Solvency and Financial Condition Report

30 September 2016

IntegraLife UK Limited

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

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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 insurance 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.
- **Delegated Act:** Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.
- **EIOPA / European Insurance and Occupational Pensions Authority:** An independent advisory body to the European Parliament, the Council of the European Union and the European Commission. EIOPA was established in January 2011 and replaced CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors).
- **IFAL:** Integrated Financial Arrangements Limited.
- **ILUK:** IntegraLife UK 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:** An absolute 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 – Article 132 of the Solvency II Directive and associated regulations and guidance.

- **Reconciliation Reserve:** A reporting item to reconcile the Solvency II Own Funds and the accounting balance sheet.
- **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:** The EU legislative regime codified in the Solvency II Directive (2009/138/EC) as amended by the Omnibus II Directive (2014/51/EU). Solvency II applies to all member states of the EU and has as its aim, harmonisation of the insurance industry.
- **SCR / Solvency Capital Requirement:** The term for regulatory capital 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 wrap platform 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 2016 ("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 amended by Omnibus II)
- Delegated Regulation [EU 2015/35]
- Guidelines on Reporting and Public Disclosure

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

Summary

Over the reporting period ILUK recorded a profit of £10,094k after tax. The profit for the previous year was £7,364k after tax.

Over the reporting period ILUK's business has continued to grow. This reflects both an increase in the value of policyholders' asset portfolios (Funds Under Direction) which increased to £8.305bn from £6.478bn and an increase in net inflows over the reporting period to £0.904bn from £0.757bn. The strongest period of market growth over the reporting period was in the quarter to 30 September 2016.

ILUK's Own Funds in the Solvency II balance sheet were £99,860k at the reporting date. The regulatory capital requirement, the SCR, was £74,148k giving surplus funds of £25,712k.

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

There have been no material changes to ILUK's business and performance, system of governance, risk profile, valuation for solvency purposes under the Solvency II basis and capital management over the reporting period. Going forward, ILUK expects its results to reflect the continued growth evidenced over the last reporting period.

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 Prudential Regulatory Authority ("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
Bank of England
Threadneedle Street
London
EC2R 8AH

The FCA can be contacted at:
Financial Conduct Authority
25 The North Colonnade
London E14 5HS

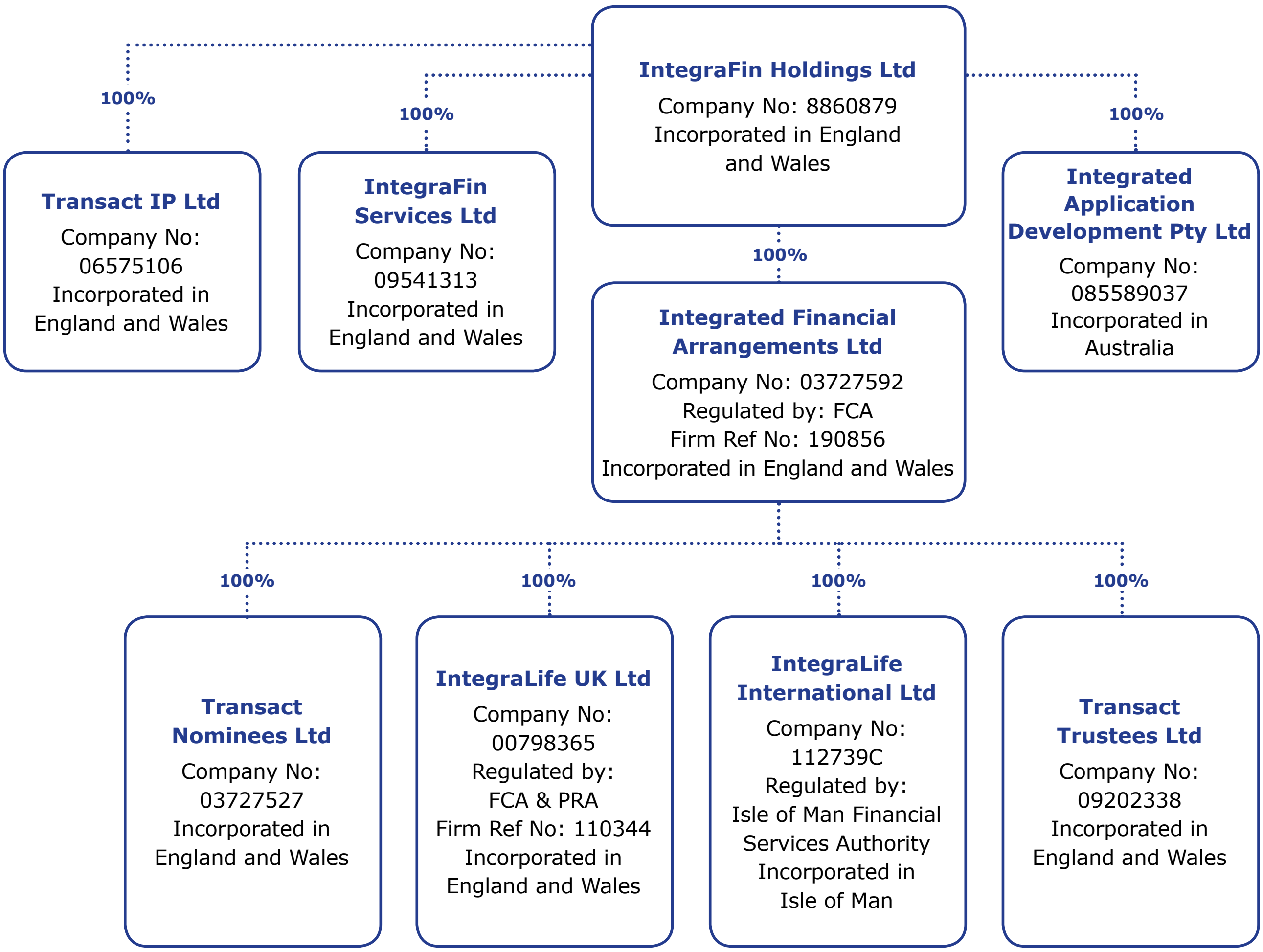
A.1.2 The Group

Headed by IntegraFin Holdings Limited ("IHL") the primary business of the IntegraFin Group is the provision of "Transact", a UK financial adviser wrap service.

ILUK is a wholly owned subsidiary of Integrated Financial Arrangements Ltd ("IFAL"). IFAL is authorised in the UK by the FCA as an investment firm (IFPRU €125k limited licence firm). IFAL is a wholly owned subsidiary of IHL. IFAL has one other wholly owned, regulated subsidiary IntegraLife International Limited ("ILInt") and together with ILUK are considered as the "IFAL Group". ILInt is an offshore life insurer authorised to undertake long term insurance business by the Isle of Man Financial Services Authority.

