



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**FIDELITY INVESTMENTS LIFE INSURANCE COMPANY**

of

Salt Lake City, Utah

as of

December 31, 2008



## TABLE OF CONTENTS

SALUTATION .....	1
SCOPE OF EXAMINATION.....	1
Period Covered by Examination .....	1
Examination Procedure Employed .....	2
Status of Prior Examination Findings .....	3
HISTORY .....	3
General.....	3
Capital Stock.....	3
Dividends to Stockholders .....	3
Management.....	3
Conflict of Interest Procedure.....	5
Corporate Records .....	5
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance.....	6
Surplus Debentures .....	6
AFFILIATED COMPANIES .....	6
Transactions with Affiliates.....	6
FIDELITY BOND AND OTHER INSURANCE .....	8
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....	8
STATUTORY DEPOSITS .....	9
INSURANCE PRODUCTS AND RELATED PRACTICES .....	9
Policy Forms and Underwriting.....	9
Territory and Plan of Operation.....	10
Advertising and Sales Material .....	10
Treatment of Policyholders.....	11
REINSURANCE.....	11
Assumed.....	11
Ceded .....	11
ACCOUNTS AND RECORDS.....	13
FINANCIAL STATEMENTS .....	14
BALANCE SHEET (ASSETS).....	15
BALANCE SHEET (LIABILITIES, SURPLUS, AND OTHER FUNDS).....	16
STATEMENT OF REVENUE AND EXPENSES.....	17
RECONCILIATION OF CAPITAL AND SURPLUS.....	18
NOTES TO FINANCIAL STATEMENTS.....	19
SUMMARY OF EXAMINATION FINDINGS.....	19
SUBSEQUENT EVENTS .....	19
ACKNOWLEDGEMENT .....	20

February 16, 2010

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
P.O. Box 1157  
Richmond, Virginia 23218

Honorable Christina Urias, Director  
Secretary, Western Zone  
Arizona Department of Insurance  
2910 North 44<sup>th</sup> Street, Suite 210  
Phoenix, Arizona 85018-7269

Honorable Neal T. Gooch  
Acting Insurance Commissioner  
State of Utah  
3110 State Office Building  
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

FIDELITY INVESTMENTS LIFE INSURANCE COMPANY  
Salt Lake City, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

#### SCOPE OF EXAMINATION

##### Period Covered by Examination

The current examination covers the period from July 1, 2004 through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Certificates of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Company's management at the initiation and conclusion of the examination.

## Examination Procedure Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, and insurance rules promulgated by the Utah Insurance Department (Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles (SSAPs) and annual statement instructions when applicable to domestic state regulations.

The Company retained the services of a certified public accounting firm, PricewaterhouseCoopers LLP, to audit its financial records for the years under examination. An unqualified opinion was rendered for all years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment, work performed by external audit functions, and work performed by internal audit functions being performed by the Company's parent, FMR LLC. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk, examination procedures were reduced where considered appropriate.

The examination relied on the findings of the actuarial firm employed by the Department to verify the aggregate reserve for life policies and annuity contracts. The actuary tested the completeness of the records and the accuracy of the underlying data used to establish reserve amounts.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

## Status of Prior Examination Findings

The previous examination was performed by the Department as of June 30, 2004. There were no adverse findings noted in the previous report of examination.

## HISTORY

### General

The Company was incorporated under the laws of the state of Pennsylvania on May 13, 1981 as Independence Square Pension Life Insurance Company. The Company's name was changed to Provident Mutual Variable Life Insurance Company on June 16, 1983. The Company was acquired by FMR Corp. on December 30, 1986, after ceding all in force policies to Provident Mutual Life Insurance Company of Philadelphia. The Company's name was subsequently changed to Fidelity Investments Life Insurance Company, and was re-domesticated from Pennsylvania to Utah effective November 10, 1992. Effective October 1, 2007, FMR Corp. was merged with and into FMR LLC, making FMR LLC the Company's ultimate parent.

