Solvency and Financial Condition Report

30 September 2020

IntegraLife UK Limited

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

Contents

Glossary

- **Ancillary Own Funds:** Items (other than Basic Own Funds) which can be called upon to absorb losses. Supervisory approval is required.
- **Basic Own Funds:** The sum of the excess of assets over liabilities plus subordinated liabilities.
- **Basic SCR / Basic Solvency Capital Requirement:** The SCR before allowance for the adjustments for loss absorbing capacity and operational risk.
- **BEL / Best Estimate Liability:** The expected value of all future cashflows generated from current 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. Where the Best Estimate Liability is shown in Appendix 1 this excludes the unit value, in line with guidance provided by the Prudential Regulation Authority (PRA) on the completion of the Quantitative Reporting Templates.
- **Delegated Act:** Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 as amended by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019.
- **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).
- **IAD:** Integrated Application Development Pty Ltd.
- **IFAL:** Integrated Financial Arrangements Ltd.
- **IHP:** IntegraFin Holdings plc.
- **ILInt:** IntegraLife International Limited.
- **ILUK:** IntegraLife UK Limited.
- **ISL:** IntegraFin Services Limited.
- **Key Function:** Important and business critical functions of an organisation. The Solvency II Directive has defined four functions of the system of governance as key functions - Risk Management, Internal Audit, Actuarial and Compliance. Each key function is required to have a designated key function holder who will be subject to notification requirements to the regulator.
- **Loss Absorbing Capacity of Deferred Taxes:** An adjustment to the Basic SCR to reflect the change in deferred taxes that would arise following an instantaneous loss broadly equal to the sum of the Basic SCR and operational risk amount.
- **Loss Absorbing Capacity of Technical Provisions:** An adjustment to reduce the SCR to reflect the impact of reducing future discretionary benefits (applies to with-profits funds only so not applicable for ILUK).
- **MCR / Minimum Capital Requirement:** A minimum level of required capital below which supervisory intervention will automatically be triggered. The MCR is defined by a formula with a lower/upper bound of 25%/45% of the SCR respectively.
- **ORSA / Own Risk and Solvency Assessment:** A key component of the Pillar 2 requirements of Solvency II. The ORSA is a process designed to assess an organisation's risks and overall solvency

needs beyond the Pillar 1 requirements. The ORSA process comprises a number of sub processes and procedures.

- **Own Funds:** The sum of Basic Own Funds and Ancillary Own Funds. For ILUK this simplifies to the excess of total assets over total liabilities.
- **Prudent Person Principle:** The rules governing how investments are to be made in line with the Solvency II requirements – 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. This is calculated as the excess of Solvency II assets over liabilities, with the ordinary share capital and share premium account deducted.
- **Risk-Free Rate:** The term structure rates used to discount cashflows in the calculation of the Best Estimate Liability. The rates are derived from interest rate swaps adjusted for credit risk.
- **Risk Margin:** The measure added to the Best Estimate Liability to reflect the cost of holding capital over a period of run-off of the liabilities to ensure that the value of Technical Provisions meets the amount that an independent organisation would require to take over and meet all the obligations arising from the existing business.
- **Solvency II:** 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 platform service operated by IFAL.

Solvency and Financial Condition Report

Introduction

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

The SFCR has been prepared on the basis of the financial information and risk assessments as at 30 September 2020 (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] (as amended by EU 2019/981)
- Commission Implementing Regulation [EU 2015/2452]
- 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].

Consideration has been taken of further regulations and guidance regarding the SFCR published over the past year by the PRA, EU and EIOPA, to ensure continuing compliance with all requirements.

Summary

Over the reporting period ILUK recorded a profit of £21,981k after tax. Profit after tax for financial year 2019 has been restated to £19,640k, an increase from £18,680k, and an adjustment to 2019 opening retained earnings has been made of £5,406k, with equivalent impacts on Solvency II Own Funds. The restatement of profit after tax across prior years is attributable to changes in the treatment of tax reserves. Tax relief on corporate expenses and the effect of a structural difference in the UK policyholder taxation rate of 20%, versus the corporation tax rate of 19%, has been released. This release follows a change to the methodology for refunding tax charges and reliefs to policyholders this year, these changes will result in quicker refund payments to policyholders, and on a more frequent basis. Further details on the restatement of prior year accounts is provided in note 30 to ILUK's financial statements, which can be found in Appendix 2 of this document.

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 £16,476,154k (2019: £15,123,131k) and positive net inflows of £1,422,457k (2019: £1,551,470k) over the reporting period.

ILUK’s Own Funds in the Solvency II balance sheet were £239,292k (2019 restated: £233,767k) at the reporting date. The regulatory capital requirement, the SCR, was £170,394k (2019: £173,389k) giving surplus funds of £68,898k (2019 restated: £60,378k). The movements in Own Funds and the SCR are driven by investment growth on existing business, new business, changes in lapse rate and expense assumptions, modelling improvements, movements in the symmetric adjustment and dividends paid. These changes are explored further in sections D and E.

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

The COVID-19 pandemic has led to a number of changes to the business, which are covered in section A.1.7.

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

In the short term it is likely that the COVID-19 pandemic will continue to have an impact on financial markets and the operational procedures of the business, but in the long term, 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 PRA under Firm Reference Number (FRN) 110344. It is regulated by the PRA and the Financial Conduct Authority (FCA).

The PRA can be contacted at:

Prudential Regulation Authority

20 Moorgate

London

EC2R 6DA

The FCA can be contacted at:

Financial Conduct Authority

12 Endeavour Square

London

E20 1JN

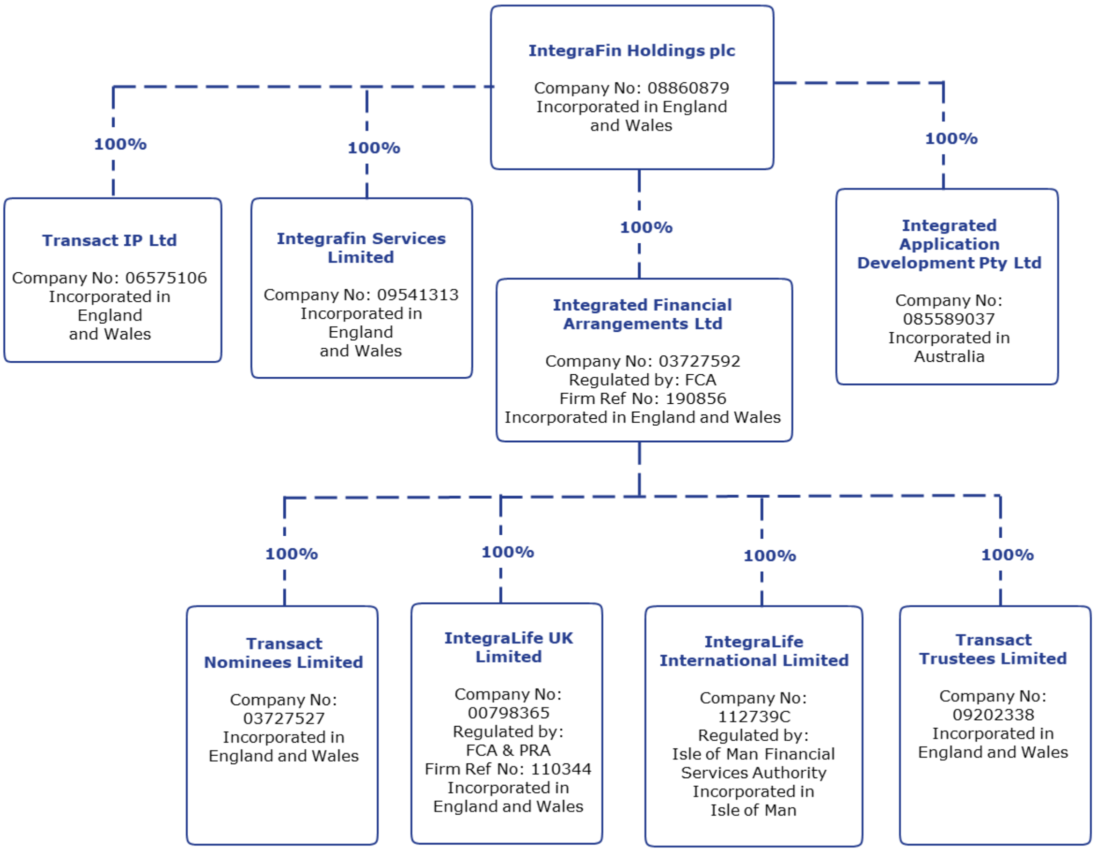
A.1.2 The Group

Headed by IntegraFin Holdings plc (IHP) the primary business of the IntegraFin Group is the provision of "Transact", a UK financial adviser investment platform 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 IHP. IFAL has one other wholly owned, regulated subsidiary, IntegraLife International Limited (ILInt), and together with ILUK they 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 plc Group as at 30 September 2020



All of the above companies are close links of IntegraFin Holdings plc 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, EC4N 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, Hawthorn East, Victoria, 3123, Australia.**

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

A.1.3 ILUK's business purpose

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

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

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

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

A.1.4 Lines of business and geographical areas

All of ILUK's business is written in the line of business defined by the Solvency II rules, 'Index-linked and unit-linked insurance'. 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

KPMG were reappointed as auditors in 2017 following a competitive tender process.

