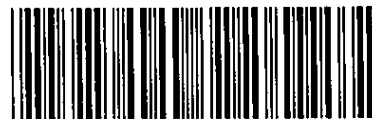


# Fidelity Investments Life Insurance Limited

Report for the year ended 30 June 2007

Registered in England number 3406905

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# Fidelity Investments Life Insurance Limited

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# Fidelity Investments Life Insurance Limited

## Directors, officers and principal advisors

<b>Directors</b>	R D Corley
	D Naismith – Appointed 19 April 2007
	S M Haslam – Resigned 14 August 2007
	K H McBrien
	S Fraser
	R Threadgold – Resigned 19 April 2007
	C A Williams
<b>Chief Executive</b>	D Naismith – Appointed 19 April 2007
<b>Company Secretary</b>	Fidelity Investments International
<b>Actuaries</b>	Watson Wyatt Limited
	Watson House
	London Road
	Reigate
	Surrey
	RH2 9PQ
<b>Solicitors</b>	Slaughter and May
	One Bunhill Row
	London
	EC1Y 8YY
<b>Auditors</b>	PricewaterhouseCoopers LLP
	1 Hay's Lane
	Hays Galleria
	London
	SE1 2RD
<b>Principal bankers</b>	Barclays Bank plc
	PO Box 46116
	London
	EC4N 8WB
<b>Registered Office</b>	Oakhill House
	130 Tonbridge Road
	Hildenborough
	Kent
	TN11 9DZ

# Fidelity Investments Life Insurance Limited

## Report of the Directors for the year ended 30 June 2007

The Directors present their report and the audited financial statements for the year ended 30 June 2007

### Principal activity

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

### Business review and future developments

During the year, the Company added a further 46 new clients (first 6 months of 2006 19 new clients) bringing total assets held to cover linked liabilities to £2,600,490,000 (2006 2,322,840,000) including reinsurance assets. The Company added 48 new funds and 18 client-specific funds (first 6 months of 2006 four new funds and one client-specific fund)

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

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

### Key performance indicators (KPIs)

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

	2007	2006
	£'000	£'000
Assets held to cover linked liabilities	1,761,519	2,218,783
Reinsurers' share of technical provision for linked liabilities	838,971	104,057
Total unit linked business	<u>2,600,490</u>	<u>2,322,840</u>
Surplus of capital resources over regulatory requirements	12,268	9,857

### Results, dividends and transfer to reserves

The profit for the year, after taxation, amounted to £1,236,000 (2006 £124,000). This amount has been retained in shareholder funds.

No dividends were declared or proposed during the year (2006 Nil).

### Directors

The Directors of the Company at 30 June 2007 and those that held office within the year are listed on page 2.

### Actuary

M Chaplin of Watson Wyatt Limited was the Actuarial Function Holder for the year ended 30 June 2007.

# Fidelity Investments Life Insurance Limited

## Report of the Directors for the year ended 30 June 2007 (continued)

### Principle risks and uncertainties

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

#### *Insurance risk*

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

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

#### *Financial instruments and risk management*

##### *Financial risk management objectives*

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

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

The Company does not use hedge accounting.

##### *a) Market risk*

###### *Interest rate risk*

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

###### *Equity price risk*

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

###### *Currency risk*

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

# Fidelity Investments Life Insurance Limited

## Report of the Directors for the year ended 30 June 2007 (continued)

### *b) Credit risk*

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

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

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

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

### *c) Liquidity risk*

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

## Statement of disclosure of information to auditors

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

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 30 June 2007 of which the auditors are unaware, and
- the Director has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Auditors

PricewaterhouseCoopers LLP have signified their willingness to continue in office.

