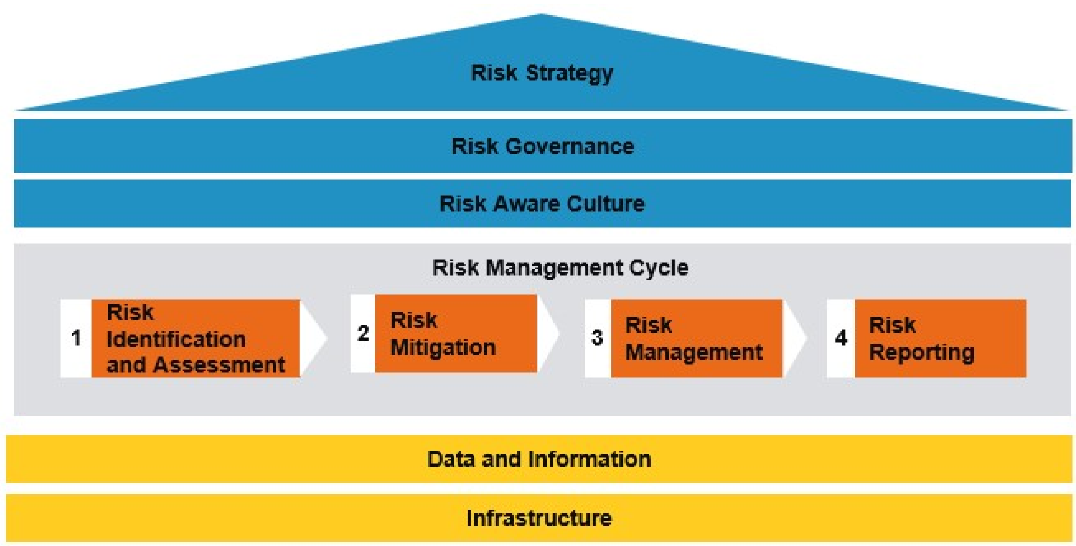
FIL Life is part of the FIL Group and has therefore, adopted the group-wide risk management and policy framework, supported by individual policies specific to FIL Life. The holistic management of risk is defined by the Enterprise Risk Management (ERM) framework, which is designed to support the effective 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 framework 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
- the effective use of appropriate risk identification, mitigating and management strategies
- the integration of relevant, reliable and timely risk management information into reporting and decision-making processes
- the 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 risks-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.

Chart B.2: Risk Management Framework



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.

The Risk Strategy is supplemented by a risk appetite 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.3.2.2. 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.3.2.3. The Three Lines of Defence

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

Table B.3: The Three Lines of Defence

	1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Functions	Business Line Management and Employees Management Groups	Oversight and specialist functions such as Legal, Compliance and Risk	Internal Audit
Role	Responsible for day-to-day operations, for adhering to relevant policies and maintaining an effective and efficient system of risk management and internal control	Provides policies, standards and objectives, and independent oversight of performance and risk management within FIL Life	Provides independent assurance on the effectiveness of the systems and controls in FIL Life, including financial, operational, compliance and risk management

B.3.2.4. Risk 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

The risk-led framework aims to establish oversight, provide thematic analysis and indicate where conduct issues require escalation. 'Good conduct' is defined primarily in terms of customer treatment by the firm, which in turn is supported by the integrity and risk-awareness of individual employees in pursuit of the following objectives:

- Customer treatment by the firm: demonstrate value-for-money, good outcomes and no detriment to the customer.
- Integrity of employees: demonstrate employees act with integrity and 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.3.2.5. 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, identify root causes, drivers, themes and impacts of individual and aggregated risks. Mitigation actions are determined for risks outside of appetite.

The UK 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.3.2.6. 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.3.2.7. 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 actions.

B.3.2.8. Risk Monitoring and Reporting

The Company's risk profile is monitored by the FIL Life Risk Forum, which escalates matters as appropriate, including assessment of changes in the internal and external risk environments and consideration of risk events, including near misses. Monthly risk reports are produced in the 1st line of defence 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 businesses 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.3.2.9. 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 and 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 Risk team evaluates and challenges the assessment.
- 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 liaison to ensure FIL Life's capital implications and ORSA requirements is 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 an approved liquidity policy to ensure it holds sufficient liquidity in a stressed situation to fund client deal transactions.

B.3.2.10. 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 UK 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 and identifies scenarios and stress tests that deviate from the standard formula and explains this rationale.

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.3.3. Prudent Person Principle

FIL Life fulfils the obligations of the prudent person principle as set out in Article 132 of the Solvency II Directive. The business is almost exclusively long-term and unit-linked. Policyholders and schemes select their own investments, often with the assistance of pension consultants, under the rules and criteria permitted by FIL Life, and the Permitted Links Regulations. 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.

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, and '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 Section B.3.2.3. Primary responsibility for identifying the full range of risks faced in their areas of responsibility rests with the 1st line of defence business management. Business management are responsible for ensuring that those risks are appropriately managed by designing and operating effective controls.