A.1.6 Significant external events over the reporting period

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

A.1.6.1 Tax issues

COVID-19

There is currently a lot of speculation regarding how the government may seek to recoup the considerable amounts that they have had to spend during the pandemic.

Tax issues with pensions

The contribution tax relief issue is still unresolved. A single rate of relief for all or its removal altogether are possibilities but there is significant uncertainty around the evolution of tax policy in this area.

In the meantime the improvement to the tapered annual allowance thresholds announced in the Budget in March meant a number of people will no longer pay an annual allowance tax charge (or at least pay a reduced one) which should lead to increased contributions.

Pension transfers

Volumes continue to be significant despite increases in the cost of professional indemnity cover and increased regulation. We will now only accept applications when there has been a positive adviser recommendation to transfer thus not allowing any new applications from insistent clients who want to transfer against the advice having been received not to transfer.

Inheritance Tax (IHT)

A number of recommendations have been made concerning making changes to the IHT framework. While we believe that some changes in this area may occur, they are unlikely to be in the near future.

Investment bonds in trust

Currently where an investment bond is the sole property held in a discretionary trust then there is no need to submit a tax return or register it on HMRC's Trust Registration Service (TRS) until there is a chargeable gain that gives rise to tax. However, it has now been confirmed that all such trusts will have to be registered on the TRS by March 2022 whether or not a tax even has occurred.

A.1.6.2 External factors impacting inflows

Inflows of defined benefit transfers to both the Personal Pension and SIPP remain significant despite increased regulatory focus and impact of professional indemnity cover for advisers.

A.1.6.3 UK vote to leave the EU

The transition period that has applied since the United Kingdom ceased to be an EU member state, ends at 11pm on 31 December 2020 and thereafter EU law relating to the single market, including UK firms' rights of passporting into the EU market, will not apply in the United Kingdom.

HM Government and the European Commission are negotiating the terms of a possible trade deal but as at the time of writing, the results of these negotiations remain uncertain. We therefore consider it prudent to work on the basis that after the 31 December 2020, the United Kingdom will be regarded by the EU as a 'third country' without automatic rights of market access.

ILUK has a small number of policyholders that were resident in the EU when their policy was commenced. These policies will have to go into 'run off', with the period determined by the competent regulatory authority for the EU member state in which the policyholder resides.

Our Risk Management and Compliance teams continue to monitor the situation and provide advice and ad-hoc risk assessment reports to the IFAL Group Risk Committee.

A.1.6.4 FCA MS17/1 – Investment Platform Market Study (IPMS)

The FCA's IPMS final report was published on 14 March 2019. The report was largely positive about the UK investment platforms market, but did identify some areas for improvement. These predominantly related to transfers and exit fees (which do not apply at ILUK) and the FCA has begun work on implementing these. The FCA announced on 13 February 2020 that because platforms had already taken action, it would no longer implement rules to ban exit fees. The Group has and continues to provide the FCA with feedback about the outcomes of the IPMS both directly and via the UK Platform Group. The direct and indirect impact on ILUK, in particular, on its solvency and liquidity position, is expected to be immaterial.

A.1.6.5 Senior Managers and Certification Regime (SMCR)

ILUK, as a Solvency II firm, is subject to the most onerous version of SMCR. The SMCR places increased reporting obligations on the Group, a requirement for those persons holding most senior roles (Senior Management Functions) to be approved by the regulators, and for ILUK to identify and certify as fit and proper those staff who undertake any roles which can cause significant harm to client or the industry (Certification Functions).

In addition, all staff (subject to minor exceptions) whether Senior Management Function holders, certified Persons or others working in the firm must comply with all conduct rules.

A.1.6.6 Retirement Outcomes Review

The FCA's Retirement Outcomes Review final report, was published in June 2018 and in particular set out concerns about the potential for detriment of consumers who did not take advice about complex pension decisions. As a result, the FCA introduced a package of measures including amendments to their rules and guidance, in particular:

- "wake-up" packs to be sent out from age 50 (and every 5 years thereafter), with improved communications including one-page summary documents (with effect from 1 November 2019 – which we have implemented)
- changes to the content of key features illustrations and related disclosures including growth in real terms inflation adjustment (with effect from 6 April 2020 – which we have implemented)
- improvements to the drawdown process, including annual summary statements (with effect from 6 April 2020 – which we have implemented)
- establishment of "investment pathway" options for non-advised clients entering drawdown and ensuring such clients who invest in cash are actively deciding to do so (the FCA has deferred the implementation of this to 1 February 2021)

A.1.6.7 Vulnerable customers

Protecting vulnerable clients is a key priority for the FCA and it is publishing further guidance in late 2020 or early 2021. Firms must be able to demonstrate how their culture, policies and processes ensure the fair treatment of all consumers, including those who are vulnerable.

For these purposes, a vulnerable consumer is defined as someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care. Key drivers which may increase the risk of vulnerability are: health, life events, capability and resilience.

Our Risk Management and Compliance teams continue to advise the business about the regulatory expectation and associated risks.

A.1.6.8 Financial risks from climate change

In April 2019, the PRA published a policy statement about how banks and insurers should approach the management of climate change related financial risk including scenario analysis and risk management governance. The policy statement recognised that how firms approach this area of risk management is to be proportionate to their business and is expected to evolve over time. In this context the policy statement required firms to put in place an initial plan and appoint one of its Senior Management Function holders to be responsible for ensuring a plan is in place and implementing the policy statement requirements. The ILUK CEO has been appointed as the Senior Management Function holder with this responsibility. The PRA published further feedback and its expectations in July 2020.

Firms should be able to demonstrate that the expectations set out in the PRA's SS3/19 have been implemented and embedded throughout their organisation as fully as possible. In doing this, organisations should take a proportionate approach, reflecting the institution's exposure to such risks and the complexity of its operations.

A.1.7 Impact of COVID-19 pandemic

A.1.7.1 Principal risks and uncertainties

The COVID-19 pandemic has undoubtedly had an impact on global equity markets. We are very aware of the financial uncertainty that the current circumstances present as well as the increasing concern over the duration and potential impact on the health and safety of our colleagues, advisers and clients that recurring spikes of the pandemic cause. The IntegraFin Group has worked hard to support the wellbeing of our colleagues and to maintain the quality services expected of us; we continue to strive to make the management of client portfolios efficient, simple and secure.

In our response to the COVID-19 pandemic we invoked our business continuity measures. In addition, we reacted responsively by implementing a series of procedural and processing changes. These combined measures ensured we were able to continue the running of our operations throughout the period of Government imposed 'lock downs' across the UK. We continue to operate in line with the recommended government guidelines.

A.1.7.2 Our people

It is of paramount importance for us to safeguard our colleagues against the COVID-19 pandemic threat. Our response, following the announcement on the 23 March 2020 of a 'lock down', was decisive. We implemented, across the entire IntegraFin Group, a remote working operating model for all but a small number of essential staff who continued to work at the Clement's Lane office. We have made particular effort to ensure all our colleagues are kept informed and engaged through regular management communications. We have established a dedicated staff portal, "Transact Together" which provides a central point of information for process changes, key policies and useful tips to help colleagues make the transition and preserve our culture and collaborative team working ethos. We have retained an open and collaborative engagement with colleagues and actively sought their views. As a consequence following the initial relaxation of the Government lock down rules in July, we retained the remote working model. All our offices have been modified to meet social distancing and health and safety standards. Our offices only have a presence for essential workers in order to maintain the continuity of the business operations and key systems. In all instances Government advice and guidelines have been followed with strict premises controls in place.