# Fidelity Investments Life Insurance Limited

## Report of the Directors for the year ended 30 June 2007 (continued)

### Statement of Directors' Responsibilities

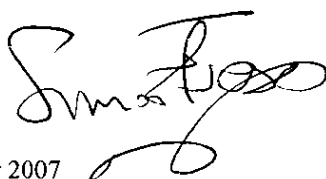
Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Approved by the board of Directors  
and signed on behalf of the board



S Fraser  
17 September 2007

# Fidelity Investments Life Insurance Limited

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIDELITY INVESTMENTS LIFE INSURANCE LIMITED

We have audited the financial statements of Fidelity Investments Life Insurance Limited for the year ended 30 June 2007 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors,  
London

17 September 2007



# Fidelity Investments Life Insurance Limited

## Profit & loss account for the year ended 30 June 2007

### Technical account – Long term Business

	Notes	12 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	1,528,981	316,556
Outward reinsurance premiums		(720,463)	(34,292)
		<b>808,518</b>	<b>282,264</b>
<b>Investment income</b>			
	3	355,066	85,523
<b>Other technical income, net of reinsurance</b>		<b>4,377</b>	<b>2,013</b>
		<b>1,167,961</b>	<b>369,800</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid – gross amount		(1,570,796)	(295,450)
Reinsurers' share		16,932	2,213
		<b>(1,553,864)</b>	<b>(293,237)</b>
Change in the provision for claims – gross amount		5,692	(3,842)
		<b>(1,548,172)</b>	<b>(297,079)</b>

# Fidelity Investments Life Insurance Limited

## Profit & loss account for the year ended 30 June 2007

### Technical account – Long term Business (continued)

	Notes	12 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
<b>Change in long term business provisions, net of reinsurance</b>			
Technical provision for long term liabilities – gross amount		(948)	(402)
Reinsurers' share		779	333
		<b>(169)</b>	<b>(69)</b>
<b>Change in other technical provisions, net of reinsurance</b>			
Technical provision for linked liabilities – gross amount		(277,650)	(50,175)
Reinsurers' share		734,914	33,509
		<b>457,264</b>	<b>(16,666)</b>
		<b>457,095</b>	<b>(16,735)</b>
<b>Net operating expenses</b>			
	4	(3,982)	(1,937)
<b>Unrealised losses on investments</b>			
	3	(71,745)	(54,022)
<b>Taxation attributable to the Long Term Business</b>			
	7	(347)	(8)
<b>Balance on the long term business technical account</b>			
		<b>810</b>	<b>19</b>

# Fidelity Investments Life Insurance Limited

## Profit & loss account for the year ended 30 June 2007

### Non – Technical account

	Notes	12 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
<b>Balance on the long term business technical account</b>		<b>810</b>	19
Tax credit attributable to balance on long term business technical account	7	347	8
Shareholders' pre tax profit from long term business		1,157	27
Investment income	3	609	150
<b>Profit on ordinary activities before tax</b>		<b>1,766</b>	177
Tax on profit on ordinary activities	7	(530)	(53)
<b>Retained profit for the financial year</b>	12,13	<b>1,236</b>	124

All of the amounts above are in respect of continuing activities

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

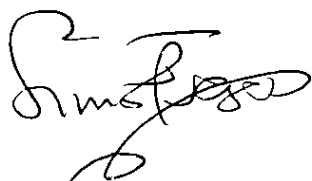
# Fidelity Investments Life Insurance Limited

## Balance sheet as at 30 June 2007

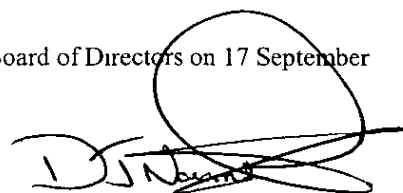
	Notes	2007 £'000	2006 £'000
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	8	22,980	21,963
<b>Assets held to cover linked liabilities</b>	9	<b>1,761,519</b>	<b>2,218,783</b>
<b>Reinsurers' share of technical provision</b>			
Long term business provision		1,395	616
Technical provision for linked liabilities		838,971	104,057
		<b>840,366</b>	<b>104,673</b>
<b>Debtors</b>			
Other debtors	10	1,649	1,349
<b>Other assets</b>			
Cash at bank and in hand		1,624	1,655
<b>Prepayments and accrued income</b>			
Other prepayments and accrued income		513	494
<b>Total assets</b>		<b>2,628,651</b>	<b>2,348,917</b>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	11	12,000	12,000
Profit and loss account	12	3,650	2,414
<b>Total shareholders' funds</b>	13	<b>15,650</b>	<b>14,414</b>
<b>Technical provisions</b>			
Long term business provision		1,674	726
Claims outstanding		2,310	8,002
		<b>3,984</b>	<b>8,728</b>
<b>Technical provisions for linked liabilities</b>		<b>2,600,490</b>	<b>2,322,840</b>
<b>Creditors</b>			
Other creditors, including taxation and social	15	8,335	2,734
<b>Accruals and deferred income</b>			
		192	201
<b>Total liabilities</b>		<b>2,628,651</b>	<b>2,348,917</b>