Internal Audit, Compliance, Risk Management, Actuarial function, Oversight Groups and Board of Directors oversee the Company's Internal Control framework as outlined in section B.1. Material outsourcing agreements and the role of the FIL Life Oversight Group are described in section B.7.

B.4.2. Compliance Function

The Business Compliance team is part of the second line of defence. It provides oversight and challenge over the business in performing their responsibilities in respect to compliance with regulatory requirements. Business Compliance is comprised of Business Advisory Compliance and Compliance Monitoring.

Business Advisory Compliance provides support and technical guidance to the business on compliance 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 compliance risks. It produces independent compliance reports for the FIL Life Board. The Business Compliance function will manage any interaction with the Company's regulators.

B.4.2.1. The Money Laundering Reporting Officer

The FIL Group MLRO is responsible for maintaining a governance framework of policies and assurance for the FIL Group. The Group MLRO 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 the establishment, maintenance and effectiveness of the Anti-Money Laundering and Counter-Terrorism Financing policies, procedures and controls and monitoring compliance with the relevant Acts, Regulations and guidance.

B.5. Internal Audit Function

The Internal Audit function is performed by Group 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 Committee of FIL Ltd. 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 Third 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 an annual risk-based audit plan, as approved by the FIL Life Audit Committee, on behalf of the Board.

Any relevant findings and recommendations are reported to the FIL Life Audit 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 Committee.

B.6. Actuarial Function

The Actuarial function, along with the role of Chief Actuary, is currently outsourced to Milliman LLP, the global insurance consultancy firm, under a formal Statement of Work agreed with FIL Life. Prior to the appointment of Milliman LLP on 1 November 2018, the Actuarial function was outsourced to Willis Towers Watson.

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 management 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, risk margin and SCR for both unit-linked and annuity business.
- Coordination 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
- Provision of the Underwriting Policy and reinsurance arrangements

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

Furthermore, for FIL Life, the Actuarial function is directly responsible for proposing the assumptions and methodologies used to value the annuity liabilities, and for performing the valuation. Proportionate processes are in-place to ensure the independence of the Actuarial function's advice and opinions from the performance of the valuation.

The Chief Actuary reports to the FIL Life Board at least annually on the prescribed and additional responsibilities of the Actuarial function. The Actuarial function is further required to promptly report to FIL Life management any issues arising, either from the information provided or through the work undertaken, that may have a material impact on the financial position of FIL Life. The Actuarial function also provides input to FIL Life's Risk Management function on risks to the business, in so far as they may impact on FIL Life's ability to meet policyholder obligations and on the capital needed to support the business.

B.7. Outsourcing

FIL Group has an Outsourcing and Supplier Management Policy which applies to material suppliers. The policy has been adopted by FIL Life with an addendum that provides a framework for compliance with the FCA Outsourcing Requirements (Handbook Sysc 8).

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

Table B.4: Key Outsource Relationships

Company and Delegation/Outsource Party	Delegation/ Outsourced Function
FIL Pensions Management (UK based jurisdiction)	Provider of insurance agency and service activities, including administration, promotion, distribution and investment management services.
Hannover Rück SE (EU based jurisdiction with a UK branch)	Reinsurer for FIL Life's annuity book and administrator of FIL Life's annuity book
Milliman LLP (UK based jurisdiction)	Provider of Chief Actuary's services

The Company also works with PTL UK in respect of the Independence Governance Committee membership.

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.

B.8. Any Other Information

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. 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 30 June 2019

Risk Type	Description	Solvency Capital Requirement
Operational Risk	*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.* The Company does not face material operational risk exposure due to the IASA, whereby it 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.	£11.2m
Counterparty Credit Risk	*Counterparty/credit risk is the risk of loss due to counterparties failing to meet all or part of their obligations.* 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 the pre-2008 business, counterparty default risk exists with the Company's selected fund managers, insurers and Hannover Rück SE.	£7.7m
Insurance/ Underwriting Risk	*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.* The Company does not have any material underwriting concentrations. The Company engages in unit-linked business and as the Company neither currently offers guarantees, nor writes annuities, Insurance risk is not deemed to be a major risk facing the business.	£2.3m
Market Risk	*Market risk is the potential for adverse changes in the value of FIL Life's assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates, equity, commodity and real estate prices and their implied volatilities, correlations and credit spreads.* 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.	£1.4m

Risk Type	Description	Solvency Capital Requirement
Liquidity Risk	*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.* Settlements are managed for the Company by a fellow subsidiary. 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.	-
Capital and Funding Risk	*The risk of FIL Life not having sufficient regulatory capital to meet relevant minimum regulatory requirements, with a reasonable margin of safety.* 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.	-
Concentration Risk	*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.* 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.	-
Strategic Risk	*Strategic risk is the risk associated with an inappropriate or non-performing strategy.* The Board approves the strategy and oversees its execution.	-

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 Hanover Rück SE, 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 bespoke 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 £2.3m has been included within the SCR for underwriting risk.

