

IntegraLife UK Limited

Directors' report and financial statements

Registered number 798365

For the year ended 30 September 2006



IntegraLife UK Limited

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IntegraLife UK Limited

Directors' Report

The Directors present their annual report, together with the audited financial statements for the year ended 30 September 2006.

Principal activity

The principal activity of the Company is the transaction of ordinary long term insurance business within the United Kingdom through the Transact Personal Pension, Executive Pension and Section 32 Buy Out Bond (the "Transact business"). Marketing is performed by Integrated Financial Arrangements plc, operator of the "Transact" dealing platform. Funds under management for the Transact business increased by £555.9m to £1,031.1m at 30 September 2006.

Dividend

The Directors have declared an interim dividend of £135,497 (2005: nil). No final dividend has been proposed.

Directors and their interests

The Directors who held office during the year or who were appointed subsequent to the year end are set out below. They and their families had no beneficial interest in the shares of the Company throughout the year.

M Howard
I Taylor
G Beevers

Non-Executive

D Harrison
P Nield

According to the Register of Directors' Interests, no rights to subscribe for shares or options in the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Post balance sheet event

On 1 October 2006, ownership of the business changed from Michael Platt to Integrated Financial Arrangements Plc, a company incorporated in England.

Directors' Report (continued)

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. In addition, the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors

Our Auditors, KPMG Audit LLC, being eligible, have indicated their willingness to remain in office in accordance with section 385 of the Companies Act 1985.

By Order of the Board



A E Bodkin
Secretary

Domain House
5-7 Singer Street
London
EC2A 4BQ

IntegraLife UK Limited

Report of the Independent Auditors, KPMG Audit LLC, to the members of IntegraLife UK Limited

We have audited the financial statements of IntegraLife UK Limited for the year ended 30 September 2006 which comprise the Technical Account – Long Term Business, the Non-Technical Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities on page 3 the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company is not disclosed.

We read the Directors' Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

IntegraLife UK Limited

**Report of the Independent Auditors, KPMG Audit LLC, to the members of IntegraLife UK Limited
(continued)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit LLC

28 November 2006

KPMG Audit LLC
*Chartered Accountants
Registered Auditors*

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

IntegraLife UK Limited
Technical Account – Long Term Business
for the year ended 30 September 2006

		2006	15 months
		2006	2005
	Note	£000	£000
TECHNICAL INCOME			
Gross premiums written - continuing operations	3	<u>606,831</u>	<u>276,728</u>
Earned premiums, net of reinsurance		606,831	276,728
Investment income	4	16,398	10,529
Realised gains on investments	1	20,055	5,800
Unrealised gains on investments	1	<u>33,559</u>	<u>40,914</u>
		<u>70,012</u>	<u>57,243</u>
		676,843	333,971
CLAIMS INCURRED			
Claims paid - gross amount	1	<u>(104,305)</u>	<u>(43,830)</u>
		<u>(104,305)</u>	<u>(43,830)</u>
Claims incurred		<u>(104,305)</u>	<u>(43,830)</u>
CHANGE IN OTHER TECHNICAL PROVISION			
Long term business provisions – gross amount	12	(2)	(152)
Provision for linked liabilities, net of reinsurance	12	<u>(555,827)</u>	<u>(281,908)</u>
		<u>(555,829)</u>	<u>(282,060)</u>
		(555,829)	(282,060)
TECHNICAL CHARGES			
Investment expenses and charges		<u>(16,710)</u>	<u>(8,233)</u>
		<u>(16,710)</u>	<u>(8,233)</u>
Balance on the technical account			
- continuing operations		<u>(1)</u>	<u>(152)</u>
		<u>(1)</u>	<u>(152)</u>

IntegraLife UK Limited
Non-Technical Account
for the year ended 30 September 2006