The financial statements on pages 8 to 23 were approved by the Board of Directors on 17 September 2007 and were signed on its behalf by -

Director



Director



# **Fidelity Investments Life Insurance Limited**

## **Notes to the financial statements for year ended 30 June 2007**

### **1 Principal accounting policies**

#### **(a) Basis of preparation**

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

The Company's results are consolidated with Fidelity International Limited, accordingly, the Company has elected to utilise the exemption provided by Financial Reporting Standard 1 (Revised 1996), Cash Flow Statements and has not provided a Cash Flow Statement.

#### **(b) Premiums**

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

#### **(c) Claims**

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

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

#### **(d) Long term reinsurance contracts**

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

#### **(e) Other technical income**

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

#### **(f) Technical provision for linked liabilities**

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

#### **(g) Long term business provision**

The long-term business provision is computed by the Actuarial Function Holder following annual investigations of the long-term fund, and is calculated initially on a statutory solvency basis to comply with the reporting requirements under the FSA Handbook. Adjustments to the valuation for the statutory solvency purposes are made to eliminate certain reserves, notably the contingency reserve covering the scenario of a closure to new business, for the purposes of these financial statements. The valuation methodology adopted for the annuity business is the discounted present value of future annuity payments. The assumptions reflect a prudent assessment of the future experience of mortality, interest and inflation and provide for the risk of credit default by the reinsurer.

# **Fidelity Investments Life Insurance Limited**

## **Notes to the financial statements for year ended 30 June 2007**

### **(h) Investment return**

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

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or if they have been previously valued, their valuation at the last balance sheet date

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

### **(i) Investments**

Listed investments held are stated at market value. Other investments are included at Directors' valuation, having prudent regard to their realisable value

Purchases and sales of investments are accounted for using trade date accounting

### **(j) Taxation**

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the year

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS19. Deferred tax is recognised in respect of all material timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not discounted

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

### **(k) Change in accounting policy**

During the year, the Company changed its policy for accounting for purchases and sales of investments from settlement date accounting to trade date accounting, which is the date that the Company commits to purchase or sell the assets. This policy was adopted as it is considered more relevant for the Company as at the end of each period, there are outstanding transactions with brokers and cash. The adoption of trade date accounting has no effect on current or prior year profit. Prior year comparatives have not been restated as they are deemed immaterial to the financial statements

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### 2 Segmental analysis

In the opinion of the Directors, the Company operates in a single business segment, being that of long-term insurance business. The Company accepts reinsurance inwards. This represented 1% (2006: 2%) of gross premiums written.

	12 months ended 30 June 2007	6 months ended 30 June 2006
	Gross premiums written	Gross premiums written
	£'000	£'000
<b>Non-participating</b>		
Annuity	1,045	400
<b>Linked pensions</b>		
Non-profit group pension	1,527,936	316,156
	<b>1,528,981</b>	<b>316,556</b>
Periodic premiums	299,815	127,112
Single premiums	1,229,166	189,444
	<b>1,528,981</b>	<b>316,556</b>

	12 months ended 30 June 2007	6 months ended 30 June 2006	
	Gross new premium income	Net of Reinsurance	Gross new premium income
	£'000	£'000	£'000
<b>Non-participating</b>			
Annuity	1,045	-	400
<b>Linked pensions</b>			
Non-profit group pension	1,266,937	620,024	197,101
	1,267,982	620,024	197,501
Periodic premiums	38,815	28,034	8,057
Single premiums	1,229,166	591,990	189,444
	1,267,982	620,024	197,501

In the 6 months ended 30 June 2006, there was no significant difference between gross and net new premium income.

