Solvency and Financial Condition Report

30 September 2023

IntegraLife UK Limited

A firm authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

Contents

Glossary

- **Ancillary Own Funds:** Items (other than Basic Own Funds) which can be called upon to absorb losses. Supervisory approval is required.
- **Basic Own Funds:** The sum of the excess of assets over liabilities plus subordinated liabilities.
- **Basic SCR/Basic Solvency Capital Requirement:** The SCR before allowance for the adjustments for loss absorbing capacity and operational risk.
- **BEL/Best Estimate Liability:** The expected value of all future cashflows generated from current contracts discounted to allow for the time value of money using the Risk-Free Rate. The cashflows include premium income, expense outgo, tax, benefit payments and all cashflows relating to the policyholders' unit-linked investment portfolios. The assumptions used in the calculation are realistic – neither prudent nor optimistic. Where the Best Estimate Liability is shown in Appendix 1 this excludes the unit value, in line with guidance provided by the Prudential Regulation Authority (PRA) on the completion of the Quantitative Reporting Templates.
- **Delegated Act:** Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 as implemented into UK law. Following the UK's withdrawal from the European Union (EU), modifications to defined terms that were used in the Solvency II Delegated Regulation are set out in the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019.
- **Group or IHP Group:** IntegraFin Holdings plc and its direct and indirect subsidiary companies.
- **IAD:** Integrated Application Development Pty Ltd.
- **IFAL:** Integrated Financial Arrangements Ltd.
- **IHP:** IntegraFin Holdings plc.
- **ILInt:** IntegraLife International Limited.
- **ILUK:** IntegraLife UK Limited.
- **ISL:** IntegraFin Services Limited.
- **Key Function:** Important and business critical functions of an organisation. The Solvency II Directive has defined four functions of the system of governance as key functions - Risk Management, Internal Audit, Actuarial and Compliance. Each key function is required to have a designated key function holder who will be subject to notification requirements to the regulator.
- **Loss Absorbing Capacity of Deferred Taxes:** An adjustment to the Basic SCR to reflect the change in deferred taxes that would arise following an instantaneous loss broadly equal to the sum of the Basic SCR and operational risk amount.
- **Loss Absorbing Capacity of Technical Provisions:** An adjustment to reduce the SCR to reflect the impact of reducing future discretionary benefits (applies to with-profits funds only so not applicable for ILUK).
- **MCR/Minimum Capital Requirement:** A minimum level of required capital below which supervisory intervention will automatically be triggered. The MCR is defined by a formula with a lower/upper bound of 25%/45% of the SCR respectively.

- **ORSA/Own Risk and Solvency Assessment:** A key component of the Pillar 2 requirements of Solvency II. The ORSA is a process designed to assess an organisation's risks and overall solvency needs beyond the Pillar 1 requirements. The ORSA process comprises a number of sub processes and procedures.
- **Own Funds:** The sum of Basic Own Funds and Ancillary Own Funds. For ILUK this simplifies to the excess of total assets over total liabilities.
- **Prudent Person Principle:** The rules governing how investments are to be made in line with the Solvency II requirements, as implemented in Rules 2 to 5 of the Investments Part of the PRA Rulebook for Solvency II Firms.
- **Reconciliation Reserve:** A reporting item to reconcile the Solvency II Own Funds and the accounting balance sheet. This is calculated as the excess of Solvency II assets over liabilities, with the ordinary share capital and share premium account deducted.
- **Risk-Free Rate:** The term structure rates used to discount cashflows in the calculation of the Best Estimate Liability. The rates are derived from interest rate swaps adjusted for credit risk.
- **Risk Margin:** The measure added to the Best Estimate Liability to reflect the cost of holding capital over a period of run-off of the liabilities to ensure that the value of Technical Provisions meets the amount that an independent organisation would require to take over and meet all the obligations arising from the existing business.
- **Solvency II Directive:** EU Directive 2009/138/EC on the taking up and pursuit of the business of Insurance and Reinsurance, as implemented in the PRA Rulebook for Solvency II Firms.
- **SCR/Solvency Capital Requirement:** The term for the regulatory capital requirement on a Pillar 1 basis. The SCR is calculated on a going concern basis and represents the amount of capital that is required to withstand a 1 in 200 year event over a 1 year time horizon. The SCR can be calculated either in accordance with the Standard Formula following prescribed rules or by an internal model which is developed by the organisation (requires regulatory approval).
- **Standard Formula:** The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used. The high level structure of the Standard Formula is set out in the Solvency II Directive – further details of the formula are set out in the associated regulations.
- **Surplus Capital:** The excess of Own Funds over the SCR.
- **Technical Provisions:** The sum of the Best Estimate Liability and Risk Margin for existing business. The Technical Provisions are set at a level that an organisation would need to pay to another insurance organisation in order for them to fully accept the transfer of the related insurance obligations.
- **Transact:** The investment platform service operated by IFAL.

Solvency and Financial Condition Report

Introduction

This Solvency and Financial Condition Report (SFCR) for IntegraLife UK Limited (ILUK or the Company) has been prepared to meet the regulatory reporting requirements under the Solvency II regime which came into force on 1 January 2016.

The SFCR has been prepared on the basis of the financial information and risk assessments as at 30 September 2023 (the reporting date) and is presented to the ILUK Board for their review, challenge and approval.

This report fully meets all of the requirements for the SFCR as set out in the Solvency II rules:

- Solvency II Directive [2009/138/EC], as implemented in the PRA Rulebook for Solvency II firms
- Delegated Regulation [EU 2015/35], as implemented into UK law
- Commission Implementing Regulation [EU 2015/2452], as implemented into UK law
- Guidelines on Reporting and Public Disclosure.

The structure of this report follows the prescribed structure as set out in Annex XX of Delegated Regulation [EU 2015/35].

The Solvency II regime was transposed into UK law and came into force on 1 January 2016. It has largely been maintained in UK law following the UK's withdrawal from the EU and is now referred to as the UK Solvency II regime. This report has been prepared in accordance with the UK Solvency II regime. HM Treasury and the Prudential Regulation Authority are currently consulting on potential reforms to the UK Solvency II Regime.

Summary

Over the reporting period ILUK recorded a profit of £26,888k after tax (2022: £25,464k). The value of policyholders' asset portfolios (Funds Under Direction) as at 30 September 2023 was £21,959,496k (2022: £19,972,942k). There were positive net inflows[1] of £1,017,112k (2022: £1,622,792k) over the reporting period.

ILUK's Own Funds in the Solvency II balance sheet were £261,616k (2022: £244,021k) at the reporting date. The regulatory capital requirement, the SCR, was £201,398k (2022: £186,904k) giving surplus funds of £60,218k (2022: £57,117k) and an SCR coverage ratio of 130% (2022: 131%). The movements in Own Funds and the SCR are mainly driven by emerging profit, investment movements on existing business, new business, changes in expense and expense inflation assumptions, movements in the symmetric adjustment, foreseeable dividends and dividends paid. These changes are explored further in sections D and E.

The Solvency II rules allow companies to make various adjustments (transitional arrangements) to their valuation assumptions. ILUK has elected to not take advantage of these options, and as such the results presented in this report reflect the Solvency II requirements with no transitional arrangements applied.

There have been no material changes to ILUK's system of governance, risk profile and capital management over the reporting period.

[1] Net inflows are calculated based on premiums written minus claims incurred, in line with figures shown in template S.05.01.02. The figure for claims incurred differs from the figure for claims paid in the IFRS accounts.

A. Business and Performance

A.1 Business

A.1.1 The Company

ILUK is a UK life insurance company. It is authorised to undertake long term insurance business by the PRA under Firm Reference Number (FRN) 110344. It is regulated by the PRA and the Financial Conduct Authority (FCA).

The PRA can be contacted at:
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

The FCA can be contacted at:
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

A.1.2 The Group

Headed by IntegraFin Holdings plc (IHP) the primary business of the Group is the provision of "Transact", a UK financial adviser investment platform service.

IHP is incorporated in England & Wales (company number: 8860879). The registered office is 29 Clement's Lane, London EC4N 7AE.

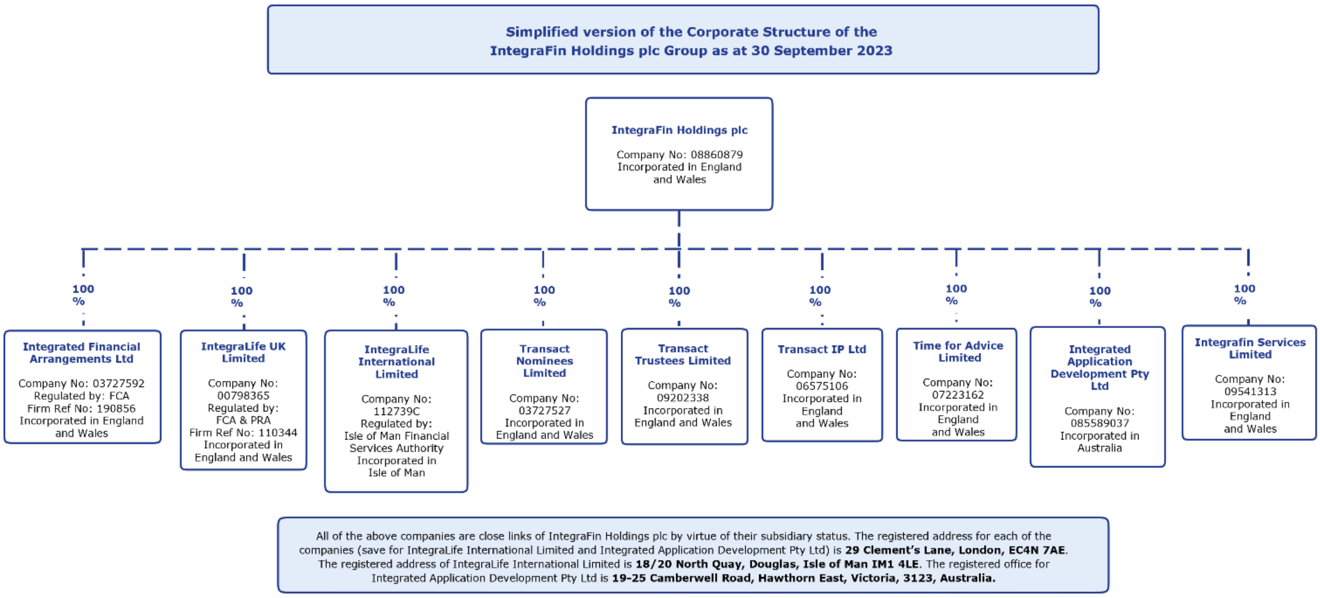
IHP is a public listed company with a primary listing on the main market of the London Stock Exchange. No shareholder has a qualifying holding of greater than 10% of IHP's capital as at the reporting date. IHP is not an insurance holding company as defined in the PRA Rulebook, and as such, Solvency II Group reporting is not carried out.

IHP owns ILUK, Integrated Financial Arrangements Ltd (IFAL), IntegraLife International Limited (ILInt), IntegraFin Services Limited (ISL), Integrated Application Development Pty Ltd (IAD), Transact IP Limited (TIP), Objective Asset Management Limited (OAM), Objective Wealth Management Limited (OWM), Objective Funds Ltd, Transact Nominees Limited (TNL), Transact Trustees Limited (TTL) and Time for Advice Limited (T4A) as wholly owned subsidiaries.

The two other regulated entities within the Group are IFAL and ILInt. IFAL is authorised in the UK by the Financial Conduct Authority (FCA) as an investment firm (defined as a non-SNI MIFIDPRU investment firm). ILInt is an offshore life insurer authorised to undertake long term insurance business by the Isle of Man Financial Services Authority.

IFAL provides wrapper administration, custody, trading and settlement services to ILUK. IFAL procures these services from ISL. ISL, a wholly owned subsidiary of IHP, provides all other services to ILUK.

A simplified diagram of the corporate structure as at the reporting date is set out below.



There were no changes in the Group structure during the reporting period.

A.1.3 ILUK's business purpose

ILUK's purpose is to provide the onshore, long-term insurance business, tax efficient savings wrappers to the clients of IFAL as an integral part of the investment platform that trades as Transact.

Thus ILUK is complementary to the other tax efficient savings elements of the Transact platform (the platform) offering, with the non-insured elements being offered directly by IFAL through ISA and SIPP authorisations and the offshore insurance contracts being provided to the platform by ILInt.

ILUK only writes unit-linked contracts and has only unit-linked insurance business in force. Linked assets are invested as per the policyholders' instructions and the Company fully matches 100% of the assets underlying the unit-linked products so there is no asset-liability mismatch risk.

ILUK's income is almost entirely derived from its charges. These charges can be split into three main types: annual management fees (ad valorem fees based on the value of assets and cash linked to policies), wrapper fees (flat fees differentiated by wrapper type) and transaction fees (percentage charges applied to the value of assets purchased).

A.1.4 Lines of business and geographical areas

All of ILUK's business is written in the line of business defined by the Solvency II rules, 'Index-linked and unit-linked insurance'. All new policies over the reporting period were written in the UK.

A.1.5 ILUK's external auditor

ILUK's external auditors are:

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

A.1.6 Significant external events over the reporting period

The following sections summarise the key changes that have occurred in the external environment over the reporting period that have had a material impact on ILUK.

A.1.6.1 Tax issues

ILUK taxation

As the financial markets steadily picked up in FY23, the deferred tax asset of £5.4m from the market losses of FY22 has been unwound, offset against income and gains that arose in FY23.