A.1.7.3 Our operating procedures

The change in the IntegraFin Group's operating model required a number of process and control changes to be put into place at short notice. These process changes were captured by the business and assessed by Risk Management. Detailed reports have been presented to the Group Risk Committees covering the assessment of new significant risks and establishing the effectiveness of existing and new controls. Advantage has been taken to accelerate planned changes to our business processes and refresh our continuity strategy and arrangements. In the event of further 'lock downs' across the UK, the IntegraFin Group will respond in line with its updated business process and continuity arrangements.

The IntegraFin Group continues to maintain operations through a remote working model with support from its internal service provider and has outsourced arrangements of certain activities to external third parties. The overall risk profile of ILUK and the IntegraFin Group has not materially changed and this is regularly assessed with oversight and challenge by Risk Management.

A.1.7.4 Our IT systems and infrastructure

Maintaining the security and integrity of our IT systems is of paramount importance to us and our client and adviser base. The increased threat from cyber-attacks remains high on the agenda and to this end we have actively reinforced the procedures with our colleagues on virus and phishing threats as well as increasing the level of monitoring and surveillance controls. Our systems have remained resilient and this has allowed us to maintain all of our key business services throughout the whole period. In addition, we have delivered enhancements to our platform service Transact On Line (TOL), strengthening the adviser interface and reducing processing times. By embracing other technology in conjunction with TOL, such as digital signatures and electronic document uploads we have further reduced our paper based processing requirements. IT has provided support to the business ensuring communication and video facilities are in place to allow colleagues and the business to interact effectively under our remote operating model.

The duration and any further change in severity of the COVID-19 pandemic remains uncertain and whilst this is of a worry, we remain confident that our business processes and controls are resilient and sufficiently responsive to meet the uncertainties under current conditions.

A.1.7.5 Regulation and the economic impact

The global reaction to the COVID-19 pandemic has had a significant impact on the performance of financial markets. In light of this, the United Kingdom's Prudential Regulation Authority (PRA) has highlighted the need for banks and insurers to exercise prudence and caution in paying shareholder dividends. Risk Management are working closely with the Board to ensure the appropriate financial analysis is undertaken and where necessary decisions about distributions of profits are communicated to the PRA.

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 compared to the previous year.

(£000)	2020	2019 restated
Underwriting income		
Fee income	47,124	43,146
Change in deferred income liability	7,247	6,951
Other operating income	7,082	18,102
Total underwriting income	**61,453**	**68,199**
Underwriting expenses		
Cost of sales	(243)	(200)
Change in deferred acquisition costs	(7,247)	(6,951)
Administrative expenses	(21,195)	(20,131)
Change in provisions	(9,077)	(10,034)
Impairment losses on financial assets	(23)	(3)
Total underwriting expenses	**(37,785)**	**(37,319)**
Underwriting profit (before tax)	**23,668**	**30,880**

A.2.2 Overall underwriting performance over the period

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

Other operating income comprises amounts deducted from policyholders to cover policyholder tax charges, other liabilities and recoveries of tax from HMRC. This figure is significantly impacted by the investment performance of the unit-linked assets. The restatement of profit after tax across prior years is attributable to changes in the treatment of tax reserves. Tax relief on corporate expenses and the effect of a structural difference in the UK policyholder taxation rate of 20%, versus the corporation tax rate of 19%, has been released. This release follows a change to the methodology for refunding tax charges and reliefs to policyholders this year, these changes will result in quicker refund payments to policyholders, and on a more frequent basis.

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 reduction in provisions is principally due to the reduction in the provision for future and current policyholder tax liabilities.

A.3 Investment performance

A.3.1 Investment income and return

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

Linked investments held for the benefit of policyholders are invested as per the advisers' or policyholders' instructions and underlying investments in policyholders' asset portfolios predominantly include a broad selection of equities, debt securities and property. Investment return shown below are based on policyholders' asset portfolios.

The table below gives a breakdown of the investment performance for ILUK over the reporting period, compared to the previous year.

(£000)	2020	2019 restated
Investment income	66	99
Investment return	57,980	614,705
Profit on investment activities	**58,046**	**614,804**

The decrease in investment return is principally due to weaker market performance in policyholders' asset portfolios over 2020 compared to 2019.

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 IntegraFin Group companies and in line with regulatory expectations. This includes the Risk Management Policy and Framework which is applied on an IntegraFin Group basis. The remainder of this section describes the IntegraFin Group's system of governance – which directly applies to the legal entity, ILUK.

The IHP Board determines the overall strategic direction of the IntegraFin Group's companies and is responsible for the overall management of the IntegraFin 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 IFAL 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 IHP Board. Further, the ILUK Board will consider and scrutinise advice from the IFAL Board and the IHP Board. The ILUK Board is responsible for approving ILUK's risk appetites and for ensuring ILUK's risk appetites do not cause any conflicts with the IFAL Group's risk appetites.

B.1.2 Committees and forums

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

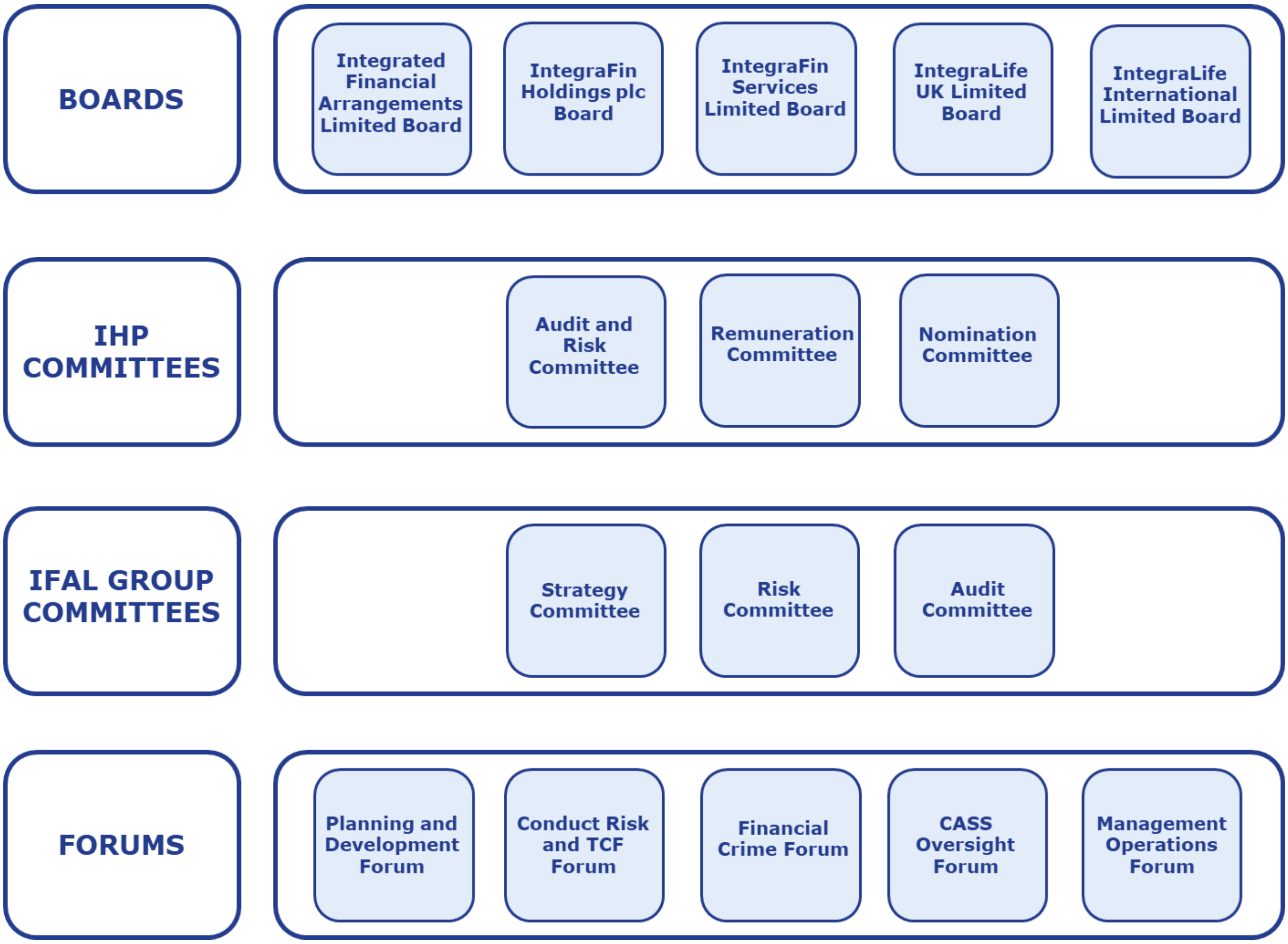
- IHP Audit and Risk Committee
- IHP Remuneration Committee
- IHP Nomination Committee
- IFAL Group Strategy Committee
- IFAL Group Risk Committee
- IFAL Group Audit Committee

The ILUK Board can call upon the IFAL Group 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 Chief Executive Officer and senior management have established five forums as at the reporting date:

- Planning and Development Forum
- Conduct Risk and 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 four key functions – Compliance, Risk Management, Actuarial, and Internal Audit. A summary of the roles and responsibilities of each is set out in the rest of this section.