C.1.3. Risk Sensitivity

As the Company'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 very small interest rate risk exists in relation to the annuity Technical Provisions net of reinsurance with Hannover Rück SE, with the exposure being a fall in interest rates. The interest rate risk is not actively managed by FIL Life as it is not material. 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 £0.15m (before diversification benefit) has been included within 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 £1.0m (before diversification benefit) has been included within the SCR for equity market risk in relation to future charges falling, plus a further £0.4m (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 has no direct exposure to spread risk from investments.

- **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 30 June 2019, 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 linked assets lies with policyholders, except for seed capital.

FIL Life has an indirect exposure to market risk on 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 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 FIL Life, including failing to perform them in a timely manner. 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 principle counterparties to which FIL Life 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.

Hannover Rück SE
The risk of 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 Rück SE are also monitored regularly.

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

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. FRS 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.

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. The WIIOG is responsible for monitoring fund partners and determining what, if any, actions should be undertaken where a fund partner is rated below the policy minimum.

Counterparty creditworthiness is monitored on a regular basis and, where appropriate, additional mitigants, such as charges over assets and assurance of 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 FIL Life'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 £4.8m (before diversification benefit) has been included within the SCR counterparty risk for type 1 exposures (banks and reinsurance counterparties) and £3.4m (before diversification benefits) has been included for type 2 exposures. The full SCR is set out in Section E.2 below, 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.

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 and FHL management 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, during the year, 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.

C.4.4. Any Other Disclosure

FIL Life has no contractual premiums. As a result, no profit for future premiums is included.

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.'*

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

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. 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 early Cyber breach detection and response. The mission of the CDO is to develop 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.

The IASA indemnifies FIL Life against all operational risks except for fraudulent activity or breach of duty of care/negligence by FIL Life Directors and/or FIL Life Approved persons, or due to those with delegated authority. These risks are managed by the Board on an ongoing basis.

The FIL Life Risk Forum assesses and monitors risks monthly, including operational risks arising from service provisions.

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 £11.2m has been included 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.

The annuity portfolio is fully reinsured. The net impact of the stress tests is shown below.

Table C.2: Annuity Portfolio Stress Tests

Stress Tests	30 Jun 2019 £'000
Interest rates up	(19)
Interest rates down	7
Longevity stress	20

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. 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 Rück SE 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 Rück SE is not considered material as the Gross BEL for this business is only £11.9m. 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 Delegated Regulation (EU) 2015/35.

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.

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 as described in Section B.3.2.5.

Scenario analysis - The ORSA capital requirement is derived through prescribing 1 in 200 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.

Stress testing assesses the impact on the net revenue and capital surplus. It compares the expected net revenue forecast for the next financial year against a revised forecast based on the various stresses. It calculates a full SCR and risk margin using the stress test assumptions and related outcomes, which are compared to the expected capital position for the following year.

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.

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

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

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

Classes of Material Assets	30 Jun 2019 £'000	30 Jun 2019 £'000
Investments (other than assets held for unit-linked funds)	88,807	91,984
Assets held for index-linked and unit-linked contracts	19,747,955	18,299,207
Reinsurance recoverable from life indexed-linked and unit-linked	12,205,435	11,212,896
Of which relates to fixed annuity liabilities	7,739	7,692
Of which relates to inflation-linked annuity liabilities	4,184	4,030
Of which relates to unit-linked liabilities	12,193,512	11,201,174
Deferred tax asset	164	-
Receivables (trade not insurance)	2,019	8,634
Cash and cash equivalents;	12,785	5,327
Any other assets, not elsewhere shown	3,638	1,289
Total Assets	**32,060,803**	**29,619,337**

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 over the year mainly due to timing differences on premium receipts awaiting settlement.

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) and are stated at the market value provided by the fund managers.

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 questionnaires to assess the quality of the prices and other data received.

In response to adverse events, FIL Life may take a number of 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.

D.1.1.3. Reinsurance Recoverable from Life Excluding Health and Index-linked and Unit-linked

This represents the value to FIL Life of the reinsurance treaty with Hannover Rück SE 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 Section D.2.

D.1.1.4. Reinsurance Recoverable from Life Index-linked and Unit-linked

The reinsurance recoverable 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 Section D.2.

D.1.1.5. Deferred Tax Asset

The deferred tax asset relates to the deferred tax benefit of tax credits taken in 2018 which is expected to reverse in 2020. The net reversal of the deferred tax asset is £163k.

The directors consider that that there should be sufficient taxable profits in the future to realise the deferred tax asset. As a result, the asset has been recognised in the financial statements. There is no expiry of the deferred tax asset and the recovery is only contingent on the Company being profitable in the following financial year, which is considered highly probable. There are no differences in valuation basis between the relevant accounting standards and Solvency II.

The opening value of the deferred tax asset has been reduced by £4.5k due to the change in tax rate from 19% to 18.5%.