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

Simplified version of the Corporate Structure of the IntegraFin Holdings Limited Group as at 30 September 2016



All of the above companies are close links of IntegraFin Holdings Limited by virtue of their subsidiary status. The registered address for each of the companies (save for IntegraLife International Limited and Integrated Application Development Pty Ltd) is **29 Clement's Lane, London, EC4 7AE**. The registered address of IntegraLife International Limited is **18/20 North Quay, Douglas, Isle of Man IM1 4LE**. The registered office for Integrated Application Development Pty Ltd is **19-25 Camberwell Road, Hawthorne East, Victoria, 3123, Australia.**

During the reporting period the IntegraFin Group structure had the following significant changes:

- IntegraFin Services Limited ("ISL") was set up as the group service company on 1 October 2015 as a solely owned subsidiary of IHL. ISL provides all the administration, compliance, technical services and the marketing of the products through a Third Party Administrator ("TPA") agreement.
- Integrated Application Development Pty Ltd ("IAD") was purchased on the 1 July 2016 and is solely owned by IHL. IAD provides development and maintenance services to the group for its core systems through ISL.

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 wrap service 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'. Over 99% of ILUK's business written over the reporting period was written in the UK.

A.1.5 ILUK's external auditor

ILUK's external auditors are:
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM1 1LA

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 wrapper issues

The introduction of the Tapered Annual Allowance in the 2016/17 tax year, in respect of those who will have adjusted income in excess of £150,000 p.a. is expected to have a negative impact on pension inflows for ILUK (Personal Pension) as affected clients' Annual Allowance will reduce below £40,000 (to a minimum of £10,000 for those with adjusted income of £210,000 or over).

The introduction of the "flexibility option" in the ISA product from 6 April 2016 means clients can now withdraw an amount from their ISA and pay it back in without affecting their annual subscription for the tax year, provided the money is paid back in before the end of the tax year. This additional feature together with the increase in the annual maximum subscription to £20,000 and introduction of the Lifetime ISA ("LISA") from 6 April 2017 may have a negative impact on pension inflows for ILUK (Personal Pension) in the longer term. It is expected that this will be mitigated by an increase in inflows to ISA wrappers in IFAL.

A.1.6.2 UK vote to leave the EU

The United Kingdom intends to withdraw from the European Union, a process commonly referred to as “Brexit”, as a result of the June 2016 referendum. Prime Minister Theresa May announced that she intended to invoke Article 50 of the Treaty on European Union, the formal procedure for withdrawing, by the end of March 2017. The terms of withdrawal have not yet been negotiated within the EU. In the meantime, the UK remains a full member of the European Union. This is probably the most significant change of this century so far in terms of politics and economics that is already affecting the UK and it is expected to have a knock-on effect on the rest of the world. Although Article 50 has not been invoked yet, the financial markets have become more volatile and GBP has depreciated since the results of the vote were announced.

ILUK mainly writes UK based business and so there is not expected to be any direct impact on business volumes. 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 and so the increase in financial market volatility may potentially lead to more volatile earnings for ILUK.

A.2 Underwriting performance

A.2.1 Underwriting statement

The table below gives a breakdown of the underwriting performance for ILUK over the reporting period.

(£000)	2016
Underwriting income	
Fee income	27,168
Change in deferred income liability	5,383
Change in deferred tax provision	–
Other operating income	25,413
Total underwriting income	**57,964**
Underwriting expenses	
Change in deferred tax provision	(7,216)
Change in deferred acquisition costs	(5,383)
Administrative expenses	(14,521)
Change in provisions	(6,054)
Total underwriting expenses	**(33,174)**
Underwriting profit (before tax)	**24,790**

Other operating income comprises amounts deducted from policyholders to cover policyholder tax charges and other liabilities and recoveries of tax from HMRC. This figure is significantly impacted by the investment performance of the unit-linked assets.

Change in deferred income liability and change in deferred acquisition costs net to zero. Portfolio establishment fees are set at the fee level agreed between each policyholder and their financial adviser. ILUK facilitates the payment of this fee by charging the agreed amount to the policyholder's wrapper and paying it on to their financial adviser. In ILUK's IFRS financial statements, both of these items are capitalised on the balance sheet (as an asset and as a liability) and amortised over the average lifetime of the contract.

The deferred tax provision is driven by unrealised gains on assets held in unit-linked policies which leads to a higher policyholder deferred tax liability.

A.2.2 Overall underwriting performance over the period

The Company improved its positive underwriting experience over the current reporting period with the increase in underwriting income being greater than the increase in underwriting expenses. The main driver for this has been the growth in assets held in linked policies, partly driven by a larger volume of new business.

A.3 Investment performance

A.3.1 Investment income and expenses

The Company's non-linked investments are held in cash at a range of UK regulated banks and in Gilts. Investment income is therefore interest on cash and Gilts. Interest rates remain low.

The table below gives a breakdown of the investment performance for ILUK over the reporting period.

(£000)	2016
Investment income	84
Investment expenses	(2)
Profit on investment activities	**82**

A.3.2 Investments in securitisation

ILUK has no investments in securitisation.

A.4 Performance of other activities

All activities are included in Section A.2 and Section A.3.

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 IFAL Group companies. This includes the Risk Management Policy and Framework 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 IHL Board determines the overall strategic direction of the Group's companies and is responsible for the overall management of the Group's business operations. IFAL's Board is the main decision making and review body for the IFAL Group 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 IFAL Board and/or the IHL Board. Further, the ILUK Board will consider and scrutinise advice from the IFAL Board and the IHL 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 IFAL Group's risk appetites.

The Internal Audit Function presented its Annual Report on the overall effectiveness of the governance and risk and control framework of ILUK to the ILUK Board in December 2016. The report concluded that ILUK has in place a robust and fully documented risk and control governance framework. Overall, experience over the reporting period has shown the system of governance to be effective and appropriate for the nature, scale and complexity of ILUK's risks.

