



Solvency and Financial Condition Report

30 September 2018

IntegraLife UK Limited

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

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Glossary

- **Ancillary Own Funds:** Items (other than Basic Own Funds) which can be called upon to absorb losses. Supervisory approval is required.
- **Basic Own Funds:** The sum of the excess of assets over liabilities plus subordinated liabilities.
- **Basic SCR / Basic Solvency Capital Requirement:** The SCR before allowance for the adjustments for loss absorbing capacity and operational risk.
- **BEL / Best Estimate Liability:** The expected value of all future cashflows generated from current insurance contracts discounted to allow for the time value of money using the Risk-Free Rate. The cashflows include premium income, expense outgo, tax, benefit payments and all cashflows relating to the policyholders' unit-linked investment portfolios. The assumptions used in the calculation are realistic – neither prudent nor optimistic.
- **Delegated Act:** Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.
- **EIOPA / European Insurance and Occupational Pensions Authority:** An independent advisory body to the European Parliament, the Council of the European Union and the European Commission. EIOPA was established in January 2011 and replaced CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors).
- **IFAL:** Integrated Financial Arrangements Ltd.
- **ILUK:** IntegraLife UK Limited.
- **Key Function:** Important and business critical functions of an organisation. The Solvency II Directive has defined four functions of the system of governance as key functions - Risk Management, Internal Audit, Actuarial and Compliance. Each key function is required to have a designated key function holder who will be subject to notification requirements to the regulator.
- **Loss Absorbing Capacity of Deferred Taxes:** An adjustment to the Basic SCR to reflect the change in deferred taxes that would arise following an instantaneous loss broadly equal to the sum of the Basic SCR and operational risk amount.
- **Loss Absorbing Capacity of Technical Provisions:** An adjustment to reduce the SCR to reflect the impact of reducing future discretionary benefits (applies to with-profits funds only so not applicable for ILUK).
- **MCR / Minimum Capital Requirement:** An absolute minimum level of required capital below which supervisory intervention will automatically be triggered. The MCR is defined by a formula with a lower/upper bound of 25%/45% of the SCR respectively.
- **ORSA / Own Risk and Solvency Assessment:** A key component of the Pillar 2 requirements of Solvency II. The ORSA is a process designed to assess an organisation's risks and overall solvency needs beyond the Pillar 1 requirements. The ORSA process comprises a number of sub processes and procedures.
- **Own Funds:** The sum of Basic Own Funds and Ancillary Own Funds. For ILUK this simplifies to the excess of total assets over total liabilities.
- **Prudent Person Principle:** The rules governing how investments are to be made in line with the Solvency II requirements – Article 132 of the Solvency II Directive and associated regulations and guidance.

- **Reconciliation Reserve:** A reporting item to reconcile the Solvency II Own Funds and the accounting balance sheet.
- **Risk-Free Rate:** The term structure rates used to discount cashflows in the calculation of the Best Estimate Liability. The rates are derived from interest rate swaps adjusted for credit risk.
- **Risk Margin:** The measure added to the Best Estimate Liability to reflect the cost of holding capital over a period of run-off of the liabilities to ensure that the value of Technical Provisions meets the amount that an independent organisation would require to take over and meet all the obligations arising from the existing business.
- **Solvency II:** The EU legislative regime codified in the Solvency II Directive (2009/138/EC) as amended by the Omnibus II Directive (2014/51/EU). Solvency II applies to all member states of the EU and has as its aim, harmonisation of the insurance industry.
- **SCR / Solvency Capital Requirement:** The term for regulatory capital on a Pillar 1 basis. The SCR is calculated on a going concern basis and represents the amount of capital that is required to withstand a 1 in 200 year event over a 1 year time horizon. The SCR can be calculated either in accordance with the Standard Formula following prescribed rules or by an internal model which is developed by the organisation (requires regulatory approval).
- **Standard Formula:** The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used. The high level structure of the Standard Formula is set out in the Solvency II Directive – further details of the formula are set out in the associated regulations.
- **Surplus Capital:** The excess of Own Funds over the SCR.
- **Technical Provisions:** The sum of the Best Estimate Liability and Risk Margin for existing business. The Technical Provisions are set at a level that an organisation would need to pay to another insurance organisation in order for them to fully accept the transfer of the related insurance obligations.
- **Transact:** The investment wrap platform operated by IFAL.

Please note that alternative definitions are used in Appendix 1, in line with Prudential Regulation Authority (“PRA”) guidance on the completion of the QRTs.

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 2018 ("the reporting date") and is presented to the ILUK Board for their review, challenge and approval.

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

- Solvency II Directive [2009/138/EC] (as amended by Omnibus II)
- Delegated Regulation [EU 2015/35]
- Guidelines on Reporting and Public Disclosure

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

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 £16,177k after tax. The profit for the previous year was £13,261k after tax.

Over the reporting period ILUK's business has continued to grow. This reflects both an increase in the value of policyholders' asset portfolios (Funds Under Direction) which increased to £13,081,579k from £10,697,989k and an increase in net inflows over the reporting period to £1,920,518k from £1,762,749k.

ILUK's Own Funds in the Solvency II balance sheet were £182,244k (2017: £154,051k) at the reporting date. The regulatory capital requirement, the SCR, was £142,573k (2017: £134,906k) giving surplus funds of £39,672k (2017: £19,145k). 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, and dividends paid. These changes are explored further in sections D and E.

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

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

Going forward, ILUK expects its results to reflect the continued growth evidenced over the last reporting period.