The increase in corporation tax from 19% to 25% took effect from 1 April 2023. While this had no material impact on the investment bond business (as the policyholder tax rate is set to 20% indefinitely) the increase has impacted profits from the ILUK pension business which incurred a blended rate of 22% over the reporting period and which is set to be 25% over FY24.

Changes to personal taxation

In the Autumn Statement 2022, the Chancellor confirmed that the personal allowance for income tax and the basic rate band would remain fixed at their current levels until April 2028. There was also a reduction in the threshold for additional rate tax, from £150,000 to £125,140. These measures will increase the number of higher and additional rate taxpayers and increase the tax saving available on pension contributions.

Also, the dividend allowance was cut from £2,000 to £1,000, effective from April 2023 and a further reduction to £500 is planned for April 2024. The capital gains tax exempt amount was cut from £12,300 to £6,000 in April 2023, with a further reduction to £3,000 planned for April 2024. Increasing the tax that might be paid on directly held investments has driven renewed interest from advisers for investment bonds, which offer opportunities to defer tax on investment income.

Changes to pensions

Fundamental changes to pensions were announced in the Spring Budget 2023.

With effect from April 2023 the lifetime allowance charge was abolished. Now, when clients receive a lump sum in excess of the lifetime allowance, the excess is subject to income tax. Draft legislation has been published intending to remove the lifetime allowance with effect from April 2024. The lifetime allowance will be replaced by two new allowances, a 'lump sum allowance', serving as a cap on the total amount of tax-free payments a member can receive from their pensions, set at £268,275. The second allowance, the 'lump sum and death benefit allowance', serves as a cap on the total tax-free benefits that can be paid to the member and also to their beneficiaries following the member's death and is set at £1,073,100.

At the current time there is still considerable uncertainty surrounding these changes. The final regulations are yet to be published and several key transitional issues are yet to be confirmed.

Also included in the policy statement was confirmation of the government's intention to apply income tax on all income payable to beneficiaries following the death of the scheme member (currently these are tax-free if the pension scheme member dies before reaching the age of 75).

This is a significant detrimental change for pension beneficiaries, and it is likely to lead to a change in behaviour with more beneficiaries opting for tax-free lump sum payments (where available) rather than use pension drawdown arrangements which would be subject to income tax.

In April 2023, pension contribution allowances were increased. The annual allowance was increased from £40,000 to £60,000, and both the money purchase annual allowance and the minimum tapered annual allowance were increased from £4,000 to £10,000. These changes provide additional pension funding opportunities to a wide range of individuals.

A.1.6.2 Competitive landscape

New challenger platforms continue to attract flows and many advice firms are being bought out, either by vertically integrated players with assets moving to their own platforms, or by consolidators who are looking for a lower touch and cost platform service. As almost all Transact business is written with advice provided by UK regulated financial advisers, the changes within both the adviser and the platform markets, which have accelerated over FY23, have led to a changed competitive landscape and have impacted flows, particularly outflows and net inflows across the platform, including ILUK.

A.1.6.3 Financial resilience

In light of the continued challenging outlook for the UK economy, the PRA expects life insurers to robustly stress their capital planning against prolonged adverse credit scenarios. Information on ILUK's capital projections and sensitivity, stress and scenario testing is provided in section C.7. The Actuarial and Risk Management teams continue to work closely with senior management and the Board to ensure the appropriate financial analysis is completed prior to the payment of dividends.

A.1.6.4 Operational and cyber resilience

Given the increase in operational incidents in the financial sector, enhancing firms' operational resilience remains a strategic priority for the regulators. Firms must invest significantly in their systems to ensure that they are fit for purpose, resilient and robust, and that any potential harm to consumers and markets is minimised. The PRA and FCA's joint Operational Resilience policy came into force on 31 March 2022 with a three year transition period. The policy is based on the assumption that from time to time, disruptions will occur that prevent firms from operating as usual.

The regulators are proactively monitoring firms' implementation of the requirements, including through information requests. The PRA conducted an operational resilience review at the end of 2022. The overall trend in the results was that Impact Tolerances and Testing require the most improvement. ILUK is continuing its implementation programme, taking into account the feedback from the PRA.

Firms must continue to notify the FCA of any matter which could have a significant adverse impact on the firm's reputation or which could affect the firm's ability to continue to provide adequate services to its customers (including material "service degradation incidents" e.g. operational disruptions).

The regulators are also concerned with the governance, oversight and contingency planning for outsourced services. The supplier management and operational resilience functions continue to bolster our selection and ongoing oversight processes for both intra-Group and third party suppliers, enhancing and testing resiliency across the landscape.

A.1.6.5 Financial crime

The government and the regulators continue to prioritise reducing and preventing financial crime. In March 2023, HM Treasury and the Home Office published the Economic Crime Plan 2: 2023-2026 (the Plan). There are four policy areas:

- Reduce money laundering and recover more criminal assets
- Combat kleptocracy and drive down sanctions evasion
- Cut fraud
- Reduce the threat of illicit international finance.

One of the actions arising from the Plan is the introduction of a failure to prevent fraud offence in the Economic Crime and Corporate Transparency Act 2023 which received royal assent on 23 October 2023. Broadly, the offence applies to organisations when a specified fraud offence is committed by an employee or agent, for the organisation's benefit, and the organisation did not have reasonable fraud prevention procedures in place. It will not need to be proven that consent or connivance existed.

The new fraud offence will apply to large organisations (based on three specified conditions) and so it will apply to the IHP Group and all its subsidiaries. It will come into effect following the publication of guidance on the reasonable procedures organisations can put in place to prevent fraud. The guidance is expected by Spring 2024 with the offence likely to come into effect by late Autumn.

The IHP Group already has processes and procedures in place to prevent fraud and the latest fraud risk assessment, completed in November 2023, reported that the existing fraud prevention measures are working well in the authorised companies and that a number of enhancements had been made to the fraud prevention controls in the non-authorised companies during 2023. A further analysis will be completed once the UK Government publishes the procedural guidance in respect of the new fraud offence to assess whether any enhancements or new procedures are required.

Under the PRA's Supervisory Priorities for Insurance Firms, the PRA expects firms to develop their security controls and capabilities to manage the increasing risk of cyber threat.

The number and sophistication of financial scams continues to increase. The FCA wants to see a reduction in the investment scams perpetrated or facilitated by regulated firms. It expects firms to have strong control and oversight arrangements to try and prevent fraud and scams, make efforts to raise awareness amongst customers and make the regulators aware of any incidents.

A.1.6.6 Consumer Duty and vulnerable customers

The FCA has introduced the Consumer Duty and is now focussed on ensuring firms embed it in their culture and technology. The Consumer Duty requires that firms put their clients' needs first. Firms are expected to assess and address issues in relation to the four consumer duty outcomes (Products and Services, Price and Value, Consumer Understanding and Consumer Support). The FCA will use a range of regulatory tools to assess the effectiveness of firms' implementation. There are a number of ongoing projects to ensure that ILUK continually focuses on achieving good client outcomes.

Protecting vulnerable clients continues to be a key priority for the FCA, particularly in light of the rising cost of living and the new Consumer Duty. Firms must be able to demonstrate how their culture, policies and processes ensure the fair treatment of all consumers, including those who are vulnerable. For these purposes, a vulnerable consumer is defined as someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care. Key drivers which may increase the risk of vulnerability are: health, life events, capability and resilience.

The FCA expects firms to support customers in financial difficulty. In particular, firms should understand how the behaviours and needs of customers are likely to continue changing. For example, it is likely that more customers will become financially vulnerable. Client-facing staff need to be informed, well-trained and empowered to provide support.

A.1.6.7 Responsible business

Climate change

Climate change presents a material and increasing financial risk to firms and to the financial system as well as to broader society. Over the reporting period there has been increased media and therefore public focus on climate change with an increase in extreme weather events, fires and record breaking months of global temperatures. As a consequence, all stakeholders have an increased interest in the

Group and ILUK's actions in this space, including investors (and analysts) and the regulators. Task Force on Climate-Related Financial Disclosures (TCFD) and other sustainability disclosures are found within the IHP annual report, which this year will cover the steps we have taken as a consequence of our engagement with Brite Green, a sustainability strategy consultancy. Brite Green is supporting ILUK, IHP and the Group with our processes for Greenhouse Gas reporting, with better identification of the risks and opportunities from climate change, enhancing our related governance as well as setting a strategic step plan to reduce our carbon emissions informed by scenario testing.

Diversity and Inclusion

The PRA, Bank of England and FCA have long since recognised the value of Diversity and Inclusion (D&I) in improving firm governance and the quality of decision-making and risk management, leading to better consumer outcomes and safety and soundness. They expect firms to take D&I seriously. In September 2023 the FCA and PRA published coordinated consultation papers to introduce a new regulatory framework with minimum expectations on D&I in the financial sector: FCA CP23/20 and PRA CP18/23. The consultations close on 18 December 2023 and will impact ILUK, although to what extent still needs to be determined.

The PRA's proposed requirements for all firms include: creating and publishing a firm-wide D&I strategy; monitoring and disclosing D&I data. Large firms (more than 251 employees) will need to set diversity targets for the board, senior leadership and employees, and submit regulatory reports on D&I data.

A.1.6.8 Implementing financial reforms (Solvency II)

In November 2022 and July 2023, the PRA published consultation papers on the Review of Solvency II (CP14/22 and CP12/23). The aim of the reforms is to reduce the regulatory burden on firms and ensure prudent risk management and alignment with UK Government priorities.

The main proposals relevant to ILUK are reforms to the risk margin, amendments to Quantitative Reporting Templates and National Specific Template reporting forms, and the removal of the requirement to submit the Regulatory Supervisory Report. The PRA intends to implement the reforms to the risk margin on 31 December 2023, and the proposals on reporting forms and the Regulatory Supervisory Report on 31 December 2024.

A.1.6.9 Political and geopolitical instability

The Russian invasion of Ukraine sent inflationary and economic shockwaves around the globe, which continue to impact energy prices and supply chains, and there is significant concern regarding the impact of the escalating Israel-Hamas war. Additionally, tensions continue between the United States and China on trade agreements. UK political instability in Autumn 2023 created a degree of market volatility, and there is potential for further impacts from an upcoming UK general election by January 2025 and the United States presidential election in November 2024. Collectively, these political, geopolitical and economic factors are impacting bond and equity markets. Within the UK, the economic environment remains challenging with the elevated inflation rate over the year putting considerable pressure on the cost of living and the expense base of the Company.

A.1.6.10 Pensions dashboard

Pensions dashboards will be secure digital interfaces that enable consumers to find and view simple information about all of their pensions (state, work-related and personal) that are not yet in payment, in one place. The framework to establish the pensions dashboard is in the Pension Schemes Act 2021. Amended Regulations have been approved to extend the connection deadline for providers to 31 October 2026.

A.2 Underwriting performance

A.2.1 Underwriting statement

As ILUK only writes unit-linked investment contracts and fully matches 100% of the assets underlying the unit-linked products, a presentation of premiums and claims as provided in Quantitative Reporting Template S.05.01.02 only provides limited information on the Company's performance over the reporting period. Instead, a presentation of operating profit based on the IFRS financial statements is provided below, with a reconciliation to IFRS profit provided in section A.4.

(£000)	2023	2022
Revenue		
Fee income	57,377	56,901
Cost of sales	(561)	(382)
Total income	**56,816**	**56,519**
Expenses		
Administrative expenses	(28,865)	(28,279)
Credit loss allowance on financial assets	(26)	(20)
Total expenses	**(28,891)**	**(28,299)**
Operating profit	**27,925**	**28,220**

A.2.2 Overall underwriting performance over the period

Fee income has increased due to an increase in the average value of policyholders' asset portfolios over the year, which includes new business written in addition to changes in in-force policy asset values and in-force policy decrements.

A.3 Investment performance

A.3.1 Investment income and return

The Company's non-linked investments are held in cash at a range of UK regulated banks, an intra-Group loan and in Gilts. Investment income is therefore interest on cash, loans and Gilts. Interest rates increased over the reporting period, leading to the increase in investment income. Investment return is also related to the same non-linked assets.

Linked investments held for the benefit of policyholders are invested as per the advisers', discretionary investment managers' or policyholders' instructions and underlying investments in policyholders' asset portfolios predominantly include a broad selection of equities, debt securities and property. The increase in policyholder investment return is due to improved market performance over 2023 compared to over 2022.

(£000)	2023	2022
Investment income	3,868	800
Investment return	95	(40)
Policyholder investment returns	1,127,047	(2,334,633)
Profit on investment activities	**1,131,010**	**(2,333,873)**

A.3.2 Investments in securitisation

ILUK has no investments in securitisation.

A.4 Performance of other activities

A reconciliation of the operating profit and loss on investment activities is reconciled to the IFRS profit before tax in the table below.

(£000)	2023	2022
Operating profit	27,925	28,220
Profit (loss) on investment activities	1,131,010	(2,333,873)
Net income (loss) attributable to policyholder returns	13,686	(36,133)
Policyholder taxation	(12,105)	38,498
Change in investment contract liabilities	(946,325)	2,514,701
Fee and commission expenses	(180,722)	(180,068)
IFRS profit before tax	**33,469**	**31,345**

Net income (loss) attributable to policyholder returns comprises amounts deducted from policyholders to cover policyholder tax charges, other liabilities, and recoveries of tax from HMRC. This figure is significantly impacted by the investment performance of the unit-linked assets. The positive figure for policyholder taxation in 2022 reflects the reserve held of tax charges previously taken from policyholders, where tax was no longer expected to be due based on market movements up to 30 September 2022. This changes to a negative figure based on market movements up to 30 September 2023, representing tax charges taken from policyholders to pay expected future tax liabilities.