Compliance Function

The Compliance Function is part of the second line of defence. 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 and can demonstrate that it is doing so.

The Compliance Function maintains a Compliance Plan which sets out details of its scope, authority and reporting lines, escalation procedures, key responsibilities, key deliverables and organisational structure along with 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 IntegraFin Group Boards to receive sufficient information and to have access to key individuals, data, books and records and to have sufficient resources to carry out its responsibilities effectively.

The Senior Compliance Managers escalate regulatory issues (as needed) related to ILUK to the ILUK Chief Executive Officer, the IFAL Group Risk Committee, the Boards, as appropriate, either directly or through the Group Counsel.

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 IntegraFin 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 IFAL Group Risk Committee. The Chair of the IFAL Group Risk Committee subsequently informs the Board of any relevant and material issues for discussion and approval.

Responsibility for undertaking 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 IntegraFin Group (including the Board of ILUK) that risks are managed in accordance with Board approved risk appetite levels by appropriately designed controls, that the controls operate effectively and in accordance with the documented procedures of the IntegraFin Group, and that there are adequate processes to deliver compliance with applicable laws and regulations.

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 IHP and its membership is comprised of independent non-executive directors of IHP. Its purpose is to review/set and/or agree the overall remuneration policy and strategy for the IntegraFin Group. The Remuneration Committee aims to align remuneration with the successful achievement of the IntegraFin 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 IntegraFin 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 ISL 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 IHP Chief Executive Officer are proposed by the Chair of the IHP Board. These proposals are reviewed by the Group Counsel to ensure that they are in compliance with laws and regulations and the Group Chief Financial Controller and the Head of Actuarial and Risk to ensure they do not encourage risk taking or misconduct. Their recommendations are considered by the Group's Remuneration Committee.

Historically, the bonus component of remuneration has comprised a fixed percentage of total remuneration. A target bonus is set annually by the Group. The bonus payable will be reduced from the target level if the Group's performance targets are not met. The resulting bonus remuneration is then payable to employees adjusted in line with their individual performance. A Share Incentive Plan (that meets HMRC rules) is open to all IntegraFin Group staff, and a Performance Share Plan is open to Senior Managers, and other staff on the discretion of the IHP Chief Executive Officer.

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 IntegraFin Group has no defined benefit pension schemes and there are no supplementary or enhanced early retirement provisions for any of the IntegraFin Group's senior management or directors.

B.1.6 Material transactions

Dividends to IFAL

Over the reporting period ILUK paid dividends totalling £16,000k (2019: £14,000k) to its parent company, IFAL. ILUK has ensured that it complies with the PRA's expectations concerning dividends as set out in Supervisory Statement 4/18 "Financial management and planning by insurers".

Other transactions with IFAL

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

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

Payments to ISL

ILUK has a Third Party Administrator (TPA) agreement with ISL to provide policy administration, tax, legal and regulatory compliance services. ILUK paid ISL £17,156k (2019: £16,391k) over the reporting period.

B.2 Fit and proper requirements

B.2.1 Fit and proper

The IntegraFin 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 (the Members) within all companies within the IntegraFin Group, both individually and collectively. The IntegraFin Group has in place a Suitability Policy which aims to:

- outline the standards for the selection, appointment, re-appointment, assessment and succession planning of Members within the companies of the IntegraFin Group; and
- establish procedures for ensuring that the Members have the skills, knowledge and relevant experience to carry out their responsibilities in order to manage and oversee the business of the companies of the IntegraFin Group

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

All Members 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 Senior Management 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 IntegraFin 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 IntegraFin Group's risk management strategy supports the business in making informed and risk based decisions.

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

B.3.2 Risk management objectives

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

The risk management framework further supports the achievement of the IntegraFin Group's objectives. Effective risk management helps to provide focus on the priorities of the IntegraFin 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 IFAL Group 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 IFAL 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
- integrating information on risk with other regulatory disclosures if applicable

In the application of the Risk Management policy the IFAL 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 IFAL Group Risk Committee and IHP Audit and Risk Committee at least on a quarterly basis. These reports include the latest summary of the IFAL Group's risk profile.

B.3.5 Risk procedures

The IFAL 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 reviewed and challenged by the IFAL Group Risk Committee and then recommended to the ILUK Board for approval by the ILUK Board in December.

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

ILUK’s ORSA includes the elements set out below:

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

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

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

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

B.4 Internal control system

The IntegraFin Group recognises that in order to meet its business objectives a robust system of internal controls needs to be in place across the IntegraFin Group. The IntegraFin Group’s internal control system and framework is designed to secure compliance with decisions and procedures at all levels within the IntegraFin Group and covers all activities, plans, culture, behaviours, policies, systems, processes, reporting arrangements and procedures.

The Internal Control System is comprised of governance functions and controls following a three lines of defence model and a system of internal controls that is aligned with the Committee of Sponsoring Organisation of the Treadway Commission (COSO).

Our first line of defence is the business departments which have responsibility for managing and controlling their risks, in accordance with agreed risk appetites through the implementation of a sound set of processes and controls. Responsibility for risk management resides at all levels within our business, from the senior management team to departmental and team managers. All staff members are accountable for managing risks within the business areas for which they are responsible, ensuring compliance with prescribed company plans, policies and prevailing regulatory and legislative requirements. The business lines are also responsible for complying with the policies and standards which comprise the Group’s Risk Management Framework. Current key risks and issues facing us are considered by the management team, with each key risk owned by the member of the management team responsible for the strategic management of that risk across the Group.

Our second line of defence comprises two functions: the risk management function and the compliance function. The risk management function is responsible for coordinating all the risk management activities within the business. This includes the development, maintenance and enhancement of the Risk Management Policy and Framework, as well as risk management reporting. The risk management function provides regular risk reports to the IHP Audit and Risk Committee and the IFAL Risk Committee. The Chairs of the committees then provide a summary to the members of the boards. The compliance function is primarily responsible for supporting the Group to ensure that its activities are conducted in accordance with all applicable regulatory requirements.

Our third line of defence is internal audit, which provides independent assurance on the adequacy and effectiveness of the Group's risk management and major business process control arrangements. It performs regular audits across the business, reporting to the committees on the implementation and effectiveness of the Risk Management Policy and Framework. The Head of Internal Audit reports directly to the committee chairs. The board is satisfied that internal audit provides sufficient assurance on the Risk Management Policy and Framework.

The Internal Control System is supported by having an IntegraFin Group structure that defines clear lines of authority (including formal delegated authority as appropriate), responsibility and accountability and establishes appropriate lines of reporting and segregation of duties. The IntegraFin 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 IntegraFin 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, on a cyclical basis, covers the key risks faced by the IntegraFin Group. The audit plan is presented to the IFAL Group Audit Committee and IHP Audit and Risk Committee for approval at least annually or when any material changes are proposed. The Head of Internal Audit also presents details quarterly to the IFAL Group Audit Committee and IHP Audit and Risk Committee on the Internal Audit Function's progress with completing the audit plan.