		2006		15 months 2005	
	Note	£000	£000	£000	£000
Balance on the technical account					
- continuing operations		<u>(1)</u>		<u>(152)</u>	
			<u>(1)</u>		<u>(152)</u>
Balance on the technical account, before tax			(1)		(152)
Investment income	4	123		120	
Other income	4	492		-	
Other charges, including value adjustments		<u>(266)</u>		<u>(34)</u>	
			<u>349</u>		<u>86</u>
Profit/(loss) on ordinary activities before tax					
- continuing operations			348		(66)
Tax on profit on ordinary activities	6		<u>(86)</u>		<u>-</u>
Profit/(loss) for the year before appropriations			262		(66)
Dividends			<u>(135)</u>		<u>-</u>
Retained profit/(loss) for the period	10		<u>127</u>		<u>(66)</u>

There are no recognised gains or losses other than those reported above in the long term technical account and the non-technical account.

The notes on pages 10 to 18 form part of these financial statements.

The Directors consider that all results derive from continuing activities.

IntegraLife UK Limited
Balance Sheet
as at 30 September 2006

	Note	2006 £000	2005 £000
ASSETS			
Assets held to cover linked liabilities		1,031,074	475,248
Debtors			
Other debtors	8	522	-
Other assets			
Cash at bank and in hand	7	2,904	2,788
Total assets		1,034,500	478,036
LIABILITIES			
Capital and reserves			
Called up share capital	9	1,000	1,000
Share premium account	10	700	700
Subordinated loan	10	850	850
Profit and loss account	10	61	(66)
		2,611	2,484
Technical provisions			
Long term business provisions	12	154	152
Technical provision for linked liabilities	12	1,031,074	475,248
Creditors due within one year			
Other creditors	13	661	152
Total liabilities		1,034,500	478,036

The notes on pages 10 to 18 form part of these financial statements.

The financial statements were approved by the Board on 22.11.2006 and signed on its behalf by:


GRAHAM BEEVERS
Director


IAN TAYLOR
Director

IntegraLife UK Limited

Cash Flow Statement for the year ended 30 September 2006

	Note	2006 £000	£000	15 months 2005 £000	£000
Operating activities					
Net cash flow from operating activities	16a		(7)		118
Returns on investments and servicing of finance					
Investment income		123		120	
Net cash inflow from returns on investments and servicing of finance			123		120
Taxation					
Corporation tax paid			-		-
Acquisitions and disposals					
Net cash disposed of on transfer of business		-		(2,029)	
Net cash outflow from acquisitions and disposals			-		(2,029)
Equity dividends					
Equity dividends paid			-		-
Net cash inflow/(outflow) before financing			116		(1,791)
Financing					
Issue of share capital, net of expenses	9	-		1,700	
Proceeds from issue of subordinated loan	10	-		850	
Net cash inflow from financing			-		2,550
Net cash inflow for the year	16		116		759

In accordance with Financial Reporting Standard 1 (Cash flow statements) this statement shows only the cash flows of shareholders' funds.

The notes on pages 10 to 18 form part of these financial statements.

1. Accounting Policies

Basis of preparation

The accounts are prepared on the basis of the accounting policies set out below. The accounts have been prepared in compliance with the provisions relating to insurance companies of Section 255A of, and Schedule 9A to, the Companies Act 1985. In implementing the requirements the company has adopted a modified statutory solvency basis for determining technical provisions.

The accounts comply with applicable accounting standards. In addition, the company has complied with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

Premiums

Premiums are accounted for when units are created.

Claims

Death claims are recognised on the basis of notifications received. Maturities and annuity payments are recognised when due for payment. Surrenders are accounted for at the earlier of the date when paid or when the policy ceases to be included within the long term business provision and/or the technical provision for linked liabilities. Claims incurred and the provision for outstanding claims includes the direct and indirect cost of settlement. Full provision is made for the estimated cost of claims notified but not settled at the balance sheet date and for claims incurred but not reported.

Investment return

Investment income and expenses include dividends, interest, gains and losses on the realisation of investments and related expenses. All investment income is included on the date of receipt. Dividends are shown net of tax credits or overseas taxation where these are irrecoverable.

