Annual Report
and
Financial Statements

30 September 2017

IntegraLife UK Limited
Registered in England No. 798365

IntegraLife UK Limited
Financial Statements
For the year ended 30 September 2017

Contents **Page**

IntegraLife UK Limited
Company Information
For the year ended 30 September 2017

Executive Directors	M Howard (Resigned 1 October 2017) I A Taylor A Scott
Non-executive Directors	N Holden J McKenzie (Appointed 1 October 2017)
Company secretary	D G C Johnson
Auditor	KPMG Audit LLC Heritage Court 41 Athol Street Douglas Isle of Man IM99 1HN
Registered office	29 Clement's Lane London United Kingdom EC4N 7AE
	Registered in England No. 798365

IntegraLife UK Limited
Strategic Report
For the year ended 30 September 2017

The Directors present their Strategic Report for the year ended 30 September 2017.

Review of the business

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, Section 32 Buy Out Pension Bond, Onshore Bond and Qualifying Savings Plan ("the Transact business").

The Company is a 100% owned subsidiary of Integrated Financial Arrangements Ltd (IFAL) with the ultimate parent company being Integrafin Holdings Limited and is authorised to undertake long term insurance business by the Prudential Regulatory Authority (PRA). It is regulated by the PRA and the Financial Conduct Authority (FCA).

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

ILUK therefore, is complementary to the other tax efficient savings elements of the Transact 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 IntegraLife International Limited; a related party of ILUK and 100% subsidiary of IFAL.

Our goal is to provide a service that makes the process of financial planning easier for financial advisers and their clients. At the heart of this, but not restricted to this alone, is the provision of the wrap service called Transact.

Transact operates and continues to be improved in such a way that it provides a high quality and indispensable service for its clients. Whilst we will never put barriers in the way of clients who no longer wish to use Transact, our aim is to ensure they should never need or want to leave.

The business will always operate with flexibility and entrepreneurship while ensuring compliance with law and regulation. The business will always act fairly and honestly with all parties.

These principles align to IntegraFin Holdings Limited Group's (IntegraFin Group) strategy and as such they provide a framework for the way IntegraFin Group operates. This in turn sets the tone for IntegraFin Group's risk management framework.

Financial position at the end of the year
As at 30 September 2017, linked funds under direction (FUD) were £10,698m. During the year premiums increased by £990m to £2,330m and claims increased by £132m to £568m.

As at 30 September 2017, the Company had a total in force policy count of 58,229 pensions, 4,499 onshore bonds and 57 qualifying savings plans.

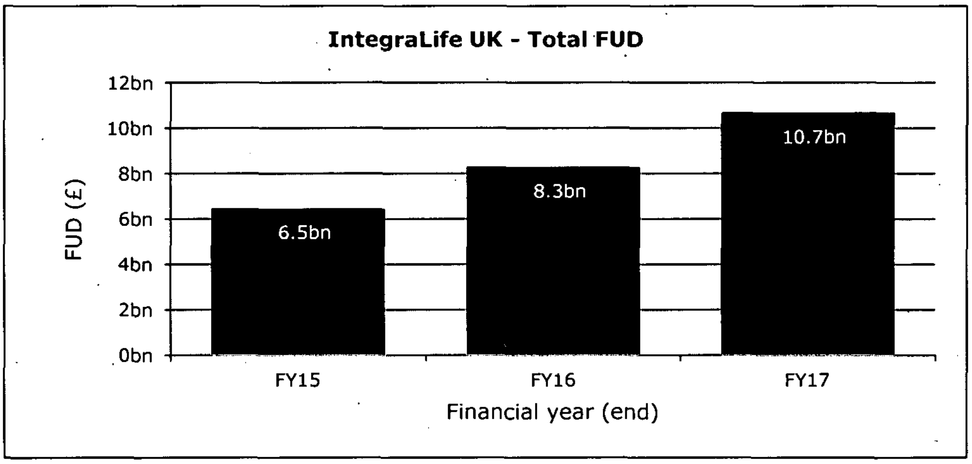
At year end the Company Statement of Financial Position was £10,781m (2016: £8,378m)

Financial results
The Company continues to grow as reflected by an increase in investment inflows which exceeds the increase in investment outflows payable, and the growth in FUD.

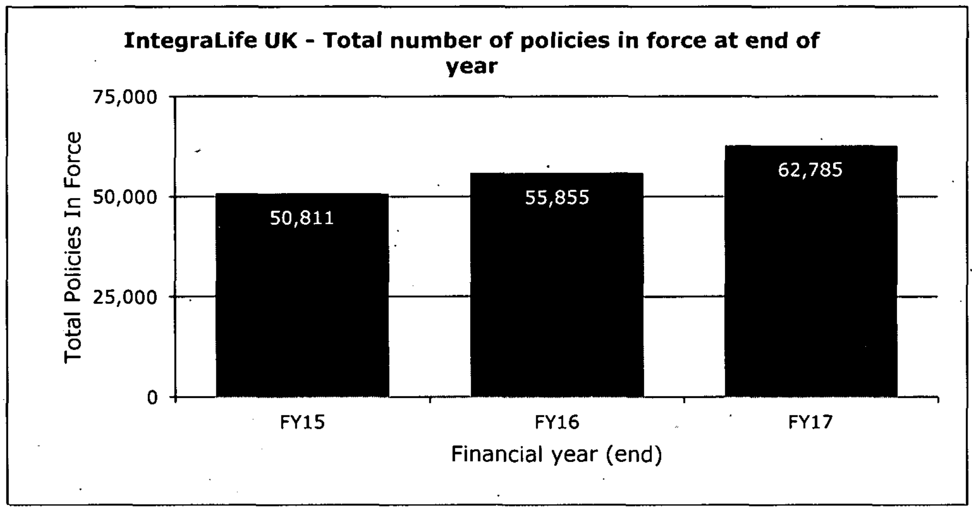
The Company recorded a profit of £13.2m after tax in the current year (2016: £10.1m).

Key performance indicators
The Board of ILUK (The Board) has set key performance indicators which it uses to measure performance of the Company. A summary of the key performance indicators illustrating the three year trends is shown in the charts below

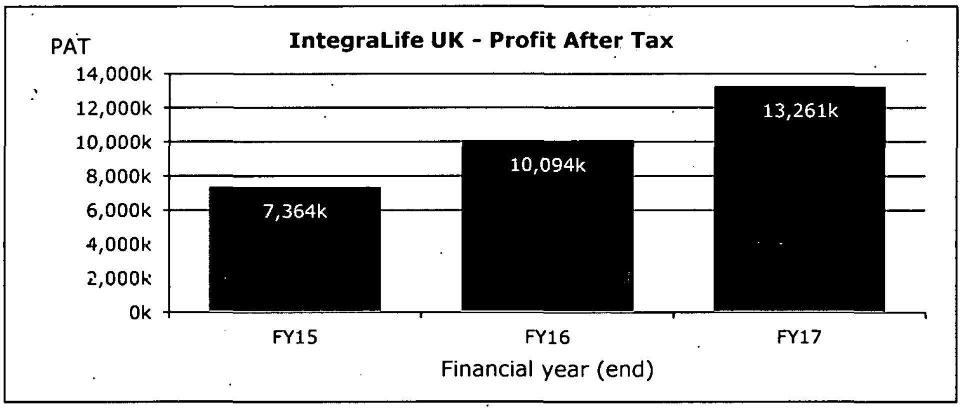
Funds under direction
FUD has steadily grown over the last three years. Strong market growth and record premiums during the period has driven this increase.



Policies in force at year end
The number of policies in force has shown stable growth. Average growth of 12% per annum has been achieved.



Earnings
Earnings continue to grow steadily over time demonstrating the continuing strength of the business.



Re-appointment of Auditors

In line with the EU audit regulations ILUK, as a Public Interest Entity, was required to put its external audit engagement to formal tender (as the engaged auditors had been in place for 10 years). Following a competitive tender process carried out in 2017 KPMG were re-appointed as the external auditor to ILUK. The tender process included assessing the auditor's audit approach and delivery, the composition of the engagement team, audit quality and fees and terms.

Risk and risk management

Overview

Risk management assists the Board in understanding its current and future risks and provides appropriate risk management information that is incorporated into its strategic decision making and business planning process. Risk management activities encompass all financial, strategic and operational risks that may prevent the Company from fulfilling its business objectives.

Our clients can access their investments on demand but, because we fully match the surrender value, movements in investment values as well as changes in mortality, morbidity and longevity rates have little impact on our ability to meet liabilities though they can have a second order impact on the emergence of profit. The Company has a prudent capital management approach and currently invests surplus shareholder assets in high quality, highly liquid, short-dated investments.