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

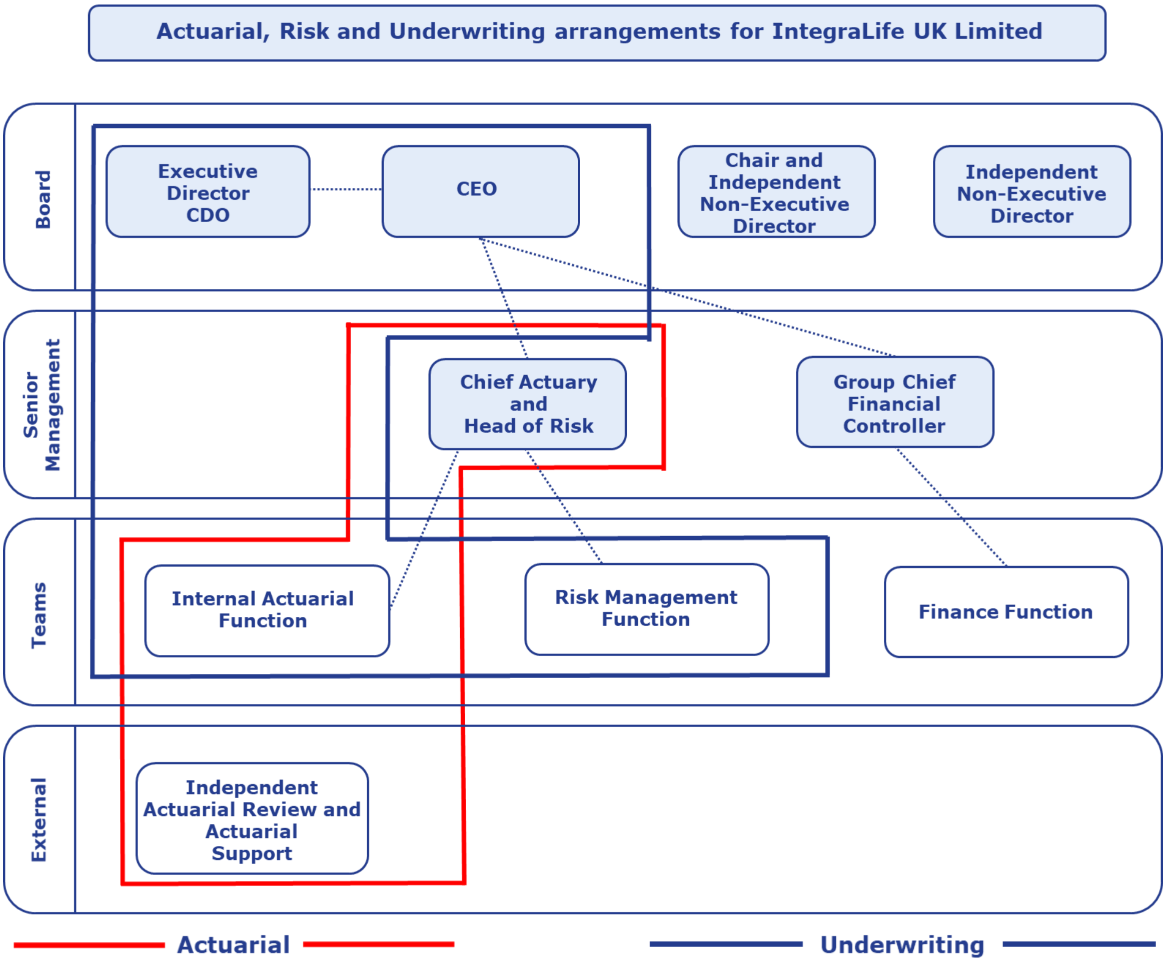
B.5.2 Independence of the Internal Audit Function

The Group Head of Internal Audit reports directly to the Chair of the IFAL Group Audit Committee, who is an independent non-executive director, and Chair of the ILUK Board. The Group Head of Internal Audit also reports directly to the Chair of the IHP Audit and Risk Committee, who is an independent non-executive director.

IntegraFin Group Internal Audit's own Charter states that it will be independent, objective and will have unrestricted access to the records, personnel, and properties of the IntegraFin Group. Furthermore, IntegraFin Group Internal Audit will not perform any operational functions or activities that could compromise its independence.

B.6 Actuarial function

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



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

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

B.7 Outsourcing

B.7.1 Outsourcing policy

ILUK's outsourcing arrangements are governed by the IntegraFin 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 IFAL Group are resourced from ISL – the IntegraFin Group's services company. ISL employees, including Senior Management Function Holders 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. ISL and IFAL are both located in the UK.

B.7.3 External outsourcing arrangements

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

B.8 Any other information

All relevant and material items are covered in previous sections.

C. Risk profile

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 £16,476,154k (2019: £15,123,131k) of lapse risk. This represents the total cash and investments held in policyholders' portfolios.

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

Expense risk

ILUK's total administrative expenses over the 12 month period to the reporting date were £21,439k (2019: £20,331k) (including cost of sales, but excluding the change in deferred acquisition costs).

Mortality risk

As at the reporting date ILUK was exposed to £1,147k (2019: £1,053k) of mortality risk. This represents the Sum at Risk (i.e. total death benefits payable less value of policyholders' portfolios) for the onshore bonds. As at the valuation date there is no mortality risk exposure related to the 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, stable and as expected.

Expense risk

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

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

Mortality risk

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

C.2 Market risk

Description of risk

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

Market risk from reduced income

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

Market uncertainty stemming from the impacts of the COVID-19 pandemic as well as the uncertainty around EU trade deal negotiations, may increase the volatility of ILUK's revenues. Adviser activity may also be adversely impacted by the COVID-19 pandemic, given the government restrictions (both historical and future) imposed, in particular, related to travel and social distancing.

Market risk from direct asset holdings

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

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

ILUK's balance sheet and capital requirements are relatively insensitive to first order impacts from movements in interest rates. The Company is exposed to a primary level of interest rate risk on its Gilt holdings of £2,975k (2019: £2,996k). The risk here arises from a shift in interest rates reducing the market value of the asset. The short-dated nature of the Gilt, redeemable in January 2021, 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, and subject to HMRC rules for eligible investments. The investment objective of each individual linked fund is agreed between the adviser and the policyholder taking account of the policyholder's expectations and risk appetite. This will include agreement on the characteristics of the assets e.g. their quality, liquidity, currency etc., the diversification of assets held in each individual fund and the policyholders' other assets and liabilities.

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

Each product 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 principles of ILUK's non-linked investment policy are security and liquidity of capital. To meet these principles non-linked reserves and shareholder capital are split between cash held in UK regulated banks 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 policyholders
- exposure to other Group companies
- exposure to other debtors

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

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

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

Corporate assets and funds held on behalf of policyholders

As at the reporting date, the Company holds £65,686k (2019: £56,652k) of corporate cash at seven different UK banks, all of which have a Solvency II credit quality step of at least 3. £28,603k (2019: £26,754k) of the corporate cash is held to cover tax reserves. The Company also holds £2,975k (2019: £2,996k) in Gilts.

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

Counterparty default risk exposure to policyholders

The Company is due £4,934k (2019: £4,685k) from fee income owed by policyholders. Fees are paid monthly from policyholder funds, largely clearing this balance. A conservative bad debt provision of £107k (2019: £84k) is held for the fees that cannot be paid due to policyholders holding insufficient liquid assets.

Counterparty default risk exposure to other Group companies

As well as the inconvenience and operational issues arising from the failure of other Group companies, there is also a risk of a loss of assets. The Company is due £49k (2019: £27k) from other Group companies, however, offsetting payables to the same companies ILUK is due £1k (2019: £1k).

Counterparty default risk exposure to other debtors

Other than prepayment assets, which are not recognised as assets under Solvency II, the Company has no other debtors arising, due to the nature of its business, and the structure of the IntegraFin Group.

Risk mitigation

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

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

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

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

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 liquid financial resources to meet obligations as they fall due, or can secure such resources only at excessive cost.

Risk exposure and concentration of risk

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

- Surrender of policies: ILUK is not exposed to liquidity risk when policyholders surrender their unit-linked investment assets. This is because policyholders take their own liquidity risk in the event that their investment assets cannot be immediately sold for cash. This is set out in the terms and conditions of the policies. Additionally, ILUK places policyholder cash in bank deposits with terms ranging from immediate access to 95 days. ILUK has robust controls in place to mitigate this liquidity risk, through setting limits and actively monitoring the percentage of cash not held in immediately available deposits.
- Benefit payments and expenses: ILUK is exposed to liquidity risk relating to the payment of mortality benefits and other liabilities (e.g. operating expenses). This requires access to liquid funds.
- Charges from policyholder assets: There is a risk that there is insufficient cash held in the unit-linked policies to settle the charges or that the assets cannot be converted into cash in order for the charges to be collected. Liquidity risk arising from clients holding insufficient cash is concentrated in portfolios where clients have illiquid assets and no cash.
- ILUK's own accounts: Whilst ILUK does have £65,686k (2019: £56,652k) exposure to an insolvency event affecting UK banks, the Company considers this to be a remote risk. This is because these banks are of high systemic importance and, as such, any insolvency event affecting one of the banks is likely to fall within the remit of financial and operational crisis management principles set out in the Memorandum of Understanding between HM Treasury and the Bank of England (including the PRA). Corporate cash is split relatively evenly across seven 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 £0k (2019: £2k). 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 risk, regulatory and tax failure 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 information security, IT infrastructure failure risk, regulatory and tax failure and operational process failure risks. This is as expected given the strong reliance ILUK has on its data, IT systems and the significant volume of operational processes carried out under a number of regulatory frameworks.