Fee and commission expenses relate to payments to third parties from policyholder portfolios, principally to their financial advisers, based on agreements made directly between the policyholder and their advisers.

A.5 Any other information

All relevant and material items are covered in previous sections.

B. System of governance

B.1 General information on the system of governance

B.1.1 Introduction

ILUK's system of governance is consistent with the approach adopted by all Group companies and in line with regulatory expectations. This includes the Risk Management Policy and Framework (RMP and RMF) which is applied on a Group basis. The remainder of this section describes the Group's system of governance – which directly applies to the legal entity, ILUK.

The IHP Board determines the overall strategic direction of the Group's companies and is responsible for the overall management of the Group's business operations. IHP's Board is its main decision making and review body and has overall responsibility for approving Group risk appetite and risk management objectives and policies. ILUK's Board is ILUK's main decision making and review body – it will, where appropriate, contribute to and adopt the strategies, policies and procedures as recommended by the IHP Board. Further, the ILUK Board will consider and scrutinise advice from the IHP Board. The ILUK Board is responsible for approving ILUK's risk appetites and for ensuring ILUK's risk appetites do not cause any conflicts with the Group's risk appetites.

B.1.2 Committees and forums

The ILUK and IHP Boards are supported by a number of Board committees. As at the reporting date, the committees comprised:

- IHP Audit and Risk Committee
- IHP Remuneration Committee
- IHP Nomination Committee
- ILUK Audit and Risk Committee.

The Chief Executive Officer of IFAL has established five forums as at the reporting date from which ILUK draws information and oversight assurance:

- Planning and Development Forum
- Consumer Duty and Conduct Risk Forum (previously the Conduct Risk and Treating Customers Fairly (TCF) Forum)
- Financial Crime Forum
- CASS Oversight Forum
- Order Execution Oversight Forum.

Either the ILUK CEO or the ILUK Chief Risk Officer is a member of each of the five forums.

B.1.3 Roles and responsibilities of Key Functions

The Group operates a 'three lines' risk governance model which provides at least three stages of oversight to ensure that the Company operates within the risk appetite defined by the ILUK Audit and Risk Committee and approved by the ILUK Board. There are four key functions within the three lines model on which ILUK place significant reliance – Compliance, Group Risk Management, Actuarial, and Group Internal Audit. A summary of the roles and responsibilities of each is set out in the rest of this section.

Compliance Function

The Compliance Function provides oversight as part of the second line within the model. It is responsible for providing advice to the ILUK Board and senior management about compliance with relevant statutory and regulatory obligations and monitoring the effectiveness of compliance with responsibilities under the regulatory system.

The Compliance Function maintains a Compliance Plan which sets out its responsibilities and duties along with major areas of activity for the current calendar year. It has access to all necessary information, people, data, books, records and resources to meet its responsibilities.

The Platform Group Head of Compliance escalates regulatory issues (as needed) related to ILUK to the ILUK Chief Executive Officer, the ILUK Audit and Risk Committee, and the ILUK Board, as appropriate.

Risk Management Function

The Group Risk Management Function forms part of the second line within the model. It is responsible for facilitating and providing support to the Group's risk management process, giving advice and guidance on best practice to the business.

The Group Risk Management Function has a key role in establishing the RMF and RMP which ensure that risks are appropriately controlled and mitigated and that appropriate risk behaviours are being demonstrated consistently across the business.

The Group Risk Management Function assists the business in the identification, assessment and reporting of risk exposures; it monitors the effective management of these against the agreed Board risk appetites. It will report on issues raised by this process and make recommendations on these and other risk matters. This reporting is achieved through a quarterly risk report provided by the Group Chief Risk Officer to the ILUK Audit and Risk Committee. The Chair of the ILUK Audit and Risk Committee subsequently informs the Board of any relevant and material issues for discussion and approval.

Responsibility for coordinating the Own Risk and Solvency Assessment (ORSA) process lies with the Group Risk Management Function.

Actuarial Function

The Actuarial Function forms part of the first line within the model and is responsible for coordinating the calculation of the Technical Provisions, ensuring the appropriateness of the data, assumptions and methodologies used and informing the Board of the reliability and adequacy of the calculation of the Technical Provisions. The Actuarial Function is also responsible for ensuring the validation of the Technical Provisions is undertaken independently of the calculations.

Other areas of responsibility of the Actuarial Function include providing input to the ORSA process, reviewing and analysing outputs of the ORSA process, as well as contributing to the conclusions and recommendations of the ORSA process, working closely with the Risk Management Function.

Internal Audit Function

The Group Internal Audit Function forms the third line within the model and is responsible for providing independent and objective assurance to those charged with governance of the Group (including the ILUK Audit and Risk Committee and the ILUK Board) that risks are identified, reported, and appropriately managed and controlled in accordance with Board approved risk appetite levels. The Group Internal Audit Function also aims to protect and enhance the value of the Group to help meet its objectives and advises executive management on ways of improving the effectiveness of governance, risk management and internal controls. This is achieved by assessing, and providing assurance on, the effectiveness of the design and operation of controls in accordance with the documented procedures and policies of the Group, and the adequacy of processes to deliver compliance with applicable laws and regulations.

B.1.4 Material changes in the system of governance

There were no material changes in the Company's system of governance in the reporting period.

B.1.5 Remuneration policy

The Remuneration Committee is established as a committee of the Board of Directors of IHP and its membership is comprised of independent non-executive directors of IHP. The Committee's purpose is to review/set and/or agree the overall remuneration policy and strategy for the Group. The Remuneration Committee aims to align remuneration with the successful achievement of the Group's long-term objectives, while taking into account market rates and value for money. It also reviews the appropriateness and effectiveness of the Remuneration Policy with particular regard to best practice as well as regulatory and risk management considerations. The Remuneration Committee ensures that its decisions take into account the long-term interests of the Group's clients, advisers, shareholders, investors, suppliers and other stakeholders.

The Remuneration Committee also ensures that the structure of the remuneration for certain members of staff whose actions have a material impact on the risk profile of any company within the Group, including the percentage of variable elements as a proportion of their total remuneration, is unlikely to lead to conflicts of interest that might encourage inappropriate risk-taking.

ILUK does not employ its own staff. Instead ILUK procures services from within the Group. IFAL provides wrapper administration, custody trading and settlement services to ILUK. IFAL procures these services from ISL. ISL provides all other services directly to ILUK. The level and form of remuneration (including pay awards and bonuses) for employees of ISL are proposed by the ISL Chief Executive Officer. All employees' pay awards are in the form of regular salaries and discretionary bonuses. In particular, no form of sales related commission is paid. The pay award and bonuses of the IHP Chief Executive Officer are proposed by the Chair of the IHP Board. These proposals are reviewed by the Platform Head of Compliance to ensure that they are in compliance with regulations; by the Group Chief Financial Controller to test the methods and formulae used by HR to calculate individual bonus amounts and time served adjustments to ensure they are accurate and appropriate; and by the Group Chief Risk Officer to ensure they do not encourage risk taking or misconduct. Their recommendations are considered by the Group's Remuneration Committee.

Historically, the bonus component of remuneration has comprised a fixed percentage of total remuneration. A target bonus is set annually by the Group. The bonus payable will be reduced from the target level if the Group's performance targets are not met. The resulting bonus remuneration is then payable to employees adjusted in line with their individual performance.

In FY23 the Group restructured reward for employees working on ILUK business such that a greater amount of reward is fixed but with the variable element linked more directly to individual performance assessed against performance criteria.

A Share Incentive Plan (that meets HMRC rules) is open to all Group staff except for employees of T4A who currently retain their own remuneration model, and a deferred bonus into shares is open to all staff at the discretion of the IHP Chief Executive Officer.

The pension component of remuneration is payable as a fixed percentage of salary with a further salary sacrifice option for those who wish to increase their pension contributions. The Group has no defined benefit pension schemes and there are no supplementary or enhanced early retirement provisions for any of the Group's senior management or directors.

B.1.6 Material transactions

Dividends to IHP

Over the reporting period ILUK paid dividends totalling £19,000k (2022: £21,000k) to IHP, its parent company. ILUK has ensured that it complies with the PRA's expectations concerning dividends as set out in Supervisory Statement 4/18 "Financial management and planning by insurers".

The Actuarial and Risk Management teams continue to work closely with the Board to ensure the appropriate financial analysis is completed prior to the payment of dividends. Throughout the period, ILUK has continued to be able to make, and has made dividend payments.

Other transactions with IFAL

IFAL charges ILUK a proportionate share of trading costs for the costs it incurs directly trading and settling assets for the Group.

The charges owed by ILUK to IFAL are reflected in ILUK's statement of financial position as an intercompany creditor and the balance is settled by ILUK each month.

Transactions with Transact IP Ltd

ILUK pays a royalty fee to TIP for the use of the Transact platform.

The charges owed by ILUK to TIP are reflected in ILUK's statement of financial position as an intercompany creditor and the balance is settled by ILUK each month.

Payments to ISL

ILUK has a services agreement with ISL to provide policy administration, tax, legal and regulatory compliance services. ILUK paid ISL £23,803k (2022: £19,555k) over the reporting period.

B.2 Fit and proper requirements

B.2.1 Fit and proper

The Group has a process for assessing the fitness and propriety of persons covered under the Suitability Policy (Members), and of other certified staff. An assessment of suitability (which includes the fitness and propriety assessment) is carried out during the recruitment phase and before any regulatory application is made, as well as at least annually.

Holders of Key Functions are Members who due to their position have considerable influence on the Group. These have been identified as individuals who have responsibility for the oversight and operation of the Internal Audit, Compliance, Risk Management, and Actuarial functions. A record of our Key Functions and the reasoning for their identification is maintained. This is reviewed at least annually or more frequently if there are any structural changes to the Group.

All Members are required to observe the applicable conduct standards as prescribed by the PRA and FCA. The Group will notify the PRA and FCA of any change in the fit and proper status of Members (including should instances arise, where Members have been replaced because they are no longer fit and proper), and of any breaches to conduct rules by Members and certified individuals.

B.3 Risk management system including the Own Risk and Solvency Assessment

B.3.1 Risk management strategy

Risk management is a key component of the Group's strategic management. Responsibility for risk management resides at all levels within our business, from the senior management team to departmental team managers and their staff. The RMP and RMF defines the risk management roles and responsibilities. In turn these are incorporated into each employee's job description, ensuring, on a day to day basis, compliance with the FCA's code of conduct and the applicable policies and prevailing regulatory and legislative requirements.

The Group's risk management strategy supports the business in making informed and risk based decisions.

The Group has identified the following risk principles:

- Risk strategy is set in conjunction with the annual business planning cycle to ensure it is aligned with the Group's strategic objectives.
- The Group will adopt a risk culture that has risk management informing all key strategic decision making.
- The Group will be proactive in understanding, assessing and managing risks to promote the achievement of its business objectives and principles.

B.3.2 Risk management objectives

The Group is committed to a proactive approach to risk management. Risk management activity is aligned to the business plan objectives and priorities. Risk management is integrated into the Group's management processes and lies at the heart of its decision making.

The RMF further supports the achievement of ILUK and the Group's objectives. Effective risk management helps to provide focus on the priorities of ILUK and the Group and delivers better assessment of risk in the decision making process through open discussion about risks and opportunities. Effective risk management promptly identifies, measures, manages and reports risks that affect the achievement of the strategic, operational and financial objectives.

This includes reviewing ILUK's risk profile in line with the stated risk appetite and responding to new threats and opportunities that have the potential to cause harm.

B.3.3 Risk management processes

The Board, with support through reviews and recommendations from the ILUK Audit and Risk Committee, is responsible for and provides oversight of the Company's RMF and ORSA process. The Board has adopted and embedded the Group's RMF which provides a consistent approach to identification, assessment, mitigation and reporting of risks throughout the Company. The ORSA is a key part of the RMF and by applying the ORSA process, the Company actively manages its current and future risks.

The risk management process is illustrated below:

The ILUK Board determines the level of risk by setting risk appetites derived from the business strategy.

B.3.4 Risk reporting

In the application of the RMP, ILUK has established various reporting including the following:

- Departmental risk register updates, with review and challenge by the Group Risk Management Function
- Audit and Risk Committee reports
- Board reports
- Project progress reporting

The Group Chief Risk Officer presents reports to the ILUK Audit and Risk Committee and IHP Audit and Risk Committee at least on a quarterly basis. These reports include the latest summary of ILUK's risk profile.

B.3.5 Risk procedures

Transact platform processes are mapped and procedures documented for inter and intra departmental processes. A standardised format and nomenclature is used in all business process management work. Process maps include identification of the significant risks in the process and any risk mitigation that is in place. References used in the process maps can be tracked to those used to identify the risk in the risk register.

Each process owner ensures that process maps and procedure documents are kept up to date to reflect any changes that are approved.

B.3.6 Own Risk and Solvency Assessment

ORSA activity is carried out throughout the year. Work on the ORSA report commences in September with planning and allocation of responsibilities. From October onwards, work on the calculation of the Economic Capital Model (ECM) and Standard Formula results (coinciding with the business planning cycle) progresses and the report is reviewed and challenged by the ILUK Audit and Risk Committee and then recommended to the ILUK Board for approval by the ILUK Board in December.

If there are significant changes in the risk profile then a "non-regular" ORSA will be triggered which will mean that certain elements of the ORSA process may be brought forward.