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

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

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

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

### Geographical analysis

All premiums relate to contracts concluded in the United Kingdom

### Reinsurance balance

The reinsurance balance amounted to a credit on the long-term business technical account at 30 June 2007 of £ 32.2 million (2006 debit of £1.8 million)

### 3. Investment return

	12 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
<b>Technical account</b>		
Investment Income		
Fund distributions received	32,536	4,698
Other investment income	932	20
Net gains on the realisation of investments	321,598	80,805
	<b>355,066</b>	<b>85,523</b>
Net unrealised loss on investments	(71,745)	(54,022)
	<b>283,321</b>	<b>31,501</b>
Investment expenses and charges		
Net loss on the realisation of investments	-	-
Net investment return included in the long term business technical account	<b>283,321</b>	<b>31,501</b>
<b>Non-technical account</b>		
Investment Income		
Interest income	609	150
Net investment return included in the non-technical account	<b>609</b>	<b>150</b>
<b>Total investment return</b>	<b>283,930</b>	<b>31,651</b>



# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### 4 Net operating expenses

	12 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
Administrative expenses	3,982	1,937
Administrative expenses include the following		
<b>Auditors' remuneration</b>		
For audit services	75	72
<u>Non-audit services</u>		
Services relating to taxation	12	3
Other services pursuant to legislation	15	15
Other services	-	12
	102	102

### 5 Staff costs

With the exception of two non-executive Directors, the Company does not employ any staff itself. There are therefore no direct staff costs. Staff are provided as part of the Insurance Agency and Services Agreement by Fidelity Pensions Management.

### 6 Directors' emoluments

	12 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
Aggregate emoluments	33	16

No remuneration is paid to the Directors in respect of their services to the Company, other than fees, as detailed in note 17(b)(iii).

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### 7. Taxation

	12 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
<b>Tax on profit on long term technical account</b>		
UK corporation tax at 30% (2006 30%)		
Current tax on income for the year	347	8
<b>Total tax charged in the long term technical account</b>	<b>347</b>	<b>8</b>

	12 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
<b>Tax on profit on non technical account</b>		
UK corporation tax at 30% (2006 30%)		
Current tax on income for the year	183	45
Tax attributable to balance on the long term technical account	347	8
<b>Tax on profit on ordinary activities</b>	<b>530</b>	<b>53</b>

### Factors affecting the tax charge for the year

The tax assessed for the current and prior year is at the standard rate of corporation tax in the UK (30%)

### 8. Investments

	Market Value 2007 £'000	Cost 2007 £'000	Market Value 2006 £'000	Cost 2006 £'000
Units in collective investment scheme – listed	22,980	20,508	21,963	21,015

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### 9 Assets held to cover linked liabilities

	Market Value 2007 £'000	Cost 2007 £'000	Market Value 2006 £'000	Cost 2006 £'000
Assets held to cover linked liabilities	1,761,519	1,399,648	2,218,917	1,721,498

### 10 Other debtors

	2007 £'000	2006 £'000
Fees due	459	175
Income tax debtor	249	705
Amounts owed by group undertakings	941	469
	1,649	1,349

### 11. Called up share capital

	2007 £'000	2006 £'000
<b>Authorised</b>		
20,000,000 (2006 20,000,000) ordinary shares of £1 each	20,000	20,000
<b>Allocated, called up and fully paid</b>		
12,000,000 (2006 12,000,000) ordinary shares of £1 each	12,000	12,000

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### 12 Profit and loss account

	12 months to 30 June 2007	6 months to 30 June 2006
	£'000	£'000
Balance at beginning of the year	2,414	2,290
Profit for the financial year	1,236	124
Balance at year end	3,650	2,414

### 13 Reconciliation of movement in shareholders' funds

	12 months to 30 June 2007	6 months to 30 June 2006
	£'000	£'000
Retained profit for the financial year	1,236	124
Share capital issued	-	10,000
Opening shareholders' funds	14,414	4,290
Shareholders' funds at year end	15,650	14,414