B.1.2 Committees and forums

The ILUK Board is supported by a number of Board committees. These committees are established as IFAL committees to address requirements of all the regulated entities in the IFAL Group. As at the reporting date, the committees comprised:

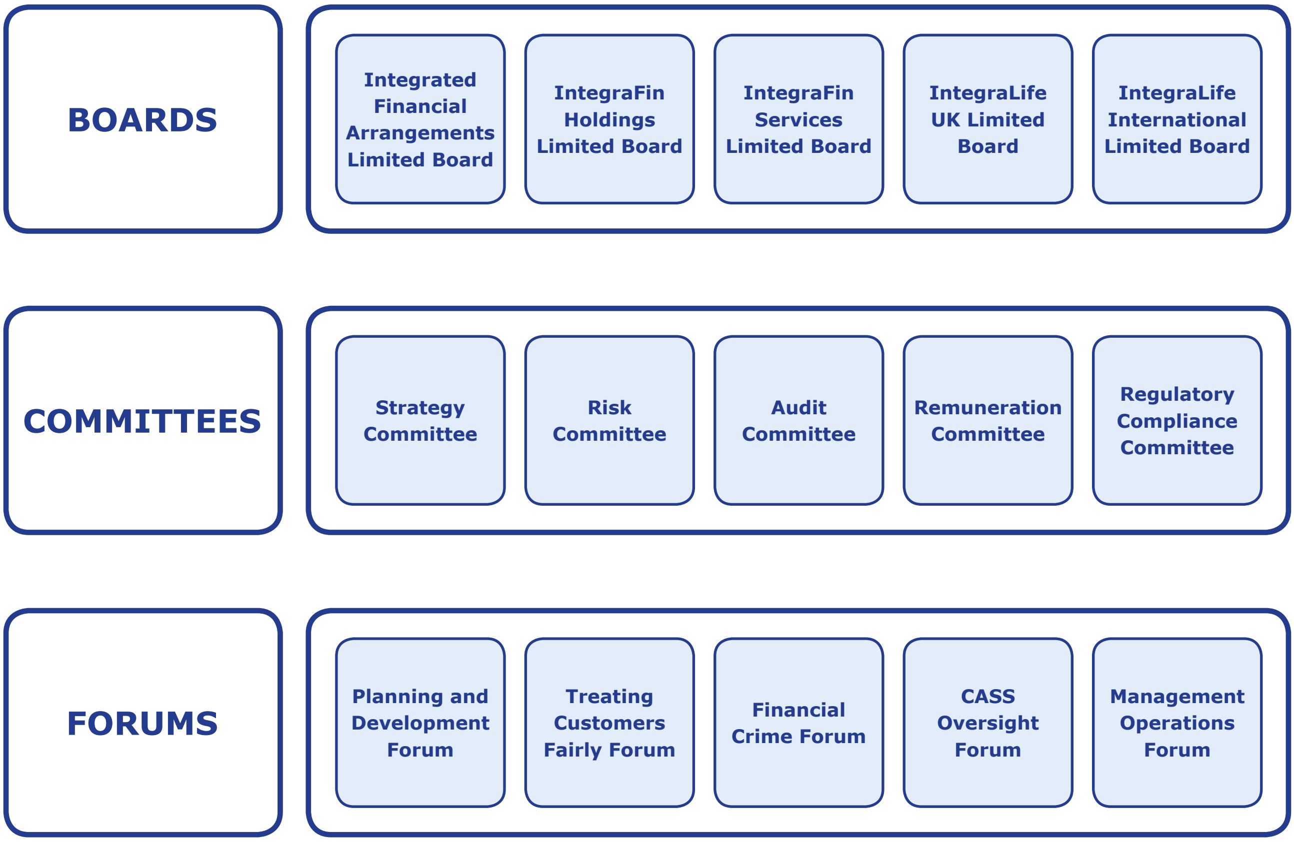
- Strategy Committee
- Risk Committee
- Audit Committee
- Remuneration Committee
- Regulatory Compliance Committee.

The ILUK Board can call upon the IFAL committees directly to consider any relevant issues. The committees may provide commentary and recommendations in committee reports for consideration by the ILUK Board. The ILUK Board also has the authority to establish its own sub-committees, as it deems appropriate and necessary, for ILUK's good governance. As at the reporting date no such committees have been required.

The IFAL Group also has the following forums as at the reporting date:

- Planning and Development Forum
- Treating Customers Fairly ("TCF") Forum
- Financial Crime Forum
- CASS Oversight Forum
- Management Operations Forum.

This governance structure is illustrated in the following diagram.



B.1.3 Roles and responsibilities of Key Functions

ILUK has five key functions – Compliance, Risk Management, Actuarial, Internal Audit and Outsourcing. A summary of the roles and responsibilities of each is set out in the rest of this section.

Compliance Function

The Compliance Function is one of the second line of defence functions. It is responsible for ensuring that the ILUK Board and senior management understand and meet the letter and spirit of its relevant statutory and regulatory obligations. It should also be able to demonstrate that it is doing so.

The Compliance Function maintains a Compliance Function Specification which sets out details of its scope, authority and reporting lines, escalation procedures, key responsibilities, key deliverables and organisational structure and a Compliance Plan which sets out the planned activities of the function taking into account all relevant activities within the business and their exposure to compliance risk.

The Compliance Function is empowered by the Group Boards to have access to sufficient information and to relevant individuals, including directors, employees and contractors of any entities to which the Group outsources its activities, in order to carry out its activities effectively.

Risk Management Function

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

The Risk Management Function has a key role in ensuring that risks are appropriately controlled and mitigated and that appropriate risk behaviours are being demonstrated.

The Risk Management Function identifies, assesses and monitors key risk exposures against the agreed 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 Risk Management Function to the Risk Committee. The Chairman of the Risk Committee subsequently informs the Board of any relevant and material issues for discussion and approval.

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

Actuarial Function

The Actuarial Function 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, contributing to the conclusions and recommendations of the ORSA process working closely with the Risk Management Function.

Internal Audit Function

The Internal Audit Function is responsible for providing independent assurance to those charged with governance of the Group that risks are mitigated to acceptable levels by appropriately designed controls, that the controls operate effectively and in accordance with the documented procedures of the Group, and that there is an adequate process to ensure compliance with applicable laws and regulations.

Outsourcing Function

The Outsourcing Function is responsible for ensuring no material outsourcing arrangements impair the quality of ILUK's system of governance and that operational risk is not unduly increased by the arrangements.

Further, the Outsourcing Function is responsible for ensuring the outsourcing arrangements do not hamper the ability of the PRA and FCA to carry out their monitoring obligations.

B.1.4 Material changes in the system of governance

There have been no material changes in the system of governance over the reporting period.

B.1.5 Remuneration policy

The Remuneration Committee is established as a committee of the Board of Directors of IFAL and its membership comprises all of IFAL's independent non-executive directors. 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, regulatory and risk management considerations. The Remuneration Committee ensures that its decisions take into account the long-term interests of the Group's shareholders, investors 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 the Company, 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.

The level and form of remuneration (including pay awards and bonuses) for employees of ISL (ILUK's service company) are proposed by the Chief Executive Officer. All employees' pay awards are in the form of regular salaries. In particular, no form of sales related commission is paid. The pay award and bonuses of the Chief Executive Officer are proposed by the Chairman. These proposals are reviewed by the Group Counsel to ensure that they are in compliance with laws and regulations and the Group Director 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 accounted for around 20% 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.

