UTMOST LIMITED

Annual Report and Financial Statements

For the Year Ended 31 December 2017

CONTENTS

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

The principal activity of the Company is the writing of long term assurance business which is classified as investment contracts under IFRS 4.

RESULTS, DIVIDENDS AND TRANSFERS

The profit for the year, after taxation, amounted to £21,132,000 (2016: £21,502,000) which has been transferred to reserves. During the year dividends of £5,000,000 (2016: £26,600,000) were paid. The Directors do not recommend the payment of a final dividend (2016: £NIL).

DIRECTORS

Directors who held office during the year and to the date of this report, except where otherwise indicated, were as follows

J R Kelly	(Chairman)
R N S Angus	(Resigned 11 September 2017)
N A Duggan	
M J Foy	
C J Hall	
I G Maidens	
S Shone	(Appointed 16 May 2017)
A P Thompson	

COMPANY SECRETARY

P C Halliday	(Resigned 08 February 2017)
JM McCann	(Appointed 08 February 2017)

APPOINTED ACTUARY

S Calder

AUDITOR

PricewaterhouseCoopers LLC, being eligible, has indicated its willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

By Order of the Board

Secretary

21 March 2018
Royalty House
Walpole Avenue
DOUGLAS
Isle of Man
IM1 2SL

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Isle of Man law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

Secretary

21 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF UTMOST LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Utmost Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended in accordance with United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework"; and
- have been properly prepared in accordance with the requirements of the Isle of Man Companies Acts 1931 to 2004.

What we have audited

Utmost Limited's financial statements comprise:

- the balance sheet as at 31 December 2017
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The Directors are responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF UTMOST LIMITED (CONTINUED)

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with United Kingdom Accounting Standards and Isle of Man law, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF UTMOST LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)
We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

This report, including the opinion, has been prepared for and only for the Company's member in accordance with Section 15 of the Isle of Man Companies Act 1982 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Adequacy of accounting records and information and explanations received
Under the Isle of Man Companies Acts 1931 to 2004 we are required to report to you by exception if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper books of account have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the books of account and returns; and
- certain disclosures of Directors' loans and remuneration specified by law have not been complied with.

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
21 March 2018

Profit and Loss Account for the Year Ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue			
Fees and charges receivable	5	61,507	64,053
Commissions, fees and rebate income	6	5,570	4,569
Other income	7	1,540	2,169
		68,617	70,791
Investment return			
Investment income		45,911	31,681
Gains on investments	8	759,523	1,108,991
		805,434	1,140,672
Changes in technical provisions for investment contract liabilities		(805,251)	(1,140,567)
Commission and expenses			
Origination costs	9	(19,476)	(22,304)
Fees and expenses	3	(28,192)	(27,090)
		(47,668)	(49,394)
Profit before taxation		21,132	21,502
Taxation	4	-	-
Profit after taxation		21,132	21,502
Other items of comprehensive income		-	-
Total comprehensive income		**21,132**	**21,502**

The notes on pages 9 to 32 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share Capital	Retained Earnings	Other Reserves	Total
		£'000	£'000	£'000	£'000
Balance at 1 January 2016		23,380	18,426	(41)	41,765
Profit and total comprehensive income for the year		-	21,502	-	21,502
AXA Shares – capital contribution	26	-	(41)	41	-
Transactions with owners:					
Dividends paid		-	(26,600)	-	(26,600)
Balance at 31 December 2016		**23,380**	**13,287**	**-**	**36,667**
Balance at 1 January 2017		23,380	13,287	-	36,667
Profit and total comprehensive income for the year		-	21,132	-	21,132
Transactions with owners:					
Dividends paid		-	(5,000)	-	(5,000)
Balance at 31 December 2017		**23,380**	**29,419**	**-**	**52,799**

The notes on pages 9 to 32 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Assets			
Deferred origination costs	12	168,467	186,158
Modified Coinsurance Account	21	777,232	796,863
Financial investments			
Assets held to cover linked liabilities	19	9,705,040	9,283,464
Other investment	10	10,181	-
Debtors and other receivables	11	13,457	19,098
Deposits		46,383	47,583
Cash and cash equivalents	13	48,740	45,071
TOTAL ASSETS		**10,769,500**	**10,378,237**
Liabilities			
Technical provisions for linked liabilities	20	10,491,800	10,097,167
Deferred front end fees	14	199,998	220,701
Amounts due to investment contract holders	16	12,558	16,185
Creditors and other payables	15	12,345	7,517
		10,716,701	10,341,570
Capital and reserves			
Share capital	22	23,380	23,380
Revenue reserves		29,419	13,287
		52,799	36,667
TOTAL EQUITY AND LIABILITIES		**10,769,500**	**10,378,237**

The notes on pages 9 to 32 form an integral part of these financial statements.