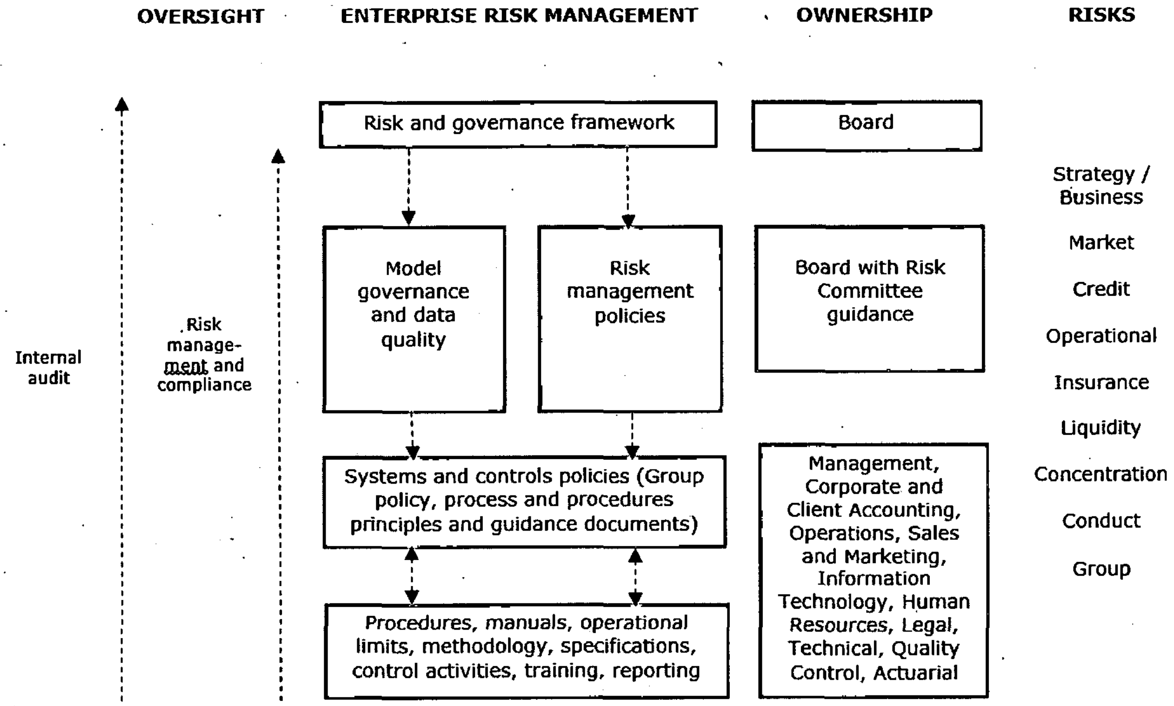
How risks are managed

The Risk Management Policy provides general guidelines for the design and implementation of the Risk Management Framework with the Board responsible for establishing the risk strategy and senior management responsible for its implementation. The Risk Management Policy is reviewed at least on an annual basis and all material changes to this policy are considered by the IFAL Group Risk Committee ("Risk Committee") and approved by the Board.

The Board, through its Risk Committee, is responsible for and provides oversight of the Company's Risk Management Framework and Own Risk and Solvency Assessment ("ORSA") process. We have established our framework with consideration of the Committee of Sponsoring Organisation of the Treadway Commission ("COSO") Integrated Framework Principles, providing a consistent approach to identification, assessment, mitigation and reporting of risks throughout the Company and the wider group. The ORSA is a key part of the framework and by applying the ORSA process the Company actively manages its current and future risks.

Risk and risk management *(continued)*

The Risk Management Framework is shown below:



Risk culture

Risk culture is defined by the following statements:

- The Company adopts a risk culture that has risk management informing its strategic decision making and business planning process.
- The Company pro-actively seeks to identify risks through its risk horizon scanning process.
- The Risk Committee assists the Board in fostering a culture within the Company that encourages good stewardship of risk and emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Company.
- The Company manages its risks within a robust and embedded risk culture. This is achieved by:
  - Continuous risk management training and communication at all levels;
  - Close relationship and coaching from the Risk Management function to all areas of the business; and
  - Incorporating risk management objectives in the job descriptions and roles and responsibilities.
- We believe training is essential to integrate the risk management culture into the business.

Risk and risk management *(continued)*

Risk appetite

Reviewed and approved at least annually by the Board the risk appetites define the degree of risk the Company is prepared to accept in pursuit of its strategic and operational objectives subject to meeting regulatory capital requirements.

The Company has generally adopted a conservative approach which is reflected in its risk appetite values and in the overall approach to risk management. The Company's actual risk exposures are assessed against risk appetite using a comprehensive set of indicators and reported to the Risk Committee. Risk assessments are addressed within this body and reported to the Board, to ensure the Company remains within its agreed risk appetite as defined by the Board.

The Company's risk preferences are articulated as follows:

- The Company ensures risks that are taken are aligned with our strategic aims and provide an acceptable level of return.
- The Company accepts certain business risks (e.g. lapse, market, expense, operational, new business) and ensures these are appropriately managed and mitigated if required.
- The Company has a preference for products with low capital requirements and without financial guarantees. Additionally, the Company has a preference for secondary market risk through charges determined based on clients' linked policy values. This is central to the Company's proposition and we accept the potential impact on financial performance.
- The Company has limited preference for life liability risks provided it fits within our strategic aims.
- The Company does not actively seek to take operational risk to generate returns. It accepts a level of operational risk that means the controls in place should prevent material losses, but should not excessively restrict business activities.
- The Company has no risk appetite for unfair client outcomes arising from systematic failures in its cultural outlook or in any element of the client life cycle.
- The Company has a zero risk appetite for material regulatory breaches.

Risk governance

The Risk Management Framework defines risk governance as the combination of processes and structures implemented by the Board in order to inform, direct, manage and monitor the activities of the Company towards the achievement of its objectives.

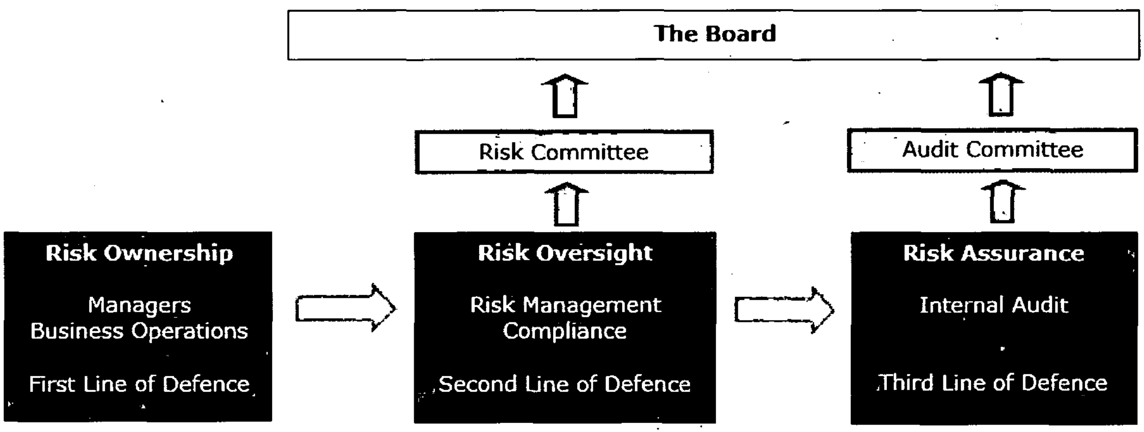
The Risk Committee is made up of independent Non-Executive Directors ("NEDs") and is responsible for reviewing the manner in which the Company implements, and monitors the adequacy of, the Risk Management Framework. The Risk Committee assists in fostering a culture that encourages good stewardship of risk and emphasises and demonstrates the benefits of a risk-based approach to management of the Company.

The Company implements a comprehensive "top-down" and "bottom-up" approach to managing risks through regular monitoring (including horizon scanning) and reporting in conjunction with senior management and risk owners. Risk Management reports to the Risk Committee, on at least a quarterly basis, information and analysis on the key risks the Company faces (including forward looking risks), solvency capital requirements and comparison against risk appetite.

For risk management to be effective it is important that the roles and responsibilities of all those involved are clearly defined. Accordingly the Risk Management Framework is designed along the 'three lines of defence' model (illustrated below) which aims to ensure at least three stages of oversight to ensure that the Company operates within the risk appetite defined by the Risk Committee and approved by the Board.