ILUK's ORSA includes the elements set out below:

- Continuous compliance with the MCR and SCR
- Business strategy
- Risk appetites
- Corporate governance
- Risk management
- Data quality and model governance
- Capital and liquidity management plan
- Own capital using the ECM model
- Review risk profile and external environment
- Financial projections including forward looking capital and solvency
- Stress and scenario testing, reverse stress testing
- Use test of the ORSA.

ILUK monitors its solvency position on an on-going basis, supported by full financial model runs each quarter, with the completion of the ORSA annually. Stress and scenario testing is conducted at least annually as part of the ORSA or more frequently if there are material changes to ILUK's risk profile or the external environment.

The ORSA also includes a projection of the capital and solvency position which is carried out as part of the planning process and is updated monthly. This ensures that ILUK complies with the regulatory requirements throughout the planning period.

The ORSA process is conducted throughout the year and is used to facilitate decision making throughout the business.

B.4 Internal control system

The Group recognises that in order to meet its business objectives a robust and consistent system of internal controls and an internal control framework commensurate with and proportionate to its processes and activities and associated risks should be established, implemented and maintained across the Group. The Group's internal control system and framework is designed to secure compliance with decisions and procedures at all levels within the Group and covers all functions, activities, plans, culture, behaviours, policies, systems, processes, reporting arrangements and procedures that, when taken together:

- Facilitate effective and efficient operations by enabling identification and assessment of current and emerging risks (including compliance risks) and changes in the legal environment.
- Ensure action is taken to correct any identified weaknesses or deficiencies in internal controls, procedures and other systems of governance or failure to comply with legal or regulatory obligations or internal policies and procedures.
- Support appropriate action to remedy significant control failures and to safeguard resources.
- Aim to minimise the likelihood and impact of: poor judgement in decision-making, the occurrence of risk-taking that exceeds the levels agreed by the Boards of the companies within the Group, human error, or control processes being deliberately circumvented.
- Provide assurance that financial statements are prepared accurately and reported correctly and that financial and non-financial information is available and reliable.

- Provide assurance that clients' interests are protected including in relation to security controls, access controls relating to hardware, systems and data and the integrity of records and information.
- Support compliance with laws, regulations and administrative provisions (including those related to data production) related to business activities, processes, objectives and overall strategy.
- Aim to identify and manage any areas of potential conflicts of interest.

The Group's RMF is implemented through a 'three lines' model, to enable delineation of responsibility and to ensure that ILUK operates within the risk appetite defined by the ILUK Audit and Risk Committee and approved by the ILUK Boards.

The 'first line' business is responsible and accountable for managing risks on a day-to-day basis within appetite and in line with risk policies. This is then combined with oversight from the 'second line' Group risk management and compliance functions, and independent assurance is provided by the 'third line' Group internal audit function to form a 'three lines' model.

The Internal Control System is supported by having a Group structure that defines clear lines of authority (including formal delegated authority as appropriate), responsibility and accountability and establishes appropriate lines of reporting and segregation of duties. The Group recognises that accurate, timely and effective management information is crucial to the success of the Internal Control System.

B.5 Internal Audit Function

B.5.1 Implementation of the Internal Audit Function

The Group's Internal Audit Function produces a risk-based internal audit plan for the following 12 month period containing details of the internal audit engagements that will be performed, the planned date for completion and reporting of the internal audit engagements, and any internal and external resource requirements that are required. The internal audit plan covers the principal risks faced by the Group with consideration given to coverage over each of the Group's subsidiaries including ILUK. The internal audit plan is presented to the ILUK Audit and Risk Committee for approval at least annually or when any material changes are proposed. The Group Head of Internal Audit also presents details on the Internal Audit Function's progress with completing the internal audit plan, to the ILUK Audit and Risk Committee on a quarterly basis.

The internal audit plan is developed in consultation with the Group Risk Management Function – however, the Internal Audit Function performs its own assessment of the risks to the Group and then ensures that the selection of planned audits is aligned to its view of the principal risks faced by the Group.

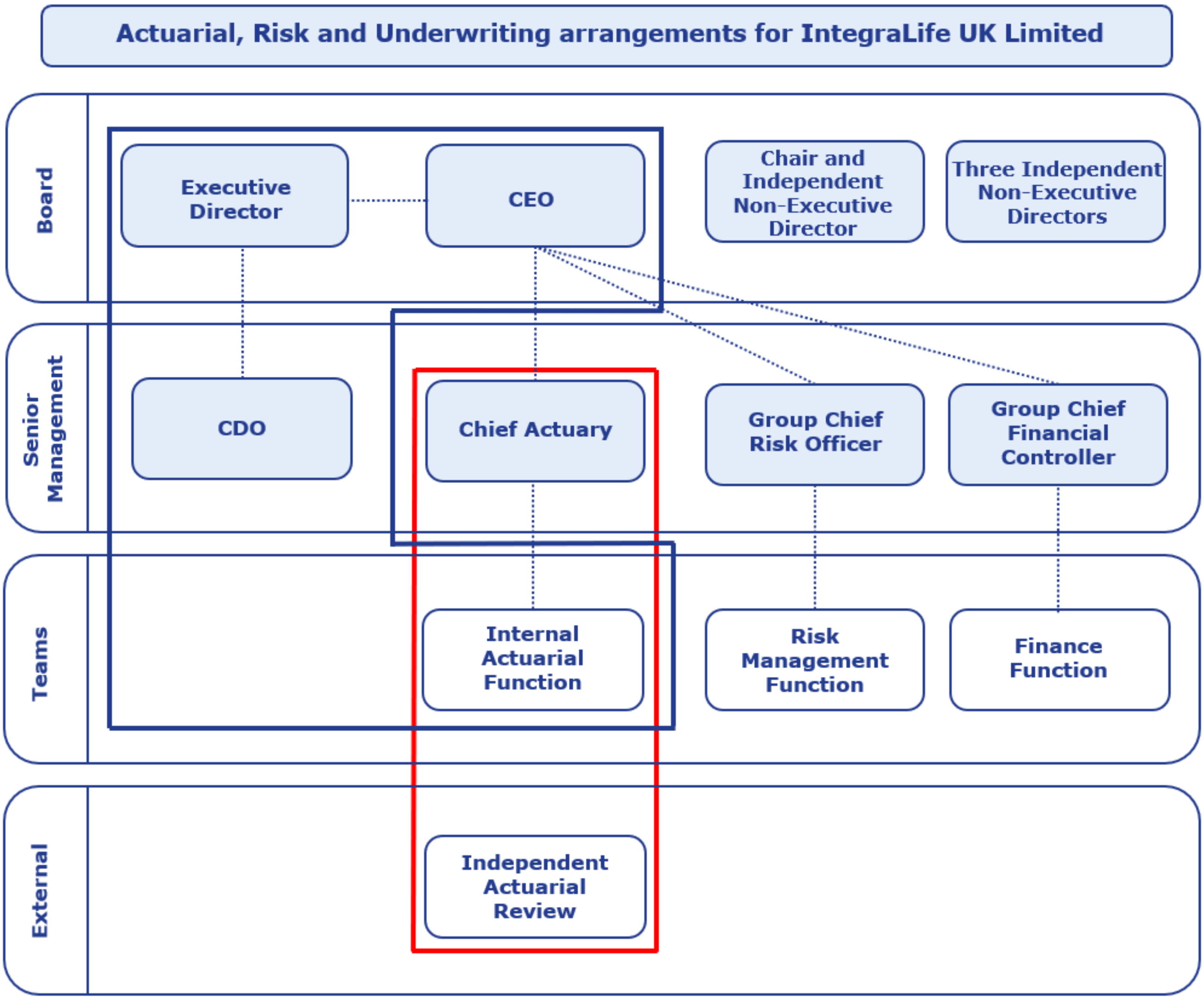
B.5.2 Independence of the Internal Audit Function

The Group Head of Internal Audit reports functionally to the Chair of the ILUK Audit and Risk Committee and other subsidiary Audit and Risk Committees in the Group (who are independent non-executive directors) and administratively to the Group Chief Executive Officer. The Group Head of Internal Audit will ensure that the Group Internal Audit department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others. Group Internal Audit will not perform any operational functions or activities that could compromise its independence.

Group Internal Audit's own Charter states that it will disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties; exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined; make balanced assessments of all available and relevant facts and circumstances; and take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements. The ILUK Audit and Risk Committee has authorised Group Internal Audit to have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

B.6 Actuarial function

As at the valuation date, the Head of the Actuarial Function is Peter Lee, ILUK's Chief Actuary. The following diagram illustrates how the Actuarial Function relates to ILUK's risk and underwriting governance arrangements:



The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries employed by ISL, who provides reports directly to the ILUK Board. Actuarial review is provided by Steve Dixon Associates LLP (SDA), an external actuarial consultancy.

The Chief Actuary has the role of Key Function Holder for Actuarial and SMF20 (Chief Actuary) under SMCR.

B.7 Outsourcing

B.7.1 Outsourcing policy

ILUK's outsourcing arrangements are governed by the Group's Supplier Management Policy. This policy sets out the roles and responsibilities for ensuring ILUK's outsourcing arrangements are appropriate.

B.7.2 Intra group outsourcing arrangements

ILUK has outsourced the provision of wrapper administration, custody, trading and settlement activity to IFAL. There is an intra-group agreement in place between ILUK and IFAL which sets out the activity outsourced and ILUK's ultimate responsibility for IFAL's performance of the activity.

All the UK companies in the Group except for ILInt and T4A are resourced directly or indirectly from ISL – the Group's services company. ILInt, based on the Isle of Man, has its own staff but outsources non-core income generating corporate and administrative activities to ISL. ISL employees, including Senior Management Function Holders and Key Function Holders, are provided to ILUK under the terms of an intra-group services agreement. ISL also provides under the same agreement, all operational services including systems access, office equipment and supplies, document management, printing, storage and destruction services. ISL sub-outsources the printing of certain insurance documentation including contract notes. ISL and IFAL are both located in the UK.

B.7.3 External outsourcing arrangements

ILUK has outsourced to SDA, an external actuarial consultancy, the provision of actuarial review services under an agreement governed by and construed in accordance with English Law. SDA is located in the UK.

B.8 Any other information

All relevant and material items are covered in previous sections.

C. Risk profile

The risk profile of the Company is set out in this section. Further details on the quantification of these risks is provided in section E.2 and in Appendix 1.

C.1 Underwriting risk

Description of risk

Underwriting risk (or insurance risk) is the risk of loss arising from actual experience being different than that assumed when an insurance product was designed and priced. For ILUK, insurance risk includes lapse risk, expense risk and mortality risk.

Lapse risk

Lapses occur when funds are withdrawn from the platform for any reason. Pension transfers and bond surrenders typically occur where policyholders' circumstances and requirements change. However, these types of lapses can also be triggered by operational failure, competitor actions or external events such as regulatory or economic changes.

Pension commencement lump sum payments, drawdown payments, lump sum withdrawals and bond regular withdrawals also result in funds being withdrawn from the platform but are of less concern as they are expected as part of the product's life-cycle.

Expense risk

Expense risk arises where costs increase faster than expected or from one off expense shocks. As ILUK's expenses are primarily staff related the key inflationary risk arises from salary inflation. Expense shocks could arise from events such as system failures or Financial Services Compensation Scheme levies.

Mortality risk

Mortality risk is the risk that the number of policyholder deaths is greater than expected. For ILUK, deaths produce a strain when the benefit paid out on death is greater than the value of the policyholder's portfolio. This applies for all onshore bonds (where a death benefit of 0.1% of the portfolio value is payable).

Risk exposure and concentration of risk

Lapse risk

As at the reporting date ILUK was exposed to £21,959,496k (2022: £19,972,942k) of lapse risk. This represents the total cash and investments held in policyholders' portfolios.

The exposure to lapse risk has been analysed to determine the level of concentration to any single adviser firm. The analysis showed there is no material exposure to any one adviser firm.

Expense risk

ILUK's total administrative expenses over the 12-month period to the reporting date were £29,426k (2022: £28,661k), including cost of sales. These figures include non-underlying expenses of £0k (2022: £3,439k).

Mortality risk

As at the reporting date ILUK was exposed to £1,619k (2022: £1,430k) of mortality risk. This represents the Sum at Risk (i.e. total death benefits payable less value of policyholders' portfolios) for the onshore bonds.

Risk mitigation

Lapse risk

ILUK predominantly accepts new policyholders through authorised financial advisers who are provided with Target Market and Fair Value Statements to distribute to clients ahead of policy inception. These financial advisers perform a detailed needs analysis and financial appraisal before recommending that the policyholder opens an ILUK wrapper. This process is designed to ensure initial product suitability and appropriateness, reducing future lapses.

Service standards and pricing competitiveness are monitored and product enhancements are introduced when HMRC rules permit in order to maintain the overall quality and value for money of the ILUK/Transact offering.

Lapse risk is mitigated by focusing on providing exceptionally high levels of service. Lapse rates are closely monitored and unexpected experience is investigated. Despite the current challenging and uncertain economic and geopolitical environment, policy lapse rates remain low and stable.

Expense risk

ILUK's expenses are governed at a high level by the Group's Expense Policy. The monthly management accounts are reviewed against projected future expenses by the Board and by senior management and action is taken where appropriate.

A proportion of the salary costs are paid as a discretionary bonus and share scheme awards, which could be removed or reduced without changes to staff contracts. Controls are in place to require Senior Management approval for expenses in excess of limits.

Mortality risk

The mortality risk on the onshore bond policies is not reinsured. This is because the Sum at Risk is a minimal 0.1% of the fund value.

C.2 Market risk

Description of risk

Market risk is the risk of loss arising either directly or indirectly from fluctuations in the level and in the volatility of market prices of assets, liabilities and other financial instruments.