In 2006, 10,000,000 ordinary shares were allotted for a cash consideration equal to the shares aggregate nominal value of £10,000,000

### 14. Assets attributable to the long term business fund

At 30 June 2007, the total amount of assets representing the long-term fund is £ 2,608,067,000 (2006 £2,333,368,000)

### 15. Other creditors, including taxation and social security

	2007	2006
	£'000	£'000
Other creditors	7,210	2,348
Amounts owed to group undertakings	1,125	386
	8,335	2,734

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### 16. Management of insurance risk

#### Capital position statement

	2007	2006
	£'000	£'000
Shareholder funds inside the shareholder fund	13,040	12,614
Shareholder funds inside the long-term insurance fund	2,610	1,800
<b>Total shareholder funds as per accounts</b>	<b>15,650</b>	<b>14,414</b>
Adjustments to restate in accordance with regulatory requirements		
Asset valuation adjustments	(243)	(727)
Liability valuation differences	(1,000)	(1,800)
<b>Total capital resources available to meet regulatory requirements</b>	<b>14,407</b>	<b>11,887</b>
Regulatory capital requirement	2,139	2,030
<b>Surplus of capital resources over regulatory requirements</b>	<b>12,268</b>	<b>9,857</b>

#### Analysis of liabilities

	2007	2006
	£'000	£'000
Unit-linked business	2,600,490	2,322,840
Other life assurance business (immediate annuity business)	1,674	726
<b>Gross of reinsurance technical provisions in the balance sheet</b>	<b>2,602,164</b>	<b>2,323,566</b>

The firm does not write any with-profits business

The adjustments to the regulatory basis shown in the capital statement above reflect the expense reserve included in the regulatory reserves. As this has been determined on the contingency of closure to new business and the cessation of the current services agreement, it is thought appropriate to exclude it from the accounts of a Company preparing its accounts as a going concern. The asset valuation adjustments comprises £243,000 (2006 £727,000) of assets in excess of FSA counterparty exposure limits.

#### *Restrictions on available capital resources*

Regulatory surplus of £1,610,000 (2006 Nil) has been retained in the long-term insurance fund. Regulatory surpluses arising within the long term fund can be transferred to the shareholders' fund subject to ensuring that sufficient assets remain in the long-term fund to cover the regulatory reserves and subject to any additional constraints imposed by the management of the Company. The capital held within the shareholders' funds is available to meet the regulatory capital requirements without any restrictions. Subject to meeting these regulatory capital requirements and subject to constraints on distributing called up share capital, shareholders' funds may be distributed to the shareholder. However, it remains the intention of management to ensure that an excess of capital resources is maintained over that required to meet the Company's regulatory requirements.

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### Disclosures relating to liabilities and capital

The regulatory capital requirement is shown in the table above

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

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

The regulatory capital requirement (or capital resources requirement) is currently driven by the base capital resources requirement of €3.2 million (2006: €3 million) as this exceeded the sum of the long term insurance capital requirement and resilience capital requirement at 30 June 2007. The long term insurance capital requirement reflects a formula which equates to a percentage of regulatory reserves and a percentage of net administrative expenses. The resilience capital requirement is a capital requirement that would enable the Company to have sufficient assets to continue to cover its long-term insurance liabilities in the event of specified adverse market movements

### *Capital management policies and objectives*

The Company's objectives in managing its capital are

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

### *Life assurance liabilities*

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

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

The technical provisions for the immediate annuity contracts have been determined as the discounted present value of future annuity payments. The immediate annuity contracts have been valued assuming a prudently low rate of interest of 4.35%, a prudently high rate of RPI inflation of 3.75% (where applicable) and a prudent mortality basis and assumed future mortality improvements. The economic assumptions take account of the economic conditions at the date of valuation. The mortality basis is believed to include a prudent margin over current industry experience and best estimate future improvements, based on research published by the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries

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

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### *Sensitivity of liabilities and capital components*

As the technical provisions for unit-linked business have been set equal to the face value of the unit funds backing those contracts, unit-linked business assets and liabilities move together in line with changes in investment market conditions