The pension component of remuneration is payable as a fixed percentage of salary with a 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 IFAL

Over the reporting period ILUK paid dividends totalling £2m to its parent company, IFAL.

Other transactions with IFAL

IFAL charges ILUK a proportionate share of variable trading costs for the costs it incurs directly trading and settling assets for the IFAL Group; and ILUK pays a royalty fee to Transact IP for the use of the Transact platform.

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.

Other related transactions

On 1 July 2016, IHL acquired 100% of the voting equity instruments of IAD, a company controlled by the Chairman of ILUK, Mike Howard. The principal reason for the acquisition was to bring the software development and maintenance services in-house, and thus increase efficiency and reduce costs to the IntegraFin Group.

B.2 Fit and proper requirements

B.2.1 Fit and proper

The Group recognises that part of the strategy for its business includes the need to ensure the ongoing suitability of the members of its boards and committees and its Key Function holders within all companies within the Group, both individually and collectively. The Group has in place a Senior Manager Arrangements Policy which aims to:

- outline the standards for the identification, selection, notification and assessment of Senior Managers within the Group; and
- establish procedures for ensuring that they have the skills, knowledge and relevant experience to carry out their responsibilities in order to manage and oversee the business of the Group.

Holders of Key Functions are Senior Managers 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, Actuarial and Outsourcing 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 Senior Managers are required to observe the applicable conduct standards as prescribed by the PRA and FCA. Any breaches of these standards must be reported to the appropriate regulator and could result in their approval to perform a Controlled Function or Senior Insurance Manager Function being withdrawn.

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 IFAL Group's strategic management. The strategy assigns risk management responsibility throughout the organisation by granting responsibility for managing risks to each manager and employee as part of their day to day work. These risk management responsibilities are set out in each employee's job description and in the Roles and Responsibilities in the Risk Management Policy and Framework.

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

The IFAL 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 IFAL Group's strategic objectives.
- The IFAL Group will adopt a risk culture that has risk management informing all key strategic decision making.
- The IFAL Group will be proactive in understanding, assessing and managing risks to promote the achievement of their business objectives and the Overriding Business Principles.

B.3.2 Risk management objectives

The IFAL 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 IFAL Group's management processes and lies at the heart of its decision making.

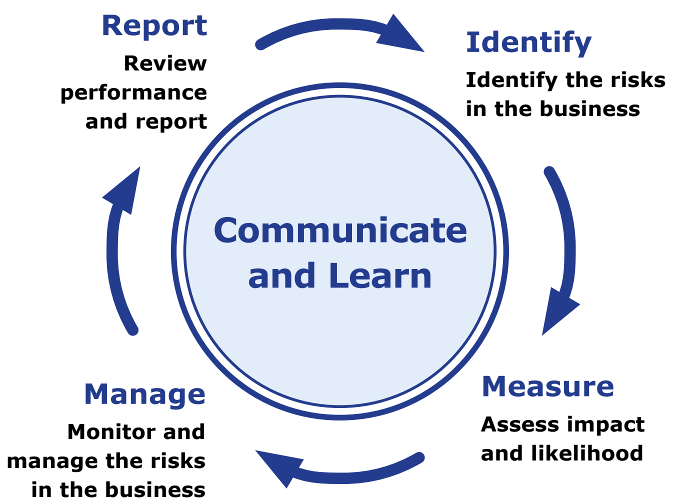
The risk management framework further supports the achievement of the IFAL Group's objectives. Effective risk management helps to provide focus on the priorities of the IFAL Group and delivers better assessment of risk in the decision making process through open discussion about risks and opportunities. 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 in order to optimise returns.

B.3.3 Risk management processes

The Board, through the Risk Committee, is responsible for and provides oversight of the Company's Risk Management Framework and ORSA process. The Company has a Risk Management Framework in place which provides a consistent approach to identification, assessment, mitigation and reporting of risks throughout the Company. The ORSA is a key part of the framework 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

The Group uses the following seven principles for risk reporting which are set out in the Risk Management Framework:

- providing information that allows users to make their own assessment of risk
- focusing on quantitative information
- thinking beyond the annual reporting cycle and updating information on changes in key risks on a continuous basis
- keeping concise records of key risks
- highlighting current concerns
- reviewing experience of risk in the current period, and
- integrating information on risk with other regulatory disclosures if applicable.

In the application of the Risk Management policy the Group has established the following reporting cycles:

- Departmental risk register updates, with review and challenge by the Risk Management Function
- Risk Committee reports
- Board reports
- Project progress reporting
- Standardised Internal Reporting – Risk Rating Process.

The Risk Management Function reports to the Risk Committee at least on a quarterly basis. This report details the latest summary of the Group's risk profile.

B.3.5 Risk procedures

The Group's 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 risks in the process and any risk mitigation that is in place. References used in the process maps correspond to those used to identify the risk in the risk register.

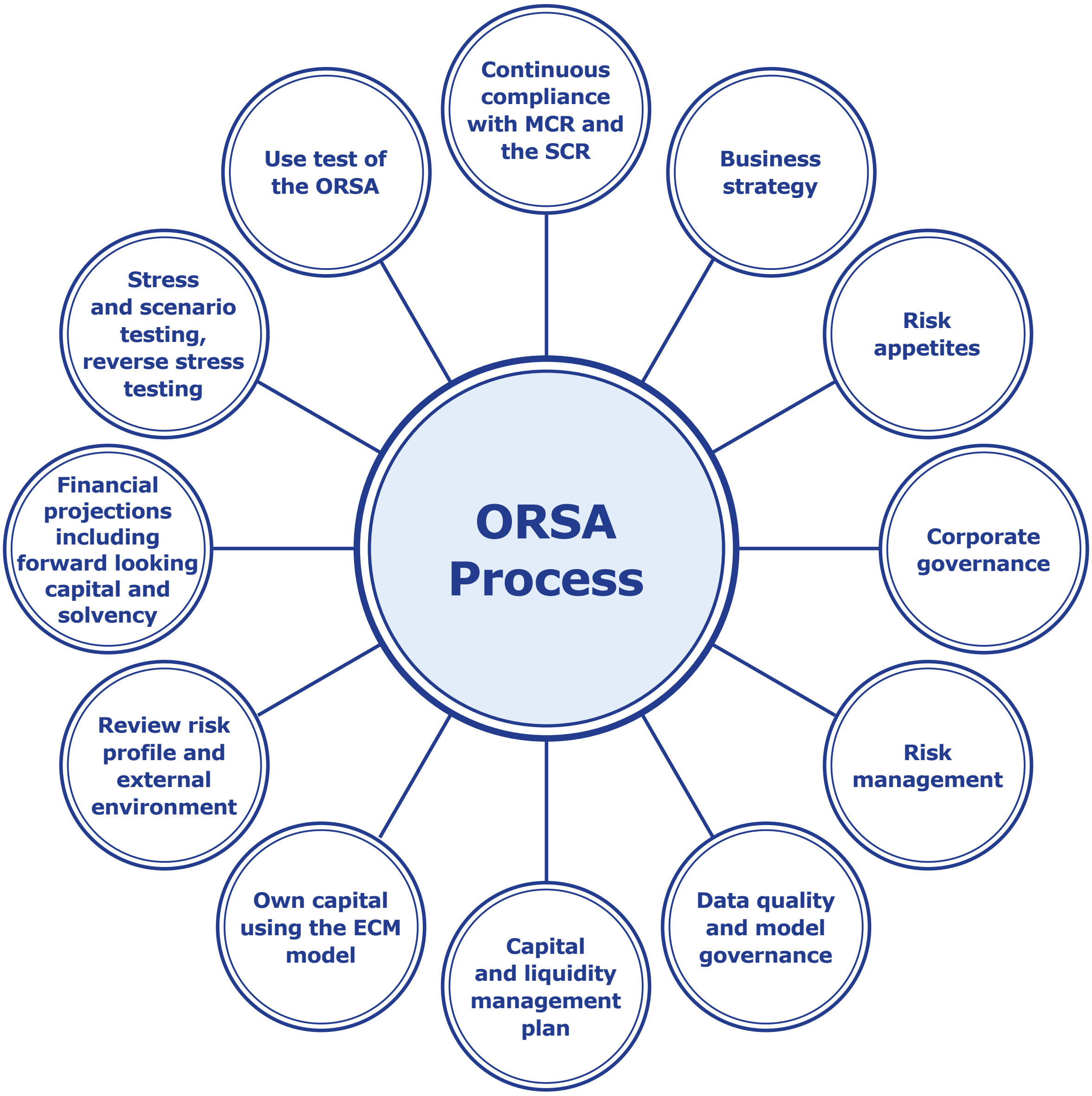
Each process owner ensures that process maps and procedure documents are kept up to date to reflect any changes that are approved.