Risk mitigation

The Company aims to minimise operational risk at all times through a strong and well-resourced control and operational structure with continuous investment in both people and systems. In particular, the IntegraFin Group has in place a dedicated financial crime team and an on-going fraud and cyber risk awareness programme. Additionally, the IntegraFin Group carries out regular IT system maintenance, BCP testing and system vulnerability testing. This is supported by the strong corporate governance structure that is embedded in ILUK and the IntegraFin 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: non-insurance based wrappers and offshore insurance based tax efficient wrappers.

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

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

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

Risk mitigation

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

C.6.1.2 Contract mix risk

Description of risk

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

Risk exposure and concentration of risk

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

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

- Changes to drawdown rules resulting in higher outflow amounts
- 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 a degree of mitigation against the concentration of pensions business.

C.6.1.3 Reputational risk

Reputational risk is the risk that current and potential clients' desire to do business with the Company reduces due to 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 investment platform service. Therefore the reputation of the Transact brand is where the risk lies.

Risk exposure

The Transact brand is exposed to a wide range of future events which may have a significant adverse impact on its reputation. These include consequences of operational risk events e.g. errors, fraud or regulatory fines. In these cases, reputational risk would be triggered on the event of the operational risk failure becoming public knowledge. External reputational risk could also arise from public opinion of the whole 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 reputational crisis management training.

C.6.2 Group risk

Description of risk

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

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

Risk exposure and concentration of risk

The following exposures have been identified:

Group contagion risk

- '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

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

C.7 Any other information

C.7.1 Stress tests and scenario analyses

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

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

C.7.2 Stressed projection methodology and assumptions

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

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

Table: Assumptions underlying the stress scenarios

Risk factor	Stress applied to base case assumption
Market downturn	A market fall of 20% over a one month period followed by a flat market for 12 months.
Mass lapse	30% drop in the number of clients over three months, with a further 5% drop the following year.
Increase in outflows	50% increase in outflow rates for up to twelve months.
Decrease in outflows	70% decrease in inflows rates for six months.
One-off spikes in operating costs	Up to £3.8m one-off spike in operating costs depending on the underlying stress scenario.
Reduction in fee income	Reduction in fee income by up to 35%.

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

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

C.7.3 Sensitivity testing

A series of sensitivity tests have been carried out to changes in key modelling parameters, calculated as at 30 September 2020.

Sensitivity	Description	SCR coverage ratio	Impact on SCR coverage ratio
Base	-	140%	-
Interest rate up	+1% shift across yield curve	141%	-
Interest rate down	-1% shift across yield curve	140%	(1%)
Lapses down	1% reduction in lapse rates (transfers out/full surrenders only)	135%	(5%)
Expenses up	10% increase in expense assumptions	139%	(2%)
Mortality up	10% increase in mortality assumptions	141%	+1%
Inflation up	1% increase in assumption	140%	(1%)
Credit spread	All Credit Quality Steps down 1 step	138%	(3%)
Equity stress	Symmetric adjustment increased by 1%	139%	(1%)

The sensitivity results demonstrate that the SCR coverage ratio is relatively insensitive to small changes in interest rates, inflation assumptions and equity stress and mortality parameters. With regards to lapse and expense assumptions, the SCR coverage ratio is relatively more sensitive and this reflects the long term nature of the business being modelled under the Solvency II basis. The calibration of the credit spread stress reducing the credit quality step of all bonds by one step produces a relatively onerous sensitivity.

C.7.4 Results

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

D. Valuation for solvency purposes

D.1 Assets

D.1.1 Introduction

ILUK's assets have been valued in accordance with 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)	2020	2019
Assets held for index-linked and unit-linked contracts	16,476,154	15,123,131
Investments (other than assets held for index-linked and unit-linked contracts)	2,975	2,996
Cash and cash equivalents	65,686	56,652
Receivables (trade, not insurance)	7,103	9,113
Total assets	**16,551,919**	**15,191,894**

D.1.2 Asset valuation approach

The primary approach is to value assets using quoted market prices in active markets. There are no differences between the asset valuation method used in ILUK's IFRS financial statements and the Solvency II valuation other than the treatment of deferred acquisition costs and prepayments, which are included in the assets of the IFRS financial statements but are excluded from the Solvency II valuation in line with Article 75 of the Solvency II Directive. Further details on the IFRS asset valuation approach and the financial assets held are provided in notes 2(r) and 26 to ILUK's financial statements, which can be found in Appendix 2 of this document.

D.1.2.1 Listed securities

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

D.1.2.2 Collective Investment Schemes

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

D.1.2.3 Unlisted securities

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

D.1.2.4 Impairment of asset value

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

D.1.2.5 Receivables

Receivables are valued at their par amount less any provision for impairment, other than prepayments, which are valued at nil in the Solvency II balance sheet. All receivables are due within less than one year.

D.2 Technical Provisions

D.2.1 Introduction

All of ILUK's business is written in the line of business defined by the Solvency II rules, 'Index-linked and unit-linked insurance'. The Technical Provisions have been calculated in accordance with Article 77 of the Solvency II Directive. The following table sets out ILUK's Technical Provisions as at the reporting date.

(£000)	2020	2019
Best Estimate Liability	16,140,868	14,795,161
Risk Margin	88,510	86,642
Technical Provisions	**16,229,377**	**14,881,804**

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 swap 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 0.3% p.a., 0.4% p.a. and 0.4% 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.)	
	2020	2019
Onshore bonds	7.0%	7.2%
Pensions	6.5%	7.2%

Onshore bonds rates have remained broadly stable.

Pension lapse assumptions have decreased based on lower lapse experience over the three year period covered by the lapse experience analysis. The change in lapse assumptions has led to a reduction in surplus and a decrease in the SCR coverage ratio.

D.2.3.3 Expense assumptions

The expense assumptions have been set based on an expense analysis undertaken by ILUK. Expense assumptions are set separately for fixed expenses, variable expenses and expense inflation. The analysis takes all of ILUK's expenses into account. This includes acquisition, administration, investment management, claims management and overhead expenses. The analysis splits the expenses into two categories – acquisition and renewal. The renewal expenses are used in the calculation of the Technical Provisions after a further split between per policy/fixed and variable costs has been applied. Renewal expense assumptions are set based on the company's business plan over the coming year, and expense inflation is assumed to be 0% over the second and third year of the projection to recognise expected expense efficiencies. Thereafter, inflation is applied to renewal expenses and is taken to be the rate implied by the Gilt yield at the valuation date for the duration of the modelled expenses.

Expense assumption	2020	2019
Per policy	£58	£60
Variable (% of Funds Under Direction)	4.4bps	4.5bps

The reduction in expense assumptions has led to an increase in surplus and SCR coverage.

D.2.3.4 Mortality assumptions

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

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

Age (x)	Mortality table	2020		2019	
		Male adjustment	Female adjustment	Male adjustment	Female adjustment
0<=x<17	ELT17	100%	100%	100%	100%
17<=x<76	AMC00 / AFC00	58%	57%	62%	60%
x>=76	AMC00 / AFC00	65%	72%	64%	80%

Mortality assumptions have remained broadly stable. There have been 63,000 excess deaths in the UK over the period January to October 2020, or 0.09% of the UK population. Given the low mortality risk of ILUK's book of business, the impact on ILUK's solvency position from an increase in mortality rates is expected to be immaterial.

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

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

Even assuming that the "correct" parameters have been chosen for the model, there will always be some statistical variation in the actual results compared to the experience predicted by the model.

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

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

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

D.2.5 Reinsurance recoverables

ILUK has no reinsurance recoverables.

D.2.6 Risk Margin

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

The SCR^{RM} is recalculated over a projection period of 60 years (the point at which 99.9% of the in-force funds under direction have run-off).

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

D.2.7.1 Best Estimate Liability

Solvency II requires that the Best Estimate Liability component of the Technical Provisions is calculated using best estimate assumptions and that all future cashflows are included. These future cashflows include future income generated on the existing business and the expenses of administering the policies. This generates a significant positive result (reduction in the BEL) for which 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 comprise deferred tax liabilities of £52,210k (2019: £51,274k) and other payables of £27,040k (2019 restated: £21,548k). The deferred 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 acquisition costs and deferred income liabilities in the IFRS financial statements are valued at zero in accordance with Article 75 of the Solvency II Directive.