The Company's marketing emphasis was concentrated on three major products: deferred variable annuities, single premium variable immediate annuities, and term life insurance. The annuity and term life insurance products were marketed, sold and distributed through an affiliated insurance agency throughout the country. Sales were generally made by direct mail using telemarketing support, and through walk-in investment centers.

### Capital Stock

The articles of domestication provide for authorized capitalization of 1,000,000 shares of common capital stock with a par value of \$10 per share. As of December 31, 2008, the Company had 300,000 shares of authorized and outstanding capital stock with an aggregate par value of \$3,000,000. The Company is a direct and wholly-owned subsidiary of FMR LLC.

### Dividends to Stockholders

The Company neither declared nor paid any dividends during the examination period.

### Management

The bylaws of the Company indicated the number of directors may be not less than seven or more than fourteen.

The following persons served as directors of the Company as of December 31, 2008:

<u>Name</u>	<u>Principal Occupation</u>
Edward C. Johnson, III Boston, Massachusetts	Chief Executive Officer and Chairman FMR, LLC

Jon J. Skillman Weston, Massachusetts	President Fidelity Investments Life Insurance Co.
Roger T. Servison Brookline, Massachusetts	Managing Director, Chief Operations Officer Fidelity Investments
William R. Ebsworth Weston, Massachusetts	Chief Investment Officer Strategic Advisers, Inc.
Rodney R. Rohda Newton, Massachusetts	Director Retired
*Clare S. Richer Boston, Massachusetts	Executive Vice President, Chief Financial Officer FMR, LLC
*Richard A. Spillane, Jr. Wellesley, Massachusetts	Executive Vice President Fidelity Management and Research Co

\*Clare S. Richer resigned as a director, effective December 5, 2008, accepting a position with a company outside of the FMR LLC group of companies. Richard A. Spillane, Jr. resigned as a director, effective November 20, 2008, citing the need to devote more time to activities outside of the FMR LLC group of companies.

On April 24, 2009, Kathleen A. Murphy and G. Michael Slovak were elected to fill the open positions on the Board of Directors (Board) during the annual Written Consent in Lieu of the Annual Meeting of Stockholders.

The Company's bylaws provide for principal officers to consist of a president, one or more vice presidents, a secretary, a treasurer, and other officers as elected by the Board.

The following persons served as officers of the Company as of December 31, 2008:

<u>Principal Officer</u> Jon J. Skillman	<u>Office</u> President
William J. Johnson, Jr.	Executive Vice President, Product Development and Risk Management, Actuary
<u>Principal Officer</u> Joan M. Bloom	<u>Office</u> Executive Vice President, Marketing and Product Management

Jeffrey K. Cimini	Executive Vice President, Sales and Distribution
David A. Golino	Senior Vice President, Chief Financial Officer
Robert J. Cummings	Senior Vice President, Client Services
Paul J. Vancheri	Senior Vice President, Information Technology
David J. Pearlman	Vice President, Secretary, Senior Legal Counsel
Felicia F. Tierney	Vice President, Human Resources
Miles Mei	Treasurer

The members of the Company's Investments Committee as of December 31, 2008, were as follows:

Jon J. Skillman  
William R. Ebsworth

Clare S. Richer was a member of the Investments Committee until her resignation from the Company's Board, effective December 5, 2008. Richard A. Spillane, Jr. was a member of the Investments Committee until his resignation from the Investments Committee, effective October 1, 2008.

#### Conflict of Interest Procedure

During the period covered by the examination, directors and officers of the Company completed conflict of interest statements annually. No exceptions were noted.

#### Corporate Records

The meetings for the Board and the sole shareholder were conducted via written consents at least annually. The elections of directors and officers for the Company were approved and ratified via the written consent. The minutes contained high-level descriptions of information discussed about the Company.

The Company's investment transactions were approved and ratified by written consent of the Investment Committee for each quarter.