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 approved 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:



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 system of internal controls needs to be in place across the Group. The Group defines its Internal Control System as the collection of all activities, plans, attitudes, policies, processes and procedures designed to provide reasonable assurance that the following objectives are being met:

- performance and profitability goals and the safeguarding of the Group's resources
- the Group's financial statements are prepared accurately and reported correctly, and
- the Group complies with all of the laws and regulations that apply to it.

The Internal Control System is comprised of the first line of defence of business operations including management procedures and the input provided by the Quality Control team to process improvements. The second line of defence is through the Risk Management Framework and Compliance policies, procedures and monitoring. The third line of defence is through internal and external audit providing independent and objective assurance to the boards.

The Internal Control System is supported by having a Group structure that defines clear lines of authority, 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 an audit plan for the following 12 month period containing details of the internal audits that will be performed, the planned date for completion and reporting of the internal audits and any external resource requirements that are needed. The audit plan follows a three year cycle covering the key risks faced by the Group. The plan will be presented to the Group Audit Committee for approval at least biannually or when any material changes are proposed.

The plan will be developed in consultation with the Risk Management Function to ensure that the planned audits are tailored to the current risks faced by the Group.

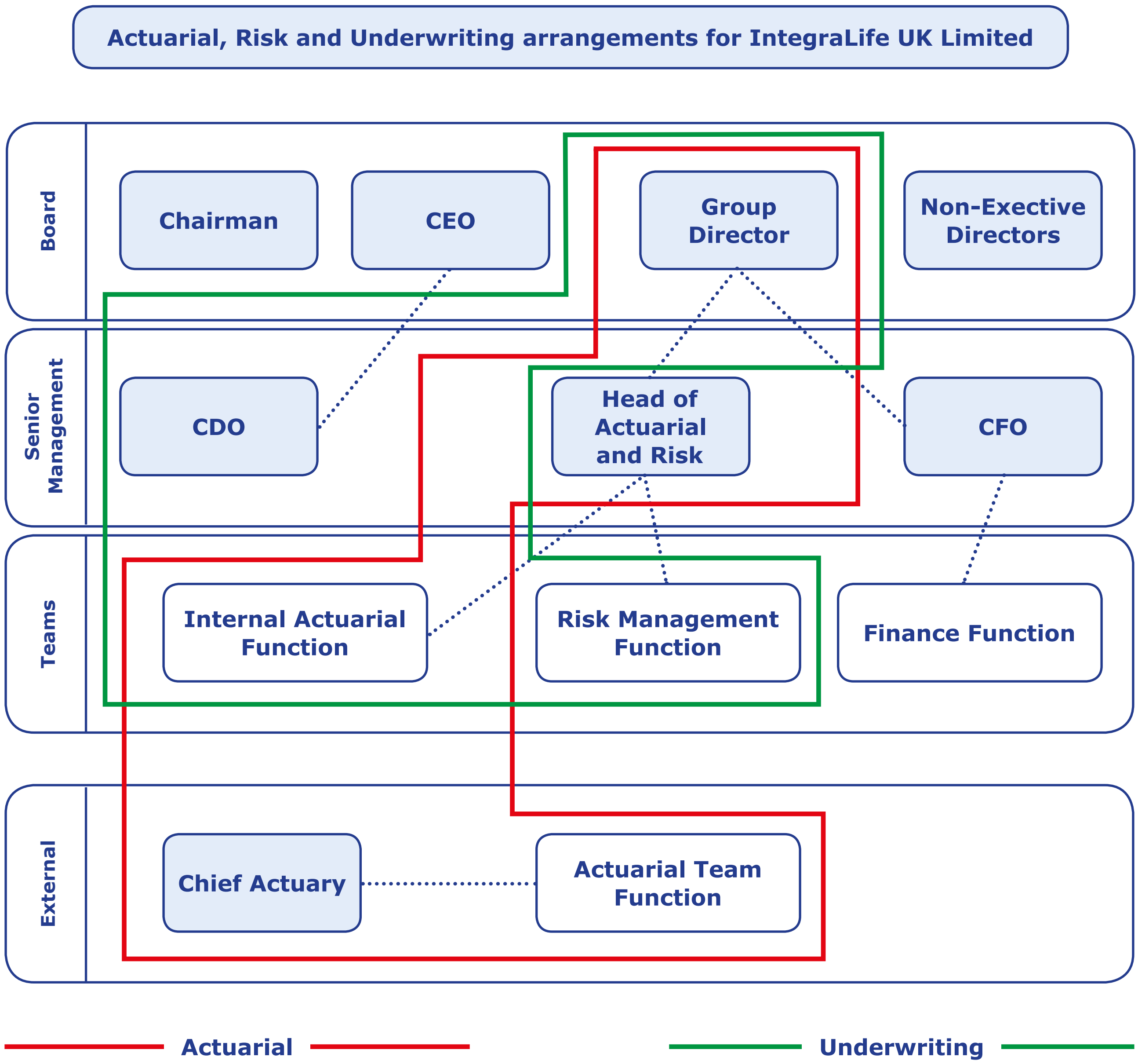
B.5.2 Independence of the Internal Audit Function

The Group Head of Internal Audit reports directly to the Chair of the Group Audit Committee, an independent non-executive director of the ILUK Board.