Realised gains and losses on investments are calculated as the difference between net sale proceeds and original cost. Movements in unrealised gains and losses on investments represent the difference between the value at the balance sheet date and original cost, or, if assets have previously been revalued, the value at the previous balance sheet date, together with the reversal of unrealised gains and losses previously recognised on asset disposals in the period. Gains and losses on investments backing the long term business provision or the technical provision for linked liabilities are reported in the technical account. Other gains and losses are reported in the non-technical account.

Investments

Assets held to cover the technical provisions for linked liabilities are valued consistently with the method of valuation of the liabilities. Depending on the individual internal linked fund, assets are valued at either bid price less selling expenses or at offer price plus buying expenses on the last pricing date of the financial year. Accrued income on fixed interest securities is excluded.

Other listed investments are valued at mid market price excluding accrued income on fixed interest holdings. Unit trust holdings are valued at bid price and deposits are stated at par.

**Notes to the Accounts (continued)
for the year ended 30 September 2006**

1. Accounting Policies (continued)

Long term business provision

The mathematical reserves are determined by the Actuary following the annual investigation of the long term business.

The long term business provision is determined by the Actuary and involves making modifications to the mathematical reserves calculated for solvency purposes in respect of any resilience, close-down and other contingency reserves required under the Financial Services Authority rules to demonstrate statutory solvency have been deducted.

Taxation

Tax is charged or credited on all taxable profits or losses arising for the accounting period. The taxation charge or credit is based on a method of assessing taxation for the long-term fund.

Foreign currencies

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

2. Transfer of Business

On 29 June 2004 the whole of the Company's business with the exception of:

- Policies, assets and liabilities relating to the Transact Personal Pension, the Transact Executive Pension and the Transact Section 32 Buy Out Bond (the "Transact Business")
- Assets totalling £2,058,900 in respect of the Minimum Guarantee Fund that the company is required to maintain as an authorised insurer
- Assets totalling £1,000
- Liabilities totalling £150,000 in respect of unclaimed shareholder monies

was transferred to the Company's parent undertaking, Reliance Mutual Insurance Society Limited. The transfer was effected by a Scheme under Part VII of the Financial Services and Markets Act 2000, approved by the High Court on 24 June 2004. No consideration was received for the transfer of business.

Notes to the Accounts (continued)
for the year ended 30 September 2006

2. Transfer of Business (continued)

Effects on balance sheet

The transfer of business was represented by net assets as follows:

	£000	£000
Investments	43,583	
Assets held to cover linked liabilities	17,562	
Reinsurers share of technical provisions	3,279	
Debtors	2,989	
Other assets	255	
Prepayments and accrued income	168	
		67,836
Fund for future appropriations	(4,476)	
Technical Provisions	(57,351)	
Creditors	(3,485)	
Accruals and deferred income	(327)	
		(65,639)
Net transfer of assets		2,197

Effects on technical account

	Trading 2004 £000	Effect of Transfer £000	Total £000
Earned premium, net of reinsurance	121,595	-	121,595
Investment income	6,552	-	6,552
Unrealised gains	12,286	-	12,286
Claims paid - gross amount	(18,085)	-	(18,085)
- reinsurers share	560	-	560
Change in provision for claims			
- gross amount	(1,098)	1,167	69
- reinsurers share	-	-	-
Change in other technical provisions			
long term technical provision			
- gross amount	973	38,735	39,708
- reinsurers share	636	(3,279)	(2,643)
technical provision for linked liabilities	(106,363)	17,449	(88,914)
Net operating expenses	(18,048)	-	(18,048)
Investment expenses and charges	(73)	-	(73)
Tax attributable to the long term business	(58)	-	(58)
Transfer to fund for future appropriations	50	4,476	4,526
Other technical charges	-	(60,745)	(60,745)
Balance on the technical account	(1,073)	(2,197)	(3,270)

IntegraLife UK Limited

Notes to the Accounts (continued) for the year ended 30 September 2006

3. Segmental reporting

For the year ended 30 September 2006, the operations of the company related entirely to direct insurance of investment linked pensions business, written by single premium in the United Kingdom.