D.4 Alternative methods for valuation

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

D.5 Any other information

No transitional arrangements have been applied in the Solvency II valuation.

E. Capital management

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

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

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

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

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)	2020	2019 restated
Total Assets	**16,551,919**	**15,191,894**
Technical Provisions	16,229,377	14,881,804
Other Liabilities	79,250	72,823
Sub-ordinated Liabilities in Basic Own Funds	-	-
Total Liabilities	**16,308,627**	**14,954,626**
Excess of Assets over Liabilities	**243,292**	**237,267**
Subordinated Liabilities	-	-
Foreseeable Dividends	(4,000)	(3,500)
Total Basic Own Funds	**239,292**	**233,767**
Ancillary Own Funds	-	-
Total Own Funds	**239,292**	**233,767**

Table: Analysis of Change of Own Funds

(£000)	
2019 Own Funds restated	**233,767**
Change in VIF and Risk Margin	5,449
Change in non linked assets	7,003
Change in tax liabilities	(5,491)
Change in deferred tax liability	(936)
Change in foreseeable dividends	(500)
2020 Own Funds	**239,292**

Investment growth on existing business, new business, and the changes in lapse rate and expense assumptions are the main drivers of the increase in VIF and Risk Margin.

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

E.1.2 Tiering of Own Funds

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

Table: Tiering of Own Funds

Basic Own Funds £000	Tier 1	Tier 2	Tier 3
30 September 2020	**239,292**	**-**	**-**
30 September 2019 restated	**233,767**	**-**	**-**

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)	2020	2019 restated	Description
Called up ordinary share capital	**1,000**	**1,000**	Allotted, issued and fully paid ordinary share capital and capital contributions
Share premium account	**700**	**700**	The portion of Shareholders' Funds formed from the premium paid for new shares above their nominal value
Reconciliation reserve	**237,592**	**232,067**	Excess of Solvency II assets over liabilities with ordinary share capital and share premium account deducted

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)	2020	2019 restated
IFRS Equity	**41,092**	**35,111**
Remove deferred acquisition costs and deferred income liabilities	0	0
Remove prepayments	(1,215)	(1,086)
Add impact of using Solvency II best estimate assumptions in the BEL	335,287	327,970
Deduct Solvency II Risk Margin	(88,510)	(86,642)
Deduct net tax liability on BEL and Risk Margin	(43,817)	(38,556)
Add deferred tax on deferred acquisition costs	455	470
Deduct foreseeable dividends	(4,000)	(3,500)
Solvency II Own Funds	**239,292**	**233,767**

E.1.5 Distribution to shareholders

Over the reporting period ILUK paid dividends totalling £16,000k (2019: £14,000k) to its parent company, IFAL.

E.1.6 Any other information

ILUK has no Ancillary Own Funds or deferred tax assets.

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

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

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

Table: Regulatory Standard Formula Results

(£000)	Solvency Capital Requirement	
	2020	**2019**
Market risk	112,741	117,188
Life underwriting risk	142,406	137,969
Counterparty default risk	3,357	2,835
Diversification	(54,894)	(54,959)
Basic SCR	**203,610**	**203,033**
Loss absorbing capacity of Technical Provisions	-	-
Loss absorbing capacity of deferred taxes	(36,543)	(32,754)
Operational risk	3,326	3,111
Solvency capital requirement excluding capital add-on	**170,394**	**173,389**
Capital add-on already set	-	-
Solvency Capital Requirement	**170,394**	**173,389**

ILUK has not adopted any of the simplified calculations set out in the Delegated Act for the calculation of the Standard Formula SCR and has not adopted any Undertaking Specific Parameters.

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

Investment growth on existing business, new business, and the reduction in lapse rate assumptions have increased SCR over the year, but have been offset by a larger impact from modelling improvements, a reduction in annual management charges for policyholders and a reduction in the symmetric adjustment.

Minimum Capital Requirement Results

The Minimum Capital Requirement (MCR) is £76,677k (2019: £78,025k) as at the reporting date. The MCR represents a minimum level of required capital below which supervisory intervention will automatically be triggered.

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

(£000)	2020	2019
Linear MCR	113,222	103,796
SCR	170,394	173,389
MCR cap	76,677	78,025
MCR floor	42,599	43,347
Combined MCR	**76,677**	**78,025**
Absolute floor of the MCR	3,187	3,288

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

E.3 Analysis of movements in SCR coverage

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

SCR coverage	
30 September 2019 restated	**135%**
Portfolio movements	12%
Assumptions and methodology changes	5%
Dividends	(11%)
30 September 2020	**140%**

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

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

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

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

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

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

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

E.7 Any other information

All relevant and material items are covered in previous sections.

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

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

We are satisfied that:

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

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

Alexander Scott

Chief Executive Officer

Date: 18 December 2020

F.2 Audit opinion

Report of the external independent auditor on the relevant elements of the Solvency and Financial Condition Report 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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 30 September 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 September 2020, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S12.01.02, 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' elements of the Solvency and Financial Condition Report;
- company templates S05.01.02, S05.02.01 ('the Statements and Templates not examined by us'); or,
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

In our opinion, the information in the relevant elements of the Solvency and Financial Condition Report of the Company as at 30 September 2020 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and/or 'Capital Management' and/or other relevant disclosures 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.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as management determines 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.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (c) of the External Audit Chapter of the PRA Rulebook we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Nicholas Quayle

For and on behalf of KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM1 1LA

Date: 18 December 2020

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	16,476,154
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	7,103
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	65,686
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	16,551,919

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	16,229,377
TP calculated as a whole	R0700	16,476,154
Best Estimate	R0710	-335,287
Risk margin	R0720	88,510
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	52,210
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	27,040
Subordinated liabilities	R0850	
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	16,308,627
Excess of assets over liabilities	R1000	243,292

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		**Total**
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**			2,231,326						2,231,326
Reinsurers' share	**R1420**									
Net	**R1500**			2,231,326						2,231,326
Premiums earned										
Gross	**R1510**			2,231,326						2,231,326
Reinsurers' share	**R1520**									
Net	**R1600**			2,231,326						2,231,326
Claims incurred										
Gross	**R1610**			808,869						808,869
Reinsurers' share	**R1620**									
Net	**R1700**			808,869						808,869
Changes in other technical provisions										
Gross	**R1710**									
Reinsurers' share	**R1720**									
Net	**R1800**									
Expenses incurred	**R1900**			21,439						21,439
Other expenses	**R2500**									
Total expenses	**R2600**									21,439

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**	2,230,997						2,230,997
Reinsurers' share	**R1420**							
Net	**R1500**	2,230,997						2,230,997
Premiums earned								
Gross	**R1510**	2,230,997						2,230,997
Reinsurers' share	**R1520**							
Net	**R1600**	2,230,997						2,230,997
Claims incurred								
Gross	**R1610**	807,913						807,913
Reinsurers' share	**R1620**							
Net	**R1700**	807,913						807,913
Changes in other technical provisions								
Gross	**R1710**							
Reinsurers' share	**R1720**							
Net	**R1800**							
Expenses incurred	**R1900**	21,439						21,439
Other expenses	**R2500**							
Total expenses	**R2600**							21,439

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		16,476,154								16,476,154
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			-335,287							-335,287
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			-335,287							-335,287
Risk margin	R0100		88,510								88,510
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	R0110										
Best estimate	R0120										
Risk margin	R0130										
Technical provisions – total	R0200		16,229,377								16,229,377

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	237,592	237,592			
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	239,292	239,292			
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**	239,292	239,292			
Total available own funds to meet the MCR	**R0510**	239,292	239,292			
Total eligible own funds to meet the SCR	**R0540**	239,292	239,292			
Total eligible own funds to meet the MCR	**R0550**	239,292	239,292			
SCR	**R0580**	170,394				
MCR	**R0600**	76,677				
Ratio of Eligible own funds to SCR	**R0620**	140%				
Ratio of Eligible own funds to MCR	**R0640**	312%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	243,292	
Own shares (held directly and indirectly)	**R0710**		
Foreseeable dividends, distributions and charges	**R0720**	4,000	
Other basic own fund items	**R0730**	1,700	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	237,592	
Expected profits			
Expected profits included in future premiums (EPIFP) – Life business	**R0770**	0	
Expected profits included in future premiums (EPIFP) – Non-life business	**R0780**		
Total Expected profits included in future premiums (EPIFP)	**R0790**	0	