A. Business and performance

A.1 Business

A.1.1 The Company

ILUK is a UK life insurance company. It is authorised to undertake long term insurance business by the 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

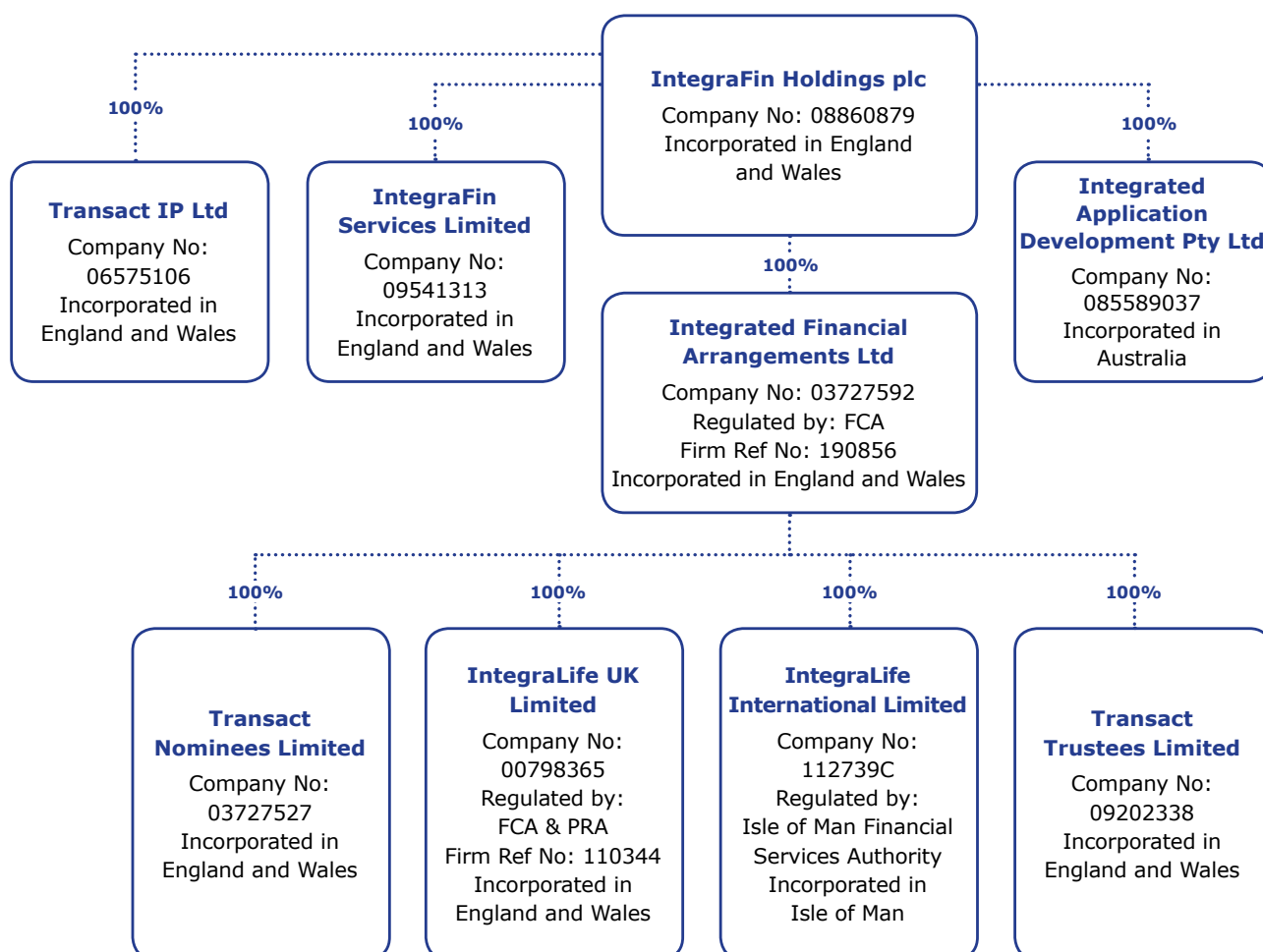
A.1.2 The Group

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

ILUK is a wholly owned subsidiary of Integrated Financial Arrangements Ltd ("IFAL"). IFAL is authorised in the UK by the FCA as an investment firm (IFPRU €125k limited licence firm). IFAL is a wholly owned subsidiary of 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 2018**



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, Hawthorne East, Victoria, 3123, Australia**.

During the reporting period, IntegraFin Holdings Limited became IntegraFin Holdings plc in February 2018 and listed on 2 March 2018.

A.1.3 ILUK's business purpose

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

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

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

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

A.1.4 Lines of business and geographical areas

All of ILUK's business is written in the line of business defined by the Solvency II rules, 'Index-linked and unit-linked insurance'. Over 99% of ILUK's business written over the reporting period was written in the UK.

A.1.5 ILUK's external auditor

ILUK's external auditors are:

KPMG Audit LLC

Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

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 Pension contribution tax relief

There is some speculation that a single rate for pension contribution tax relief may be introduced in the future, but given the current political climate, this may remain unresolved until after the UK is expected to leave the EU.

A.1.6.2 UK vote to leave the EU

The United Kingdom intends to withdraw from the European Union (EU) following the results of the June 2016 referendum. In March 2017, the Prime Minister invoked Article 50 of the Lisbon Treaty, the formal procedure for withdrawing and the UK is scheduled to leave the EU in March 2019. The terms of withdrawal have been negotiated with the EU, including the final withdrawal bill, a 21-month transition period and commitments on the rights of EU citizens in the UK and UK citizens living in the EU. Negotiators have also agreed a shorter statement on the UK's future relationship with the EU, including the type of trade deal the two parties want. The negotiated deal has prompted the resignation of multiple ministers in the UK Government, and it is unclear whether it will be approved by the UK Parliament.

Financial markets have become more volatile and sterling has depreciated significantly since the results of the referendum were announced.