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 expected realisable value. This is a good proxy for market value due to the short-term nature of the assets.

D.1.1.7. Cash and Cash Equivalents

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

D.1.1.8. Other Assets

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

D.1.2. Reconciliation to Financial Statements

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 methodologies used in these valuations are consistent with those used in previous reports.

Table D.2: Reconciliation to Financial Statements

	30 Jun 2019 £'m
Net Assets	55.3
VIF (Value in Force business)	4.1
Master Trust Ring-Fenced Account	(1.1)
Deferred Tax on Technical Provisions	(0.1)
Risk Margin	(3.2)
Net Assets per SII	**55.0**

D.2. Technical Provisions

D.2.1. Valuation, Methodology and Assumptions

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

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

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 8% of unit-linked policies or 7% of gross AUA.

These liabilities are summarised in table D.3 and their valuation is described in more detail in the sections that follow.

For the purpose of reporting QRT S.12.01 (Life and Heath SLT Technical Provisions), we have classified the annuity contracts as "Contracts with options and guarantees". These contracts have guarantees on minimum terms of payments, spouse benefits and index-linked increases but no options. No transitional measures have been applied in the calculation of the Technical Provisions.

Table D.3: Products, Annuity Policies/Scheme Members and Solvency II Results as at 30 June 2019

Product	Line of Business	No. of Policies	Gross BEL £'000	Reinsurance Recoverable £'000	Net BEL £'000	Net BEL 2018 £'000
Linked Annuities	Index-linked and Unit-linked Insurance	393	4,220	4,184	36	40
Fixed Annuities	Other Life Insurance	627	7,803	7,739	64	69
Total Annuities		**1,020**	**12,023**	**11,923**	**100**	**109**
Individual Pensions	Index-linked and Unit-linked Insurance	310,115	9,910,259	2,075,276	7,834,983	7,314,810
Group Money Purchase Pensions	Index-linked and Unit-linked Insurance	253,932	9,450,813	3,098,564	6,352,249	5,557,219
Trustee Investment Plan	Index-linked and Unit-linked Insurance	53	12,580,395	7,019,672	5,560,723	5,427,177
Value in Force Business	Index-linked and unit-linked Insurance		(4,143)	-	(4,143)	(3,008)
Total Unit-linked	Index-linked and Unit-linked Insurance	**564,100**	**31,937,324**	**12,193,512**	**19,743,812**	**18,296,198**
Risk Margin	Annuities		284	-	284	267
	Unit-linked		3,237	-	3,237	2,245
Total Risk Margin			**3,521**	**-**	**3,521**	**2,512**
Total		**565,120**	**31,952,868**	**12,205,435**	**19,747,433**	**18,298,819**

The key points to note in this valuation are as follows:

D.2.1.1. Unit-linked BEL

For the unit-linked liabilities, the BEL (and the reinsurance recoverable asset) is the AUA, stated at the value of number of units allocated to each policyholder multiplied by the quoted market price. A deduction is made from the VIF ("expected value in force business") of future profits (the VIF) on contracts up to the termination date point at which FIL Life can terminate the business. See the section D.2.2 "Unit-linked liabilities: Background" for further information, including the justification for this simplification.

D.2.1.2. Annuity BEL

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. No allowance has been made for the 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 Rück SE. All overhead expenses are covered by the IASA with FPM. FIL Life's assets include a corresponding Reinsurance Recoverable in respect of the Hannover Rück SE reinsurance. This differs from the gross BEL only in the allowance for Hannover Rück SE to default. This allowance is based on industry standard counterparty default assumptions.

D.2.1.3. Master Trust Ring-Fenced Account

FIL Life is the scheme sponsor for the Fidelity Master Trust. An amount of £1.1m 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.

D.2.1.4. Deferred Tax on Technical Provisions

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

D.2.1.5. Risk Margin

The risk margin component of the liabilities reflects the cost of holding capital against current and future non-market risk capital requirements. The risk margin is calculated by forecasting each future (non-market) SCR for the lifetime of the liabilities, applying a 6% cost of capital as prescribed in regulation, and discounting the result using the relevant risk-free interest rate.

D.2.1.6. Material Changes to the Calculation of the Technical Provisions

The VIF has been calculated gross of corporation tax and the tax impact is included as a deferred tax liability

The SCR has been reduced by the loss absorbing capacity value of the deferred tax liability.

The projected counterparty default risk now includes the projections of non-policyholder assets in the risk margin.

D.2.2. Unit-linked Liabilities: Background

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

Approximately 38% of FIL Life's unit-linked liabilities are invested in the funds of other insurance companies, known as fund partners, 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 exception is a subset of policies written prior to 2008 that are invested in the funds of other insurers via a reinsurance arrangement. The policy wording did not provide clarity on who bore responsibility for a default event, and FIL Life therefore holds a reserve against counterparty default risk.

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.