These financial statements on pages 6 to 32 were approved and authorised for issue by the Board of Directors on 21 March 2018 and were signed on its behalf by

Director

S. Shone

Director

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

General Information

The principal activity of Utmost Limited ('the Company') is the writing of long term assurance business which is exclusively classified as investment contracts because of the absence of significant insurance risk associated with the underlying policies. These contracts are written back into the UK and to Hong Kong and Singapore under modified coinsurance arrangements.

The principal accounting policies that the Company applied in preparing its financial statements for the financial year ended 31 December 2017 are set out below.

Utmost Limited is incorporated and domiciled in the Isle of Man. The address of its registered office is Royalty House, Walpole Avenue, Douglas, Isle of Man.

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Isle of Man Companies Acts 1931 to 2004. For the purposes of definitions and exemptions, where FRS 101 incorporates references to UK company law, then regard has been given to the relevant parts of UK company law in the application of the appropriate standard, where this is not contrary to the other applicable legislation.

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The financial statements are presented to the nearest one thousand pounds.

A summary of the more important accounting policies, which have been applied consistently, is set out below:

(1.1) Foreign currency

The Company's presentational and functional currency is Pounds Sterling, being the primary economic environment in which the Company operates.

Transactions denominated in currencies other than Sterling are translated at the actual rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than Sterling are translated at the rates ruling at the balance sheet date. Realised and unrealised foreign exchange gains and losses are shown as part of "Gains on investments" in the profit and loss account.

Non-monetary assets and liabilities that are held at historical cost are translated using the rate ruling at the date of the transaction; those held at fair value are translated using the rate ruling at the date on which fair value was determined.

(1.2) Going concern

At the time of preparing and approving the financial statements, the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.3) Financial assets and financial liabilities

Classification

Financial assets are classified into the following categories: at fair value through profit or loss or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories: at fair value through profit or loss or other payables. Management determines the classification of its financial liabilities at initial recognition.

(i) Financial assets and financial liabilities at fair value through profit or loss

The decision to classify financial investments at fair value through profit or loss reflects the fact that the investment portfolio is managed, and its performance evaluated, on a fair value basis.

The decision to designate unit linked liabilities at fair value through profit or loss reflects the fact that the liabilities are calculated with reference to the value of the underlying assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise "Debtors and other receivables", "Deposits" and "Cash and cash equivalents" in the balance sheet.

(iii) Other payables

Other payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. The Company's other payables comprise "Amounts due to investment contract holders", and "Creditors and other payables" in the balance sheet.

Recognition and measurement

(i) Financial assets and financial liabilities at fair value through profit or loss

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. The Company recognises purchases and sales of investments on a trade date basis. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Fixed interest securities, ordinary shares and funds, which principally comprise collective investment schemes, are valued at their fair value on 31 December 2017.

Investments in collective investment schemes and certain other unquoted securities are valued at the latest available net asset valuation provided by the administrators or managers of the funds or companies, unless the Directors are aware of good reasons why such valuations would not be the most appropriate or indicative of fair value.

The assets which are invested in the with profits funds managed by Aviva are held at the valuation provided by Aviva of the Company's share of assets in the with profit funds as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Fair value of quoted investments in an active market is the bid price, for investments in units trusts and other pooled funds it is the bid price quoted on the last day of the accounting period on which the investments in such funds could be redeemed. If the market for a financial investment is not active, the fair value is determined by using valuation techniques. For these investments, the fair value is established by using quotations from independent third parties, such as brokers or pricing services or by using internally developed pricing models. Priority is given to publicly available prices, when available but overall the source of pricing and valuation technique is chosen with the objective of arriving at fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. Valuation techniques used include the use of recent arm's length transactions and reference to the current fair value of other instruments that are substantially the same.