ILUK mainly writes UK based business and so there is not expected to be any direct impact on business volumes. ILUK's main source of income is derived from annual management fees which are linked to the value of the unit-linked policies and so the increase in financial market volatility may potentially lead to more volatile earnings for ILUK.

A.1.6.3 External factors impacting inflows

Inflows of defined benefit transfers to both the Personal Pension and SIPP have declined following interest rate increases, increased regulatory focus and the impact of the increased cost of professional indemnity cover for advisers reducing the number of advisers active in the defined benefit transfer market.

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

The Investment Platform Market Study was initiated off the back of the asset management market study. It is significant for the Group as our response to the request for information involved the submission of data and information, in Q4 2017, which constituted a broad and in-depth disclosure of many aspects of both the Group's platform and wrap business and related activities. The Investment Platform Market Study interim report was published in July 2018 and sets out the FCA's provisional view on the way competition works in the investment platform market and how they would like the market to develop. The FCA is consulting on a range of proposed remedies and the final report, due Q1 2019, may result in their introduction i.e. any combination of the following: additional or amended rules, further guidance, proposed industry self-regulation e.g. a code of conduct, actions against specific firms, or further investigations by the FCA, the Competition and Markets Agency or other agencies. The Group has and continues to provide the FCA with feedback both directly and via the UK Platform Group. The direct or indirect impact on ILUK remains to be seen.

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)	2018	2017
Underwriting income		
Fee income	38,545	32,661
Change in deferred income liability	6,675	6,001
Other operating income	13,580	9,374*
Total underwriting income	58,800	48,036*
Underwriting expenses		
Cost of sales	(210)	(210)*
Change in deferred acquisition costs	(6,675)	(6,001)
Administrative expenses	(18,545)	(16,009)*
Change in provisions	(8,271)	(3,767)
Total underwriting expenses	(33,701)	(25,986)*
Underwriting profit (before tax)	25,099	22,050

* There have been a number of reclassifications compared to the equivalent table from the 2017 SFCR, in line with reclassifications within the IFRS statements. These changes are all presentational, and there is no impact on the underwriting profit.

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.

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 increase in provisions is principally due to the increase 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.

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

(£000)	2018	2017
Investment income	49	9
Investment return	10	(3)
Profit on investment activities	59	6

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. 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.

During 2018 Internal Audit performed an audit of ILUK's system of governance – including a review of ILUK's adherence to the applicable Solvency II requirements on systems of governance. The internal audit concluded that "overall, ILUK complies with the applicable Solvency II system of governance requirements." The internal audit report was presented to the Board of ILUK on 13 September 2018.

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:

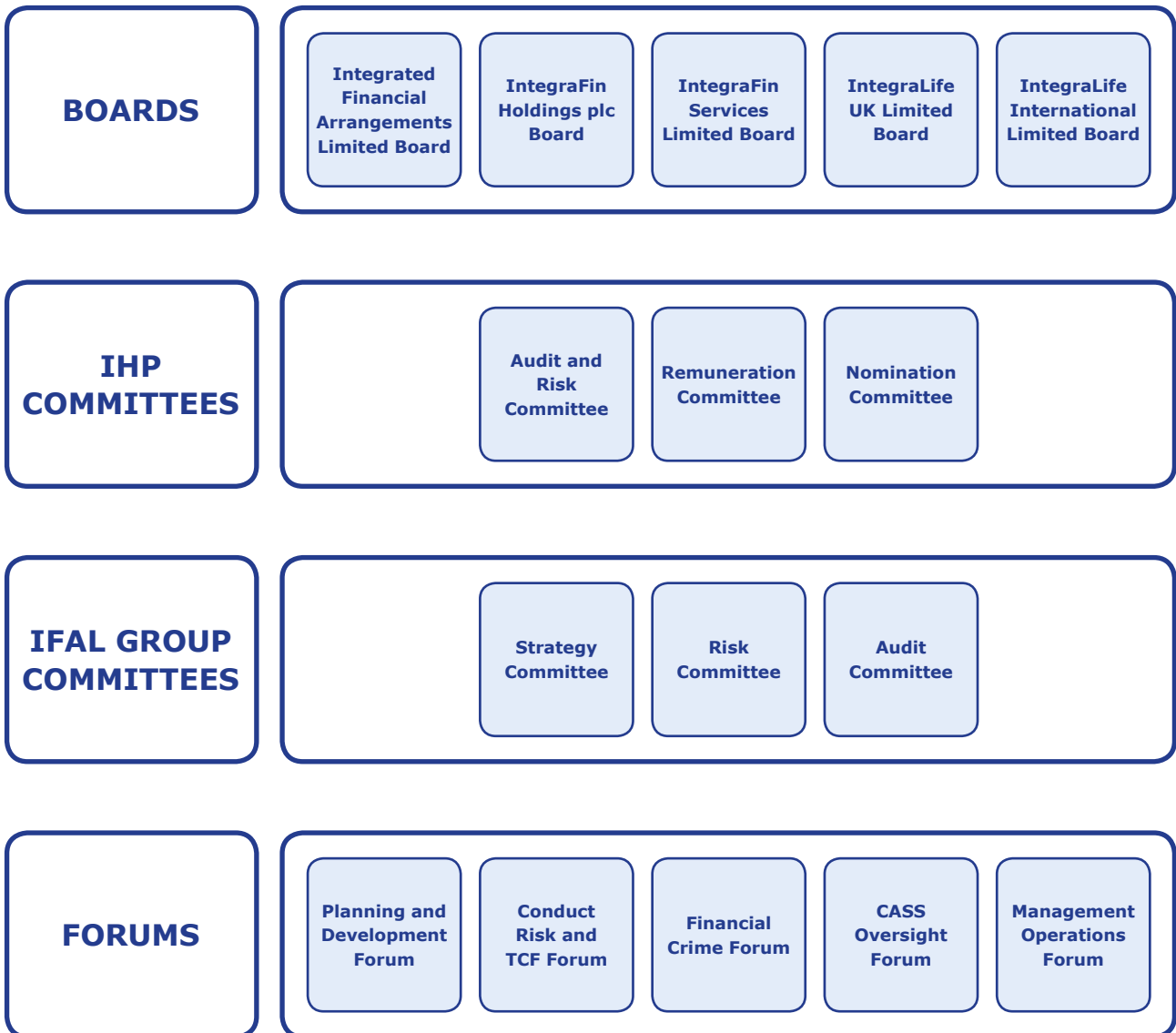
- IHP Audit and Risk Committee
- IHP Remuneration Committee
- IHP Nomination Committee
- IFAL Group Strategy Committee
- IFAL Group Risk Committee
- IFAL Group Audit Committee