The prior examination report as of June 30, 2004, was distributed to the Board in August 2005, in accordance with U.C.A. §31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

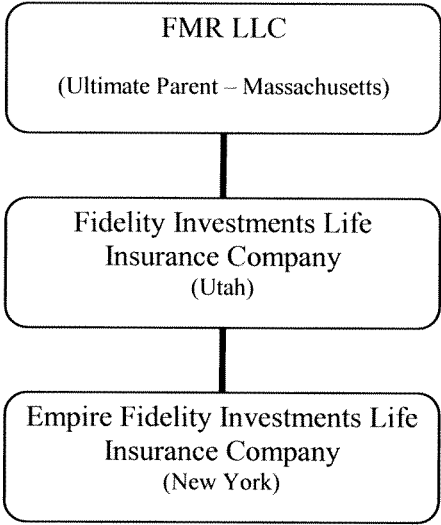
Prior to October 1, 2007, the Company was a wholly-owned subsidiary of FMR Corp. Effective October 1, 2007, FMR Corp was merged with and into FMR LLC.

Surplus Debentures

The Company did not have any surplus debentures issued or outstanding during the examination period.

AFFILIATED COMPANIES

The Company is wholly owned and controlled by FMR LLC. An organizational chart illustrating the holding company system follows:



Transactions with Affiliates

As of December 31, 2008, the Company was party to various agreements with affiliated companies, which provided administrative, tax sharing, cost allocation, distribution, participation, and investment management arrangements and/or services.

The more significant affiliated agreements are summarized as follows:

1. Intercompany Netting Agreement effective: March 27, 2000

This agreement involves FMR LLC, the Company, Fidelity Brokerage Services, Inc., National Financial Services Corporation, and other affiliates. The agreement generally provides that all amounts currently receivable/payable by and among FMR LLC, et al., and all affiliates shall be settled and cleared exclusively through FMR LLC. Each subsidiary shall settle its account on a monthly basis by payment to FMR LLC of the excess, if any, of the aggregate of its accounts payable over the aggregate of its accounts receivable as of the end of the month.

2. Administrative Services Agreement effective: April 1, 1998

Under the terms of this agreement, FMR LLC, as “provider”, agrees to provide the Company and Fidelity Insurance Agency, Inc. (FIA, Inc.), services and resources as needed by the two companies to perform the operation of their business. The Company and FIA, Inc. agree to reimburse FMR LLC for its actual cost for the services and facilities, within 30 days of receipt of the statement of charges, which are submitted at the end of each calendar quarter.

3. Administrative Services Agreement (Empire) effective: March 10, 1992

This agreement specifies that the Company agrees to provide all accounting and administrative functions necessary for its subsidiary, Empire Fidelity Life Insurance Company (Empire), to conduct its insurance operations. Provision is made for the Company to be reimbursed for the actual cost of services and facilities utilized by Empire in its operations.

4. Tax Sharing Agreement effective: December 31, 1992

This agreement provides for the filing of a consolidated federal income tax return between the Company and Empire. The terms of this agreement provide for a defined method by which the annual tax liability will be properly allocated to the extent that each Company will pay an amount, which will be equal to that which would be paid as though the two entities had filed on a separate basis.

5. Investment Management Agreement effective: October 1, 2006

Pyramis Global Advisors Trust Company is a New Hampshire trust company that provides investment advice and management services to the Company, and acts in the capacity of “investment manager” for the Company. Pyramis has the power and authority to make purchases and sales, and to execute any and all related documents on such asset accounts as designated by the Company, in accordance with investment guidelines, and within the control of the board of directors. Pyramis is compensated according to a fee schedule, which involves the application of various percentages to the average month-end market values of the accounts at the close of the last business day at the end of each month.

6. Distribution Agreements effective: October 1, 1993 and October 9, 1996

The Company appointed Fidelity Brokerage Services, LLC (FBSI), as the principal underwriter for the sale of all variable life and variable annuity contracts. The agreement generally provides for the underwriting, marketing, sales and distribution of the Company's variable life and annuity contracts to FIA, Inc.

The terms of the agreements generally provide for the Company to compile periodic marketing reports summarizing sales reports to FIA, Inc. and FBSI, and to keep them apprised of any developments in the various states with regard to registration requirements, regulatory matters, and SEC requests and amendments, and any other conditions which may affect the marketing of the insurance products. The compensation/commissions arrangements regarding the above are summarized in the individual agreements.