Market risk from reduced income

ILUK's income is exposed to market risk. As the unit-linked policies are fully matched, any fall in asset prices will cause a fall in the value of the unit-linked policies of equal magnitude. ILUK's main source of income is derived from annual management fees and transaction fees which are linked to the value of the unit-linked policies.

Market uncertainty stemming from a variety of political and geopolitical events noted in section A.1.6.9, among others, may increase the volatility of ILUK's revenues.

Market risk from direct asset holdings

The overriding principles of ILUK's investment policy for non-linked assets are security and liquidity of capital. ILUK has limited exposure to primary market risk – there is minimal primary impact on the solvency of the Company from market fluctuations as:

- The Company only writes unit-linked insurance and has only unit-linked insurance business in force.
- Linked assets are invested as per the policyholders' instructions. ILUK maintains the right to limit policyholders' investment options.
- The Company fully matches the liabilities underlying the unit-linked products so there is no asset-liability mismatch risk.
- The Company's non-linked assets are invested in predominantly high quality, highly liquid, short-dated investments.
- The Company is not directly exposed to significant currency risk.

ILUK's balance sheet and capital requirements are relatively insensitive to first order impacts from movements in interest rates. The Company is exposed to a primary level of interest rate risk on its Gilt holdings of £19,862k (2022: £2,956k). The risk here arises from a shift in interest rates reducing the market value of the asset. The short-dated nature of the Gilt, redeemable in September 2024, means that the market value is relatively insensitive to a change in interest rates.

ILUK provided an intra-Group loan of £10,000k to IHP in January 2021, repayable over a period of 10 years with variable interest payments based on SONIA plus a margin agreed on normal commercial terms. The outstanding loan is currently valued at £7,000k, with no adjustment for expected credit losses. The market value is insensitive to a change in interest rates. ILUK holds capital for the loan under the credit spread and market concentrations sub-modules of market risk.

The Company has no defined benefit staff pension schemes.

Risk mitigation

All contracts are unit-linked and linked assets are fully matched, therefore ILUK's linked liabilities will move in line with the assets.

ILUK charges wrapper administration fees that do not depend on market movements, ensuring a proportion of revenue is unaffected by market movements.

Prudent Person Principle

Linked assets

ILUK fulfils its obligations regarding the Prudent Person Principle via the investment policy. All policyholder investments are held as individual internal linked funds. The choice of investments is controlled by the financial adviser or discretionary investment manager subject to qualitative requirements that have been laid down by the Company, and subject to HMRC rules for eligible investments. The investment objective of each individual linked fund is agreed between the adviser and the policyholder taking account of the policyholder's expectations and risk appetite. This will include agreement on the characteristics of the assets e.g. their quality, liquidity, currency etc., the diversification of assets held in each individual fund and the policyholders' other assets and liabilities.

The "Product Onboarding Process" imposes a set of qualitative requirements that each product must meet before it is made available for investment, e.g. legal structure of asset, custodian, etc. This allows the Company to offer investment flexibility whilst still being able to meet the Prudent Person Principle and to be able to monitor the security and quality of the portfolio as a whole.

Each product will be reviewed on a trigger based approach through the "Product Review Process" to ensure that it continues to meet the qualitative requirements. If at any time a product ceases to meet these qualitative requirements, then new investments will no longer be permitted. In the event that any existing holding ceases to meet the requirements (such as where a unit trust loses its authorised status) then the link between the value of the units and policy benefits will be stopped at the first reasonable opportunity, bearing in mind policyholders' best interests.

Non-linked assets

The overriding principles of ILUK's non-linked investment policy are security and liquidity of capital. To meet these principles non-linked reserves and shareholder capital are split between cash held in UK regulated banks, an intra-Group loan and short duration Gilts.

Investment return is not the primary aim of the non-linked investment policy. Returns commensurate with those achievable on Gilts with outstanding duration of less than five years are sought after taking account of quality, liquidity and diversification.

ILUK's Risk Appetite determines the degree of diversification between banks and the credit quality assessment requirements.

Liquidity is maintained by predominantly retaining non-linked asset investments in cash and short duration Gilt holdings. This is in line with non-linked liabilities which are represented in the main by expenses and tax liabilities.

C.3 Credit risk

Description of risk

Credit risk (or counterparty default risk) is the risk of loss arising from a party defaulting on any type of debt due to the Company.

Risk exposure and concentration of risk

For ILUK, the exposure to credit risk arises primarily from:

- corporate assets directly held by ILUK
- exposure to policyholders
- exposure to other Group companies
- exposure to other debtors.

The other exposures to credit risk include a credit default event which affects funds held on behalf of policyholders and occurs at one or more of the following entities:

- a bank where cash is held on behalf of policyholders
- a custodian where the assets are held on behalf of policyholders
- Transact Nominees Limited which is the legal owner of the assets held on behalf of policyholders.

There is no first order impact on ILUK from the events in the preceding set of bullets. This is because any credit default event in respect of these holdings will be borne by policyholders, both in terms of loss of value and loss of liquidity. However, there is a second order impact where future profits for ILUK are reduced in the event of a credit default event which affects funds held on behalf of policyholders.

Corporate assets and funds held on behalf of policyholders

As at the reporting date, the Company holds £71,246k (2022: £76,861k[2]) of corporate cash at five different UK banks, all of which have a Solvency II credit quality step of at least 2. £42,674k (2022: £41,050k[3]) of the corporate cash is held to cover tax reserves. The Company also holds £19,862k (2022: £2,956k) in Gilts, and an intra-Group loan to IHP of £7,000k (2022: £8,000k).

There is no significant concentration to any one UK bank. The Gilts and corporate cash are held directly by ILUK. Client money is held by IFAL in its own client money accounts on behalf of ILUK.

Counterparty default risk exposure to policyholders

The Company is due £5,991k (2022: £5,731k) from fee income owed by policyholders. Fees are paid monthly from policyholder funds, largely clearing this balance. A conservative bad debt provision of £160k (2022: £135k) is held for the fees that cannot be paid due to policyholders holding insufficient liquid assets.

Counterparty default risk exposure to other Group companies

As well as the inconvenience and operational issues arising from the failure of other Group companies, there is also a risk of a loss of assets. Other than the £7,000k intra-Group loan, the Company is due £44k (2022: £37k) from other Group companies, however, offsetting payables to the same companies ILUK is due £3k (2022: £2k).

Counterparty default risk exposure to other debtors

Other than prepayment assets, which are valued at nil in line with PRA Rulebook for Solvency II firms – Valuation (2.1), the Company has no other debtors arising, due to the nature of its business, and the structure of the Group.

Risk mitigation

Policyholders retain the credit risk for cash held in life company wrappers in banks in the event of insolvency.

ILUK holds cash with banks that have at least a COREP/Solvency II credit quality step of 3 and ensures cash is spread across at least four different banks.

ILUK sets limits on the amount of cash each bank can hold and this is regularly monitored through the Bank Account and Custodian Dashboard. ILUK assesses banks upon on-boarding and subsequently on an annual basis.

ILUK auto-sells client assets where clients do not hold sufficient cash in their funds to pay fees to the Company. The auto-sell process is carried out on a monthly cycle prior to the payment of fees.

ILUK regularly monitors the credit risk premium on the intra-Group loan to IHP.

C.4 Liquidity risk

Description of risk

Liquidity risk is the risk that cash is not accessible such that the Company, although able to meet its

[2] In the 2022 SFCR this figure was reported as £82,182k, which included an additional £5,321k of cash held in ILUK bank accounts but which was due to client portfolios at the reporting date. The change aligns the figures reported in the SFCR with the treatment in the IFRS financial statements.
[3] In the 2022 SFCR this figure was reported as £46,372k, which included an additional £5,321k of cash as explained above.

regulatory capital requirements, does not have sufficient liquid financial resources to meet obligations as they fall due, or can secure such resources only at excessive cost.

Risk exposure and concentration of risk

The Company's risk exposure and concentration of liquidity risk is as follows:

- Surrender of policies: ILUK is not exposed to liquidity risk when policyholders surrender their unit-linked investment assets. This is because policyholders take their own liquidity risk in the event that their investment assets cannot be immediately sold for cash. This is set out in the terms and conditions of the policies. Additionally, ILUK places policyholder cash in bank deposits with terms ranging from immediate access to 95 days. ILUK has robust controls in place to mitigate this liquidity risk, through setting limits and actively monitoring the percentage of cash not held in immediately available deposits.
- Benefit payments and expenses: ILUK is exposed to liquidity risk relating to the payment of mortality benefits and other liabilities (e.g. operating expenses). This requires access to liquid funds.
- Charges from policyholder assets: There is a risk that there is insufficient cash held in the unit-linked policies to settle the charges or that the assets cannot be converted into cash in order for the charges to be collected. Liquidity risk arising from clients holding insufficient cash is concentrated in portfolios where clients have illiquid assets and no cash.
- ILUK's own accounts: Whilst ILUK does have £71,246k (2022: £76,861k[4]) exposure to an insolvency event affecting UK banks, the Company considers this to be a remote risk. This is because these banks are of high systemic importance and, as such, any insolvency event affecting one of the banks is likely to fall within the remit of financial and operational crisis management principles set out in the Memorandum of Understanding between HM Treasury and the Bank of England (including the PRA). Corporate cash is split relatively evenly across five banks. However, there are limitations of the number of banks with which we could operate.
- Intra-Group loan to IHP: The market liquidity for the intra-Group loan is untested as it is the only outstanding loan exposure to the issuer. However, it is noted that there is a liquid market in loan exposures to other FTSE 250 companies, and as such, the asset can be considered to represent a low liquidity risk.

Risk mitigation

There are robust controls in place to mitigate liquidity risk:

- ILUK maintains a minimum of four corporate accounts across a range of banks to mitigate the risk of a single point of failure. In addition to these cash deposits, ILUK holds highly liquid short-dated Gilts.
- Concentration and limits are monitored using the Bank Account and Custodian Dashboard, where limits have been set for the amount of cash that can be held with each bank based on the bank's total customer deposits.
- Credit ratings of banks are regularly monitored to foresee any future liquidity issues before they arise.
- An arrangement with a back-up bank is in place to continue operations as normal should the main operating bank's system fail.
- Transact's Terms and Conditions require clients to maintain two per cent of their holdings in cash in

[4] In the 2022 SFCR this figure was reported as £82,182k, which included an additional £5,321k of cash held in ILUK bank accounts but which was due to client portfolios at the reporting date. The change aligns the figures reported in the SFCR with the treatment in the IFRS financial statements.

each wrapper at all times to ensure that clients continue to be able to pay their charges when due. To mitigate the risk of clients not maintaining sufficient assets in cash to pay the fees, the Terms and Conditions allow the "auto-sell" of assets to restore the minimum two per cent cash level. Auto-sell is run monthly.

- Where clients have illiquid assets and there is insufficient cash to collect fees due, fees are suspended to mitigate an increase in negative cash.

Expected Profit in Future Premiums (EPIFP)

ILUK does not have any products for which future premiums are included in the Solvency II balance sheet, and as such the EPIFP is nil.

C.5 Operational risk

Description of risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. This risk arises mainly from the administration of its business while operating within a highly regulated environment.

Risk exposure and concentration of risk

Analysis of ILUK's operational risks shows that the majority of the top operational risks relate to information security, IT infrastructure failure and cyber risk, regulatory and tax failure and operational process failure risks. This is as expected given the strong reliance ILUK has on its data, IT systems and the significant volume of operational processes carried out under a number of regulatory frameworks including the outcomes based Consumer Duty regime which has applied to ILUK since 31 July 2023.

Risk mitigation

The Company aims to minimise operational risk at all times through a strong and well-resourced control and operational structure with continuous investment in both people and systems. In particular, the Group has in place a dedicated financial crime team and an on-going fraud and cyber risk awareness programme. In terms of operational resilience, the Group carries out regular IT system maintenance, Business Continuity Plan element testing and system vulnerability testing. This is supported by the strong corporate governance structure that is embedded in ILUK and the Group as a whole.

C.6 Other material risks

C.6.1 Strategy risk

For ILUK, strategy risk includes:

- business sources risk
- contract mix risk
- reputational risk.

These three risks are assessed in the remainder of this section.

C.6.1.1 Business sources risk

Description of risk

Business sources risk is the risk that ILUK's single source of business (Transact) leads to potential contagion and reputational risks.

Risk exposure and concentration of risk

The sole source of ILUK business is Transact which is marketed to UK regulated financial advisers.

Transact delivers several elements which are not within the control of ILUK including non-insurance based wrappers and offshore insurance based tax efficient wrappers.

ILUK is exposed to any failings of this single source of business, primarily reputational risk arising from failings in another part of the Transact business. This could result in high levels of lapse of existing business and failure to write new business.

As ILUK's purpose is to provide the onshore, long-term insurance business, tax efficient savings wrappers to the clients of IFAL as an integral part of Transact, this risk exposure is accepted.

Almost all Transact business is written with advice provided by UK regulated financial advisers. This exposes ILUK to unfavourable changes to this business source e.g. new business could cease if the UK financial adviser market shrank due to many financial advisers retiring or if it consolidated as large financial advisers and competitor platforms bought smaller financial adviser firms affecting both new and existing business.

Risk mitigation

Consideration has been and continues to be given to mitigation strategies. Details of how the associated lapse and reputational risk is mitigated is set out in Sections C.1 and C.6.1.3.

C.6.1.2 Contract mix risk

Description of risk

Contract mix risk is the risk that the mix of ILUK's policies (for example by age of policyholder, size of portfolio or type of product) is not at the optimum level.