D.2.3. Unit-linked Liabilities: BEL and Reinsurance Recoverable

For the unit-linked liabilities, the BEL (gross of reinsurance) is the market value of the AUA less an adjustment for future charges less expenses up (the VIF).

The reinsurance recoverable 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 key assumptions 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 2018 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% (2018: 6%) has been assumed, which is the historical average of lapses. For other types of policies, the assumed lapse rates are between 5% and 17% (2018: 5% to 23%) depending on recent actual experience.

- All unit-linked policyholders are assumed to retire once they reach age 70.

- Mortality – base mortality assumptions are 100% of the PMA08 tables for males and 100% of the PFA08 table for females

- Expenses are subject to the terms specified under the IASA.

The discount rates and investment returns used are those provided by the EIOPA as at 30 June 2019 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. Discount rates have decreased over the year, although this has no material impact.

D.2.4. Annuity Liabilities: Background

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 the UK branch of Hannover Rück SE.

D.2.5. Annuity Liabilities: BEL and Reinsurance Recoverable

The main assumptions used in the valuation of annuity liabilities are as follows:

The discount rates to be used are those provided by EIOPA as at 30 June 2019. No adjustment has been made for any of the matching adjustment, volatility adjustment, or the transitional measure on risk-free interest rates.

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 mortality assumptions are unchanged. The assumptions are as follows:

- The base mortality assumptions are 100% of those currently used by the actuarial profession (the PNMA08 table for males and the PNFA08 table for females). These are unchanged from 2018.

- The longevity improvements assumptions are the latest provided by the actuarial profession, known as the 2017 Continuous Mortality Investigation (CMI) core mortality projections model. This model has been parameterised with a 1.8% and 1.5% long term rates of mortality improvement for males and females respectively (2018; 2.00% and 1.75%). All parameters are otherwise as per the “Core” parameterisation.

- The inflation assumption used is the UK Government implied inflation term structure as at 30 June 2019, 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 Rück SE. The probability of default assumption is based on those provided by EIOPA for use within the matching adjustment calculations. The loss-given-default is assumed to be 50% as per the requirements of the standard formula counterparty default calculation.

D.2.6. Risk Margin

The risk margin is calculated by forecasting each future non-market SCR for the lifetime of the policies in question, applying a 6% cost of capital, and discounting the result using the relevant risk-free interest rate.

The projected counterparty default risk model was updated during the year to include the projections of non-policyholder assets, as well as policyholder assets in the risk margin calculation.

As previously stated, the majority of FIL Life’s unit-linked policies may be unilaterally terminated within 12 months. For these policies the risk margin is 6% of the current non-market SCR, discounted back by one year using the EIOPA prescribed risk-free rates.

For the remaining policies, the two main non-market SCRs are counterparty default and operational risks, and the future SCRs for these two risks can be summarised as follows:

- The future counterparty risk default on unit-linked liabilities is calculated by projecting the AUA for those policies with exposure and which cannot be closed by FIL Life, and applying a fixed ratio based on the current AUA for policies with counterparty default risk compared against 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 a 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.

- The future non-market SCR is found by aggregating the future component SCRs using the Standard Formula aggregation methodology. The 6% cost of capital assumptions specified in the Solvency II regulations is applied to each future SCR, before being discounted back to the valuation date using the prescribed risk-free discount rates and aggregated to produce the risk margin. This approach is unchanged from last year and is consistent with "Method 1" described in Guideline 62 of the EIOPA Guidelines on the Valuation of Technical Provisions.

D.2.7. Reinsurance Recoverables 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.2.8. Material Uncertainties

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

D.2.9. 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 Delegated Regulation and does not believe that an error is introduced by the use of this proportionate method.

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

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 risk margin is a simplification in line with Article 58 of the Level 2 Delegated Acts Method 1 described in the Level 3 Guidance on Technical Provisions.

Excluding the assumptions underlying the projection of the risk margin, 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.

D.2.10. Reconciliation to Financial Statements

The accounting policies are consistent between the financial statements (Financial Reporting Standard S102). Assets and liability values are the same in both except for the inclusion of the VIF of £4.1m (2018: £3.0m), the grossing up of the risk margin for the annuity liabilities and annuity reinsurance asset in the financial statements of £1.4m (2018: £1.3m) and the risk margin on the unit-linked business (£3.2m) (2018: £2.2m).

D.3. Other Liabilities

D.3.1. Valuation, Methodology and Assumptions

Other financial liabilities and payables are £52.9m. Other financial liabilities and payables, such as premiums received in advance and general creditors are included at expected settlement value.

Table D.4: Breakdown of Other Liabilities as at 30 June 2019

Other Liabilities	30 Jun 2019 £'m	30 Jun 2018 £'m
Premiums Received (due to be invested and awaiting settlement)	23.0	38.2
Payable to Group Companies	3.0	2.7
Claims Outstanding	26.8	22.1
Deferred Tax Liability (see D.2.1)	0.1	0.2
Total Other Liabilities	**52.9**	**63.2**

D.4. Any Other Information

No alternative valuation techniques are used. 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 are twofold. Firstly, it aims to ensure that capital is, and will continue to be, adequate to maintain the safety and stability of FIL Life, assuring a high level of confidence in the Company. Secondly it aims to ensure that capital is reasonable and not so high that a reasonable rate of return is difficult to achieve.