Risk and risk management *(continued)*

The "Three Lines of Defence" Risk Governance Model of ILUK



The first line of defence is its business departments which have responsibility for managing and controlling their risks in accordance with agreed risk appetites through the implementation of a sound set of processes and controls.

Responsibility for risk management resides at all levels within the Company's business lines, from the senior management team to department and team managers. All staff members are accountable for managing risks within the business areas for which they are responsible, ensuring compliance with prescribed company plans, policies and prevailing regulatory and legislative requirements.

The business lines are also responsible for complying with the policies and standards which comprise the Risk Management Framework. Current key risks and issues facing the Company are considered by the management team, with each key risk owned by the member of the management team who is responsible for the strategic management of that risk.

The second line of defence comprises of two functions: the Risk Management function and the Compliance function.

The Risk Management function is responsible for co-ordinating all the risk management activities within the business. This includes the development, maintenance and enhancement of the Risk Management Policy and Framework, as well as Risk Management reporting. The Risk Management function provides regular risk reports to the Risk Committee, which is comprised solely of independent NEDs.

The Compliance function is primarily responsible for supporting the Company to ensure that its activities are conducted in accordance with all applicable regulatory requirements.

The third line of defence is the Internal Audit department, which provides independent assurance on the adequacy and effectiveness of the Company's risk management and major business process control arrangements. The Head of Internal Audit reports directly to the Chairman of the Audit Committee, which is comprised solely of independent NEDs.

Risk and risk management *(continued)*

Internal Audit conducts regular audits on the implementation and effectiveness of the Risk Management Policy and Framework across the business. The results of these audits are reported to the Audit Committee and the Board. The Board is satisfied that Internal Audit provides sufficient assurance about the Risk Management Policy and Framework.

Stress and scenario testing

Risk models are used as part of stress and scenario testing to determine the financial stability of the Company. This involves testing beyond normal operational capacity, often to a breaking point, in order to observe the outcomes and evaluate available management actions. The stress testing outcomes provide additional information to adjust the Company's strategy and business planning.

The Company carries out different types of testing:

- Sensitivity testing, where one risk factor is assumed to vary mildly and others are assumed to remain unchanged;
- Stress testing, where one risk factor is assumed to vary more severely and others are assumed to remain unchanged;
- Scenario testing, where a combination of risk factors are assumed to vary to generate an extreme but plausible event; and
- Reverse stress testing, where risk factors are assumed to be stressed to such an extent as to break the business model.

Viability statement

The Directors have assessed the Company's prospects by reference to the three-year planning period to September 2020 and have reasonable expectation that the Company will continue to operate and meet its liabilities as they fall due over the period of this assessment.

This is based on the Company's business plan and ORSA, which are produced on an annual basis covering a three year period. The assessments cover projected performance of the Company with regards to profitability, solvency and liquidity, including under stress and scenario tests. Assessments of the economic, regulatory and competitive environments are also included, as well as the current and potential future impact of the principal risks faced by the Company benchmarked against its risk appetite.

Principal risks and uncertainties

Due to the nature of the policies written by the Company, i.e. carrying limited mortality risks, its profitability arises primarily from charges on the assets held in the linked policies less the expenses of administering those policies. Thus, the predominant risk types arising from the Company's ORSA are lapse risk, expense risk, market risk and operational risk.

Risk and risk management *(continued)*

The Company seeks to limit its exposure to any other insurance and financial risks.

The following tables (split between financial and non-financial) describe the key risks of the Company with a summary description of how the Company manages and mitigates the risks:

Financial Risks	
Key risk description	**Management and controls**
Lapse risk – loss of future profits due to more clients than expected terminating policies.	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 stable and within historical norms.
Expense risk – administration costs exceed expense allowance.	Expense risk is mitigated through regular stress testing, monitoring of expenditure and closely managing expenses in line with the business plan.
Market risk - the impact changes in equity and property market values, currency exchange rates, credit spreads, interest rates and inflation, may have on the value of clients' portfolios, resulting in a reduction in future charges or an increase in future expenses.	The Company only suffers a second order impact from market movements as future charges are predominantly determined based on clients' linked policy values. Clients hold the primary investment risk on these asset types as the assets and liabilities are fully matched and the Company does not offer any guarantees on policy values. The Company mitigates the second order market risk by applying fixed per policy charges in addition to the charges determined based on clients' linked policy values, offering an element of diversification to its income stream. Furthermore, the Company currently invests its shareholder assets in high quality, highly liquid, short-dated investments. Expense inflation risk is mitigated through regular stress testing, monitoring of expenditure and closely managing expenses in line with the business plan.
Liquidity risk – this is the risk of the Company not having available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.	There are robust controls in place to mitigate liquidity risk, for example, holding corporate cash across a range of banks in order to mitigate the risk of a single point of counterparty default failure.
Credit risk – this is the risk of loss due to defaults from holdings of cash and cash equivalents, deposits, formal loans and reinsurance treaties with banks and financial institutions.	The Company currently invests its shareholder assets in high quality, highly liquid, short-dated investments. Maximum counterparty limits are set for banks and minimum credit quality steps are set for both banks and reinsurers.

Risk and risk management *(continued)*

Non-financial Risks	
Key risk description	**Management and Mitigation**
Regulatory risk – the risk of new regulatory requirements having adverse impacts on the business model, or failing to comply with existing or new regulations resulting in a fine or regulatory censure.	Regulatory risk is mitigated through regular monitoring of regulatory developments and maintaining open and transparent dialogue with the regulators. On-going compliance with existing rules is monitored by the Compliance Function with additional assurance provided by the Internal Audit function for the key regulatory risks on a regular basis.
Operational risk – the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.	Operational risk arises mainly from the Company's compliance requirements it needs to meet whilst administering its business and from the third party administrator arrangements with IntegraFin Services Limited (ISL) and IFAL. The Company aims to minimise operational risk at all times through a strong and well-resourced control and operational structure. This is supported by the strong corporate governance structure that is embedded in ILUK and the IntegraFin Group as a whole.
Competition risk – the risk of competitor activity resulting in loss of new business, increased lapse of existing business or pressure on profit margins.	Competitor risk is mitigated by focusing on providing exceptionally high levels of service and being responsive to client and financial adviser demands through an efficient expense base.
Geopolitical risk – the risk of changes in the political landscape disrupting the operations of the business or resulting in significant development costs	Geopolitical risk cannot be directly mitigated by the Company, but through close monitoring of developments through its risk horizon scanning process, potential impacts are taken into consideration as part of the business planning process.

Risk and risk management *(continued)*

Non-financial Risks	
Key risk description	**Management and Mitigation**
Reputational risk – the risk that current and potential clients' desire to do business with the Company reduces due to perception of the Transact service in the market place.	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. 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 wrap sector as a whole 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. The Risk Management Framework provides the monitoring mechanisms to ensure that reputational damage controls operate effectively and reputational risk is mitigated, to some extent, by internal operational risk controls, error management and complaints handling processes as well as root cause analysis investigations.
Conduct risk – the risk of acting against clients' best interests with consequential damage to the long term sustainability of the business.	The Company has no appetite for unfair client outcomes arising from systematic failures in its cultural outlook or in any element of the client life cycle. This includes meeting the requirements of the FCA principle of Treating Customers Fairly. The Company uses various indicators to monitor performance against this appetite, including client retention, complaints and errors.

By order of the Board

David Johnson
Company secretary
Registered Office
29 Clement's Lane
London
EC4N 7AE

6 December 2017

IntegraLife UK Limited
Directors' Report
For the year ended 30 September 2017

The Directors present their report and financial statements for the year ended 30 September 2017.

The Directors of the Company who served during the financial year and to date are listed on page 1.

The review of the business and principal risks and uncertainties are disclosed within the strategic report.

Directors interests and emoluments

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

Details of the Director emoluments are provided in note 6.

Dividends

During the year the Directors recommended and paid a dividend of £10m (2016: £2m) and since the accounting year-end the Company continues to be profitable.

Employees

The Company has no employees (2016: nil). Management and administrative services are provided to the Company by IntegraFin Services Limited, a related party of Integralife UK Limited and part of the IntegraFin Holdings Limited group.

Political donations

No political contributions were made during the year (2016: £nil).

Disclosure of information to Auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant information and to establish that the Company's auditor is aware of that information.

By order of the Board

David Johnson
Company secretary
Registered Office
29 Clement's Lane
London
EC4N 7AE

6 December 2017

Statement of Directors' responsibilities in respect of the Strategic report, 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. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

Under Company Law the Directors must not approve the financial statements unless they are satisfied that they 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 they have been prepared in accordance with applicable IFRSs as adopted by the EU; 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 adequate accounting records that show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have a 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTEGRALIFE UK LIMITED

1 Our opinion is unmodified

We have audited the financial statements of IntegraLife UK Limited ("the Company") for the year ended 30 September 2017 which comprise the Statement of Profit and Loss and Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows, and the related notes, including the accounting policies in Note 2.