7. Participation and Transfer Agent Agreements effective: various dates

The Company and Fidelity Distributors Corporation (FDC), an affiliate underwriter, have entered into participation agreements with four unincorporated business trusts; the Variable Insurance Products Funds I, II, III and IV.

The Company invests its separate account proceeds of these trusts into mutual funds through FDC. Separate accounts are further discussed under the caption, "Territory and Plan of Operation." Fidelity Service Company (FSC) is responsible for the administrative services as the transfer agent for each of the trusts portfolios.

#### FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an insurer of the Company's size and premium volume is not less than \$3,500,000. As of December 31, 2008, the Company had sufficient fidelity bond coverage subject to a loss limit of \$100,000,000.

The Company also had additional insurance protection against loss from property and liability risks.

#### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's retirement program consisted of participation in two plans sponsored by FMR LLC: the Profit Sharing Plan, which included the 401(k) feature, and the Retiree Health Reimbursement Plan.

The Profit Sharing Plan consisted of two parts: an annual profit sharing contribution made from available profits, and employees' voluntary 401(k) contributions and the Company matching contributions to the 401(k) portion of the plan (at a rate of dollar-for-dollar up to 7 percent of employee contribution). Both the profit sharing contributions and Company matching contributions were subject to the availability of sufficient Company profits and cash flow.

Eligible newly hired employees were automatically enrolled in the Profit Sharing Plan, effective 30 days from date of hire, unless the employee opted out within 30 days of date of hire. Employees were 100 percent vested in the Company contributions of the Profit Sharing Plan at five or more years of vesting service.

The Retiree Health Reimbursement Plan was designed to provide eligible employees a way to pay for eligible medical expenses in retirement. The Company would make an annual credit for each eligible employee who satisfied the annual eligibility requirements, currently \$3,000 for each full-time employee and \$1,500 for each part-time employee. Employees became eligible after completing 12 consecutive months of service in which they are credited with 1,000 hours of service, measured from date of hire. Employees were eligible to access the Retiree Health Reimbursement Plan credits after retirement from the Company, having completed 10 or more consecutive years of service, and having reached the age of 55.

Other benefits available to employees included medical, dental, disability, accident, life insurance coverage, employee assistance program, dependent care tax saver program, and tuition reimbursement.

#### STATUTORY DEPOSITS

Pursuant to U.C.A §31A-4-105, the Company was required to maintain a deposit in an amount equal to its minimum capital requirement. The Company's minimum capital requirement was \$400,000 at December 31, 2008. The examination confirmed the Company maintained a statutory deposit with the State of Utah consisting of a U.S. Treasury Note with a par value of \$1,500,000, which was adequate to cover the required deposit.

The special deposits maintained by or through regulatory agencies on the policyholders' behalf, as of December 31, 2008, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Arkansas	U.S. Treasury Notes	\$ 150,000	\$ 153,188
Georgia	U.S. Treasury Notes	35,000	35,744
Massachusetts	U.S. Treasury Notes	100,000	102,125
New Mexico	U.S. Treasury Notes	100,000	112,338
North Carolina	U.S. Treasury Notes	400,000	408,500
Utah	U.S. Treasury Notes	<u>1,500,000</u>	<u>1,531,875</u>
Total		<u>\$ 2,285,000</u>	<u>\$ 2,343,770</u>

#### INSURANCE PRODUCTS AND RELATED PRACTICES

##### Policy Forms and Underwriting

The Company marketed and sold annuity and term life products. During the examination period, the Company began offering a deferred variable annuity, Fidelity Personal Retirement

Annuity (FPRA), and a variable immediate annuity product, Fidelity Freedom Lifetime Income Annuity (FFLI), in 2005, and a guaranteed minimum withdrawal benefit deferred variable annuity, Fidelity Growth and Guaranteed Income Annuity (FGGI), in September 2007. In March 2009, the Company closed its FGGI product to new customers.