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.

There have been no changes in the objectives, policies or processes during the year.

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.

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 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 the 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.

E.1.3. Breakdown of Own Funds

The Company's own funds are all Tier 1. These are materially free from any liens and encumbrances.

Table E.1: Breakdown of Solvency II Own Funds as at 30 June 2019

	30 Jun 2019 £'000	Movement £'000	30 Jun 2018 £'000
Ordinary share of £1 each, issued and full paid up	12,000	-	12,000
Other reserves	43,011	10,544	32,467
Own Funds	**55,011**	**10,424**	**44,467**

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.

Table E.2: Assets over Liabilities as at 30 June 2019

Reconciliation of Own Funds	30 Jun 2019 £'000	30 Jun 2018 £'000
Total of Reserves and Retained Earnings from Financial Statements	55,276	43,703
Add VIF	4,143	3,008
Add: Annuity Revaluation	-	45
Less: Inadmissible Asset	(1,065)	-
Less: Solvency II Deferred Taxation	(106)	-
Less: Risk Margin	(3,237)	(2,289)
Excess of Assets over Liabilities (Solvency II Own Funds)	**55,011**	**44,467**

As noted in table D.2 there are a number of significant changes between the basis, methods and assumptions regarding the valuation of own funds used for the valuation for solvency purposes and those used in the financial statements. The financial statements are not required to include the VIF or the risk margin on the unit-linked business and the associated deferred tax liability. The ring-fenced amount for the Master Trust is only 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.

During the year the Company received a capital contribution of £9m and together with the retained earnings for the year this resulted in an increase of £11.6m in the total of reserves and retained earnings in the financial statements. As noted in section D.2.1 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 during the year. There is no subordinate debt included in the Company's own funds. There are no restrictions to the available own funds. There is no loss absorbency mechanism in relation to own funds.

There are no transitional arrangements. There are no restrictions or ring-fenced funds, other than that relating to the Master Trust. All assets are Tier 1 and have no terms and conditions attached to them

E.1.5. Expected Developments in Own Funds

As at 30 June 2019 there are no plans to issue, repay or otherwise change its own funds position. Under both the current solvency position and forward-looking projection the Company 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 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 of Directors do not consider that 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 fluctuation in operating costs are linked to the income generated by the Company.

E.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

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.

Table E.3: SCR as at 30 June 2019

SCR Module	30 Jun 2019 £'000	30 Jun 2018 £'000
SCR Counterparty Default Risk	7,706	6,839
SCR Market Risk	1,392	1,080
SCR Life Underwriting Risk	2,283	1,660
Diversification Benefit	(2,310)	(1,771)
Total BSCR	**9,071**	**7,808**
SCR Operational Risk	11,239	11,601
Loss absorbing capacity of deferred taxes	(106)	-
Total SCR	**20,204**	**19,408**

FIL Life applies a proportionate approach for the market risk scenario by applying a single 49% stress on market values, based on the equity type 2 scenario before symmetrical adjustment. 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.

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.

E.2.1.1. Material Changes

The change in SCR reflects normal 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 £9.1m (2018: £8.7m).

The calculation of the MCR is purely formula based as dictated by the EIOPA Solvency II requirements. It is subject to a floor of the higher between 25% of the SCR or €3.7m or equivalent and a cap of 45% of the SCR.

Table E.4: MCR as per QRT S.28.01

MCR Module	30 Jun 2019 £'000	30 Jun 2018 £'000
SCR	20,204	19,408
MCR Cap (45% of SCR)	9,092	8,734
MCR Floor (25% of SCR)	5,051	4,852
Combined MCR	9,092	8,734
Absolute Floor of MCR	3,288	3,251
MCR	**9,092**	**8,734**

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 Company does not use an 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.

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.

Table E.5: Ratio of Eligible Own Funds to SCR/MCR as at 30 June 2019, as per QRT S.23.01 with 2018 comparisons

Own Funds, SCR, MCR & Coverage Ratio	30 Jun 2019 £'m	30 Jun 2018 £'m
SCR	20.2	19.4
MCR	9.1	8.7
Eligible Own Funds	55.0	44.5
Ratio of Eligible Own Funds to SCR	272.3%	229.1%
Ratio of Eligible Own Funds to MCR	605.1%	509.1%

E.6. Any Other Information

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

Appendix 1 - Directors’ Statement and Auditors’ Opinion

Directors’ Statement

We certify that:

The Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II regulations.