Risk exposure and concentration of risk

ILUK writes only unit-linked contracts, which removes the Company's exposure to investment risk. However the Company is still exposed to FSCS levies which often arise as a consequence of an investment failure. These levies are outside the control of the Company.

ILUK has a high concentration of pension business with 93% of existing funds under direction being pension related. This exposes ILUK to:

- Changes to drawdown rules resulting in higher outflow amounts.
- Any moves towards a flat rate of tax relief on pension contributions which potentially results in lower inflows.
- Auto enrolment which has the potential to reduce the available market.
- A maturing policyholder base potentially resulting in higher levels of outflow.

Risk mitigation

ILUK accepts that withdrawals will increase over time due to asset value growth, price inflation and an ageing portfolio. Requiring all clients to have a financial adviser is expected to mitigate extreme levels of withdrawals that may otherwise result from changes to pension access rules.

Changes to legislation that reduce pension allowances or tax reliefs cannot be directly mitigated. In such circumstances new and renewal business would be expected to continue albeit at a lower level. Transfer business would be expected to be less affected.

ILUK also writes investment bonds which provide a degree of mitigation against the concentration of pensions business.

C.6.1.3 Reputational risk

Reputational risk is the risk that current and potential clients' desire to do business with the Company reduces due to the perception of Transact in the market place. It should be noted that clients don't directly purchase policies from ILUK – they are provided as part of the Transact investment platform service. Therefore the reputation of the Transact brand is where the risk lies.

Risk exposure

The Transact brand is exposed to a wide range of future events which may have a significant adverse impact on its reputation. These include consequences of operational risk events e.g. errors, fraud or regulatory fines. In these cases, reputational risk would be triggered on the event of the operational risk failure becoming public knowledge. External reputational risk could also arise from public opinion of the whole investment platform sector diminishing. Reputational risk can be triggered by a one-off event resulting in a significant loss or could be the result of a gradual decline in how the Company is perceived.

Risk mitigation

The risk that reputational damage control is not properly managed is monitored through the RMF and is mitigated to some extent by internal operational risk controls, error management, complaints handling processes, and reputational crisis management training.

C.6.2 Group risk

Description of risk

Group risk is the risk that one regulated entity in the group is negatively affected by the actions of another entity in the group.

For the purposes of this assessment, the group is considered to be the IHP Group.

Risk exposure and concentration of risk

The following exposures have been identified:

<u>Group contagion risk</u>

- 'Transact' is the name that holds the Group's brand value. ILUK is associated with this brand. Therefore any reputational event that affects this brand or, to a lesser extent any other company within the Group, will also affect ILUK due to contagion.

<u>Group services risk</u>

- Services agreement with IFAL: IFAL provides trading services and administration of investment and cash assets to ILUK, which are regulated activities. ILUK is ultimately responsible for any losses resulting from trading processing errors, though it is expected that IFAL would be the initial party that incurs any losses.
- Services agreement with ISL: ISL provides policy administration, tax, legal and regulatory compliance services to ILUK. ILUK is ultimately responsible for any losses resulting from legal, compliance, tax and other operational errors, though it is expected that ISL would be the initial party that incurs any losses which would where appropriate be recharged to ILUK.
- ISL and IAD: ISL outsources the core systems' (IAS and TOL) development and maintenance to IAD. Any expenses resulting from failure in IAD operations may affect the Group as a whole.

Group payments risk

- There are no intra-group loans that ILUK relies on for maintaining its capital position. ILUK has provided a loan to IHP on a commercial contract basis which falls within the terms of the Board approved ILUK investment policy. IHP will make loan repayments from dividend income received from subsidiaries within the Group.
- There are no defined benefit pension schemes within any of the companies in the Group.
- All non-regulatory capital within the Group is fully fungible. Other than the loan provided to IHP, ILUK has no capital dependencies on members of the Group.

Risk mitigation

- CASS compliance: There are strict rules that IFAL must comply with to ensure the safeguarding and protection of its clients' investment and cash assets. The CASS Assurance Framework is in place to ensure a) compliance with CASS rules, b) that all risks are identified and c) that there are effective controls to mitigate those risks.
- Solvency: Each regulated company is expected to maintain regulatory solvency on a solo basis; this means that each regulated company assesses its own risks and allocates the appropriate capital against them, without any direct reliance on other companies within the Group.
- Intra-group agreements: There are agreements signed among the Group companies which provide a contractual framework in their relationship. These include clearly setting service levels and remedial approaches.
- Reputational management: The ILUK Chief Executive Officer and IFAL Chief Executive Officer have received reputational crisis management training.
- Business Continuity Plan (BCP): The Group has implemented continuity arrangements to ensure it maintains its operations. The approach has been based on designed plans which had been regularly tested. The crisis management team has undertaken a strategic review of the BCP and re-aligned the approach in light of experiences from the COVID-19 pandemic as well as for third party service providers. Documentation and the strategy has been updated to reflect actual operational experiences following invocation of its BCP.
- Bank Account and Custodian Dashboard: A monthly MI pack produced by Group Risk Management designed to monitor all banks, custodians and term deposit financial institutions. It includes balances, credit ratings, credit quality steps and limits.
- Other than the loan provided to IHP, ILUK has no capital dependencies on members of the Group. Intra-group balances are monitored, settled and reported in the monthly accounts to senior management under related parties' transactions.

C.6.3 Climate change

Description of risk

Climate change presents a material and increasing financial risk to firms and to the financial system. Minimising the future risks from climate change remains a key regulatory priority. Financial risks from climate change can be categorised and described as follows:

- Transition risks, which may arise as a result of the process of adjustment towards a low carbon economy. For example, climate change-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences, or evolving evidence, frameworks and legal interpretations.

- Physical risks, which relate to specific weather events (e.g. heatwaves, floods, wildfires and storms) and longer term shifts in the climate (e.g. precipitation, extreme weather variability, sea level rise and rising mean temperatures). These risk factors may result in increased frequency, severity or volatility of extreme weather events impacting non-life insurance, life insurance (e.g. heatwaves increasing mortality rates) or physical damage to the value of financial assets or property.
- Liability risks, which may arise from people or businesses seeking compensation for losses they may have suffered for physical or transition risks as a result of climate change, as defined above.
- Operations, with an increasing level of government pressure and social focus, it is becoming increasingly more important for businesses to manage their operational ecological footprint. This includes a corporate responsibility to ensure that the business takes steps to understand and manage both its current and future carbon footprint, failure to do so may result in reputational damage a loss of business or the potential for future penalties.

Risk exposure and concentration of risk

The following exposures have been identified:

Transition risk

The direct impact of this risk on ILUK is expected to be immaterial. However, the impacts on the value of linked investment holdings may be significantly affected as some company values are seriously damaged and others gain. This could have a positive or negative impact on ILUK's future income dependent on the underlying holdings, which are generally very widely diversified and so would be expected to include both companies that thrive under a low carbon economy (e.g. green energy developers) as well as companies that suffer (e.g. coal miners).

Transact, the investment platform service, facilitates the management and execution of retail clients' investment portfolios by their financial advisers and, to a limited extent, by the retail clients themselves. The investment platform service operates on an execution-only basis and so responsibility for the choice of the underlying holdings is borne by the client or financial adviser, subject to regulatory and tax requirements.

Physical risk

Given ILUK's business model and very limited mortality risk on its book of business and no non-life risk exposures, the direct impact of climate change related physical risk is expected to be immaterial.

Liability risk

Given the above assessments for transition and physical risks, the direct impact of liability risk on ILUK is expected to be immaterial.

Operations

The provision of services to clients requires an operational infrastructure (e.g. office space and equipment) as well the use of services from third parties (e.g. power companies and business support services). Failure to assess the efficiency of the infrastructure used and the service providers, might well associate the Transact brand with a poor reputational image. The UK Government is aspiring to meet its climate change targets and will be expecting businesses to comply. Failing to demonstrate a level of compliance not only impacts reputation but may well result in potential future penalties. Climate-related financial disclosures, consistent with the Task Force on Climate-related Financial Disclosures recommendations, will be provided at a Group level.

Risk mitigation

- Continue with close monitoring of ILUK's business performance against its business plans. It should be noted that the impact of changes in the value of underlying investment holdings on ILUK's future income is already considered in the current suite of stress and scenario testing.
- The Company continues to ensure that it considers its climate footprint as part of its strategic operational model exploring and reviewing opportunities in areas such as office space, printing and staff travelling. In addition, assessing third party suppliers is an important factor supporting the drive to embrace corporate responsible behaviours.
- Continue with risk horizon scanning, covering, for example, the competitive environment for the emergence of disruptive technology or business models in the investment platform sector, or shifting sentiment and societal preferences related to use of investment platforms.

C.7 Any other information

C.7.1 Stress tests and scenario analyses

A number of extreme but plausible scenarios have been developed following consultation across the business. The scenarios were created by considering both current risks and risks that may materialise in the future. Collectively, these scenarios cover the main risks ILUK is exposed to, including:

- Market downturn
- Mass lapse
- Increase in outflows
- Decrease in inflows
- One-off spikes in operating costs, resulting in an increase in future expenses
- Prolonged period of high expense inflation
- Reduction in fee income.

C.7.2 Stressed projection methodology and assumptions

In general, the approach is to model the Solvency II balance sheet and capital requirements over future time periods, allowing for experience in line with financial and demographic assumptions. The modelling approach has been chosen to strike a balance between technical accuracy and ease of calculation, whilst enabling the process of running and analysing the results to be carried out by an efficient and controlled process. The relevant shocks and trends are then added to the financial model.

To illustrate the severity of the scenarios modelled, the following table sets out some of the key changes in parameters made in the scenarios. The most severe scenarios modelled assumed a number of these changes occurred within the same scenario during the business planning period.

Table: Assumptions underlying the stress scenarios

Risk factor	Stress applied to base case assumption
Market downturn	An equity market fall of 33%
Mass lapse	30% drop in the number of clients over three months
Increase in outflows	65% increase in outflow rates for up to twelve months.
Decrease in inflows	30% decrease in inflow rates for twelve months.
One-off spikes in operating costs	Up to £4.7m one-off spike in operating costs depending on the underlying stress scenario.
Prolonged high expense inflation	10% expense inflation for three years
Reduction in fee income	Reduction in fee income by up to 35% as a result of other stresses.

Potential management actions have been identified and included in the modelling for the scenarios where there is a reasonable expectation that the management action would be taken.

ILUK remains within its solvency and liquidity risk appetites under all scenarios modelled.

C.7.3 Sensitivity testing

A series of sensitivity tests have been carried out to changes in key modelling parameters, calculated as at 30 September 2023.

Sensitivity	Description	SCR coverage ratio	Impact on SCR coverage ratio
Base	-	130%	-
Interest rate up	+1% shift across yield curve	131%	+1%
Interest rate down	-1% shift across yield curve	129%	(1%)
Lapses down	1% reduction in lapse rates (transfers out/full surrenders only)	124%	(6%)
Expenses up	10% increase in expense assumptions	127%	(3%)
Mortality down	10% decrease in mortality assumptions	129%	(1%)
Inflation up	1% increase in assumption	128%	(1%)
Credit spread	All Credit Quality Steps down 1 step	127%	(3%)
Equity stress	Symmetric adjustment increased by 1%	129%	(1%)

The sensitivity results demonstrate that the SCR coverage ratio is relatively insensitive to small changes in interest rates, expense and mortality assumptions, inflation assumptions, widening credit spreads and equity stress parameters. With regards to lapse, the SCR coverage ratio is relatively more sensitive and this reflects the long term nature of the business being modelled under the Solvency II basis.

C.7.4 Results

The results demonstrate that over the business planning period ILUK is projected to continue to have sufficient capital to cover its regulatory Standard Formula capital requirements and will have sufficient liquid capital resources without recourse to capital injections.

D. Valuation for solvency purposes

D.1 Assets

D.1.1 Introduction

ILUK's assets have been valued in accordance with the PRA Rulebook for Solvency II firms – Valuation (2.1) which requires that the assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. ILUK has implemented this via the Asset Pricing Policy and the associated processes and procedures.

The following table sets out ILUK's asset valuation as at the reporting date.

(£000)	2023	2022
Assets held for index-linked and unit-linked contracts	21,959,496	19,972,942
Investments (other than assets held for index-linked and unit-linked contracts)	19,862	2,956
Cash and cash equivalents	71,246	76,861
Loans and mortgages	7,000	8,000
Receivables (trade, not insurance)	18,583	18,001
Total assets	**22,076,186**	**20,078,760**

D.1.2 Asset valuation approach

The primary approach is to value assets using quoted market prices in active markets. There are no differences between the asset valuation method used in ILUK's IFRS financial statements and the Solvency II valuation other than the treatment of prepayments, which are included in the assets of the IFRS financial statements but are excluded from the Solvency II valuation in line with PRA Rulebook for Solvency II firms – Valuation (2.1), and the valuation of the loan to IHP which is valued at amortised cost using the effective interest method, but is valued on a market consistent basis using a discounted cashflow model under Solvency II. The value of the loan to IHP is £7,000k based on both valuation methods. Further details on the IFRS asset valuation approach and the financial assets held are provided in note 1(b) (Fair value of financial instruments) and in note 26 to ILUK's financial statements.

The following table sets out the differences between ILUK's assets on an IFRS basis and on a Solvency II basis.