In our opinion the financial statements:
- *give a true and fair view of the state of the Company's affairs as at 30 September 2017 and of* its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors on 30 June 2005. The period of total uninterrupted engagement is the 12 years ended 30 September 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

AREA OF FOCUS AND RISK	OUR RESPONSE
VALUATION OF INVESTMENTS AND LINKED LIABILITIES, the risk compared to the prior year is unchanged. The use of stale or incorrect prices to value investments may result in a material misstatement, either individually or in aggregate. There may be further errors associated with the incorrect recognition of holding positions of investments held, due to their size and complexity.	Our procedures included: • we tested the key internal controls in place over the dealing process, investment inflows and outflows (surrenders), as this is key to the initial input of transactions into the policy asset management and administration system ("policy system"); • we tested the key internal controls in place over investment security and cash reconciliations to ensure completeness and accuracy of the associated balances; • we agreed the valuation of 99% of investments (by value) to independent third party pricing sources using investment pricing technology to assess the reasonableness of investment valuations used; • we analysed the investment prices used for any indication of stale prices and assessed any estimates / judgements involved in the valuation of illiquid positions, such as suspended assets; • to supplement the testing of related internal controls, we tested investment holding positions on a sample basis using independent custodial confirmations providing coverage of 51% (by value) of the portfolio to provide assurance that investment holding positions are correctly stated; • we calculated expected policyholder commission expense using raw data extracted from the policy system and applying our expectation of commission charges and compared this with the actual number recorded in the financial statements; and • we performed procedures over the recognition of investment inflows and outflows to ensure transactions had been recorded in the correct period.
FINDINGS No material variances were noted in respect of the above work performed.	

AREA OF FOCUS AND RISK	OUR RESPONSE
FEE INCOME, the risk compared to the prior year is unchanged. There is a presumption associated with fee income (revenue) that a fraud risk exists due to its nature as the main driver of profit for the Company.	Our procedures included: • we tested the key internal controls in place over fee income and commissions within the policy system; • we calculated expected total fee income based on the charging schedule and applying these charges to raw data extracted from the policy system including portfolio valuations (management fees), wrapper policy count (wrapper charges) and dealing volumes (buy / sell fees). This was then compared against the amount recognised in the financial statements; and • we performed testing over the input data used in the recalculation of expected fee income to ensure completeness and accuracy of information provided by the entity ("IPE").
FINDINGS No material variances were noted in respect of the above work performed.	

AREA OF FOCUS AND RISK	OUR RESPONSE
CORPORATE AND POLICYHOLDER CASH, the risk compared to the prior year is unchanged. Policyholder cash balances are held within a group pooled account facility. There is a risk that, due to the complexity of processes involved, the split of cash may be incorrectly stated and policyholder cash is incorrectly recognised as shareholder cash and vice-versa. There is a further risk that policyholder cash is recognised within the incorrect group entity.	Our procedures included: • we tested key internal controls in place around cash reconciliations; • we obtained independent third party bank confirmations for all shareholder and policyholder accounts and agreed amounts back to total balances per the system; • we obtained an understanding of the group cash allocation process and performed a walk through to confirm our understanding of the process; • we tested the year-end reconciliation of cash accounts for completeness, existence and accuracy by agreeing the calculation of the split of policyholder and shareholder accounts by group entity; and • we tested the cash amounts reserved from policyholder funds internally ring fenced for the purpose of future tax payables.
FINDINGS No material variances were noted in respect of the above work performed.	

3 Our application of materiality and an overview of the scope of our audit

We consider both quantitative and qualitative factors in setting our materiality thresholds. The quantitative measure for this year remains in line with the prior year and is based on total assets held by the Company. We have considered profit before tax as a measure but have not used it as the primary measure since it results in an unsuitably low materiality for the business type.

Materiality for the Company financial statements as a whole has been set at £75.7m (2016: £57.0m), which is 0.75% of the total benchmark. We design our procedures to detect errors at a lower level of precision, set at £56.8m (2016: £42.8m).

We also use a lower materiality for specific, shareholder rather than policyholder related, income statement captions that are deemed to be significant accounts, where misstatements of lesser amounts than overall materiality might influence users' decisions. For these balances we design our procedures to detect errors of £852k (2016: £465k).

Whilst our audit procedures are designed to identify misstatements (including disclosure misstatements) which are material to our opinion on the financial statements as a whole, we nevertheless report any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements (including disclosure misstatements) other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Company and due to our involvement in the audit of the ultimate parent, an individual difference could normally be considered to be clearly trivial if it is less than £1.6m (2016: £2.9m). For certain income statements balances, as referred to above, an individual difference threshold of £30k (2016: £12k) is applied. Any individual misstatement in excess of the respective thresholds have been reported to the Audit Committee.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 13, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

SR Nichols

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

15 December 2017

IntegraLife UK Limited
Statement of Profit and Loss and Other Comprehensive Income
For the year ended 30 September 2017

		2017	2016
REVENUE	**Note**	**£'000**	**£'000**
Investment Contracts			
Interest income		6	84
Fee income	4	32,661	27,168
Change in deferred income liability	21	6,001	5,383
TOTAL REVENUE		**38,668**	**32,635**
EXPENSES			
Other charges			
Change in deferred tax provision		(2,298)	(7,216)
Change in deferred acquisition costs	15	(6,001)	(5,383)
Administrative expenses	5	(16,219)	(14,523)
TOTAL EXPENSES		**24,518**	**27,122**
OTHER INCOME & EXPENSES			
Other income	7	11,672	19,609
Other expenses	8	(3,767)	(250)
		7,905	**19,359**
PROFIT BEFORE POLICYHOLDER AND SHAREHOLDER TAX		**22,055**	**24,872**
Policyholder taxation	10	(5,521)	(12,230)
PROFIT BEFORE SHAREHOLDER TAXATION		**16,534**	**12,642**
Shareholder taxation	10	(3,273)	(2,548)
PROFIT AFTER POLICYHOLDER AND SHAREHOLDER TAX		**13,261**	**10,094**
OTHER COMPREHENSIVE INCOME		-	-
Profit attributable to equity holders		13,261	10,094

The notes on pages 23 to 43 form an integral part of these financial statements.

The Directors consider that all results derive from continuing activities.

IntegraLife UK Limited
Statement of Changes in Equity
For the year ended 30 September 2017

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Non-distributable reserves £'000	Total equity-shareholders' funds £'000
Balance at 1 October 2015		**1,000**	**700**	**7,796**	**36**	**9,532**
Profit for the year		-	-	10,094	-	10,094
Dividends paid	9	-	-	(2,000)	-	(2,000)
Balance at 1 October 2016		**1,000**	**700**	**15,890**	**36**	**17,626**
Profit for the year		-	-	13,261	-	13,261
Dividends paid	9	-	-	(10,000)	-	(10,000)
Balance at 30 September 2017		**1,000**	**700**	**19,151**	**36**	**20,887**

Non-distributable reserves arose due to transition from UK GAAP to IFRS, whereupon actuarial reserving required under the old standards became impermissible under new standards.

The notes on pages 23 to 43 form an integral part of these financial statements.

IntegraLife UK Limited
Statement of Financial Position
As at 30 September 2017

		2017	2016
ASSETS	**Note**	**£'000**	**£'000**
Cash and cash equivalents	11	39,293	36,274
Other investments	12	2,935	2,975
Other prepayments and accrued income	13	4,164	3,530
Other receivables		-	41
Current tax assets	10	-	199
Investments and cash held for the benefit of policyholders	14	10,697,989	8,305,396
Deferred acquisition costs	15	36,475	29,911
Total assets		**10,780,856**	**8,378,326**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	16	1,000	1,000
Share premium account	17	700	700
Non-distributable reserves		36	36
Retained earnings		19,151	15,890
Total equity attributable to equity holders		**20,887**	**17,626**
LIABILITIES			
Other payables	18	2,632	1,766
Current tax liability	10	715	-
Tax provisions	19	11,377	15,144
Liabilities for linked investment contracts	20	10,697,989	8,305,396
Deferred tax liabilities	21	10,781	8,483
Deferred income liabilities	22	36,475	29,911
Total liabilities		**10,759,969**	**8,360,700**
Total equity and liabilities		**10,780,856**	**8,378,326**

The notes on pages 23 to 43 form an integral part of these financial statements.