4. Investment Income

	Technical Account		Non-Technical Account	
	15 months		15 months	
	2006	2005	2006	2005
	£000	£000	£000	£000
Investment income				
income from listed investments	6,444	1,140	-	-
income from other investments	9,954	9,389	123	120
Net gains on the realisation of investments	-	-	-	-
	<u>16,398</u>	<u>10,529</u>	<u>123</u>	<u>120</u>

Other Income

Other Income of £492,000 (2005 £nil) was received from Integrated Financial Arrangements plc as fees for the provision of the Company's licence for that Company's pension products. See note 21.

5. Remuneration of Directors

Directors' emoluments excluding pension contributions totalled £12,000 (2005: £6,000).

IntegraLife UK Limited

**Notes to the Accounts (continued)
for the year ended 30 September 2006**

6. Taxation

	2006 £000	15 months 2005 £000
(a) <u>Technical Account</u>		
UK Corporation tax at 20%	-	-
Deferred taxation	-	-
	-	-
(b) <u>Non Technical Account</u>		
UK Corporation tax at 30%	86	-
Effect of tax charged to technical account	-	-
	86	-
Tax Reconciliation		
Profit/(loss) on ordinary activities before tax	348	(66)
Current tax at 30% (2005: 30%)	106	(20)
Effects of:		
Difference between the effective and standard tax rate on the balance on the technical account	-	-
(Utilisation)/creation of tax losses	(20)	20
Deferred taxation	-	-
Tax on profit/(loss) on ordinary activities	86	-

7. Cash at bank and in hand

	2006 £000	2005 £000
Cash at bank and in hand	2,904	2,788
	2,904	2,788

IntegraLife UK Limited

Notes to the Accounts (continued) for the year ended 30 September 2006

8. Other debtors

	2006 £000	2005 £000
Amounts owed by related parties (note 15)	468	-
Other debtors and prepayments	54	-
	<u>522</u>	<u>-</u>

Amounts owed by related parties are unsecured, interest free and repayable on demand.

9. Called up share capital

	2006 £000	2005 £000
Authorised		
1,000,000 (2005: 1,000,000) ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
1,000,000 (2005: 1,000,000) ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Following the transfer of business as described in note 2, in the period ended 30 September 2005 the Company issued 1,000,000 ordinary shares of £1 at a premium of £0.70 per share, giving total consideration of £1,700,000.

10. Reserves

	Share Premium Account £000	Profit and loss account £000	Subordinated loan (see below) £000
At the beginning of the period	700	(66)	850
Retained profit for the period	<u>-</u>	<u>127</u>	<u>-</u>
At end of the period	<u>700</u>	<u>61</u>	<u>850</u>

On 14th January 2005, the Company entered into a subordinated loan agreement for £850,000 with its shareholder. The loan attracts interest of £100,000 per annum and is repayable after 5 years on written notice from the lender and on approval from the Financial Services Authority. The rights of the lender are subordinated in all respects to the rights of senior creditors.

IntegraLife UK Limited

Notes to the Accounts (continued) for the year ended 30 September 2006

11. Reconciliation of Movements in Shareholder's Funds

	2006 £000	2005 £000
Opening shareholder's funds	2,484	2,060
Transfer of business (note 2)	-	(2,060)
New shares issued (note 9)	-	1,700
Issue of subordinated loan agreement	-	850
Retained profit/(loss) for the financial year	127	(66)
	<hr/>	<hr/>
Closing shareholder's funds	2,611	2,484

12. Technical provisions

	Long term business provision £000	Technical provisions for linked liabilities £000
Gross amount		
At beginning of the year	152	475,248
Movement in the provision	<hr/> 2	<hr/> 555,827
At end of the year	<hr/> 154	<hr/> 1,031,075

The principal assumptions underlying the calculation of the long term business provision at 30 September 2006 were:

- a) Interest rate is assumed to be 3.75%
- b) Mortality for accrual portfolios is assumed to follow the AM92 ultimate and AF92 ultimate tables; Mortality for drawdown portfolios is assumed to follow 80% of IM92C20 ultimate and IF92C20 ultimate tables.