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

Compliance Function

The Compliance Function is 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.

The Compliance Function maintains a Compliance Plan including a Specification 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 have access to sufficient information and to relevant individuals, including directors, employees and contractors of any entities to which the IntegraFin Group outsources its activities, in order to carry out its activities effectively.

Risk Management Function

The Risk Management Function is part of the second line of defence. It is responsible for facilitating and providing support to the 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 that risks are mitigated to acceptable levels by appropriately designed controls, that the controls operate effectively and in accordance with the documented procedures of the IntegraFin Group, and that there is an adequate process to ensure compliance with applicable laws and regulations.

Outsourcing Function

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

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

B.1.4 Material changes in the system of governance

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

B.1.5 Remuneration policy

The Remuneration Committee is established as a committee of the Board of Directors of IHP and its membership is comprised of independent non-executive directors from IHP's Board. 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 Chief Executive Officer. All employees' pay awards are in the form of regular salaries. In particular, no form of sales related commission is paid. The pay award and bonuses of the Chief Executive Officer are proposed by the Chair. These proposals are reviewed by the Group Counsel to ensure that they are in compliance with laws and regulations and the Group Director to ensure they do not encourage risk taking or misconduct. Their recommendations are considered by the Group's Remuneration Committee.

Historically, the bonus component of remuneration has accounted for around 20% of total remuneration. A target bonus is set annually by the Group. The bonus payable will be reduced from the target level if the Group's performance targets are not met. The resulting bonus remuneration is then payable to employees adjusted in line with their individual performance. A Share Incentive Plan (that meets HMRC rules) has been introduced and is open to all IntegraFin Group staff since IHP's listing in March 2018. Further, a Performance Share Plan for Senior Managers has been introduced.

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 £13,000k (2017: £10,000k) 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 for the use of the Transact platform.

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

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 £15,444k (2017: £13,331k) 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 within all companies within the IntegraFin Group, both individually and collectively. The IntegraFin Group has in place a Senior Manager Arrangements Policy which aims to:

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

Holders of Key Functions are Senior Managers 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, Actuarial and Outsourcing functions. A record of our Key Functions and the reasoning for their identification is maintained. This is reviewed at least annually or more frequently if there are any structural changes to the IntegraFin Group.

All Senior Managers are required to observe the applicable conduct standards as prescribed by the PRA and FCA. Any breaches of these standards must be reported to the appropriate regulator and could result in their approval to perform a Controlled Function or Senior Insurance Manager Function (to be replaced by the Senior Managers Certification Regime ("SMCR") from 10 December 2018) 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 their business objectives and the Overriding Business 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 at least on a quarterly basis. This report details 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 ILLUK Board for approval by the ILLUK 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 defines its Internal Control System as the collection of all activities, plans, attitudes, policies, processes and procedures designed to provide reasonable assurance that the following objectives are being met:

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

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

The Internal Control System is supported by having an IntegraFin Group structure that defines clear lines of authority, 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 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 on the Internal Audit Function's progress with completing the audit plan.