These financial statements were approved at the meeting of the Board of Directors on 6 December 2017 and signed on its behalf by:

Ian Taylor
Director

Company registered number: 798365

IntegraLife UK Limited
Statement of Cash Flows
For the year ended 30 September 2017

	2017	2016
	£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	22,055	24,872
Adjustments for:		
Change in deferred income liability	(6,001)	(5,383)
Change in deferred tax provision	6,001	5,383
Interest	(45)	(84)
Movement in provision	(5)	(2)
(Decrease)/ Increase in creditors	866	(10)
(Increase) in trade & receivables	(594)	(526)
Cash generated from operations	**22,277**	**24,250**
Net tax (paid)	(10,280)	(7,708)
Movement in current tax liability	914	8
Movement in tax on deferred acquisition costs	23	11
	(9,343)	**(7,689)**
Net cash from operating activities	**12,934**	**16,561**
CASH FLOWS FROM INVESTING ACTIVITIES		
Gain/(loss) on other investments	40	(1,017)
	40	**(1,017)**
Returns on investment and servicing of finance		
Interest received	45	84
	45	**84**
CASH FLOWS FROM FINANCING ACTIVITIES		
Equity dividends paid	(10,000)	(2,000)
Net cash used in financing activities	**(10,000)**	**(2,000)**
Increase in cash	3,019	13,628
Cash and cash equivalents at the beginning of the year	36,274	17,234
Cash and cash equivalents at the end of the year	**39,293**	**36,274**

The notes on pages 23 to 43 form an integral part of these financial statements.

1 General information

IntegraLife UK Limited ("the Company") is a limited company incorporated in England. The address of the registered office is disclosed in the company information section on page 1. The principal activities of the Company are disclosed in the strategic report.

2 Significant accounting policies

a) Statement of compliance

As permitted under relevant company law, the Company has chosen to prepare these financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by IASB and as endorsed by the European Union (EU).

The IFRS adopted by the EU and applied by the Company are those that were effective as at 30 September 2017. These have been consistently applied for the preparation of the financial statements.

b) Basis of preparation

The financial statements have been prepared and approved by the Directors in accordance with Part 15 of the Companies Act 2006, Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and International Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, which are stated at their fair value, have been prepared in pound sterling, which is the functional currency of the Company and are rounded to the nearest thousand.

The financial statements have been prepared on a going concern basis following an assessment by the Directors. The Company has a net asset position, strong solvency position, is currently profitable and, based on the latest forecasts, expects to remain profitable.

As a result, the Board has reasonable expectation that the Company has adequate resources to continue in operational existence from at least 12 months from the date of approving these financial statements.

c) Future standards, amendments to standards, and interpretations not early-adopted in the 2017 annual financial statements.

At the date of authorisation of these financial statements the following standards, amendments to standards, and interpretations, which are relevant to the company, have been issued by the International Accounting Standards Board and are effective for periods beginning on or after 1 January 2017. Earlier application is permitted, however, the company has not early adopted the new or amended standards in preparing these financial statements.

IFRS 9 'Financial Instruments

The IASB has issued components of IFRS 9 Financial Instruments, which is the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement' in its entirety. The project has three main phases:

- Phase I: Classification and measurement of financial instruments;
- Phase II: Amortised cost and impairment of financial assets; and
- Phase III: Hedge Accounting

2 Significant accounting policies *(continued)*

IFRS 9, as currently issued, includes requirements for the classification and measurement of financial assets and liabilities, liability derecognition requirements and additional disclosure requirements. The main changes from IAS 39 include the following:

- financial assets are to be classified and measured based on the business model for managing the financial asset and the cash flow characteristics of the financial asset, either at fair value or amortised cost;
- a financial asset or liability that would otherwise be at amortised cost may only be designated as at fair value through profit or loss if such a designation reduces an accounting mismatch; and
- for financial liabilities designated as at fair value through profit or loss a further requirement is that all changes in the fair value of financial liabilities attributable to credit risk be transferred to 'Other Comprehensive Income' with no recycling through profit or loss on disposal.

This standard has been endorsed by the EU and is effective for accounting periods beginning on or after 1 January 2018. An assessment of the impact of IFRS 9 has been conducted and there is no material impact on the Company on its adoption.

IFRS 15 Revenue from Contracts with Customers
The standard provides a comprehensive new model for revenue recognition. The Company will be required to disclose information about its contracts with customers, disaggregating information about recognised revenue and information about its performance obligations at the end of the reporting period.

This standard has been endorsed by the EU and is effective for accounting periods beginning on or after 1 January 2018. Mandatory adoption is not required until the year ended 30 September 2019. An assessment of the impact of IFRS 15 has been conducted and there is no material impact on the Company on its adoption.

IFRS 17 Insurance Contracts
IFRS 17 was issued in May 2017 and will replace IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The Company would be required to provide information that faithfully represent those contracts, such that users of the financial statements can assess the effect insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is effective for accounting periods beginning on or after 1 January 2021.

The Company has performed preliminary assessment regarding the impact of IFRS 17 on the financial statements and, due to all contracts written by the business being investment contracts, it is deemed such impact will be negligible.

d) Critical accounting estimates and judgements

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the determination of the fair value for financial assets and liabilities, impairment charges relating to accrued fee income and the value of certain financial instruments, the amortisation period of deferred acquisition costs, deferred income liabilities and deferred taxes. Each of these are discussed in more detail in the relevant accounting policies and notes to the financial statements.

2 Significant accounting policies *(continued)*

e) Investment contracts - classification

The Company writes unit linked investment business classified as investment contracts. Investment contracts are financial instruments that do not meet the definition of an insurance contract as they do not transfer significant insurance risk from the policyholder to the company. The Company has performed an assessment of the policy types offered, and due to the transfer of risk being not significant and immaterial, it is considered appropriate to treat all contracts as investment contracts.

Investment contracts
Investment contracts are comprised of unit-linked contracts. Investment contracts result in financial liabilities whose fair value is dependent on the fair value of underlying financial assets. They are designated at inception as financial liabilities at 'fair value through profit or loss' and are subsequently treated as such.

Valuation techniques are used to establish the fair value at inception and each reporting date. The Company's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data where available. The financial liability is measured both initially and subsequently at fair value. The fair value of a unit-linked financial liability is determined using the fair value of the financial assets contained within the funds linked to the financial liability.

f) Other investments

Other investments comprise UK Government fixed interest securities held as shareholder investments. All investments are classified as 'fair value through profit or loss at initial recognition' and are stated at quoted bid prices which equates to fair value, with any resultant gain or loss recognised in the income statement. Purchases and sales of securities are recognised on the trade date.

g) Investments held for the benefit of policyholders

Investments held for the benefit of policyholders are stated at fair value and reported on a separate line in the statement of financial position. The assets are classified using the 'fair value through profit or loss' option with any resultant gain or loss recognised through the income statement. Investments held for the benefit of policyholders also includes cash and cash equivalents held within policyholders' portfolios of assets.

Investment inflows received from policyholders are invested in funds selected by the policyholders. The resulting liabilities for linked investment contracts are accounted for under the 'fair value through profit or loss' option, in line with the corresponding assets as permitted by IAS 39.

As all investments held for the benefit of policyholders are matched entirely by corresponding linked liabilities, any gain or loss on assets recognised through the income statement are offset entirely by the gains and losses on linked liabilities. The net impact on profit through the income statement is therefore £nil.

h) Deferred acquisition costs and deferred income liabilities

Incremental costs directly attributable to securing investment contracts are deferred. These costs consist of establishment charges paid to policyholders' financial advisers. The costs are capitalised as deferred acquisition costs and are amortised as an expense over the Directors' best estimate of the life of the contract which is deemed to be ten years, over which the services are provided. Equal service provision is assumed over the lifetime of the contract and, as such, the deferred costs are amortised on a linear basis over the expected life of the contract, adjusted for expected persistency.

2 Significant accounting policies *(continued)*

A corresponding deferred income liability is recognised in respect of charges taken from customers of the Company at the contracts' inception to meet obligations to financial advisers. Deferred income liabilities are also amortised over the Director's best estimate of the life of the contract, which is again deemed to be ten years.

At the end of each reporting period, deferred acquisition costs are reviewed for recoverability, against future margins from the related contracts at the statement of financial position date. An impairment loss is recognised in the income statement if the carrying amount of the deferred acquisition costs is greater than the future margins from the related contracts.

i) Other receivables

Other receivables are non interest-bearing and are stated at their amortised cost, less appropriate allowances for estimated irrecoverable amounts which approximates to fair value.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, money market OEIC funds and other short-term deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

k) Provisions

Provisions are recognised when the Company has an obligation, legal or constructive, as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are estimated at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present values where the effect is material.

l) Other payables

Other payables are short-term, not interest-bearing and are stated at their amortised cost which is not materially different from cost and approximates to fair value.

m) Revenue recognition

Revenue comprises the fair value for services. Revenue is recognised as follows:

Fee income
Fees charged for managing investment contracts comprise fees taken both on inception and throughout the life of the contract. All fee income is recognised as revenue in line with the provision of the investment management services.