Internal auditors refrain from assessing specific operations for which they were responsible in the previous year. If there is any situation where the independence or the objectivity of Group Internal Audit is compromised, in fact or appearance, then the details of the impairment will be immediately disclosed to the Chair of the Group Audit Committee.

B.6 Actuarial function

The Head of the Actuarial Function is the Group Director, an executive director of ILUK. The following diagram illustrates how the Actuarial Function relates to ILUK's risk and underwriting arrangements:



The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries employed by Steve Dixon Associates LLP ("SDA"), an external actuarial consultancy, who reports directly to the ILUK Board. The Actuarial Team Function is also based at SDA and provides actuarial services.

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 trading and settlement activity to IFAL. There is an inter-company 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 companies in the IHL Group are resourced from ISL – the Group's services company. ISL employees, including Senior Insurance Managers and Key Function Holders, are provided to ILUK under the terms of an inter-company 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.

B.7.3 External outsourcing arrangements

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

ILUK has also retained the services of an employee of SDA to perform the Significant Insurance Management Function 20 Chief Actuary function. The Group Audit Committee meets with the Chief Actuary at least annually to review the actuarial function report to the ILUK Board. Further, the Chief Actuary has the opportunity to meet with the ILUK Board or separately with the Group Audit Committee Chairman (who is also an independent non-executive director of ILUK) upon request.

B.8 Any other information

All relevant and material items are covered in previous sections.

C. Risk profile

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) and Qualified Savings Plans ("QSPs") when the portfolio value is less than the sum assured (which is fixed at the outset of the policy).

Risk exposure and concentration of risk

Lapse risk

As at the reporting date ILUK was exposed to £8.305bn 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 expenses over the 12 month period to the reporting date were £14.5m (excluding the change in deferred acquisition costs).

Mortality risk

As at the reporting date ILUK was exposed to £2.4m of mortality risk (excluding the impact of the reinsurance arrangements, £1.0m net of reinsurance). This represents the Sum at Risk (i.e. total death benefits payable less value of policyholders' portfolios) for the onshore bonds and QSPs.

Risk mitigation

Lapse risk

ILUK predominantly accepts new policyholders through authorised financial advisers. 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, 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 Company has reinsured 80% of the Sum at Risk on the QSPs. 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. As at the reporting date £1.4m of the exposure to mortality was reinsured.

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 risk from direct asset holdings

The overriding principle of ILUK's investment policy for non-linked assets is security 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 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 (£3.0m). The risk here arises from a shift in interest rates reducing the market value of the asset. The short-dated nature of the Gilts, redeemable in January 2017 and September 2017 respectively, means that the market value is relatively insensitive to a change in interest rates.

The Company has no defined benefit staff pension schemes nor any exposure to customer related index linked liabilities.

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 subject to qualitative requirements that have been laid down by the Company. 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 is reviewed at least annually 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 principle of ILUK's non-linked investment policy is security of capital. To meet this principle non-linked reserves and shareholder capital is split between cash held in UK regulated banks 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 retaining all 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 the parent company
- exposure to other debtors, and
- reinsurance of mortality risk.

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, and
- 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 one of the events in the preceding paragraph. 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 £36.3m of corporate cash at six different UK banks, all of which have a Solvency II credit quality step of at least 3. The Company also holds £3.0m in Gilts.

There is no significant concentration to any one UK bank. The Gilts and some corporate cash are held directly by ILUK with the counterparty, but ILUK's tax reserves are held by IFAL in its own client money accounts on behalf of ILUK.

With regards to exposure to counterparty default risk in respect of funds held on behalf of policyholders, as at the reporting date, the Company holds £696.0m of cash across six different UK banks, all of which have a Solvency II credit quality step of at least 3. The Company also holds £22.7m of term deposits across five different banks.

Whilst a limited number of banks are used the spread between them demonstrates that there is no significant concentration to any one of these banks.

The figures exclude assets held by custodians on behalf of policyholders.

Counterparty default risk exposure to parent company

As well as inconvenience and operational issues arising from the failure of the parent company, there is also a risk of a loss of assets. The Company is due £1,842k from its parent company.

Counterparty default risk exposure to other debtors

The Company has prepayments due (mostly PRA/FCA fees) of £520k.

The Company has no other debtors arising, due to the nature of its business, and the structure of the IFAL Group.

Counterparty default risk exposure to reinsurer

The transfer of mortality risk to RGA International Reinsurance Company Limited ("RGA") amounts to a total reinsured sum at risk of £1.4m. ILUK is exposed to losses which arise from the default of the reinsurer where there are outstanding claims. The main source of exposure is in cases where the mortality experience is severe such as a catastrophic mortality event.

There were no outstanding claims due from RGA (credit rating of AA- with S&P) as at the reporting date.

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.

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 regulatory capital requirements, does not have sufficient 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 policies. This is because policyholders take their own liquidity risk in the event that their assets cannot be immediately sold for cash. This is set out in the terms and conditions of the policies.
- 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 £36,275k (as at the reporting date) exposure to an insolvency event affecting a UK bank, the Company considers this to be a remote risk only. 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 six banks. However, there are limitations of the number of banks with which we could operate.

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 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")

As at the reporting date the value of EPIFP as calculated in accordance with Article 260 (2) of the Delegated Act was £261k. The future premiums are those in respect of the QSPs only and as such the value of EPIFP is not material with regards to liquidity risk.

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 Company's regulatory requirements it needs to meet whilst administering its business and from the third party administrator arrangements with ISL and IFAL.

Risk exposure and concentration of risk

The main operational risk categories as at the reporting date are IT Infrastructure and Business Continuity Plan failure risk, regulatory risk, operational process risk, financial process risk, information security risk and outsourcing risk.

Analysis of the operational risks shows that the majority of the top risks relate to IT infrastructure and Business Continuity Plan ("BCP") risks and operational process failure risks. This is as expected given the strong reliance ILUK has on its IT systems and the significant volume of operational processes carried out.

Risk mitigation

The Company aims to minimise operational risk at all times through a strong and well-resourced control and operational structure. 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: Transact, non-insurance based wrappers and offshore insurance based tax efficient wrappers.

ILUK is exposed to any failings of this single source of business, primarily reputation 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.

This risk applies to all entities in the IFAL Group providing the Transact service.