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

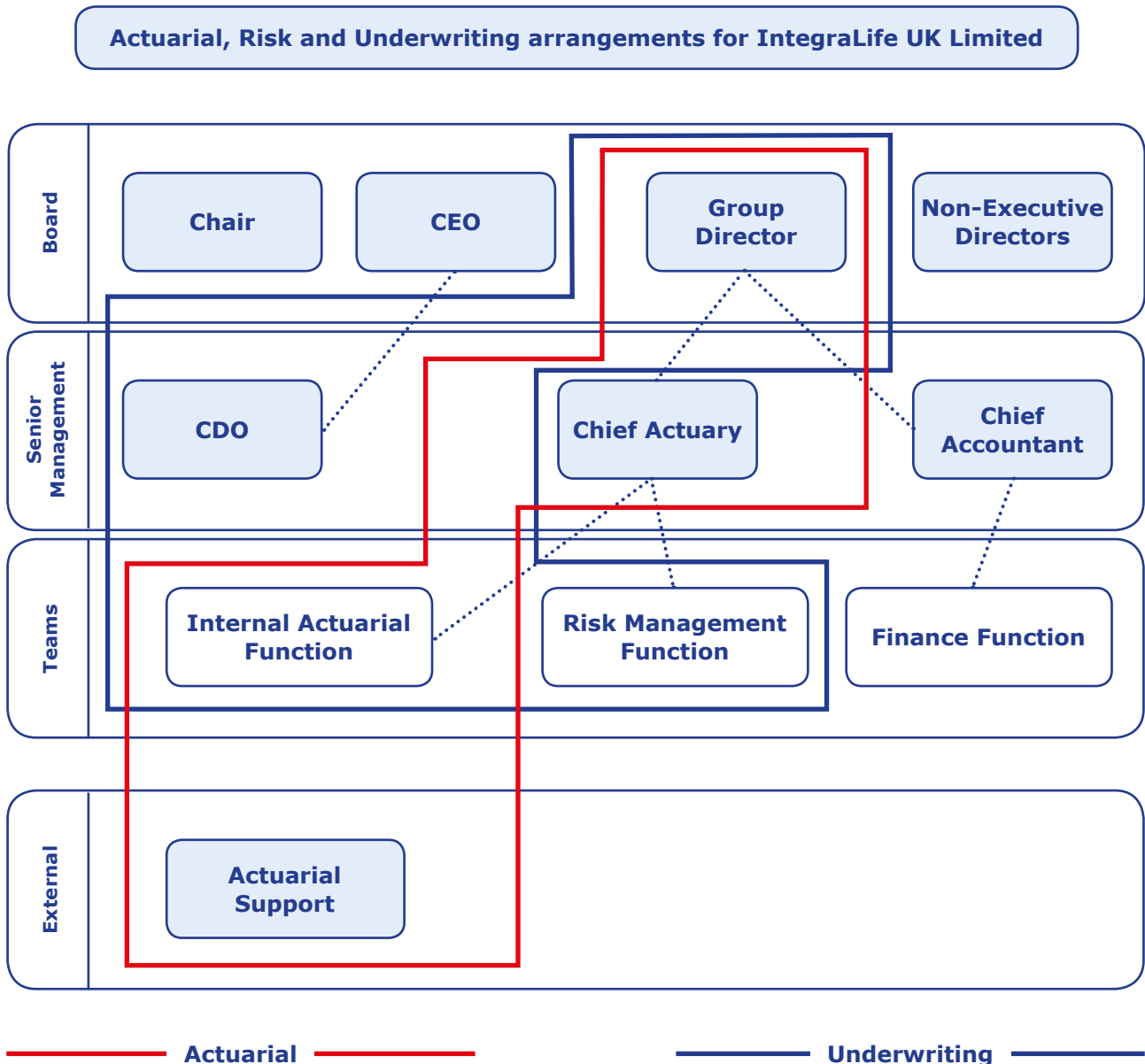
B.5.2 Independence of the Internal Audit Function

The Group Head of Internal Audit reports directly to the Chair of the IFAL Group Audit Committee, who is also Chair of the ILUK Board.

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

B.6 Actuarial function

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



The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries employed by 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.

Under SMCR, the Chief Actuary has taken the role of Key Function Holder for Actuarial from December 2018.

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 Insurance Managers and Key Function Holders, are provided to ILUK under the terms of an inter-company services agreement. ISL also provides under the same agreement, all operational services including systems access, office equipment and supplies, document management, printing, storage and destruction services. ISL sub-outsources the printing of certain insurance documentation including contract notes. 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 £13,081,579k (2017: £10,697,989k) 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 £18,755k (2017: £16,218k) (including cost of sales, but excluding the change in deferred acquisition costs).

[Mortality risk](#)

As at the reporting date ILUK was exposed to £943k (2017: £1,040k) 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.

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 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 £3,001k (2017: £2,935k). 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 July 2019, 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 fulfills 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

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 paragraph. This is because any credit default event in respect of these holdings will be borne by policyholders, both in terms of loss of value and loss of liquidity. However, there is a second order impact where future profits for ILUK are reduced in the event of a credit default event which affects funds held on behalf of policyholders.

Corporate assets and funds held on behalf of policyholders

As at the reporting date, the Company holds £47,480k (2017: £39,293k) of corporate cash at seven different UK banks, all of which have a Solvency II credit quality step of at least 3. The Company also holds £3,001k (2017: £2,935k) 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.

With regards to exposure to counterparty default risk in respect of funds held on behalf of policyholders, as at the reporting date, the Company holds £984,608k (2017: £987,623k) of cash across seven different UK banks, all of which have a Solvency II credit quality step of at least 3. The Company also holds £46,786k (2017: £28,883k) of term deposits across four different banks.

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

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

Counterparty default risk exposure to policyholders

The Company is due £4,192k (2017: £3,671k) from fee income owed by policyholders. Fees are paid monthly from policyholder funds, largely clearing this balance. A conservative bad debt provision of £80k (2017: £71k) is held for the fees that cannot be paid due to policyholders holding insufficient liquid assets.

The Company has no other debtors arising, due to the nature of its business, and the structure of the IFAL 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 90 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 £47,480k (2017: £39,293k) 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 £6k (2017: £217k). The future premiums are those in respect of the QSPs only and as such the value of EPIFP is not material with regards to liquidity risk.

C.5 Operational risk

Description of risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

This risk arises mainly from the Company’s regulatory requirements it needs to meet whilst administering its business and from the third party administrator arrangements with ISL and IFAL.

Risk exposure and concentration of risk

The main operational risk categories as at the reporting date are IT infrastructure and Business Continuity Plan (“BCP”) failure risk, regulatory risk, operational process risk, financial process risk, information security risk (including exposures to cyber risk) and outsourcing risk.

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

Risk mitigation

The Company aims to minimise operational risk at all times through a strong and well-resourced control and operational structure. 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 an increasing degree of mitigation against the concentration of pensions business.

C.6.1.3 Reputational risk

Reputational risk is the risk that current and potential clients' desire to do business with the Company reduces due to our perception in the market place. IntegraFin Holdings Limited became IntegraFin Holdings plc in February 2018 and listed on 2 March 2018, increasing the Group's exposure to reputational risk. It should be noted that clients don't directly purchase policies from ILUK – they are provided as part of the Transact wrap service. Therefore the reputation of the Transact brand is where the risk lies.