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding, and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that financial asset's carrying amount.

n) Administrative expenses

Administrative expenses are recognised in the income statement on an accruals basis.

2 Significant accounting policies *(continued)*

o) Taxation

The taxation charge is based on the taxable result for the year and comprises both shareholder and policyholder tax, calculated at different rates. The taxable result for the year is determined in accordance with enacted legislation and taxation authority practice for calculating the amount of corporation tax payable.

Policyholder tax comprises corporation tax payable at the policyholder rate on the policyholders' share of the taxable result for the year, together with deferred tax at the policyholder rate on temporary timing differences relating to policyholder items.

Deferred taxes are calculated according to the statement of financial position method, based on temporary timing differences between reported and tax values of assets and liabilities. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax liabilities are not discounted.

Deferred tax assets are recognised for all temporary timing differences to the extent that it is probable that taxable profit will be available against which the deductible temporary timing difference can be utilised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

p) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated to sterling at the year end closing rate.

q) Financial instruments

The Company carries financial assets and liabilities at fair value. Assets and liabilities are priced using a quoted market price where available or by using valuation models. Changes in the fair value of policyholder financial assets are offset by corresponding changes in the fair value of liabilities and therefore the impact on equity is £nil. The Company recognises a financial asset on the trade settlement date at Fair Value Through Profit and Loss on inception.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and reward of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

r) Fair value of financial instruments

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

i. For units in unit trusts and shares in open ended investment companies, fair value is determined by reference to published exit values in active markets.
ii. For equity and debt securities not actively traded in organised markets and where the price cannot be retrieved, the fair value is determined using comparison to similar instruments for which market observable prices exist.

2 *Significant accounting policies* *(continued)*

iii. For assets that have been suspended from trading on active markets, the last published price is used. Many suspended assets are still regularly priced. At the date of the Statement of Financial Position, suspended assets are assessed for indications of impairment and adjusted where appropriate.

iv. Where the assets are private company shares the value disclosed in the latest available set of audited financial statements is used.

This note supplements the details provided in the 'Risk and risk management' section of this report on pages 4 to 11.

3 Risk and risk management

Risk assessment

Risk assessment is the determination of quantitative values and/or qualitative judgements of risk related to a concrete situation and a recognised threat. Quantitative risk assessment requires calculations of two components of risk, the magnitude of the potential impact, and the likelihood that the risk materialises. There are also qualitative aspects that are more difficult to express quantitatively, but are still taken into account in order to fully evaluate the impact of the risk on the organisation.

(1) 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. The Company's main source of income is derived from a tiered fee structure where the annual fee is directly linked to the value of the unit-linked policies.

The Company mitigates the second order market risk by applying fixed per policy charges in addition to the charges determined based on clients' linked policy values, offering an element of diversification to its income stream.

Market risk from direct asset holdings
ILUK has limited exposure to primary market risk 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 currently invests its shareholder assets in high quality, highly liquid, short-dated investments.

(a) Interest rate risk

ILUK's balance sheet and capital requirements are relatively insensitive to first order impacts from movements in interest rates. ILUK mitigates interest rate risk by investing its surplus capital in in high quality, highly liquid, short-dated investments.

3 Risk and risk management (continued)

(b) Currency risk

The Company is not directly exposed to significant currency risk. The table below shows a breakdown of the material foreign currency exposures for the unit-linked policies:

	2017	2017	2016	2016
Currency	£	%	£	%
GBP	10,641,649,885	99.5	8,258,461,959	99.4
USD	41,513,674	0.4	33,392,262	0.4
EUR	10,996,129	0.1	9,410,680	0.1
Others	3,829,109	0.0	4,126,785	0.0
Total	**10,697,988,797**	**100.0**	**8,305,391,686**	**100.0**

99.5% of investments and cash held for the benefit of policyholders in ILUK are denominated in GBP, its base currency. Remaining currency holdings greater than 0.1% of the total are shown separately in the table. A significant rise or fall in sterling exchange rates would not have a significant first order impact on its results since any adverse or favourable movement in policyholder assets is entirely offset by a corresponding movement in the linked liability. The Company itself does not have any material assets or liabilities held in a foreign currency.

(c) Inflation risk

The Company has exposure related to expense inflation risk, where actual inflation deviates from expectations. The Company has no exposures to defined benefit staff pension schemes or client related index linked liabilities.

Expense inflation risk is mitigated through regular stress testing, monitoring of expenditure and closely managing expenses in line with the business plan.

(2) Credit (counterparty default) risk

Credit risk is the risk that the company is exposed to a loss if another party fails to meet its financial obligations. For ILUK, the exposure to counterparty default risk arises primarily from:

- corporate assets directly held by ILUK;
- exposure to policyholders;
- exposure to other debtors; and
- the reinsurance of mortality risk.

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

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

There is no first order impact on ILUK from one of the events in the preceding paragraph. This is because any credit default event in respect of these holdings will be borne by policyholders, both in terms of loss of value and loss of liquidity. The Company's policyholder terms and conditions have been reviewed to ensure that these have been drafted appropriately. 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.

3 Risk and risk management (continued)

There are robust controls in place to mitigate credit risk, for example, holding corporate cash across a range of banks in order to mitigate the risk of a single point of counterparty default failure. Additionally, maximum counterparty limits are set for banks and minimum credit quality steps are set for both banks and reinsurers.

Corporate assets and funds held on behalf of policyholders

There is no significant risk exposure to any one UK clearing bank.

Counterparty default risk exposure to policyholders

The Company is due £3,671k (2016: £3,010k) from fee income owed by policyholders.

Counterparty default risk exposure to Group companies

At the end of the reporting period, the Group Companies do not have any outstanding debt with ILUK.

Counterparty default risk exposure to other debtors

The Company has prepayments due (mostly PRA/FCA fees) of £460k (2016: £520k).

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

Counterparty default risk exposure to reinsurer

The Company has reinsurance arrangements in place to mitigate the risk of mortality.

The Company has reinsured 80% of the mortality risk on the Qualified Savings Plans (QSPs), which are closed to new business. As at 30 September 2017 £0.2m of the exposure to mortality risk was reinsured.

Impact of credit risk on fair value

Due to the limited direct exposure that the Company has to credit risk, credit risk does not have a material impact on the fair value movement of financial instruments for the year under review. The fair value movements on these instruments are predominantly due to changes in market conditions.

(3) Liquidity risk

Liquidity risk is the risk that funds are not accessible such that the Company, although solvent, does not have sufficient liquid financial resources to meet obligations as they fall due, or can secure such resources only at excessive cost.

The following key drivers of liquidity risk for the Company have been identified:

- liquidity risk arising on the Company's own accounts due to failure of one or more of its banks;
- liquidity risk arising on the Company's own accounts due to the bank's system failure which prevents access to funds; and
- liquidity risk arising from clients holding insufficient cash to settle fees when they become due.

ILUK's liquidity risk arises from a lack of readily realisable cash to meet debts as they become due. This takes two forms – policyholders' liabilities coming due and other non-policyholder liabilities coming due.

3 Risk and risk management (continued)

The first of these, policyholder liabilities, is in the main covered through the terms and conditions as policyholders take their own liquidity risk, if their funds cannot be immediately surrendered for cash.

Payment of mortality benefits and other non-policyholder liabilities depend on ILUK having sufficient liquidity at all times to meet them as they fall due. This requires access to liquid funds, i.e. working banks and it also requires that ILUK's main source of liquidity, charges on its policyholders' assets, can also be converted into cash.

Thus ILUK has two requirements: first, to ensure that policyholders maintain a percentage of liquidity in their funds at all times, and second, to maintain access to cash through a spread of cash holdings in bank accounts.

There are robust controls in place to mitigate liquidity risk, for example, holding corporate cash across a range of banks in order to mitigate the risk of a single point of counterparty default failure.

Maturity schedule

The following table shows an analysis of the financial assets and financial liabilities by remaining maturities as at 30 September 2017 and 30 September 2016.