The Company serviced a legacy deferred variable annuity with a fixed account option with a guarantee period of at least three months but not exceeding 15 months, Fidelity New Retirement Reserves (NRR), and a legacy immediate variable annuity with a fixed income option, Fidelity Income Advantage (FIA), which were both closed to new investors in 2008. The Company also discontinued sales for a fixed immediate annuity product with guaranteed income with life contingency or period certain, Fidelity Guaranteed Income Annuity (FGIA), in April 2008. This product was 100 percent reinsured.

The Company offered a term life insurance product with level premium paying periods of ten, fifteen and twenty years. Effective February 2008, the Company discontinued offering the 5 year term insurance product, due to low customer demand. The Company also discontinued offering its variable universal life insurance product in 2008. Amounts invested in the variable universal life policies were allocated to the Variable Life Separate Account. The Company retained the first \$100,000 liability of the life business and reinsured the rest.

#### Territory and Plan of Operation

As of December 31, 2008, the Company was licensed in all states, except New York, as well as in the District of Columbia. The Company's annuity and insurance products are marketed, sold, and distributed throughout the country by an affiliated insurance agency. Sales are generally made by direct mail using telemarketing support, and through walk-in investment centers. The Company operates and distributes its products in the state of New York through Empire Fidelity Life Insurance Company, a wholly owned subsidiary.

The Company's separate accounts business is administered exclusively for the variable life and annuity contract owners (US). The separate accounts are comprised of mutual fund stock portfolios consisting of five separate families of funds (Funds). These Funds are available to act in the capacity as investment vehicles for the separate accounts in accordance with the provisions of each of the Funds' participation agreements.

The contract assets are invested into a Fund that is divided into several series of shares, each representing the interest in a particular managed portfolio of securities and other assets. The full benefit and investment risk is assumed by its contract owner on these separate accounts.

#### Advertising and Sales Material

The Company sold its products through a captive distribution system through Fidelity Investments retail, institutional, e-business and other channels. The Company's products were marketed and distributed through affiliated companies via direct mail, media advertising, the internet, and through the 128 Fidelity Investor Centers located throughout the United States.

## Treatment of Policyholders

During the course of the examination there were no complaints filed with the Department. The examiners encountered no other items of concern regarding treatment of policyholders. In addition, the Company maintained a complaint log to monitor complaints.

## REINSURANCE

### Assumed

The Company neither maintained, nor entered into any assumed reinsurance arrangements during the examination period.

### Ceded

As of December 31, 2008, the Company participated in numerous reinsurance agreements to protect the excess of its retention in all areas of coverage. The agreements are summarized as follows:

#### Annuity Products Reinsurance Agreements:

1. Connecticut General (1993) - The agreement with Connecticut General covered the immediate variable annuity (Policy Form FVIA-92100) and protected the Company from longevity risk on the product for issues on or before August 31, 2000. The deductible for this coverage would be the accumulation of an annual charge of 6 Basis Points of the reserve and the reinsurance benefit would be the “tabular less actual mortality” measured on a pricing basis.
2. Munich Re, formerly CNA (1998) - The annuity reinsurance agreement with Munich Re covered deferred variable annuities (Policy Forms VA-1/87, FVA-88200, FVA-88201, NRR-96100 and NRR-96101). For contracts issued on September 10, 1998 through February 29, 2000, the contract protected the Company from death benefits under the Guaranteed Minimum Death Benefit (GMDB). This benefit provided that upon the death of the annuitant prior to age 85 and during the accumulation period, the death benefit would be at least equal to the premiums paid adjusted for withdrawals. GMDB claims on all contracts covered under this agreement were 100 percent reimbursed by Munich Re.

In addition, Munich Re would also reimburse the Company for 100 percent of GMDB claims on all deferred variable annuities issued prior to September 10, 1998 where the death of the annuitant is from attained age 70 to 85, during the accumulation period.

3. In 1999, the Company began reinsuring the fixed income portion of its immediate annuity (FVIA-92100 and FVIA-99100) and annuitization with Principal Life. In 2001, the

Company began offering a fixed immediate annuity contract (FGIA-2001) that was 100 percent coinsured with General Electric Capital Assurance. As of May 1, 2008, sales of these two products were discontinued.