Risk exposure

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

Risk mitigation

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

- Solvency: Each regulated company is expected to maintain regulatory solvency on a solo basis; this means that each regulated company assesses its own risks and allocates the appropriate capital against them, without any direct reliance on other companies within the IntegraFin Group.
- TPAs: There are agreements signed among the IntegraFin Group companies which provide a contractual framework in their relationship. These include clearly setting service levels and remedial approaches.
- Reputational management: The CEO and Group Chief Development Officer have received reputational crisis management training.
- BCP: To ensure operational continuity the IFAL Group has designed and regularly tests its BCP.
- Bank Account and Custodian Dashboard: A monthly MI pack produced by Risk Management designed to monitor all banks, custodians and term deposit financial institutions. It includes balances, credit ratings, credit quality steps and limits.

C.7 Any other information

C.7.1 Stress tests and scenario analyses

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

- Market downturn
- Mass lapse
- Increase in outflows
- Decrease in inflows

- One-off spikes in operating costs
- Reduction in fee income
- Increases in future expenses.

C.7.2 Stressed projection methodology and assumptions

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

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

Table: Assumptions underlying the stress scenarios

Risk factor	Stress applied to base case assumption
Market downturn	A market fall of 15% over a one month period followed by a further market fall of 15% over a one month period in one years' time.
Mass lapse	30% drop in the number of clients over three months.
Increase in outflows	35% increase in outflow rates for up to twelve months.
Decrease in inflows	20% decrease in inflow rates for twelve months followed by a further 20% decrease in inflow rates for twelve months.
One-off spikes in operating costs	Between a £100k to £1.5m one-off spike in operating costs depending on the underlying stress scenario.
Reduction in fee income	Reduction in fees by 10%.
Increases in future expenses	Increase expense inflation assumptions by an additive 1% for all future years.

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.

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 2018.

Sensitivity	Description	SCR coverage ratio	Impact on SCR coverage ratio
Base	-	128%	-
Interest rate up	+1% shift across yield curve	129%	+1%
Interest rate down	-1% shift across yield curve	126%	(1%)
Lapses down	1% reduction in lapse rates (transfers out/ full surrenders only)	123%	(5%)
Expenses up	10% increase in expense assumptions	124%	(4%)
Expense inflation up	1% increase in assumption	123%	(5%)
Credit spread	All Credit Quality Steps down 1 step	126%	(2%)
Equity stress	Symmetric adjustment increased by 1%	127%	(1%)

The sensitivity results demonstrate that the SCR coverage ratio is relatively insensitive to small changes in interest rates, credit spread and equity stress parameters. With regards to lapse, expense and expense inflation 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.

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)	2018	2017
Assets held for index-linked and unit-linked contracts	13,081,579	10,697,989
Investments (other than assets held for index-linked and unit-linked contracts)	3,001	2,935
Cash and cash equivalents	47,480	39,293
Receivables (trade, not insurance)	6,614	4,164
Total assets	13,138,675	10,744,381

D.1.2 Asset valuation approach

The primary approach is to value assets using quoted market prices in active markets. There are no differences between the asset valuation method used in ILUK's IFRS financial statements and the Solvency II valuation other than that Deferred Acquisition Costs and prepayments, which are included in the assets of the IFRS financial statements, are excluded from the Solvency II valuation.

D.1.2.1 Listed securities

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

D.1.2.2 Collective Investment Schemes

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

D.1.2.3 Unlisted securities

The Group has a policy of not allowing unlisted securities on the platform. ILUK has a few historical holdings that predate this policy which are valued in line with The Taxation of Chargeable Gains Act 1992, section 273. Where a security is listed at the point it is accepted on the platform, but is subsequently delisted, then the asset will be valued in one of three ways. These are using the matched bargain facility where possible; the last known price until a price is released; or audited accounts from which a price can be derived.

D.1.2.4 Impairment of asset value

Assets for which a price is not available at the expected frequency are considered stale and may be adjusted in line with the documented Asset Servicing and Corporate Accounting Stale Pricing procedure. In addition, a 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.

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)	2018	2017
Best Estimate Liability	12,830,257	10,442,753
Risk Margin	59,091	96,933
Technical Provisions	12,889,349	10,539,685

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 1.6% p.a., 1.7% p.a. and 1.7% 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.)	
	2018	2017
Onshore bonds	7.3%	7.2%
Qualifying Savings Plans	5.5%	5.4%
Pensions	7.6%	6.4%

Onshore bonds and QSP lapse rates have remained broadly stable.

Pension lapse assumptions have increased which is mainly due to improvements in the methodology used for deriving the lapse rates, moving to a more granular analysis of the policy experience.

The change in lapse assumptions has led to a decrease in the SCR, but an increase in SCR coverage.

D.2.3.3 Expense assumptions

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

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

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	2018	2017
Per policy	£60	£23
Variable (% of Funds Under Direction)	4.5bps	7.5bps

Across the book of business, the shift in expense assumptions from variable to per policy represents an overall reduction in expense assumptions used in the calculation of the Technical Provisions.

D.2.3.4 Mortality assumptions

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

The tables below show the mortality assumptions for the reporting date.

Age (x)	Mortality table	2018		2017	
		Male adjustment	Female adjustment	Male adjustment	Female adjustment
0 <= x < 17	ELT17 (2018) ELT16 (2017)	100%	100%	100%	100%
17 <=x < 76	AMC00 / AFC00	59%	56%	54%	54%
x >= 76	AMC00 / AFC00	65%	84%	68%	85%

Mortality assumptions have remained broadly stable.

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%. This represents a change in methodology from the previous year when the Risk Margin included all components of market risk except interest rate risk as non-hedgeable.

The SCR^{RM} is recalculated each year over a projection period of 60 years (the point at which 99.9% of the in-force funds under direction have run-off). No other simplifications have been used in the calculation.