Financial assets:

2017	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Unit-linked investments*	10,697,989	-	-	-	10,697,989
Other investments	-	2,935	-	-	2,935
Cash	39,293	-	-	-	39,293
Other prepayments	3,877	287	-	-	4,164
Deferred acquisition costs	1,595	4,575	22,772	7,533	36,475
Total	**10,742,754**	**7,797**	**22,772**	**7,533**	**10,780,856**

2016	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Unit-linked investments*	8,305,396	-	-	-	8,305,396
Other investments	-	2,975	-	-	2,975
Cash	36,274	-	-	-	36,274
Other receivables	1	-	-	-	1
Current tax asset	-	199	-	-	199
Other prepayments	3,262	268	-	-	3,530
Deferred acquisition costs	1,382	3,995	16,413	8,121	29,911
Total	**8,346,315**	**7,238**	**16,413**	**8,121**	**8,378,286**

3 Risk and risk management (continued)

Financial liabilities:

2017	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Unit-linked liabilities*	10,697,989	-	-	-	10,697,989
Tax provisions	-	-	11,377	-	11,377
Other payables	2,632	-	-	-	2,632
Current tax liability	-	715	-	-	715
Deferred tax liabilities	-	2,275	7,300	733	10,308
Deferred tax on deferred acquisitions costs	22	64	314	73	473
Deferred income liabilities	1,595	4,575	22,772	7,533	36,475
Total	**10,702,238**	**7,629**	**41,763**	**8,339**	**10,759,969**

2016	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Unit-linked liabilities*	8,305,396	-	-	-	8,305,396
Tax provisions	-	-	15,104	-	15,104
Other payables	1,766	-	-	-	1,766
Deferred tax liabilities	357	1,070	4,841	1,765	8,033
Deferred tax provision on deferred acquisition costs	20	58	261	111	450
Deferred income liabilities	1,382	3,995	16,413	8,121	29,911
Total	**8,308,921**	**5,123**	**36,619**	**9,997**	**8,360,660**

* Financial assets held in unit-linked investments and the corresponding liabilities for linked investment contracts are deemed to have a maturity of up to three months since the liabilities are repayable on demand. In practice the contractual maturities of the underlying assets may be longer than one year, but the majority of assets held within the unit linked funds are highly liquid.

3 Risk and risk management (continued)

(4) Insurance risk

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, the key insurance risks are lapse risk, expense risk and mortality risk. However, the size of insurance risk is not deemed to be materially significant and as such from an accounting perspective all contracts have been classified as investments.

(a) 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, 'transfers for the purchase of annuities' 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.

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 stable and within historical norms.

(b) 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.

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.

(c) Mortality risk

Mortality risk is the risk that the number of policyholder deaths is greater than expected in the period. 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 insurance bonds (where a death benefit of 0.1% of the portfolio value is payable) and QSPs when the portfolio value is less than the sum assured (which is fixed at the outset of the policy). ILUK uses reinsurance to mitigate mortality risk.

As at the reporting date ILUK was exposed to £1.0m of mortality risk (excluding the impact of the reinsurance arrangements, £0.9m net of reinsurance). This represents the Sum at Risk (i.e. total death benefits payable less value of policyholders' portfolios) for the insurance bonds and QSPs.

(5) Solvency II and capital management

ILUK has adopted the Standard Formula approach in calculating the Solvency Capital Requirement (SCR), and has not adopted any of the Transitional Provisions in the calculation of the Solvency II balance sheet or SCR. As at 30 September 2017, ILUK has Own Funds of £154m and an SCR of £135m which gives a solvency coverage ratio of 114%. During the reporting period, ILUK has been fully compliant with the SCR. Additionally, the Solvency II balance sheet and SCR are regularly monitored and in line with standard regulatory requirements reported to the PRA on a quarterly basis.

3 Risk and risk management (continued)

The Company maintains a sound and appropriate system of capital management in order to meet its strategic capital objectives. The Company has a preference for a simple system of capital management which reflects the nature of the business. At a legal entity level, ILUK is capitalised at the required regulatory minimum under Solvency II plus an adequate buffer defined as part of the Company's capital management, risk appetite and dividend policies.

4 Fee income

	2017 £'000	2016 £'000
From Investment contracts		
Fee income	32,661	27,168
	32,661	27,168

Fee income comprises an annual charge levied on the average value of the policy, a quarterly wrapper charge, and a charge for switching assets.

5 Administrative expenses

	2017 £'000	2016 £'000
Administrative expenses	16,219	14,523
Administrative expenses include:		
Management fees paid to Integrated Financial Arrangements Ltd	894	1,016
Management fees paid to IntegraFin Services Ltd	13,331	11,995
Of which:		
Staff costs	8,458	8,090
Occupancy	991	948
Other	3,883	2,957
Auditors remuneration: services paid to KPMG Audit LLC	153	98
Director's emoluments (note 6)	228	196

6 Remuneration of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity and as such, only directors are considered to meet this definition. Directors' emoluments shown below are included in management fees payable to fellow subsidiary undertakings shown in note 22.

	2017 £'000	2016 £'000
Aggregate Director's emoluments		
Aggregate emoluments excluding pension contributions	228	196
Emoluments of the highest paid Director		
Aggregate emoluments excluding pension contributions	136	123

The above disclosure includes the remuneration of the directors in relation to their services to this company. The remuneration for each director is apportioned on the basis of time spent across the companies of which they are a director.

7 Other income

	2017	2016
	£'000	£'000
Tax recovery from HMRC	1,414	206
Tax charges reserved from policyholders	10,258	19,402
	11,672	19,608

Tax recovery from HMRC is tax claimed on behalf of policyholders for tax deducted at source.

Tax charges reserved from policyholders are charges taken from unit-linked funds to meet future and current policyholder tax liabilities.

8 Other expenses

	2017	2016
	£'000	£'000
Tax relief paid to policyholders	1,806	186
Tax reserve to meet future liabilities	1,961	64
	3,767	250

Tax relief paid to policyholders is the return to unit linked funds of tax deducted at source.

Tax reserve to meet future liabilities are provisions to meet future and current policyholder tax liabilities.

9 Dividends

	2017	2016
	£'000	£'000
Dividends paid		
Aggregate dividends – equivalent to £10 per share (2016:£2)	10,000	2,000

100% of the share capital in the Company is held by Integrated Financial Arrangements Ltd, and as such the dividend has been paid to this entity in its entirety.

10 Taxation

	2017	2016
	£'000	£'000
Policyholder taxation		
UK corporation tax at 20% (2016: 20%)	3,228	5,213
Deferred tax at 20% (2016: 20%)	2,276	7,216
Under/(Over) accrual from prior year	17	(199)
Total policyholder taxation	5,521	12,230
Shareholder taxation		
UK Corporation tax at 19.5% (2016: 20%)	3,165	2,463
Tax deducted on overseas dividends	108	85
Total shareholder taxation	3,273	2,548
Total taxation	8,794	14,778

10 Taxation (continued)

The total tax charge for the year can be reconciled to the accounting profit as follows:

	2017	2016
	£'000	£'000
Pre-tax profit	22,055	24,872
Less: policyholder tax	(5,521)	(12,230)
Effect of gross overseas withholding tax	(108)	(85)
	16,426	12,557
Tax at corporation tax rate 19.5% (2016:20%)	3,203	2,511
Non-taxable dividends	(91)	(61)
	53	(47)
Other adjustments		
Overseas tax	108	85
Impact of rates	-	60
Shareholder tax	3,273	2,548
Add policyholder tax	5,521	12,230
	8,794	14,778

The main rate of UK corporation tax reduced from 20% to 19% with effect from 1 April 2017 and will reduce to 17% for financial year 2020. The reduction in corporation tax rates does not impact on the policyholder rate.

11 Cash and cash equivalents

	2017	2016
	£'000	£'000
Bank balances	39,293	36,274

All cash and cash equivalents are current and available.

£21.7m (2016:£23.0m) of the total balance is held in respect of provisions for policyholder tax that will become payable.

12 Other investments

	2017 Cost £'000	2017 Fair Value £'000	2016 Cost £'000	2016 Fair Value £'000
At fair value through the income statement				
Other fixed-income securities	2,949	2,935	3,000	2,975
	2,949	**2,935**	**3,000**	**2,975**

Other fixed-income securities are UK government stocks with an Aa2 (Moody's) rating (2016: Aa1).

£2,935k (2016: £2,975k) of fixed-interest securities are due to mature within 12 months and £nil (2016: £nil) are classified as non-current.