The principal assumptions underlying the calculation of the long term business provision at 30 September 2005 were:

- a) Interest rate was assumed to be 3%
- b) Mortality for accrual portfolios is assumed to follow the AM92 ultimate and AF92 ultimate tables; Mortality for drawdown portfolios is assumed to follow 80% of IM92C20 ultimate and IF92C20 ultimate tables.

IntegraLife UK Limited

Notes to the Accounts (continued) for the year ended 30 September 2006

13. Other creditors

	2006 £000	2005 £000
Taxation	86	-
Dividends	135	-
Other creditors	440	152
	<u>661</u>	<u>152</u>

14. Contingent liabilities – endowments and pension transfers and opt outs

There were no contingent liabilities or capital commitments at 30 September 2006 (2005: None).

15. Transactions with related parties

The company writes business through the Transact Personal Pension, Executive Pension and Section 32 Buy Out Bond, all of which are administered by Integrated Financial Arrangements plc. Integrated Financial Arrangements plc is a related party to IntegraLife UK Limited only in that they have common Directors. See also note 21.

On 14 January 2005, IntegraLife UK Limited and Integrated Financial Arrangements plc entered into a Pension Provider Business Agreement ("the agreement"). Under the terms of the agreement, in consideration of the promises made by IntegraLife UK Limited, Integrated Financial Arrangements plc undertook to pay IntegraLife UK Limited £100,000 per annum. Integrated Financial Arrangements plc will receive all the income generated by and pay all the commissions in relation to the schemes. Integrated Financial Arrangements plc will rebate to IntegraLife UK Limited all expenses incurred that are directly associated with the provision of the schemes. The agreement may be terminated by either party by giving six months written notice, such notice to expire not less than three years from the commencement date of the agreement.

During the year, the Company received £491,900 income from Integrated Financial Arrangements plc. There were no other material transactions between the Company and related parties during the year.

16. Cash flow statement

a. Reconciliation of operating profit/(loss) to net cash flow from operating activities

	2006 £000	15 months 2005 £000
Profit/(loss) on ordinary activities before tax	348	(66)
Investment income	(123)	(120)
Increase in general insurance technical provisions	(2)	(152)
Profits relating to long term business	-	152
Movements in other assets and liabilities	(230)	304
Net cash flow from operating activities	<u>(7)</u>	<u>118</u>

Notes to the Accounts (continued)
for the year ended 30 September 2006

16. Cash flow statement (continued)

b. Movement in cash, portfolio investments and financing

	2005 £000	Cash Flow £000	2006 £000
Net cash at bank and in hand	2,788	116	2,904
	<u>2,788</u>	<u>116</u>	<u>2,904</u>

17. Ultimate controlling party

The ultimate controlling party of the company at 30 September 2006 is Michael Platt, who owns 100% of the issued share capital. See also note 21.

18. Comparative period

The comparative period is for the 15 month period from 1 July 2004 to 30 September 2005.

19. Employee information

The average number of persons employed by the Company during the year was nil (2005: nil).

20. FRS 27 Life Assurance

The Company writes mainly unit linked business. Liabilities (including options and guarantees) are included in a prudent manner in accordance with local regulations.

Guarantees and options are not considered to be material to the Company's future cash flows. In addition they have largely been matched with suitable assets and there is no material exposure to market or interest rate changes. Provisions have been established using deterministic scenarios based on prudent assumptions.

No capital statement has been prepared as the total available capital resources available to the Company are equal to total shareholders' funds.

21. Post Balance sheet event

On 1 October 2006, ownership of the business changed from Michael Platt to Integrated Financial Arrangements Plc, a company incorporated in England.