(£000)	2023	2022
IFRS current and non-current assets	**118,200**	**112,957**
Cash held for the benefit of policyholders	1,248,040	1,314,311
Investments held for the benefit of policyholders	20,711,456	18,658,631
Remove prepayments	(1,510)	(1,785)
Remove deferred tax assets	0	(5,354)
Solvency II total assets	**22,076,186**	**20,078,760**

As the Solvency II balance sheet also contains deferred tax liabilities, where a deferred tax asset is held it is included in the net deferred tax liabilities line in the Quantitative Reporting Templates.

There were no changes made to the asset recognition and valuation bases used over the reporting period.

D.1.2.1 Listed securities

Listed securities are valued at the mid-point between closing bid and closing offer. In the event that closing bid and closing offer are not available for a particular day, the last known price will be used.

D.1.2.2 Collective Investment Schemes

Collective Investment Schemes (CIS) are valued using the latest quoted price made available by the issuer of the CIS.

D.1.2.3 Unlisted securities

The Group does not hold a material amount of unlisted securities. Where unlisted securities are held, the asset will be valued in one of three ways. These are using the matched bargain facility where possible; the last known price until a price is released; or audited accounts from which a price can be derived.

D.1.2.4 Impairment of asset value

Assets for which a price is not available at the expected frequency are considered stale and may be adjusted in line with the documented Asset Servicing and Corporate Accounting Stale Pricing procedure. In addition, a monthly stale pricing review is performed of all policyholder assets to assess whether the price being used to value the asset is a fair reflection of market value.

The rationale behind the nil value applied to prepayments is explained in the first paragraph of section D.1.2.

D.1.2.5 Receivables

Receivables are valued at their par amount less any provision for impairment, other than prepayments, which are valued at nil in the Solvency II balance sheet. Other than the intra-Group loan to IHP, all receivables are due within less than one year.

D.2 Technical Provisions

D.2.1 Introduction

All of ILUK's business is written in the line of business defined by the Solvency II rules, 'Index- linked and unit-linked insurance'. The Technical Provisions have been calculated in accordance with the PRA Rulebook for Solvency II firms – Technical Provisions. The following table sets out ILUK's Technical Provisions as at the reporting date.

(£000)	2023	2022
Technical Provisions calculated as a whole	21,959,496	19,972,942
Best Estimate Liability	(373,311)	(354,934)
Risk Margin	96,049	91,898
Technical Provisions	**21,682,234**	**19,709,906**

The Technical Provisions calculated as a whole are equal to Liabilities for linked investment contracts in the IFRS financial statements.

D.2.2 Actuarial method

The Technical Provisions are calculated as the sum of the Technical Provisions calculated as a whole, Best Estimate Liability (BEL) and the Risk Margin.

Technical Provisions calculated as a whole is a unit-linked reserve which is the value of units attached to the policy. This reflects the value of unit-linked benefits payable on death, maturity or transfer.

The BEL is the value in force (VIF), which reflects the value of future premiums and the future margins generated from the annual management charges and other policy fees (the income) less expenses, tax and any death benefits payable in addition to the unit values (the outgo).

D.2.3 Assumptions

The PRA Rulebook for Solvency II firms – Technical Provisions requires that the assumptions used to calculate the Technical Provisions are "realistic". The following sections summarise the material assumptions underlying the calculation of the Technical Provisions.

D.2.3.1 Discount rate/yield curve/fund growth assumptions

The discount rate is used to discount the future cashflows to generate a value in present-value terms.

The PRA publishes risk-free yield curves for each currency on a monthly basis which must be used for discounting. The risk-free rate of return is the theoretical rate which could be earned on an absolutely risk-free investment. In practice there is no such thing as an absolutely risk-free investment as even the most secure investments carry a small amount of risk. Typically swap yields offer a good approximation to a risk-free rate of return and the PRA's methodology is based on this approach. ILUK's liabilities are denominated in Sterling and hence the GBP yield curve is used.

ILUK also uses the same risk-free rate to estimate the growth in policyholders' unit values. This assumes that the assets are priced on a market related basis consistent with the risk-free rate.

As at the reporting date the 10, 15 and 20 year risk free spot rates applicable to ILUK were 4.3% p.a., 4.3% p.a. and 4.3% p.a. respectively. Full details of the rates used can be found on the PRA's website: **www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/technical-information**.

D.2.3.2 Lapse assumptions

Lapses occur when funds are withdrawn from the platform for any reason. This could be where all of the funds are withdrawn leading to closure of the policy (for example a transfer of funds to a competitor) or a portion of the funds are withdrawn and the policy remains open (for example pension commencement lump sums for pension policies).

The table below shows the average lapse assumptions as at the reporting date.

Product	Average lapse rate (% p.a.)	
	2023	2022
Onshore bonds	7.3%	7.1%
Pensions	6.8%	6.6%

Average lapse rates have increased slightly, resulting in an increase in SCR coverage with an immaterial movement in SCR coverage.

D.2.3.3 Expense assumptions

The expense assumptions have been set based on an expense analysis undertaken by ILUK. Expense assumptions are set separately for fixed expenses, variable expenses and expense inflation.

The analysis takes all of ILUK's expenses into account. This includes acquisition, administration, investment management, claims management and overhead expenses. The analysis splits the expenses into two categories – acquisition and renewal. The renewal expenses are used in the calculation of the Technical Provisions after a further split between per policy/fixed and variable costs has been applied.

Renewal expense assumptions are set based on the Company's expenses over the past year. Expense inflation is applied based on the rate implied by the Gilt yield at the valuation date for the duration of the modelled expenses. Where expense inflation in the Company's business plan is greater than the implied inflation, the higher rate is used over the first three years of the projection.

This represents a change in expense and expense inflation modelling methodology. Last year, renewal expense assumptions were set based on the Company's business plan over the coming three years, but with a floor of 0% applied for expenses inflation where expense efficiencies are projected. Thereafter, inflation was applied to renewal expenses and was taken to be the rate implied by the Gilt yield at the valuation date for the duration of the modelled expenses.

Expense assumption	2023	2022
Per policy	£72	£80
Variable (% of Funds Under Direction)	4.4bps	4.0bps

The combined change in expense and expense inflation assumptions has led to a reduction in surplus and SCR coverage.

D.2.3.4 Mortality assumptions

Mortality assumptions are based on published standard mortality tables. These tables are adjusted by applying a fixed percentage adjustment factor to reflect the past experience of ILUK's policyholders.

The table below shows the mortality assumptions for the reporting date.

Age (x)	Mortality table	2023		2022	
		Male adjustment	Female adjustment	Male adjustment	Female adjustment
0<=x<17	ELT17	100%	100%	100%	100%
17<=x<76	AMC00 / AFC00	54%	50%	54%	57%
x>=76	AMC00 / AFC00	62%	72%	62%	72%

Mortality assumptions are unchanged since the previous year end valuation for male lives assured, and have been slightly reduced for females, in line with ILUK's own mortality experience for female lives assured over 2020 to 2023. Given the low mortality risk of ILUK's book of business, the impact on ILUK's solvency position is not material, resulting in a small reduction in surplus and SCR coverage.

D.2.4 Level of uncertainty in the value of Technical Provisions

The calculation of Technical Provisions is based on modelling processes. It is important to bear in mind that all models have an inherent degree of uncertainty – this is particularly so where extreme events are modelled as data to calibrate the models is scarce. Calculation of the Best Estimate Liability requires assumptions relating to future economic and demographic experience which are parameterised using historical data and current market conditions. However, such historical experience cannot be guaranteed to be appropriate to the future experience that is being modelled – for instance the historical data may contain an anomaly which the data analysis has not fully captured.
Even assuming that the "correct" parameters have been chosen for the model, there will always be some statistical variation in the actual results compared to the experience predicted by the model.

Analysis of how the model results compare to actual experience over time is useful to assess the causes of variations in actual experience compared to that modelled. This analysis is carried out as part of the assumption setting process.

Sensitivity of the results to different assumptions is also an important part of understanding how the model may not reflect the "true" position. The sensitivity of the results to some of the key assumptions is considered in the assumption setting process.

ILUK is confident that the value of Technical Provisions is reasonably certain. This is based on the robust processes and controls in place regarding data quality, the assumption setting process and model governance.

D.2.5 Reinsurance recoverables

ILUK has no reinsurance recoverables.

D.2.6 Risk Margin

The Risk Margin is calculated as the present value of the SCR^{RM} (the SCR excluding hedgeable components of market risk) over each future annual time period discounted at the risk-free rate multiplied by the Cost-of-Capital rate of 6%.

The SCR^{RM} is recalculated over a projection period of 60 years (the point at which 99.8% of the in-force funds under direction have run-off).

D.2.7 Differences between IFRS financial statements and Solvency II valuation

D.2.7.1 Best Estimate Liability

Solvency II requires that the Best Estimate Liability component of the Technical Provisions is calculated using best estimate assumptions and that all future cashflows are included. These future cashflows include future income generated on the existing business and the expenses of administering the policies. This generates a significant positive result (reduction in the BEL) for which no credit is taken in the IFRS financial statements.

D.2.7.2 Risk Margin

Solvency II requires that a Risk Margin is added to the Best Estimate Liability to calculate the Technical Provisions. There is no Risk Margin in the IFRS financial statements.

D.3 Other liabilities

Other liabilities comprise deferred tax liabilities of £71,446k (2022: £54,822k) and other payables of £49,890k (2022: £59,011k). Other liabilities are valued at fair value; other payables are in line with the IFRS financial statements, whereas deferred tax liabilities differ as explained below.

Other payables are split between trade and intra Group company payables of £3,076k (2022: £2,459k), and other provisions of £46,815k (2022: £56,552k). The decrease in other provisions over the year is driven by a decrease in tax provisions that will either be returned to policyholders or paid to HMRC depending on policyholder investment returns within onshore bonds.

The following table sets out the differences between ILUK's deferred tax liabilities on an IFRS basis and on a Solvency II basis.

(£000)	2023	2022
IFRS deferred tax liabilities	**6,476**	**0**
IFRS deferred tax asset	0	(5,354)
Deferred tax asset on prepayments	(377)	(339)
Tax payable on VIF and Risk Margin	64,354	60,515
I-E shareholder deferred tax liability	992	0
Solvency II deferred tax liabilities	**71,446**	**54,822**

In 2022, a net deferred tax asset was held in the IFRS financial statements, but on a Solvency II balance sheet basis there was a net deferred tax liability.

In 2023 there is a deferred tax liability position in both the IFRS financial statements and on the Solvency II balance sheet. The deferred tax liabilities on the Solvency II balance sheet differ from those in the IFRS financial statements as, on a Solvency II basis, they allow for the future tax payable on the VIF and Risk Margin. Additionally, a deferred tax asset is created on the Solvency II balance sheet due to the difference in treatment of prepayments from the treatment in the IFRS financial statements. This deferred tax asset is appropriately included within net deferred tax liabilities on the Solvency II balance sheet.

Within the Solvency II deferred tax liability I-E shareholder tax is recognised based on the difference between the corporation tax rate, and the policyholder tax rate used in the modelling of I-E tax in relation to the VIF and Risk Margin. The recognition of the I-E shareholder deferred tax liability represents a change in methodology since the previous year end.

D.4 Alternative methods for valuation

£2,186k (2022: £1,597k) of policyholder assets have been categorised using alternative methods for valuation, based on the last known price that the Company has been able to source for these assets. All other financial instruments have been categorised as fair value through profit or loss, except for cash and cash equivalents, accrued income, other receivables and trade and other payables, which have been categorised as amortised cost. Further details are provided in note 1(b) (Fair value of financial instruments) and in note 26 to the IFRS statements.

D.5 Any other information

No transitional arrangements, and neither the matching adjustment nor volatility adjustment have been applied in the Solvency II valuation.

E. Capital management

The Company's capital management strategy is to maintain a sound and appropriate system of capital management in order for the Company to meet its strategic objectives. The Company has a preference for a simple system of capital management which reflects the nature of the business.

ILUK's Capital and Liquidity Management Policy sets out the principles the Company has adopted for managing its capital. This policy formalises the link between capital management and risk management processes.

ILUK manages its capital over the business planning period of three years.

At the present time, there is no intention to change the current, relatively simple, capital structure of the Company. This is kept under review and if any change is required the formal Capital and Liquidity Management Plan (which is monitored by the Board) will be amended.

The Risk Appetite Framework sets a series of triggers and risk appetites with respect to both the solvency and liquidity position of the Company, and any breach may lead to action under the Capital and Liquidity Management Plan. Potential actions include reductions in dividends and seeking sources of new capital.

E.1 Own Funds

E.1.1 Structure of Own Funds

The table below sets out the Own Funds at the reporting date.

Table: Own Funds

(£000)	2023	2022
Total Assets	**22,076,186**	**20,078,760**
Technical Provisions	21,682,234	19,709,906
Other Liabilities	121,336	113,833
Sub-ordinated Liabilities in Basic Own Funds	-	-
Total Liabilities	**21,803,570**	**19,823,738**
Excess of Assets over Liabilities	**272,616**	**255,021**
Subordinated Liabilities	-	-
Foreseeable Dividends	(11,000)	(11,000)
Total Basic Own Funds	**261,616**	**244,021**
Ancillary Own Funds	-	-
Total Own Funds	**261,616**	**244,021**

Table: Analysis of Change of Own Funds

(£000)	
2022 Own Funds	**244,021**
Change in VIF and Risk Margin	14,225
Change in non linked assets	10,873
Change in tax liabilities	9,121
Change in deferred tax liability	(16,624)
Change in foreseeable dividends	0
2023 Own Funds	**261,616**

Investment movements on existing business, the impact of new business, and changes in expense assumptions are the main drivers of the increase in VIF and Risk Margin. These are partially offset by changes in lapse assumptions and expense inflation assumptions.