4. Munich Re (two reinsurance agreements in 2001) - In 2001, the Company entered into an agreement with Munich Re to cover the standard GMDB on contracts issued from March 1, 2000 to June 30, 2001 with net amount at risk. The standard GMDB provided that upon the death of the annuitant prior to age 85 and during the accumulation period, a death benefit at least equal to the premiums paid adjusted for withdrawals. The Company's maximum retention would be \$100,000 per life, and Munich Re would cover the remaining loss, up to \$6,000,000.
5. From 1999 to 2002, the Company offered an optional enhanced GMDB rider (NRR-96120) where the death benefit was the greater of the basic death benefit or the highest value on any contract anniversary adjusted for subsequent additional payments or withdrawals. For contracts issued with this rider prior to December 1, 2001, these benefits were 100 percent reinsured by Munich Re. For contracts issued from December 1, 2001 to December 31, 2002, Munich Re covered any GMDB claims under this rider exceeding 25 percent of the premium less any withdrawals, but no more than 75 percent of the premium less any withdrawals.
6. AXA Corporate Solutions (2001) - In 2001, the Company entered into an agreement with AXA to cover the standard GMDB (as outlined above) on contracts issued from July 1, 2001 to June 30, 2003. This agreement covered aggregate losses exceeding 10 basis points of average assets for this block up to 200 basis points of average assets.
7. Genworth Life and Annuity Insurance Company (2007) - In 2007, the Company began offering a deferred variable annuity with a guaranteed minimum withdrawal benefit (DVA-GWB-2007). The GMWB benefit is reinsured 100 percent with Genworth Life and Annuity Insurance Company.

#### Life Products Reinsurance Agreements:

1. On the modest amount of variable life insurance which the Company has issued, the Company maintained reinsurance coverage with Lincoln National and Reinsurance Group of America (RGA) (formerly St. Louis Reinsurance and General American) on a monthly renewable term basis. The percentage of net amount at risk that was retained by the Company remained constant, and was determined on a contract-by-contract basis. The Company never retained more than \$100,000 of initial net amount at risk on any life insurance policy.

2. The term insurance policies were reinsured with Lincoln National, Swiss Re, and Munich Re on a coinsurance basis. Fidelity Investments Life did not retain more than \$100,000 of face amount on any one life under its term insurance.
3. The Variable Universal Life (VUL) insurance policies were reinsured with Swiss Re on a coinsurance basis. The Company did not retain more than \$100,000 of net amount at risk on any one life under its VUL insurance.
4. The Company Owned Life Insurance (COLI) policies were reinsured with Swiss Re, Munich American Reassurance Company, and RGA on a Yearly Renewable Term (YTR) basis. The Company did not retain more than \$100,000 of net amount at risk on any one life under its COLI insurance.

## ACCOUNTS AND RECORDS

The Company's general ledgers were maintained on the Fidelity-wide Oracle general ledger system. On a nightly basis, the Oracle general ledger received daily feeds from the Company's policy administrative system, AdminServer. Also on a nightly basis, the Oracle general ledger populated the Hyperion Essbase reporting system with the general ledger account balances. The Company's GAAP and statutory reporting was done utilizing the Hyperion Essbase Excel add-in, which enabled the Company's accountants to "retrieve" general ledger month end account balances from the Essbase reporting cubes into Excel templates for the trial balances. The Company's Corporate Finance Information Technology group maintained the Fidelity-wide Oracle general ledger along with the Essbase reporting hierarchies and cubes.

An independent certified public accounting firm audited the Company's records during the period covered by this examination. Audit reports generated by the auditors for the years 2004 through 2008 were made available for the examiner's use.

### Custodial Agreement

The Company had investments held by a custodian pursuant to a written custodial agreement dated November 22, 1996. As of December 31, 2008, this custodial agreement was not in compliance with Utah Administrative Code (U.A.C.) Rule 590-178 requiring certain provisions for the protection of Utah insurers and policyholders. A revised custodial agreement was subsequently executed on August 31, 2009 pending formal Board approval at the next scheduled board meeting. The reported investments were considered admitted assets at December 31, 2008, by subsequent revision of the custodial agreement, for examination purposes.

## FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2008

STATEMENT OF REVENUE AND EXPENSES for the Year Ended December 31, 2008

RECONCILIATION OF CAPITAL AND SURPLUS – 2004 through 2008

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

FIDELITY INVESTMENTS LIFE INSURANCE COMPANY  
BALANCE SHEET (ASSETS)  
as of December 31, 2008

	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 450,557,770	
Common stocks	51,673,358	
Cash and short-term investments	211,705,154	
Contract loans	248,144	
Receivables for securities	6,156	
Investment income due and accrued	5,284,581	
Uncollected premiums and agents' balances in course of collection	267,530	
Deferred premiums	4,305,364	
Amounts recoverable from reinsurers	529,188	
Other amounts receivable under reinsurance contracts	348,612	
Federal and foreign income tax recoverable and interest thereon	7,728,862	
Net deferred tax asset	7,690,860	
Fund administration fee receivable	360,329	
State tax recoverable	324,037	
Recordkeeping fee receivable	1,381,408	
From Separate Accounts	<u>11,150,518,822</u>	
Total assets	<u>\$ 11,892,930,175</u>	

FIDELITY INVESTMENTS LIFE INSURANCE COMPANY  
BALANCE SHEET (LIABILITIES, SURPLUS, AND OTHER FUNDS)  
as of December 31, 2008

		Notes
Aggregate reserve for life contracts	\$ 107,563,345	
Contract claims: Life	967,958	
Premiums and annuity considerations for life and accident and health contracts received in advance	69,247	
Other amounts payable on reinsurance	2,653,554	
Interest Maintenance Reserve	6,602,514	
Commissions to agents due or accrued	1,116,998	
General expenses due or accrued	2,452,021	
Transfers to Separate Accounts due or accrued	(10,741,389)	
Amounts withheld or retained by company as agent or trustee	581,331	
Remittances and items not allocated	7,192,929	
Asset valuation reserve	33,183	
Payable to parent, subsidiaries and affiliates	8,051,943	
From Separate Accounts Statement	<u>11,118,265,092</u>	
Total liabilities	<u>11,244,808,726</u>	
Common capital stock	3,000,000	
Gross paid in and contributed surplus	65,684,916	
Unassigned funds (surplus)	<u>579,436,533</u>	
Total capital and surplus	<u>648,121,449</u>	1
Total liabilities, capital and surplus	<u><u>\$11,892,930,175</u></u>	

FIDELITY INVESTMENTS LIFE INSURANCE COMPANY  
STATEMENT OF REVENUE AND EXPENSES  
for the Year Ended December 31, 2008

Premium and annuity considerations for life and accident and health contracts	\$ 2,163,128,034
Net investment income	25,756,155
Amortization of interest maintenance reserve	955,930
Separate Accounts net gain from operations	(16,503,102)
Commissions and expense allowances on reinsurance ceded	10,260,097
Income from fees associated with investment management administration and contract guarantees from Separate Accounts	92,322,169
Aggregate write-ins for miscellaneous income	9,450,552
Totals	<u>2,285,369,835</u>
Death benefits	2,246,483
Annuity benefits	194,822,790
Surrender benefits and withdrawals for life contracts	1,107,070,231
Interest and adjustments on contract or deposit-type contract funds	539,389
Increase in aggregate reserves for life and accident and health contracts	4,900,247
Totals	<u>1,309,579,140</u>
Commissions on premiums, annuity considerations and deposit-type contracts funds	18,153,683
General insurance expenses	80,569,889
Insurance taxes, licenses and fees	2,755,998
Increase in loading on deferred and uncollected premiums	(138,344)
Net transfers to or (from) Separate Accounts on reinsurance	871,130,289
Totals	<u>2,282,050,655</u>
Net gain from operations before dividends to policyholders	3,319,180
Dividends to policyholders	<u>-</u>
Net gain from operations after dividends to policyholders	3,319,180
Federal and foreign income taxes incurred	<u>2,681,627</u>
Net gain from operations after dividends to policyholders and federal income taxes	637,553
Net realized capital gains (losses)	<u>(8,642,981)</u>
Net income (loss)	<u><u>\$ (8,005,428)</u></u>