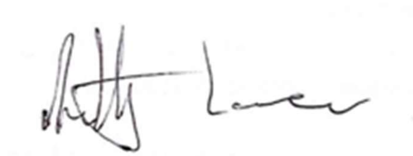
We are satisfied that:

- Throughout the financial year ended 30 June 2018, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and
- It is reasonable to believe, at the date of publication of the SFCR, that the Company has continued to comply, and will continue to comply in future.

Signed for and on behalf of the FIL Life Board of Directors on 2 October 2019:

S. Maher

Director



A. Lanser

Director

Auditors' Report

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 30 June 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 June 2019, ('**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 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company template S.05.01.02;

- 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 30 June 2019 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

ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

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.

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.

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
London
02 October 2019.

Appendix 2 - Quantitative Reporting Templates (QRTs) (all figures in £000)

S.02.01.02: Balance Sheet

		Solvency II value
		C0010
Assets		
Intangible assets	**R0030**	0
Deferred tax assets	**R0040**	164
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	0
Investments (other than assets held for index-linked and unit-linked contracts)	*R0070*	88,807
Property (other than for own use)	**R0080**	0
Holdings in related undertakings, including participations	**R0090**	0
Equities	*R0100*	0
Equities - listed	**R0110**	0
Equities - unlisted	**R0120**	0
Bonds	*R0130*	0
Government Bonds	**R0140**	0
Corporate Bonds	**R0150**	0
Structured notes	**R0160**	0
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	88,807
Derivatives	**R0190**	0
Deposits other than cash equivalents	**R0200**	0
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	19,747,955
Loans and mortgages	*R0230*	0
Loans on policies	**R0240**	0
Loans and mortgages to individuals	**R0250**	0
Other loans and mortgages	**R0260**	0
Reinsurance recoverables from:	*R0270*	12,205,435
Non-life and health similar to non-life	*R0280*	0
Non-life excluding health	**R0290**	0
Health similar to non-life	**R0300**	0
Life and health similar to life, excluding health and index-linked and unit-linked	*R0310*	7,739
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	7,739
Life index-linked and unit-linked	**R0340**	12,197,696
Deposits to cedants	**R0350**	0
Insurance and intermediaries' receivables	**R0360**	0
Reinsurance receivables	**R0370**	0
Receivables (trade, not insurance)	**R0380**	2,019
Own shares (held directly)	**R0390**	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	0
Cash and cash equivalents	**R0410**	12,785
Any other assets, not elsewhere shown	**R0420**	3,638
Total assets	**R0500**	**32,060,803**

S.02.01.02: Balance Sheet (continued)

		Solvency II value
		C0010
Liabilities		
Technical Provisions – non-life	*R0510*	0
Technical Provisions – non-life (excluding health)	*R0520*	0
Technical Provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	0
Risk margin	**R0550**	0
Technical Provisions - health (similar to non-life)	*R0560*	0
Technical Provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	0
Risk margin	**R0590**	0
Technical Provisions - life (excluding index-linked and unit-linked)	*R0600*	7,987
Technical Provisions - health (similar to life)	*R0610*	0
Technical Provisions calculated as a whole	**R0620**	0
Best Estimate	**R0630**	0
Risk margin	**R0640**	0
Technical Provisions – life (excluding health and index-linked and unit-linked)	*R0650*	7,987
Technical Provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	7,803
Risk margin	**R0680**	184
Technical Provisions – index-linked and unit-linked	*R0690*	31,944,881
Technical Provisions calculated as a whole	**R0700**	31,941,467
Best Estimate	**R0710**	78
Risk margin	**R0720**	3,336
Contingent liabilities	**R0740**	0
Provisions other than Technical Provisions	**R0750**	0
Pension benefit obligations	**R0760**	0
Deposits from reinsurers	**R0770**	0
Deferred tax liabilities	**R0780**	235
Derivatives	**R0790**	0
Debts owed to credit institutions	**R0800**	0
Financial liabilities other than debts owed to credit institutions	**R0810**	0
Insurance & intermediaries payables	**R0820**	26,767
Reinsurance payables	**R0830**	0
Payables (trade, not insurance)	**R0840**	25,921
Subordinated liabilities	*R0850*	0
Subordinated liabilities not in Basic Own Funds	**R0860**	0
Subordinated liabilities in Basic Own Funds	**R0870**	0
Any other liabilities, not elsewhere shown	**R0880**	0
Total liabilities	**R0900**	**32,005,792**
Excess of assets over liabilities	**R1000**	**55,011**

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**			3,244,949						3,244,949
Reinsurers' share	**R1420**			1,341,217						1,341,217
Net	*R1500*			1,903,732	0					1,903,732
Premiums earned										
Gross	**R1510**			3,244,949						3,244,949
Reinsurers' share	**R1520**			1,341,217						1,341,217
Net	*R1600*			1,903,732	0					1,903,732
Claims incurred										
Gross	**R1610**			1,833,368	328					1,833,696
Reinsurers' share	**R1620**			258,330	328					258,657
Net	*R1700*			1,575,038	0					1,575,038
Changes in other Technical Provisions										
Gross	**R1710**			2,701,281	-497					2,700,784
Reinsurers' share	**R1720**			1,518,574	-505					1,518,069
Net	*R1800*			1,182,707	0					1,182,716
Expenses incurred	*R1900*			44,814						44,814
Other expenses	**R2500**			0	0					0
Total expenses	**R2600**			44,814	0					44,814