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

D.2.7.1 Best Estimate Liability

Solvency II requires that the Best Estimate Liability component of the Technical Provisions is calculated using best estimate assumptions and that all future cashflows are included. These future cashflows include future income generated on the existing business and the expenses of administering the policies. This generates a significant positive result (reduction in the BEL) for which credit is not taken in the IFRS financial statements.

D.2.7.2 Risk Margin

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

D.3 Other liabilities

Other liabilities are valued on an IFRS basis and comprise deferred tax liabilities of £43,034k (2017: £35,921k) and other payables of £21,449k (2017: £14,724k). 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 income liabilities in the IFRS financial statements are excluded from the Solvency II valuation.

D.4 Alternative methods for valuation

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

D.5 Any other information

All relevant and material items are covered in previous sections.

E. Capital management

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

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

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

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

E.1 Own funds

E.1.1 Structure of own funds

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

Table: Own Funds

(£000)	2018	2017
Total Assets	13,138,675	10,744,381
Technical Provisions	12,889,349	10,539,685
Other Liabilities	64,482	50,645
Sub-ordinated Liabilities in Basic Own Funds	-	-
Total Liabilities	12,953,831	10,590,330
Excess of Assets over Liabilities	184,844	154,051
Subordinated Liabilities	-	-
Foreseeable Dividends	2,600	-
Total Basic Own Funds	182,244	154,051
Ancillary Own Funds	-	-
Total Own Funds	182,244	154,051

Table: Analysis of Change of Own Funds

(£000)	
2017 Own Funds	154,051
VIF and Risk Margin	33,927
Non linked assets	5,690
Tax liabilities	(1,711)
Deferred tax liability	(7,113)
Foreseeable dividends	(2,600)
2018 Own Funds	182,244

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

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 2018	182,244	–	–
30 September 2017	154,051	–	–

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)	2018	2017	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	180,544	152,351	Reconciliation between IFRS accounts and Solvency II balance sheet

Note that foreseeable dividends are excluded from the calculation of Own Funds.

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)	2018	2017
IFRS Equity	24,064	20,887
Remove Deferred Acquisition Costs and Deferred Income Liabilities	0	0
Remove prepayments	(987)	0
Add impact of using Solvency II best estimate assumptions in the BEL	251,322	255,236
Deduct Solvency II Risk Margin	(59,091)	(96,933)
Deduct net tax liability on BEL and Risk Margin	(30,939)	(25,612)
Add deferred tax on deferred acquisition costs	475	473
Deduct foreseeable dividends	(2,600)	0
Solvency II Own Funds	182,244	154,051

E.1.5 Distributions to shareholders

Over the reporting period ILUK paid dividends totalling £13,000k (2017: £10,000k) to its parent company, IFAL.

E.1.6 Any other information

ILUK has no Ancillary Own Funds.

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

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

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

Table: Regulatory Standard Formula Results

(£000)	Solvency Capital Requirement	
	2018	2017
Market risk	103,777	87,890
Life underwriting risk	106,516	107,978
Counterparty default risk	2,556	8,851
Diversification	(45,764)	(46,371)
Basic SCR	167,086	158,348
Loss absorbing capacity of Technical Provisions	-	-
Loss absorbing capacity of deferred taxes	(27,213)	(25,759)
Operational risk	2,700	2,317
Solvency capital requirement excluding capital add-on	142,573	134,906
Capital add-on already set	-	-
Solvency Capital Requirement	142,573	134,906
Own Funds	182,244	154,051
Surplus Capital	39,672	19,145

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 increase in the SCR is driven by investment growth on existing business, new business, and changes in lapse rate and expense assumptions.

Minimum Capital Requirement Results

The Minimum Capital Requirement ("MCR") is £64,158k (2017: £60,708k) as at the reporting date. The MCR represents an absolute minimum level of required capital below which supervisory intervention will automatically be triggered.

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

(£000)	2018	2017
Linear MCR	89,988	73,279
SCR	142,573	134,906
MCR cap	64,158	60,708
MCR floor	35,643	33,726
Combined MCR	64,158	60,708
Absolute floor of the MCR	3,251	3,332

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

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

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

E.4 Differences between the Standard Formula and any internal model used

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

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

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

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

E.6 Any other information

All relevant and material items are covered in previous sections.

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

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

We are satisfied that:

- a.** throughout the financial year in question, ILUK has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer, and
- b.** it is reasonable to believe that, at the date of the publication of the SFCR, ILUK has continued so to comply, and will continue so to comply in future.

A handwritten signature in black ink, appearing to read 'Ian Taylor', is written above a large, irregular, hand-drawn loop that serves as a signature mark.

Ian Taylor

Chief Executive Officer

Date: 17 January 2019

Appendix 1 – SFCR Templates

S.02.01.02

Balance sheet

Assets

	Solvency II value
	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
Property (other than for own use)	R0080
Holdings in related undertakings, including participations	R0090
Equities	R0100
Equities – listed	R0110
Equities – unlisted	R0120
Bonds	R0130
Government Bonds	R0140
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
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
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
Any other assets, not elsewhere shown	R0420
Total assets	R0500

S.02.01.02

Balance sheet

	Solvency II value	
	C0010	
Liabilities		
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	12,889,349
TP calculated as a whole	R0700	13,081,579
Best Estimate	R0710	-251,322
Risk margin	R0720	59,091
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	43,034
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	21,448
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	12,953,831
Excess of assets over liabilities	R1000	184,844