Other assets held are largely cash and so are not subject to changes in investment market conditions

As the immediate annuity contracts are fully reinsured to Hannover Life Re (UK), any changes in assumptions used to determine the technical provisions are largely offset by changes in the value of the reinsurance ceded to Hannover Life Re (UK). The net of reinsurance liability will be sensitive to the credit rating of Hannover Life Re (UK) and levels of corporate bond yields relative to gilt yields

### **Movement in capital**

The Company's shareholder funds increased from £14.4 million at 30 June 2006 to £15.7 million at 30 June 2007. The contingency reserve required under the regulatory reserving requirements has decreased from £1.8 million to £1 million, there are no inadmissible assets and assets in excess of market risk and counterparty limits have decreased by £0.5 million. Accordingly the Company's total capital resources available to meet regulatory requirements have increased from a surplus of £11.9 million at 30 June 2006 to a surplus of £14.4 million at 30 June 2007. A summary of the movement items is shown in the table below

	12 Months to 30 June 2007 £'000	6 Months to 30 June 2006 £'000
<b>Shareholder funds at the start of the year</b>	<b>14,414</b>	<b>4,290</b>
Adjustments to restate in accordance with regulatory requirements	(2,527)	(19,184)
<b>Capital resources available to meet regulatory requirements at start of year</b>	<b>11,887</b>	<b>(14,894)</b>
Inadmissible assets	-	196
Assets in excess of market risk and counterparty limits	484	17,261
Changes in assumptions (adjustment to actuarial closure reserve)	800	(800)
New business and other factors (long term business technical account operating result)	810	19
New business and other factors (non-technical account investment income net of tax on profits)	426	105
New business and other factors (Share capital injected)	-	10,000
<b>Capital resources available to meet regulatory requirements at the end of the year</b>	<b>14,407</b>	<b>11,887</b>

The increase in the net of reinsurance immediate annuity reserve relates to the increase in immediate annuity business written and the consequent increase in provision for credit risk related to the exposure to Hannover Life Re (UK) outlined above

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

# Fidelity Investments Life Insurance Limited

## Notes to the financial statements for year ended 30 June 2007

### 17. Related party transactions

#### (a) Transactions involving Directors or key management

No contract of significance existed at any time during the year in which a Director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8 "Related Party Disclosures"

#### (b) Transactions involving other related parties

- (i) The Company has entered into an agreement with Fidelity Pensions Management ('FPM') to receive insurance agency and other insurance intermediary services with effect from 1 January 2005. Under the terms of the agreement, payments in consideration of the service are only made when the Company meets a targeted margin. Payments due to FPM in relation to the 12 month period ended 30 June 2007 totalled £3,223,679 (6 month period ended 30 June 2006 £1,369,256). The balance outstanding at the end of the year amounts to £1,013,173 (2006 £225,073).
- (ii) The Company has also entered into an agreement with Fidelity Investments Services Limited ('FISL') and Fidelity Fund Management Limited ('FFML'), to receive investment management services. During the year, the assets held to cover linked liabilities of the Company were invested in a number of unit trusts and open-ended investment companies managed by FISL and/or FFML. The investment management fees due from FISL and FFML during the 12 month period to 30 June 2007 amounted to £1,464,648 and £983,265 respectively (6 month period to June 2006 £389,332 and £255,305 respectively). The balance owed by FISL and FFML at the end of the financial year amounts to £478,502 and £462,882 respectively (2006 £176,344 and £84,981 respectively).
- (iii) Fidelity Investment Management Limited ('FIML'), a related party with common ownership to the Company, paid Directors' fees on behalf of the Company totalling £32,550 (2006 £16,284), of which £32,550 (2006 £16,284) was charged to the Company. The balance owed to FIML at the end of the year amounts to nil (2006 nil).

### 18. Holding company

The Company is a fully owned subsidiary of its ultimate holding company, Fidelity International Limited, a company incorporated in Bermuda. Copies of the consolidated financial statements of Fidelity International Limited can be obtained from The Secretary, Pembroke Hall, 42 Crow Lane, Hamilton, HM 19, Bermuda.

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