Discretionary portfolios are carried as at 31 December 2017 using the latest valuation from the discretionary fund manager which is available to the Company on that date. Due to the unit linked nature of the portfolios any adjustment to the relevant financial investments values would be offset by a matching adjustment in the financial liabilities under investment contracts balance. The Company has used the same valuation as that for the statements prepared for clients as this represents the consistent practice of the Company in valuing and is considered most appropriate.

Financial liabilities carried at fair value are valued by reference to the underlying financial assets at fair value through profit or loss, as described above.

(ii) Loans and receivables

Loans and receivables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

(iii) Other payables

Other payables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

(1.4) Investment return

All gains and losses arising from changes in the fair value of financial investments, realised or unrealised, are recognised within "Gains on investments" in the profit and loss account in the period in which they arise. Unrealised gains and losses represent the difference between the valuation of the investments and their original cost. Realised gains and losses are calculated as net sales proceeds less purchase costs. Purchase costs are calculated on a weighted average basis. Movements in unrealised gains and losses include the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Income generated from financial investments, including investment income from bank deposits and fixed or floating interest bearing bonds and stocks, is recognised within "Investment income" in the profit and loss account on an accruals basis.

Dividends receivable for investments held within unit linked funds managed by the Company, are accrued on the ex-dividend date. All other dividends, including distributions from collective investments, are accounted for as received. The Company has not accrued all dividends on their ex-dividend date due to the lack of consistent and timely information as to the value as at year end. Based on management judgement the impact of adopting this approach is not significant.

The attributable investment income and net gains or loss on investments due or payable under the agreement with AXA China Region or AXA Life Singapore is due or payable simultaneously with the underlying contracts reassured which are recognised at the same point as for the Utmost contract.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.5) Commissions receivable

Commissions receivable arising from with profit bond investments and where commissions from investments in funds are provided for on an accruals basis are both accounted for on an accruals basis. Other inward commissions and rebates are accounted for on a receipts basis net of any amounts directly attributable to policies. The difference in adopting an accruals basis is not considered significant.

(1.6) Expenses

All expenses, including investment management expenses, are accounted for on an accruals basis.

(1.7) Financial liabilities under investment contracts

Investment contracts consist of unit linked contracts written by the Company. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset value of the underlying assets at the balance sheet date. The decision by the Company to designate its unit linked liabilities at fair value through profit or loss reflects the fact that the liabilities are calculated with reference to the value of the underlying assets.

Liabilities under unit linked contracts are recognised as and when units are created and are dependent on the value of the underlying financial assets. On existing business, a liability is recognised at the point the premium falls due.

Investment contract premiums are not included in the profit and loss account but are recognised as deposits to investment contracts and are included in financial liabilities on the balance sheet. Withdrawals from investment contracts and other benefits paid are not included in the profit and loss but are deducted from financial liabilities under investment contracts in the balance sheet. Benefits are deducted from financial liabilities and transferred to amounts due to investment contract holders on the basis of notifications received, when the benefit falls due for payment or, on the earlier of the date when paid or when the contract ceases to be included within those liabilities.

(1.8) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, net of short term overdraft positions where a right of set-off exists.

(1.9) Deposits

Fixed deposits held with banks with original maturities in excess of three months are included in deposits. These are valued at their carrying value or estimated using discounted cash flow techniques using the market rate for similar instruments.

(1.10) Fees and charges and deferred front end fees

Fees are charged to the contract holders of investment contracts for contract administration services, investment management services, payment of benefits and other services related to the administration of investment contracts. Fees are recognised as revenue as the services are provided.

Initial and establishment fees that exceed the level of recurring fees and relate to the future provision of services are, to the extent the Company defers sales incentives and adviser fees, deferred in the statement of financial position and amortised in line with the projected payment of fees. These fees are accounted for on the issue of a contract and on receipt of incremental premiums on existing single premium contracts.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Regular fees charged to contracts are recognised on a straight-line basis over the period in which the service is provided. Transactional fees are recorded when the required action is complete.

(1.11) Renewal commission and advisor fees

Advisor fees and renewal commission charges are charged to the contract holders of investment contracts for services related to administration and investment services. These fees form part of the ongoing fees paid to intermediaries and advisors. The fees charged to the investment contracts and the fees payable to the intermediaries are recognised as revenue and expenses respectively as the services are provided and the fees fall due for payment.