13 Other prepayments and accrued income

	2017 £'000	2016 £'000
Accrued income	3,671	3,010
Bad debt provision	(71)	-
Prepayments	564	520
	4,164	3,530

All amounts are interest free, due within 12 months and deemed current

14 Investments and cash held for the benefit of policyholders

	2017 Cost £'000	2017 Fair Value £'000	2016 Cost £'000	2016 Fair Value £'000
Cash and cash equivalents held for the benefit of policyholders	1,014,314	1,014,314	715,881	715,881
Investments held for benefit of policyholders	8,049,078	9,683,675	6,898,345	7,589,515
	9,063,392	10,697,989	7,614,226	8,305,396

These assets are held to cover the liabilities for linked investment contracts as shown in note 12. All amounts are current. Investments and cash held for the benefit of policyholders are matched entirely by liabilities held for unit linked contracts.

15 Deferred acquisition costs

	2017 £'000	2016 £'000
Opening balance	29,911	27,578
Capitalisation of deferred acquisition costs	12,565	7,716
Amortisation of deferred acquisition costs	(6,001)	(5,383)
Change in deferred acquisition costs	6,564	2,333
Closing balance	36,475	29,911
Current (less than 12 months)	6,170	5,377
Non-current (greater than 12 months)	30,305	24,534
	36,475	29,911

16 Share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	1,000	1,000

The Company has one class of ordinary shares which carries no right to fixed income.

17 Share premium

	2017 £'000	2016 £'000
Balance brought forward	700	700
Premium on shares issued in year	-	-
Balance Carried forward	700	700

18 Other payables

	2017 £'000	2016 £'000
Due to group undertakings (see note 24)	1,310	1,167
Other	1,322	599
	2,632	1,766

All amounts are current interest free and short term. Amounts due to group companies are unsecured and are settled monthly.

19 Tax provisions

	2017 £'000	2016 £'000
Tax relief due to policyholders	2,696	4,576
Other tax reserves	8,681	10,528
	11,377	15,144

Tax relief due to policyholders comprises claims received from HMRC that are yet to be returned to policyholders.

Other tax reserves are charges taken from unit-linked funds and claims received from HMRC to meet future policyholder tax obligations.

The presentation of tax provisions and receivables has been amended in the current year to better reflect the nature of settlement of these accounts. Corresponding adjustments have been made to associated Statement of Profit or Loss and Other Comprehensive Income captions and comparatives.

20 Liabilities for unit-linked investment contracts

	2017 £'000	2016 £'000
At fair value through profit or loss		
Unit-linked liabilities	10,697,989	8,305,396

Analysis of change in liabilities for linked investment contracts

	2017 £'000	2016 £'000
Opening balance	8,305,396	6,477,672
Investment inflows	2,330,386	1,340,181
Investment outflows	(567,637)	(436,482)
Changes in fair value of underlying assets	657,291	937,623
Investment income	88,866	78,412
Other fees and charges Transact	(32,661)	(27,168)
Other fees and charges third parties	(83,652)	(64,842)
Closing balance	10,697,989	8,305,396

The benefits offered under the unit-linked investment contracts are based on the risk appetite of policyholders and the return on their selected collective fund investments, whose underlying investments include equities, debt securities, property and derivatives. This investment mix is unique to individual policyholders. When the diversified portfolio of all policyholder investments is considered, there is a clear correlation with the FTSE 100 index and other major world indices, providing a meaningful comparison with the return on the investments.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

21 Deferred tax liabilities

The following are the deferred tax balances recognised by the company and the movements thereon, during the current and prior reporting period.

	Deferred income & costs £'000	Unrealised gain/(loss) on investments £'000	Total £'000
Policyholder deferred tax			
Liability/(asset) at 1 Oct 2016	(701)	9,184	8,483
Movement in the year	23	2,275	2,298
Liability/(asset) at 30 Sept 2017	(678)	11,459	10,781

The value of deferred tax assets not recognised as at 30 September 2017 was £nil (2016: £nil).

22 Deferred income liabilities

	2017 £'000	2016 £'000
Opening balance	29,911	27,578
Capitalisation of deferred fee income	12,565	7,716
Amortisation of deferred fee income	(6,001)	(5,383)
Change in deferred fee income	6,564	2,333
Closing balance	36,475	29,911
Current (less than 12 months)	6,170	5,377
Non-current (greater than 12 months)	30,304	24,534
	36,475	29,911

23 Financial instruments

All assets have been categorised as fair value through profit or loss.

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

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

23 Financial instruments (continued)

At 30 September 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Policyholder Assets				
Policyholder cash	718,632	-	-	718,632
Investments and securities	275,868	63,265	1,885	341,018
Bonds and other fixed-income securities	11,081	12,743	383	24,207
Holdings in collective investment schemes	7,121,858	97,968	1,709	7,221,536
	8,127,439	173,976	3,977	8,305,392
Shareholder Assets				
Cash and cash equivalents	36,274	-	-	36,274
Other investments	2,975	-	-	2,975
	39,249	-	-	39,249
Total	8,166,687	173,976	3,977	8,344,640

At 30 September 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Policyholder Assets				
Policyholder cash	1,016,506	-	-	1,016,506
Investments and securities	320,195	93,598	1,541	415,333
Bonds and other fixed-income securities	12,378	399	4	12,782
Holdings in collective investment schemes	9,139,507	111,762	2,099	9,253,368
	10,488,586	205,759	3,644	10,697,989
Shareholder Assets				
Cash and cash equivalents	39,293	-	-	39,293
Other investments	2,935	-	-	2,935
	42,228	-	-	42,228
Total	10,530,813	205,759	3,644	10,740,217

Level 3 valuation methodology
Level 3 assets, typically items with a stale price or suspended funds, are valued using the same methodology as set out in note 2(r), using the last known price that the Company has been able to source.

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

Where the Company assesses that a quoted price cannot be obtained, or a market is not active for a specific asset, or where there is sufficient information from external sources to indicate that an asset has indications of impairment and therefore that the last known price is inappropriate, it assigns the asset to Level 3. The Company exercises its judgement to determine fair value, and it may, on an asset-by-asset basis, impair the value of the asset. These impairments are subject to senior management challenge and approval.

23 Financial instruments (continued)

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

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

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

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

Transfers between Levels 1 and 2 between 30 September 2016 and 30 September 2017 are presented in the table below at their valuation at 30 September 2017:

Transfers from	Transfers to	£'000
Level 1	Level 2	3,886
Level 2	Level 1	961

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

	Total £'000	Investments and securities £'000	Bonds and other fixed-income securities £'000	Holdings in collective investment schemes £'000
Opening balance	3,977	1,885	383	1,709
Unrealised gains or losses	(684)	(28)	(379)	(278)
Transfers in to Level 3	1,273	329	-	945
Transfers out of Level 3	(622)	(590)	-	(32)
Purchases, sales, issues and settlement	(301)	(55)	-	(245)
Closing balance	3,644	1,541	4	2,099

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

24 Related party transactions

IntegraLife UK Limited also has in place an intercompany agreement with IntegraFin Services Limited. IntegraFin Services Limited commenced trading on 1 October 2015 and its primary activity is the provision of staff and services to the rest of the Group. IntegraFin Services Limited is a wholly owned subsidiary of IntegraFin Holdings Limited.

IntegraFin Services Limited charged the company £13,331k (2016: £11,995k) for expenses associated with the services provided.

24 Related party transactions (continued)

As at 30 September 2017 IntegraLife UK Limited owed the following to related parties:

	2017 £'000	2016 £'000
IntegraFin Services Limited	1,211	1,084

Related party transactions with the immediate and ultimate parent company are shown within note 25.

25 Immediate and ultimate parent company

The Company's immediate parent is Integrated Financial Arrangements Ltd, a company registered in England & Wales.

The Company's financial statements are consolidated within the financial statements of IntegraFin Holdings Limited, the ultimate parent company and controlling party, registered in England & Wales. The financial statements are available from the company secretary.

The Company writes business through the Transact Personal Pension, Executive Pension, Section 32 Buy Out Bond, Onshore Bond and Qualifying Savings Plan. IntegraLife UK Limited is a wholly owned subsidiary of Integrated Financial Arrangements Ltd.

IntegraLife UK Limited has in place an intercompany agreement with Integrated Financial Arrangements Ltd, whereby Integrated Financial Arrangements Ltd recharges all expenses incurred in acting as agent, custodian, and administrator for IntegraLife UK Limited.

Integrated Financial Arrangements Ltd charged the company £1,104k (2016: £1,016k) for expenses associated with the services provided.

As at 30 September 2017 IntegraLife UK Limited owed the following to the immediate and ultimate parent company:

	2017 £'000	2016 £'000
Integrated Financial Arrangements Ltd	97	82
IntegraFin Holdings Limited	1	1
	98	83

26 Events after the reporting period

There are no events subsequent to the year-end that require disclosure in, or amendment to the financial statements.