S.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	112,741		
Counterparty default risk	R0020	3,357		
Life underwriting risk	R0030	142,406		
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	-54,894		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	203,610		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	3,326
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-36,543
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	170,394
Capital add-on already set	R0210	
Solvency capital requirement	R0220	170,394
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.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

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

Calculation of loss absorbing capacity of deferred taxes		LAC DT
		C0130
DTA	R0600	
DTA carry forward	R0610	
DTA due to deductible temporary differences	R0620	
DTL	R0630	
LAC DT	R0640	-36,543
LAC DT justified by reversion of deferred tax liabilities	R0650	-36,543
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	-36,543

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	113,222

		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	16,140,868	
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		336,448

Overall MCR calculation

		C0070
Linear MCR	R0300	113,222
SCR	R0310	170,394
MCR cap	R0320	76,677
MCR floor	R0330	42,599
Combined MCR	R0340	76,677
Absolute floor of the MCR	R0350	3,187
		C0070
Minimum Capital Requirement	R0400	76,677

Appendix 2 - Notes from the annual report and financial statements

2(r) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market exit prices and offer prices for liabilities, at the close of business on the reporting date, without deduction for transaction costs.

i. For units in unit trusts and shares in open ended investment companies, fair value is determined by reference to published exit values in active markets.
ii. For equity and debt securities not actively traded in organised markets and where the price cannot be retrieved, the fair value is determined using comparison to similar instruments for which market observable prices exist.
iii. For assets that have been suspended from trading on active markets, the last published price is used. Many suspended assets are still regularly priced. At the date of the Statement of Financial Position, suspended assets are assessed for indications of impairment and adjusted where appropriate.
iv. Where the assets are private company shares the value disclosed in the latest available set of audited financial statements is used.

26 Financial instruments

All financial instruments have been categorised as fair value through profit or loss, except for cash and cash equivalents, accrued income, other receivables and trade and other payables, which have been categorised as amortised cost.

Fair value hierarchy

The following table shows the Company's assets measured at fair value and split into the three levels described below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

At 30 September 2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Policyholder Assets				
Policyholder cash	1,283,026	-	-	1,283,026
Non-linked policyholder cash	28,603	-	-	28,603
Investments and securities	474,430	153,328	751	628,509
Bonds and other fixed-income securities	12,404	1,891	15	14,310
Holdings in collective investment schemes	14,444,487	104,912	910	14,550,309
	16,242,950	**260,131**	**1,676**	**16,504,757**
Shareholder Assets				
Shareholder cash	37,083	-	-	37,083
Other investments	2,975	-	-	2,975
	40,058	**-**	**-**	**40,058**
Total	**16,283,008**	**260,131**	**1,676**	**16,544,815**

At 30 September 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Policyholder Assets				
Policyholder cash	1,109,214	-	-	1,109,214
Non-linked policyholder cash	26,754	-	-	26,754
Investments and securities	412,220	139,664	2,352	554,235
Bonds and other fixed-income securities	4,485	9,320	3,005	16,810
Holdings in collective investment schemes	13,343,919	93,467	5,486	13,442,872
	14,896,592	**242,451**	**10,843**	**15,149,885**
Shareholder Assets				
Shareholder cash	29,899	-	-	29,899
Other investments	2,996	-	-	2,996
	32,895	**-**	**-**	**32,895**
Total	**14,929,487**	**242,451**	**10,843**	**15,182,780**

Level 1 valuation methodology

Financial assets included in Level 1 are measured at fair value using quoted mid prices that are available at the reporting date and are traded in active markets. These financial assets are mainly collective investment schemes and listed equity instruments.

Level 2 and Level 3 valuation methodology

The Company regularly reviews whether a market is active, based on available market data and the specific circumstances of each market. Where the Company assesses that a market is not active, then it applies one or more valuation methodologies to the specific financial asset. These valuation methodologies use quoted market prices where available, and may in certain circumstances require the Company to exercise judgement to determine fair value.

Financial assets included in Level 2 are measured at fair value using observable mid prices traded in markets that have been assessed as not active enough to be included in Level 1.

Otherwise, financial assets are included in Level 3. These are assets where one or more inputs to the valuation methodology are not based on observable market data. The key unobservable input is the pre-tax operating margin needed to price asset holdings.

Level 3 assets are valued using the same methodology as set out in note 2(r), using the last known price that the Company has been able to source.

As part of its pricing process, the Company regularly reviews whether each asset can be valued using a quoted price and if it trades on an active market, based on available market data and the specific circumstances of each market and asset.

Level 3 sensitivity to changes in unobservable measurements

For financial assets assessed as Level 3, based on its review of the prices used, the Company believes that any change to the unobservable inputs used to measure fair value would not result in a significantly higher or lower fair value measurement at year end, and therefore would not have a material impact on its reported results.

Changes to valuation methodology

There have been no changes in valuation methodology during the year under review.

Transfers between Levels

The Company's policy is to assess each financial asset it holds at the current financial year-end, based on the last known price and market information, and assign it to a Level.

The Company recognises transfers between Levels of the fair value hierarchy at the end of the reporting period in which the changes have occurred. Changes occur due to the availability of (or lack thereof) quoted prices, whether a market is now active or not, and whether there are indications of impairment.

Transfers between Levels 1 and 2 between 30 September 2019 and 30 September 2020 are presented in the table below at their valuation at 30 September 2020:

Transfers from	Transfers to	£'000
Level 1	Level 2	3,493
Level 2	Level 1	7,834

The reconciliation between opening and closing balances of Level 3 assets are presented in the table below:

	Total	Investments and securities	Bonds and other fixed-income securities	Holdings in collective investment schemes
	£'000	£'000	£'000	£'000
Opening balance	10,843	2,352	3,005	5,486
Unrealised gains or losses	54	24	-	30
Transfers in to Level 3	224	74	-	150
Transfers out of Level 3	(7,816)	(1,405)	(2,118)	(4,293)
Purchases, sales, issues and settlement	(1,629)	(294)	(872)	(462)
Closing balance	**1,676**	**751**	**15**	**910**

Any resultant gains or losses on financial assets held for the benefit of policyholders are offset by a reciprocal movement in the linked liability.

30 Restatement of prior years

Profit after tax for financial year 2019 has been restated to £19.6 million, an increase from £18.7 million, and an adjustment to 2019 opening retained earnings has been made of £5.4m. The restatement of profit after tax across prior years is attributable to changes in the treatment of tax reserves. Tax relief on corporate expenses and the effect of a structural difference in the UK policyholder taxation regime relating to the shareholder profits taxable at the corporation tax rate of 19%, accumulated over several years, has been released.

The change in the treatment in the tax reserves has been reflected by restating each of the affected financial statement line items for the periods as follows:

a) Statement of Profit or Loss and Other Comprehensive Income (extract)

	2019 £'000	Increase to profit £'000	2019 (restated) £'000
Other income	17,149	953	18,102
Other income and expenses	**7,115**	**953**	**8,068**
Profit before policyholder and shareholder tax	**30,041**	**953**	**30,994**
Policyholder taxation	(7,115)	146	(6,969)
Profit before shareholder taxation	**22,926**	**1,099**	**24,025**
Shareholder taxation	(4,246)	(139)	(4,385)
Profit after policyholder and shareholder tax	**18,680**	**960**	**19,640**

b) Statement of Financial Position (extract)

	2019 £'000	Increase/ (decrease) £'000	2019 (restated) £'000
Other receivables	3,834	678	4,512
Total assets	**15,241,089**	**678**	**15,241,767**
Tax provisions	24,112	(6,333)	17,779
Current tax liability	1,153	644	1,797
Total liabilities	**15,212,345**	**(5,689)**	**15,206,655**
Net assets	**28,744**	**6,367**	**35,111**
Retained earnings	27,008	6,367	33,375
Total equity attributable to equity holders	**28,744**	**6,367**	**35,111**

c) Statement of Financial Position (extract)

	1 October 2018 £'000	Increase/ (decrease) £'000	1 October 2018 (restated) £'000
Other receivables	2,503	533	3,036
Total assets	**13,184,034**	**533**	**13,184,567**
Tax provisions	18,527	(5,381)	13,146
Current tax liability	894	507	1,401
Total liabilities	**13,159,970**	**(4,874)**	**13,155,096**
Net assets	**24,064**	**5,407**	**29,471**
Retained earnings	22,328	5,407	27,735
Total equity attributable to equity holders	**24,064**	**5,407**	**29,471**

M135 Version (5) January 2021

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(Registered office: as above; Registered in England and Wales under number: 00798365)
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)
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