Distributions to shareholders are included within Change in non-linked assets.

E.1.2 Tiering of Own Funds

The Solvency II regulations set out three tiers of capital to distinguish between capital with different levels of availability, quality and loss absorbing capacity – Tier 1 representing the highest quality. The table below shows how ILUK's capital is split between the recognised Solvency II tiers.

Table: Tiering of Own Funds

Basic Own Funds £000	Tier 1	Tier 2	Tier 3
30 September 2023	**261,616**	**-**	**-**
30 September 2022	**244,021**	**-**	**-**

E.1.3 Own Funds items

The following table sets out a description of the Own Funds items as at the reporting date.

Table: Description of Own Funds

(£000)	2023	2022	Description
Called up ordinary share capital	1,000	1,000	Allotted, issued and fully paid ordinary share capital and capital contributions.
Share premium account	700	700	The portion of Shareholders' Funds formed from the premium paid for new shares above their nominal value.
Reconciliation reserve	259,916	242,321	Excess of Solvency II assets over liabilities with ordinary share capital and share premium account deducted.
Solvency II Own Funds	**261,616**	**244,021**	

The reconciliation reserve is primarily driven by changes in the Best Estimate of Liabilities and Risk Margin, which in turn also affect the deferred tax liability created for tax payable on VIF and Risk Margin. These items are all affected by levels of new business, policy decrements, market movements and changes in both economic and non-economic assumptions, as set out in section D. The other main influence on the reconciliation reserve is movements in non-linked assets, which increase closely in line with profits, and reduce based on dividend payments.

E.1.4 Reconciliation between IFRS Financial Statements and Solvency II Own Funds

The table below summarises the differences between the IFRS Equity in ILUK's financial statements and the Own Funds calculated on the Solvency II basis as at the reporting date.

(£000)	2023	2022
IFRS Equity	**61,833**	**53,946**
Remove prepayments	(1,510)	(1,785)
Add deferred tax asset due to prepayments	377	339
Add impact of using Solvency II best estimate assumptions in the BEL	373,311	354,934
Deduct Solvency II Risk Margin	(96,049)	(91,898)
Deduct net tax liability on BEL and Risk Margin	(65,347)	(60,515)
Deduct foreseeable dividends	(11,000)	(11,000)
Solvency II Own Funds	**261,616**	**244,021**

E.1.5 Distribution to shareholders

Over the reporting period ILUK paid dividends totalling £19,000k (2022: £21,000k) to IHP, its parent company.

E.1.6 Any other information

ILUK has no Ancillary Own Funds or net deferred tax assets.

No transitional arrangements have been applied in respect of any of the Own Funds.

No capital injections have occurred during the reporting period and there are no plans to raise additional capital over the business planning period.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The regulatory SCR is calculated using the Standard Formula. The results are summarised in the table below.

Table: Regulatory Standard Formula Results

(£000)	**Solvency Capital Requirement**	
	2023	**2022**
Market risk	165,612	146,934
Life underwriting risk	159,956	153,113
Counterparty default risk	3,579	4,117
Diversification	(70,586)	(65,592)
Basic SCR	**258,561**	**238,572**
Loss absorbing capacity of Technical Provisions	-	-
Loss absorbing capacity of deferred taxes	(61,955)	(55,693)
Operational risk	4,791	4,025
Solvency capital requirement excluding capital add-on	**201,398**	**186,904**
Capital add-on already set	-	-
Solvency Capital Requirement	**201,398**	**186,904**

ILUK has not adopted any of the simplified calculations set out in the Delegated Act for the calculation of the Standard Formula SCR and has not adopted any Undertaking Specific Parameters. The SCR may change as a result of supervisory assessment.

The deferred tax liability which provides loss absorbing capacity is calculated based on projected corporation tax on future profits.

Investment movements on existing business, the impact of new business, and movements in the symmetric adjustment, driven the increase in the SCR over the year, but have been offset by changes in expense inflation assumptions and lapse assumptions.

Minimum Capital Requirement Results

The Minimum Capital Requirement (MCR) is £90,629k (2022: £84,107k) as at the reporting date. The MCR represents a minimum level of required capital below which supervisory intervention will automatically be triggered.

The following table shows the inputs to the MCR calculation as at the reporting date.

(£000)	2023	2022
Technical Provisions calculated as a whole	21,959,496	19,972,942
Best Estimate Liability	(373,311)	(354,934)
Capital at risk	374,946	356,383
Linear MCR	151,366	137,576
SCR	201,398	186,904
MCR cap	90,629	84,107
MCR floor	50,349	46,726
Combined MCR	**90,629**	**84,107**
Absolute floor of the MCR	3,445	3,126

The increase in the MCR is driven by the increase in the SCR, with the MCR cap continuing to apply.

E.3 Analysis of movements in SCR coverage

The breakdown of the main drivers of the change in ILUK's SCR coverage are shown below:

SCR coverage	
30 September 2022	**131%**
Portfolio movements	13%
Assumptions and methodology changes	(3%)
Dividends	(10%)
30 September 2023	**130%**

E.4 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The duration-based equity risk sub-module is not applicable to ILUK's business.

E.5 Differences between the Standard Formula and any internal model used

ILUK uses the Standard Formula for the purpose of calculating the regulatory SCR and has no plans to adopt an internal model.

E.6 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

During the reporting period, ILUK has been fully compliant with both the MCR and SCR.

ILUK does not foresee any risk of non-compliance with either the MCR or SCR. Ongoing compliance is maintained by the ORSA process.

E.7 Any other information

All relevant and material items are covered in previous sections.

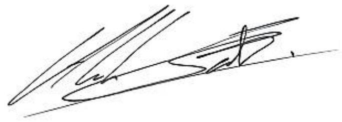
F.1 Approval by the ILUK Board of the SFCR and reporting templates

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a. throughout the financial year in question, ILUK has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer, and

b. it is reasonable to believe that, at the date of the publication of the SFCR, ILUK has continued so to comply, and will continue so to comply in future.



Alexander Scott

Chief Executive Officer

Date: 15 December 2023

F.2 Audit opinion

Report of the independent external auditor to the Directors of IntegraLife UK 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

Except as stated below, we have audited the following documents prepared by the Company as at 30 September 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 September 2023, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21, 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 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02;
- the written acknowledgement by the management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

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 September 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including 'ISA (UK) 800 (Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks' and 'ISA (UK) 805 (Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'. Our responsibilities under those standards are further described in the Auditor's 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

In auditing the relevant elements of the Solvency and Financial Condition Report, we have concluded that the Director's use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining the Directors' going concern assessment covering the period of 12 months from the date of authorisation of the Solvency and Financial Condition Report;
- assessing and challenging the assumptions and inputs used in management's forecast and determining the model used to project such forecast is appropriate to enable the Directors to make an assessment of going concern;
- testing the clerical accuracy of the model;
- evaluating the capital and liquidity position of the Company;
- assessing the appropriateness of the stress and reverse stress test scenarios that consider the key risks identified by management. We evaluated management's analysis by testing the clerical accuracy and assessing the appropriateness of the conclusions reached in the stress and reverse stress test scenarios;
- performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed the management paper presented to the board, minutes of meetings of the board and regulatory correspondence; and
- assessing the appropriateness of the going concern disclosures by considering consistency with the Director's assessment and compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of 12 months from when the relevant elements of the Solvency and Financial Condition Report are authorised for issue.

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

Emphasis of matter – basis of accounting and restriction on use

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.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other information

The Directors are responsible for the Other Information contained within the Solvency and Financial Condition Report.

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.

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 course of 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 this gives rise to a material misstatement in the relevant elements of the Solvency and Financial Condition Report themselves. 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 on which they are based.

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.

In preparing the Solvency and Financial Condition Report, the Directors are responsible for assessing the Company's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Company, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's 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 relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with the 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (UK-adopted international accounting standards and the Companies Act 2006 and relevant tax compliance regulations). In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the Solvency and Financial Condition Report being the relevant Prudential Regulation Authority (‘PRA’) and Financial Conduct Authority ('FCA') rules and regulations.

- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance matters and those charged with governance. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board, and the Audit and Risk Committee; and gained an understanding of the Company's governance framework.

- We assessed the susceptibility of the Company's Solvency and Financial Condition Report to material misstatement, including how fraud might occur by making enquiries of management and those charged with governance to understand where they considered there was susceptibility to fraud. We have considered performance targets and their potential influence on efforts made by management to manage or influence the perceptions of analysts. We considered the controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud, including in a remote-working environment; and how senior management monitors these controls. We also considered areas of significant judgement, any complex transactions and economic or external pressures and the impact these have on the control environment. Where the risk was considered to be higher, we performed audit procedures to address each identified risk.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management and the Company’s external advisers; and focused testing. We also enquired about the policies that have been established to prevent non-compliance with laws and regulations by officer and employees and the Company's methods of enforcing and monitoring compliance with such policies. We inspected significant correspondence with the PRA and FCA.

- The Company operates in the insurance industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's Report on the Solvency and Financial Condition Report.

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 required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the relevant elements of the Solvency and Financial Condition report. 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.

Ernst & Young LLP

Ernst & Young LLP
London
15 December 2023

Appendix 1 – SFCR Templates

S.02.01.02

Balance sheet

		Solvency II Value
Assets		C0010
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	19,862
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	19,862
Government Bonds	R0140	19,862
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	21,959,496
Loans and mortgages	R0230	7,000
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	7,000
Reinsurance recoverables from:	R0270	
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	18,583
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	71,246
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	22,076,186

S.02.01.02

Balance sheet

Liabilities

		Solvency II value
		C0010
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
TP calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	
TP calculated as a whole	R0660	
Best Estimate	R0670	
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	21,682,234
TP calculated as a whole	R0700	21,959,496
Best Estimate	R0710	-373,311
Risk margin	R0720	96,049
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	71,446
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	49,890
Subordinated liabilities	R0850	
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	21,803,570
Excess of assets over liabilities	R1000	272,616

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**			2,373,549						2,373,549
Reinsurers' share	**R1420**									
Net	**R1500**			2,373,549						2,373,549
Premiums earned										
Gross	**R1510**			2,373,549						2,373,549
Reinsurers' share	**R1520**									
Net	**R1600**			2,373,549						2,373,549
Claims incurred										
Gross	**R1610**			1,356,437						1,356,437
Reinsurers' share	**R1620**									
Net	**R1700**			1,356,437						1,356,437
Changes in other technical provisions										
Gross	**R1710**									
Reinsurers' share	**R1720**									
Net	**R1800**									
Expenses incurred	**R1900**			29,426						29,426
Other expenses	**R2500**									
Total expenses	**R2600**									29,426

S.12.01.02

Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**
Technical provisions calculated as a whole	**R0010**		21,959,496								21,959,496
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0020**										
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	**R0030**			-373,311							-373,311
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**										
Best estimate minus recoverables from reinsurance/SPV and Finite Re-total	**R0090**			-373,311							-373,311
Risk margin	**R0100**		96,049								96,049
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	**R0110**										
Best estimate	**R0120**										
Risk margin	**R0130**										
Technical provisions – total	**R0200**		21,682,234								21,682,234

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 (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	1,000	1,000			
Share premium account related to ordinary share capital	R0030	700	700			
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	259,916	259,916			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	261,616	261,616			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					

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Own funds

Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	261,616	261,616			
Total available own funds to meet the MCR	**R0510**	261,616	261,616			
Total eligible own funds to meet the SCR	**R0540**	261,616	261,616			
Total eligible own funds to meet the MCR	**R0550**	261,616	261,616			
SCR	**R0580**	201,398				
MCR	**R0600**	90,629				
Ratio of Eligible own funds to SCR	**R0620**	130%				
Ratio of Eligible own funds to MCR	**R0640**	289%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	272,616	
Own shares (held directly and indirectly)	**R0710**		
Foreseeable dividends, distributions and charges	**R0720**	11,000	
Other basic own fund items	**R0730**	1,700	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	259,916	
Expected profits			
Expected profits included in future premiums (EPIFP) – Life business	**R0770**	0	
Expected profits included in future premiums (EPIFP) – Non-life business	**R0780**		
Total Expected profits included in future premiums (EPIFP)	**R0790**	0	

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Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	165,612		
Counterparty default risk	R0020	3,579		
Life underwriting risk	R0030	159,956		
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	-70,586		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	258,561		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	4,791
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-61,955
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	201,398
Capital add-on already set	R0210	
Solvency capital requirement	R0220	201,398
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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Solvency Capital Requirement – for undertakings on Standard Formula

		Yes/No
		C0109
Approach to tax rate	R0590	2- No
Approach based on average tax rate		

Calculation of loss absorbing capacity of deferred taxes		LAC DT
		C0130
DTA	R0600	
DTA carry forward	R0610	
DTA due to deductible temporary differences	R0620	
DTL	R0630	
LAC DT	R0640	-61,955
LAC DT justified by reversion of deferred tax liabilities	R0650	-61,955
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	-61,955

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Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income Protection insurance and proportional reinsurance	R0030		
Workers' Compensation insurance and proportional reinsurance	R0040		
Motor Vehicle liability insurance and proportional reinsurance	R0050		
Other Motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_{L} Result	R0200	151,366

		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	21,586,185	
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		374,946

Overall MCR calculation

		C0070
Linear MCR	R0300	151,366
SCR	R0310	201,398
MCR cap	R0320	90,629
MCR floor	R0330	50,349
Combined MCR	R0340	90,629
Absolute floor of the MCR	R0350	3,445
		C0070
Minimum Capital Requirement	R0400	90,629

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