Regular fees charged to contracts are recognised on a straight-line basis over the period in which the service is provided. Transactional fees are recorded when the required action is complete.

(1.12) Fund administration fees

Fund administration fees are charged on the internal funds available to investment contract holders. The fees are based on the value of the fund and accrue daily within the fund price. The accrued fees crystallise monthly and are deducted from the fund. These fees form part of the ongoing fund charge.

(1.13) Origination costs and deferred origination costs

Origination costs include commissions, intermediary incentives, and a sales and marketing allowance payable to fellow group companies. Incremental costs that are directly attributable to securing unit linked investment contracts, and are expected to be recoverable, are deferred and recognised in the balance sheet as deferred origination costs. Origination costs that do not meet the criteria for deferral are expensed as incurred.

Deferred origination costs are amortised in line with the projected payment of fees, allowing for expected level of surrenders. The amortisation of deferred origination costs is charged to the profit and loss account within the origination costs line.

Formal reviews to assess the recoverability of deferred origination costs on investment contracts are carried out at each balance sheet date to determine whether there is any indication of impairment. If there is any indication of irrecoverability or impairment, the asset's recoverable amount is estimated. Impairment losses are reversed through the profit and loss account if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation where applicable, if no impairment loss had been recognised.

(1.14) Modified Coinsurance Account – see Note 21

Under the modified coinsurance arrangement the statutory reserve on the ceded business is the obligation of, and held by the ceding company. The Company remains on risk of loss from lapse and surrenders.

The amounts contractually withheld and legally owned by the cedant in the form of assets equal to the reserve are reflected in the Modified Coinsurance Account. Premiums, claims arising and policy charges under this arrangement are included within the "Changes in technical provisions for investment contract liabilities" in the profit and loss account and within the "Modified Coinsurance Account" in the balance sheet. The investment return attributable to the assets held under the Modified Coinsurance arrangement is included within "Investment income" or "Gains on investments" in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.15) Impairments

For financial assets (other than those at fair value) an impairment loss is recognised if the present value of the estimated future cash flows arising from the asset is lower than the asset's carrying value. An impairment loss is reversed if there is a decrease in the impairment that can be related objectively to an event occurring after the impairment was recognised.

For non-financial assets, an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. In respect of non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. For the purpose of assessing the impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses are recognised in the profit and loss account. An impairment loss is reversed only to the extent that after the reversal, the asset's carrying amount is no greater than the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(1.16) Share Capital

Ordinary shares are classified as equity.

(1.17) Changes in accounting policy and disclosure

New standards, amendments and interpretations

No new accounting standards, amendments to accounting standards or IFRIC interpretations, effective for the first time for the financial year beginning on or after 1 January 2017 have had a material impact on the financial statements.

The impact of the following new standards, amendments to standards, and interpretations that have been approved by the International Accounting Standards Board and which would be applicable to the Group with an effective date after these financial statements is being considered by the Group.

- IFRS 9 Financial Instruments (effective 1 Jan 2018 subject to EU endorsement).
- IFRS 15 Revenue from Contracts with Customers (effective 1 Jan 2018 subject to EU endorsement).
- IFRS 16 Leases (2019). IFRS 16 will replace IAS 17 Leases. The new standard removes the classification of leases as either operating or finance leases for the lessee, thereby treating all leases as finance leases.

The Directors are of the opinion that the adoption of the above standards is not expected to have a significant impact.

NOTES TO THE FINANCIAL STATEMENTS

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

Origination costs and amortisation of deferred origination costs
Expenses have been reviewed to determine their relationship to the issuance of an investment contract. Expenses which relate to the origination of a contract are deferred. Other expenses are written off as incurred.

Deferred origination costs consists of sales incentives to the UK Sales team and initial commission payable on new policies which are amortised in line with the projected payment of fees.

Amortisation of deferred front end fees
Deferred front end fees are amortised on the same basis as deferred origination costs above. Deferred front end fees consist of establishment fees receivable in the year together with a portion of initial fees receivable.

Recoverability of deferred origination costs
Deferred origination costs are tested annually, at Company level, for recoverability by comparing embedded value to the value of deferred origination costs.