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 92% of existing funds under direction being pension related. This exposes ILUK to:

- Changes to drawdown rules resulting in higher outflow amounts
- Changes to Annual Allowance and Lifetime Allowance levels which reduce the amount individuals can save efficiently, potentially reducing new business inflows
- 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 an increasing 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 our perception 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 wrap 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 wrap 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 Risk Management Framework and is mitigated to some extent by internal operational risk controls, error management, complaints handling processes and root cause analysis investigations.

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 IntegraFin 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 IntegraFin 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 IntegraFin Group will also affect ILUK due to contagion.

Group services risk

- TPA agreement with IFAL: IFAL provides trading services and administration of investment and cash assets to ILUK, which is a regulated activity. 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.
- TPA 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 IntegraFin Group as a whole.

Group payments risk

- There are no inter-company loans that ILUK relies on for maintaining its capital position.
- There are no defined benefit pension schemes within any of the companies in the IntegraFin Group.
- All non-regulatory capital within the IntegraFin Group is fully fungible. ILUK has no capital dependencies on members of the IntegraFin Group and no other member of the IntegraFin Group has a capital dependency on any other member.

Risk mitigation

- 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 IntegraFin Group.
- TPAs: There are agreements signed among the IntegraFin Group companies which provide a contractual framework in their relationship. These include clearly setting service levels and remedial approaches.
- Reputational management: The CEO, ILUK Board Chairman and Group Business Development Officer have received reputational crisis management training.
- BCP: To ensure operational continuity the IFAL Group has designed and regularly tests its BCP.
- Bank Account and Custodian Dashboard: A monthly MI pack produced by Risk Management designed to monitor all banks, custodians and term deposit financial institutions. It includes balances, credit ratings, credit quality steps and limits.

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
- Reduction in fee income
- Increases in future expenses.

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	A market fall of 15% over a one month period followed by a further market fall of 15% over a one month period in two years' time.
Mass lapse	10% drop in the number of clients over three months.
Increase in outflows	40% increase in outflow rates for up to twelve months.
Decrease in inflows	20% decrease in inflow rates for up to twelve months followed by a further 20% decrease in inflow rates for up to six months, applied in two years' time.
One-off spikes in operating costs	Between a £50k to £1.75m one-off spike in operating costs depending on the underlying stress scenario.
Reduction in fee income	Reduction in fees so that no profit is made in the first year
Increases in future expenses	Increase expense inflation assumptions by an additive 5% for all future years.

Potential management actions have been identified for the scenarios. Where there is a reasonable expectation that the management action would be taken and where the scenario is sufficiently onerous to require management actions to avoid breaching the solvency or liquidity risk appetites, the impact of the management action is taken into account in the modelling.

C.7.3 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 Article 75 of the Solvency II Directive 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)	
Assets held for index-linked and unit-linked contracts	8,305,396
Investments	39,249
Receivables	15,185
Total assets	**8,359,830**

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 that Deferred Acquisition Costs are included in the assets of the IFRS financial statements but are excluded from the Solvency II valuation.

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 price made available by the issuer of the CIS.

D.1.2.3 Unlisted securities

The Group has a policy of not allowing unlisted securities on the platform. ILUK has a few historical holdings that predate this policy which are valued in line with The Taxation of Chargeable Gains Act 1992, section 273. Where a security is listed at the point it is accepted on the platform, but is subsequently delisted, then 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 quarterly 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.

D.1.2.5 Receivables

Receivables are valued at their par amount less any provision for impairment.

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 Article 77 of the Solvency II Directive. The following table sets out ILUK’s Technical Provisions as at the reporting date.

(£000)	
Best Estimate Liability	8,166,333
Risk Margin	40,583
Technical Provisions	**8,206,916**

D.2.2 Actuarial method

The Technical Provisions are calculated as the sum of the Best Estimate Liability (“BEL”) and the Risk Margin.

The BEL is calculated from two components:

1. 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.
2. a 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 Solvency II Directive requires that the assumptions used to calculate the Technical Provisions are “realistic”. The Delegated Act sets out further detail on what is required. 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.

EIOPA 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 government bond yields offer a good approximation to a risk-free rate of return and EIOPA'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 0.6% p.a., 0.8% p.a. and 0.9% p.a. respectively. Full details of the rates used can be found on EIOPA's website, https://eiopa.europa.eu.

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.)
Onshore bonds	**8.1**
Qualifying Savings Plans	**6.3**
Pensions	**7.7**

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.

Inflation is applied on the fixed expenses and is taken to be the rate implied by the 20 year Gilt yield and the over 15 real Gilt yield at the valuation date.

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 tables below show the mortality assumptions for the reporting date.

Age (x)	Mortality table	Male adjustment	Female adjustment
0 <= x < 17	ELT16	50%	50%
17 <=x < 76	AMC00 / AFC00	53%	51%
x >= 76	AMC00 / AFC00	76%	92%

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 one reinsurance arrangement. This is with The RGA International Reinsurance Company Limited and covers 80% of the mortality risk on the QSPs. The impact of the reinsurance recoverables has been excluded from the calculation of Technical Provisions on the grounds on immateriality. As at the reporting date there were only 56 of these policies in-force with annual reinsurance premiums of £6k.

D.2.6 Risk Margin

The Risk Margin is calculated as the present value of the SCR^{RM} (the SCR excluding the interest rate risk component 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 each year over a projection period of 60 years (the point at which 99.9% of the in-force funds under direction have run-off). No other simplifications have been used in the calculation.

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 credit is not 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 are valued on an IFRS basis and comprise tax liabilities of £51,288k and other payables of £1,766k. The tax liabilities differ from those in the IFRS financial statements as they include an allowance for the tax payable on the VIF component of the BEL and Risk Margin (described in Section D.2.2).

The deferred income liabilities in the IFRS financial statements are excluded from the Solvency II valuation.

D.4 Alternative methods for valuation

ILUK does not value any assets or liabilities using alternative methods as allowed by Article 9(4) of the Delegated Act.

D.5 Any other information

All relevant and material items are covered in previous sections.

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.

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)	
Total Assets	**8,359,830**
Technical Provisions	8,206,916
Other Liabilities	53,054
Sub-ordinated Liabilities in Basic Own Funds	–
Total Liabilities	**8,259,970**
Excess of Assets over Liabilities	**99,860**
Subordinated Liabilities	–
Deductions	–
Total Basic Own Funds	**99,860**
Ancillary Own Funds	–
Total Own Funds	**99,860**

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
Total as at the reporting date	**99,860**	**–**	**–**

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)		Description
Called up ordinary share capital	**1,000**	Allotted, issued and fully paid ordinary share capital and capital contributions.
Share premium account	**700**	The portion of Shareholders' Funds formed from the premium paid for new shares above their nominal value.
Reconciliation reserve	**98,160**	Reconciliation between IFRS accounts and Solvency II balance sheet

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)	
IFRS Equity	**17,626**
Add impact of using Solvency II best estimate assumptions in the BEL	139,063
Deduct Solvency II Risk Margin	(40,583)
Deduct tax liability on BEL	(23,402)
Add tax liability on Risk Margin	6,705
Add deferred tax on deferred acquisition costs	450
Solvency II Own Funds	**99,860**

E.1.5 Distributions to shareholders

Over the reporting period ILUK paid dividends totalling £2m to its parent company, IFAL.