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	
Premiums written										
Gross	R1410			2,615,248					2,615,248	
Reinsurers' share	R1420									
Net	R1500			2,615,248					2,615,248	
Premiums earned										
Gross	R1510			2,615,248					2,615,248	
Reinsurers' share	R1520									
Net	R1600			2,615,248					2,615,248	
Claims incurred										
Gross	R1610			694,730					694,730	
Reinsurers' share	R1620									
Net	R1700			694,730					694,730	
Changes in other technical provisions										
Gross	R1710									
Reinsurers' share	R1720									
Net	R1800									
Expenses incurred	R1900			18,755					18,755	
Other expenses	R2500									
Total expenses	R2600								18,755	

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	2,609,931						2,609,931
Reinsurers' share	R1420							
Net	R1500	2,609,931						2,609,931
Premiums earned								
Gross	R1510	2,609,931						2,609,931
Reinsurers' share	R1520							
Net	R1600	2,609,931						2,609,931
Claims incurred								
Gross	R1610	692,398						692,398
Reinsurers' share	R1620							
Net	R1700	692,398						692,398
Changes in other technical provisions								
Gross	R1710							
Reinsurers' share	R1720							
Net	R1800							
Expenses incurred	R1900	18,755						18,755
Other expenses	R2500							
Total expenses	R2600							18,755

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)		
		C0020	C0030	C0040	C0050				C0060	C0070
R0010		13,081,579								13,081,579
R0020										
R0030			-251,322							-251,322
R0080										
R0090			-251,322							-251,322
R0100		59,091								59,091
R0110										
R0120										
R0130										
R0200		12,889,349								12,889,349

Technical provisions calculated as a whole

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

Technical provisions calculated as a sum of BE and RM
Best Estimate
Gross Best Estimate

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance/SPV and Finite Re-total

Risk margin
**Amount of the transitional on
Technical Provisions**

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions – total

S.23.01.01

Own funds**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)

Share premium account related to ordinary share capital

Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings

Subordinated mutual member accounts

Surplus funds

Preference shares

Share premium account related to preference shares

Reconciliation reserve

Subordinated liabilities

An amount equal to the value of net deferred tax assets

Other own fund items approved by the supervisory authority as basic own funds not specified above

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

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand

A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

Total ancillary own funds

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	1,000	1,000			
R0030	700	700			
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	180,544	180,544			
R0140					
R0160					
R0180					
R0220					
R0230					
R0290	182,244	182,244			
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					

S.23.01.01

Own funds

Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

R0500	182,244	182,244		
R0510	182,244	182,244		
R0540	182,244	182,244		
R0550	182,244	182,244		
R0580	142,573			
R0600	64,158			
R0620	128%			
R0640	284%			

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) – Life business

Expected profits included in future premiums (EPIFP) – Non-life business

Total Expected profits included in future premiums (EPIFP)

	C0060	
R0700	184,844	
R0710		
R0720	2,600	
R0730	1,700	
R0740		
R0760	180,544	
R0770	6	
R0780		
R0790	6	

S.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

Market risk

Counterparty default risk

Life underwriting risk

Health underwriting risk

Non-life underwriting risk

Diversification

Intangible asset risk

Basic Solvency Capital Requirement**Calculation of Solvency Capital Requirement**

Operational risk

Loss-absorbing capacity of technical provisions

Loss-absorbing capacity of deferred taxes

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency Capital Requirement excluding capital add-on

Capital add-on already set

Solvency capital requirement**Other information on SCR**

Capital requirement for duration-based equity risk sub-module

Total amount of Notional Solvency Capital Requirements for remaining part

Total amount of Notional Solvency Capital Requirements for ring fenced funds

Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010	103,777		
R0020	2,556		
R0030	106,516		
R0040			
R0050			
R0060	-45,764		
R0070			
R0100	167,086		
	C0100		
R0130	2,700		
R0140			
R0150	-27,213		
R0160			
R0200	142,573		
R0210			
R0220	142,573		
R0400			
R0410			
R0420			
R0430			
R0440			

S.28.01.01

Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity**Linear formula component for non-life insurance and reinsurance obligations**

MCR _{NL} Result	R0010	C0010	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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

MCR _L Result	R0200	C0040	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation – guaranteed benefits			R0210	
Obligations with profit participation – future discretionary benefits			R0220	
Index-linked and unit-linked insurance obligations			R0230	12,830,257
Other life (re)insurance and health (re)insurance obligations			R0240	
Total capital at risk for all life (re)insurance obligations			R0250	252,332

Overall MCR calculation

	C0070
Linear MCR	R0300 89,988
SCR	R0310 142,573
MCR cap	R0320 64,158
MCR floor	R0330 35,643
Combined MCR	R0340 64,158
Absolute floor of the MCR	R0350 3,251
	C0070
Minimum Capital Requirement	R0400 64,158



M135 Version (3) January 2019

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

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

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

A member of the Integrated Financial Arrangements Ltd group of companies



KPMG Audit LLC

Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

Telephone +44 (0)1624 681010
Fax +44 (0)1624 681098
Internet www.kpmg.co.im

AM Audits
Bank of England
Threadneedle Street
London
United Kingdom
EC2R 8AH

Our ref NQ/BT/DH

22 January 2019

Dear Sirs

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 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 September 2018, ('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 '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').

The Statements and Templates not examined by us and the Responsibility Statement are collectively referred to as 'Other Information'.

In our opinion, the information in the relevant elements of the Solvency and Financial Condition Report of the Company as at 30 September 2018 is prepared, in all material respects, in

accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 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.

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

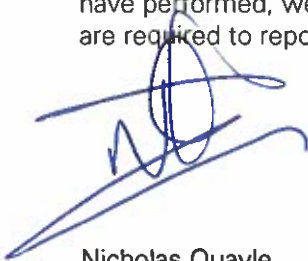
It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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
IM99 1HN



AM Audits, Bank of England

22 January 2019

CC:

The Directors
IntegraLife UK Limited
29 Clement's Lane
London
United Kingdom
EC4N 7AE