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

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	Total (Life other than health insurance, incl. 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	C0150
Technical Provisions calculated as a whole	**R0010**	0	**31,941,467**			0			0	31,941,467
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	12,193,512			0			0	12,193,512
Technical Provisions calculated as a sum of BE and RM										
Best Estimate										
Gross Best Estimate	**R0030**	0		0	78		0	7,803	0	7,881
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	*R0080*	0		0	4,183		0	7,739	0	11,923
Best estimate minus recoverables from reinsurance/SPV and Finite Re	*R0090*	0		0	-4,105		0	63	0	-4,042
Risk Margin	**R0100**	0	**3,336**			184			0	3,521
Amount of the transitional on Technical Provisions										
Technical Provisions calculated as a whole	**R0110**	0	0			0			0	0
Best estimate	**R0120**	0		0	0		0	0	0	0
Risk margin	**R0130**	0	0			0			0	0
Technical Provisions - total	*R0200*	0	**31,944,881**			7,987			0	31,952,869

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**	12,000	12,000			
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	
Surplus funds	**R0070**	0	0	0	0	0
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**			0	0	0
Reconciliation reserve	**R0130**	43,011	43,011	0	0	0
Subordinated liabilities	**R0140**					
An amount equal to the value of net deferred tax assets	**R0160**			0	0	0
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	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	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	0	0	0	0	
Total basic own funds after deductions	*R0290*	55,011	55,011	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
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	**R0370**	0			0	0

2009/138/EC						
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*	55,011	55,011	0	0	0
Total available own funds to meet the MCR	*R0510*	55,011	55,011	0	0	
Total eligible own funds to meet the SCR	*R0540*	55,011	55,011	0	0	0
Total eligible own funds to meet the MCR	*R0550*	55,011	55,011	0	0	
SCR	**R0580**	**20,204**				
MCR	**R0600**	**9,092**				
Ratio of Eligible own funds to SCR	**R0620**	**2.7228**				
Ratio of Eligible own funds to MCR	**R0640**	**6.0507**				

		C0060				
Reconciliation reserve						
Excess of assets over liabilities	**R0700**	55,011				
Own shares (held directly and indirectly)	**R0710**	0				
Foreseeable dividends, distributions and charges	**R0720**	0				
Other basic own fund items	**R0730**	12,000				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	**R0740**	0				
Reconciliation reserve	**R0760**	**43,011**				
Expected profits						
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	C0100
Market risk	**R0010**	1,392		
Counterparty default risk	**R0020**	7,706		
Life underwriting risk	**R0030**	2,283		
Health underwriting risk	**R0040**	0		
Non-life underwriting risk	**R0050**	0		
Diversification	**R0060**	-2,310		
Intangible asset risk	**R0070**	0		
Basic Solvency Capital Requirement	**R0100**	**9,071**		

Calculation of Solvency Capital Requirement		
Operational risk	**R0130**	11,239
Loss-absorbing capacity of Technical Provisions	**R0140**	0
Loss-absorbing capacity of deferred taxes	**R0150**	-106
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**	**20,204**
Capital add-on already set	**R0210**	0
Solvency Capital Requirement	**R0220**	**20,204**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	0
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	**R0430**	0
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	0

S28.01.01 - Minimum Capital Requirement - Only Life or Non-Life Insurance or Reinsurance Activity

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	**R0210**		
Obligations with profit participation - future discretionary benefits	**R0220**		
Index-linked and unit-linked insurance obligations	**R0230**	19,744,082	
Other life (re)insurance and health (re)insurance obligations	**R0240**	63	
Total capital at risk for all life (re)insurance obligations	*R0250*		0

Overall MCR calculation

Linear MCR	*R0300*	138,210
SCR	**R0310**	20,204
MCR cap	**R0320**	9,092
MCR floor	**R0330**	5,051
Combined MCR	*R0340*	9,092
Absolute floor of the MCR	**R0350**	3,288

Minimum Capital Requirement	**R0400**	**9,092**

Appendix 3 - 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 Ltd as the ultimate parent company
FIL Life	FIL Life Insurance Limited
FIL Ltd	FIL Limited - the 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
RPI	Retail Price Index
S32	Section 32 Policies

Term	Meaning
SCR	Solvency Capital Requirement
SFCR	Solvency & Financial Condition Report
SLA	Service Level Agreement
SMCR	Senior Managers and Certification Regime
SMF	Senior Management Function
SMR	Senior Managers Regime
SoR	Statement of Responsibility
Solvency II Regulations/Solvency II	Together, the Delegated Acts, Solvency II Directive and PRA Rulebook: Solvency II Reporting Instrument 2015
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