E.1.6 Any other information

ILUK has no Ancillary Own Funds.

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 as at the reporting date
Market risk	41,150
Life underwriting risk	63,005
Counterparty default risk	6,126
Diversification	(24,748)
Basic SCR	**85,533**
Loss absorbing capacity of Technical Provisions	–
Loss absorbing capacity of deferred taxes	(15,143)
Operational risk	3,759
Solvency capital requirement excluding capital add-on	**74,148**
Capital add-on already set	–
Solvency Capital Requirement	**74,148**

Own Funds	**99,860**
Surplus Capital	**25,712**

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.

Minimum Capital Requirement Results

The Minimum Capital Requirement ("MCR") is £33,367k as at the reporting date. The MCR represents an absolute 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)	
Linear MCR	**57,264**
SCR	**74,148**
MCR cap	**33,367**
MCR floor	**18,537**
Combined MCR	**33,367**
Absolute floor of the MCR	**2,657**

E.3 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.4 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.5 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.6 Any other information

All relevant and material items are covered in previous sections.

F. 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.

Ian Taylor

Chief Executive Officer

Date: 16 February 2017

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**	2,975
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities – listed	**R0110**	
Equities – unlisted	**R0120**	
Bonds	**R0130**	2,975
Government Bonds	**R0140**	2,975
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**	8,305,396
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
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**	15,185
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**	36,274
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	8,359,830

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	8,206,916
TP calculated as a whole	R0700	
Best Estimate	R0710	8,166,333
Risk margin	R0720	40,583
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	24,729
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	28,326
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	8,259,970
Excess of assets over liabilities	R1000	99,860

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**			1,340,181						1,340,181
Reinsurers' share	**R1420**			6						6
Net	**R1500**			1,340,175						1,340,175
Premiums earned										
Gross	**R1510**			1,340,181						1,340,181
Reinsurers' share	**R1520**			6						6
Net	**R1600**			1,340,175						1,340,175
Claims incurred										
Gross	**R1610**			466,168						466,168
Reinsurers' share	**R1620**									
Net	**R1700**			466,168						466,168
Changes in other technical provisions										
Gross	**R1710**									
Reinsurers' share	**R1720**									
Net	**R1800**									
Expenses incurred	**R1900**			14,523						14,523
Other expenses	**R2500**									
Total expenses	**R2600**									14,523

S.05.02.01

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) – life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	1,336,990						1,336,990
Reinsurers' share	R1420							
Net	R1500	1,336,990						1,336,990
Premiums earned								
Gross	R1510							
Reinsurers' share	R1520							
Net	R1600							
Claims incurred								
Gross	R1610	462,741						462,741
Reinsurers' share	R1620							
Net	R1700	462,741						462,741
Changes in other technical provisions								
Gross	R1710							
Reinsurers' share	R1720							
Net	R1800							
Expenses incurred	R1900	14,523						14,523
Other expenses	R2500							
Total expenses	R2600							14,523

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**
Technical provisions calculated as a whole	**R0010**										
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**			8,166,333							8,166,333
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**			8,166,333							8,166,333
Risk margin	**R0100**		40,583								40,583
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	**R0110**										
Best estimate	**R0120**										
Risk margin	**R0130**										
Technical provisions – total	**R0200**		8,206,916								8,206,916

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	98,160	98,160			
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	99,860	99,860			
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					

S.23.01.01

Own funds

Available and eligible own funds						
Total available own funds to meet the SCR	R0500	99,860	99,860			
Total available own funds to meet the MCR	R0510	99,860	99,860			
Total eligible own funds to meet the SCR	R0540	99,860	99,860			
Total eligible own funds to meet the MCR	R0550	99,860	99,860			
SCR	R0580	74,148				
MCR	R0600	33,367				
Ratio of Eligible own funds to SCR	R0620	135%				
Ratio of Eligible own funds to MCR	R0640	299%	98,160			

		C0060	
Reconcilliation reserve			
Excess of assets over liabilities	R0700	99,860	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
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	98,160	
Expected profits			
Expected profits included in future premiums (EPIFP) – Life business	R0770	261	
Expected profits included in future premiums (EPIFP) – Non- life business	R0780		
Total Expected profits included in future premiums (EPIFP)	R0790	261	

S.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	41,150		
Counterparty default risk	R0020	6,126		
Life underwriting risk	R0030	63,005		
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	-24,748		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	85,533		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	3,759
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-15,143
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	74,148
Capital add-on already set	R0210	
Solvency capital requirement	R0220	74,148
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	

S.28.01.01

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	57,264

		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	8,166,333	
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		142,136

Overall MCR calculation

		C0070
Linear MCR	R0300	57,264
SCR	R0310	74,148
MCR cap	R0320	33,367
MCR floor	R0330	18,537
Combined MCR	R0340	33,367
Absolute floor of the MCR	R0350	2,657

		C0070
Minimum Capital Requirement	R0400	33,367

transact
take control

M135 Version (1) February 2017

IntegraLife UK Limited, 29 Clement's Lane, London EC4N 7AE.

Tel: (020) 7608 4900 Fax: (020) 7608 5300

(Registered office: as above; Registered in England and Wales under number: 798365)

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority
and the Prudential Regulation Authority (entered on the Financial Services Register under number 110344)

A member of the Integrated Financial Arrangements Ltd group of companies

KPMG

Report of the external independent auditor to the Directors of IntegraLife UK Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Except as stated below, we have audited the following documents prepared by IntegraLife UK Limited as at 30 September 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of IntegraLife UK Limited as at 30 September 2016, (**'the Narrative Disclosures subject to audit'**); and
- Company templates S02.01.01, S12.01.01, S23.01.01, S25.01.21, S28.01.01 (**'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' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**'the Responsibility Statement'**).

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Relevant Elements of the Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of IntegraLife UK Limited as at 30 September 2016 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, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Emphasis of Matter - Basis of Accounting

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

Matters on which we are required to report by exception

In accordance with Rule 4.1 (3) of the External Audit Chapter 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 IntegraLife UK Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

SNichola

Simon Nicholas (Senior Statutory Auditor)
for and on behalf of KPMG Audit LLC, Statutory Auditor
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

2 March 2017

KPMG

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.