FIDELITY INVESTMENTS LIFE INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
2004 through 2008

	2004	2005	2006	2007	Per Exam 2008
Capital and surplus prior reporting year	\$ 452,484,457	\$ 512,901,859	\$ 566,311,503	\$ 604,497,274	\$ 645,222,999
Net income	56,445,798	48,300,965	43,269,194	47,434,744	(8,005,428)
Change in net unrealized capital gains (loss)	5,612,536	5,558,840	3,238,004	1,859,876	512,257
Change in net unrealized foreign exchange capital gain (loss)	229,905	74,792	(28,938)	(314,555)	39,411
Change in net deferred	(3,000,349)	(2,951,089)	3,320,708	7,528,435	6,747,893
Change in nonadmitted assets	2,090,381	4,063,069	(12,039,831)	(15,039,338)	(3,223,274)
Change in asset valuation	(975,301)	(1,580,433)	(42,054)	148,313	4,442,675
Surplus (contributed to) withdrawn from Separate Accounts during period	(611,022)	(149,631)	931,862		
Other changes in surplus in Separate Accounts Statement	625,454	93,131	(463,174)	(891,750)	
Surplus adjustments: Paid in					2,384,916
Net change in capital and	<u>60,417,402</u>	<u>53,409,644</u>	<u>38,185,771</u>	<u>40,725,725</u>	<u>2,898,450</u>
Capital and surplus end of reporting year	<u>\$ 512,901,859</u>	<u>\$ 566,311,503</u>	<u>\$ 604,497,274</u>	<u>\$ 645,222,999</u>	<u>\$ 648,121,449</u>

## NOTES TO FINANCIAL STATEMENTS

1. Capital and Surplus \$648,121,449

The capital and surplus reported by the Company in its December 31, 2008 annual statement was \$648,121,449.

The Company's minimum capital requirement was \$400,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Company reported total adjusted capital of \$648,154,632, which exceeded the authorized control level risk-based capital (RBC) requirement of \$20,322,794 as of December 31, 2008 by \$627,831,838.

### SUMMARY OF EXAMINATION FINDINGS

The capital and surplus reported by the Company in its December 31, 2008 annual statement was \$648,121,449. The Company's minimum capital requirement was \$400,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Company reported total adjusted capital of \$648,154,632, which exceeded the authorized control level risk-based capital (RBC) requirement of \$20,322,794 as of December 31, 2008 by \$627,831,838.

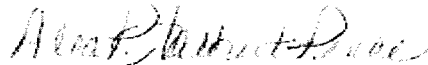
### SUBSEQUENT EVENTS

On July 8, 2009, the state of Utah adopted rule R590-254, the NAIC Annual Financial Reporting Rule, or "Model Audit Rule", (MAR). The effective date of the rule is January 1, 2010. The Company will be subject to all of the provisions of R590-254, because its annual written and assumed premiums exceed \$500 million. Key provisions to highlight include a requirement for the Company, beginning with the year ending December 31, 2010, to annually file "management's report of internal control over financial reporting", and a requirement effective as of January 1, 2010 for the Company, or group of related Companies to have an Audit Committee with certain specific direct responsibilities for the Company, whose members are at least 75 percent independent as defined by the rule.

## ACKNOWLEDGEMENT

Thomas L. Burger, FSA, MAAA and Scott Garduno, ASA, MAAA, of the actuarial firm of Taylor-Walker & Associates performed the actuarial phases of the examination. In addition to the undersigned, David L. Flores, CPA, CFE (fraud), APIR, Malis Rasmussen, PIR, CFE, and Hermoliva Abejar, participated in the examination representing the Utah Insurance Department. Jacob W. Garn, CPA, MBA, CFE, Chief Examiner and Colette Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner supervised the examination. Participants in the examination from RSM McGladrey were Jan M. Moenck, CFE, Margaret C. Spencer, CLU, CFE, CIE, and Matthew Kasurkin, CISA. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,



Alea P. Talbert-Pence, CFE, CIA  
Examiner-in-Charge  
Representing the Utah Insurance Department