Classification of financial investments
The Company has elected to treat all financial investments backing its investment contracts as being at fair value through profit and loss although some of the assets may in fact be held to maturity depending on the decisions and requirements of individual policyholders.

Fair value assessment of investments
Where the Directors determine that there is no active market for a particular financial investment, fair value is assessed using valuation techniques based on available relevant information and an appraisal of all associated risks. In some cases the fair value is assessed as £nil even though a price may be available publicly.

NOTES TO THE FINANCIAL STATEMENTS

3. FEES AND EXPENSES

(3.1) Expenses charged in the year include:

	2017	2016
	£'000	£'000
Auditor's remuneration – (see below)	66	64
Directors' fees – (see below)	35	35

The Company has entered into a contract with a fellow subsidiary (Utmost Services Limited) whereby this other subsidiary provides administration services. During the year the Company paid £13,374,000 (2016: £11,471,000) under this contract. The Directors' fees and audit fees are paid by this fellow subsidiary and recovered in the service charge above.

(3.2) Included within Fees and expenses are:

	2017	2016
	£'000	£'000
Sales and marketing allowance	-	1,941
Operational expenses	13,743	11,561
Other net expenses including Investment advisory fees	-	(4)
Ongoing commission and advisor fees payable	14,449	13,592
	28,192	27,090

With effect from 21 October 2016 the sales and marketing allowance in respect of UK business is no longer charged to Utmost Limited. These costs are now borne by Utmost Services Limited and included within the operational expenses recharge – see (3.1) above.

4. TAXATION

On the Isle of Man, with certain exceptions not relevant to the Company, corporate entities are subject to tax at 0% (2016: 0%).

This rate is not expected to change in the foreseeable future.

The Company is not liable for any other taxes.

NOTES TO THE FINANCIAL STATEMENTS

5. FEES AND CHARGES RECEIVABLE

Included within fees and charges are:

	2017	2016
	£'000	£'000
Contract fee income	22,448	26,727
Renewal commission and advisor fee deductions	13,121	12,710
Deferred front end fees net movement (note 14)	20,703	19,544
Policyholder charges	56,272	58,981
Fund management charges	5,235	5,072
	61,507	64,053

6. COMMISSIONS, FEES AND REBATE INCOME

Included within commissions, fees and rebate income arising on investments are:

	2017	2016
	£'000	£'000
Commission income	1,473	1,532
Rebates	3,834	2,756
Fees	263	281
	5,570	4,569

7. OTHER INCOME

Included within other income are:

	2017	2016
	£'000	£'000
Bank and deposit interest income	1,142	1,452
Loan interest	-	138
Other – including interest charged to policyholders	398	579
	1,540	2,169

The loan was fully repaid in May 2016 on the due date and interest ceased from that date.

NOTES TO THE FINANCIAL STATEMENTS

8. GAINS ON INVESTMENTS

Included within gains on investments are:

	2017 £'000	2016 £'000
Net gains on realisation of investments	284,928	208,559
Net movements in unrealised gains	473,041	893,693
Net foreign exchange gains	1,554	6,739
	759,523	1,108,991

9. ORIGINATION COSTS

Included within origination costs are:

	2017 £'000	2016 £'000
Initial commission payable	1,784	3,557
Deferred origination costs net movement (note 12)	17,691	18,742
Premium enhancements	1	5
	19,476	22,304

10. OTHER INVESTMENTS

	2017 £'000	2016 £'000
OEICS – available for sale	10,181	-

Other investments comprise the holding in the Oaktree European Senior Loan Fund (Share Class HGBP I) ISIN code LU0823372296, domiciled in Luxembourg. This fund has monthly valuation and liquidity. This investment falls into the Level 2 fair value hierarchy as per note 17.5.

Dividends are made quarterly and reinvested in additional units in the fund. The investment return on the investment is attributable in full to the Company. The security is held subject to prices in the future which are uncertain. The price risk falls to the Company.

NOTES TO THE FINANCIAL STATEMENTS

11. DEBTORS AND OTHER RECEIVABLES

	2017	2016
	£'000	£'000
Investment dealing debtors	9,439	16,094
Accrued investment income and commission	1,460	2,169
Other receivables	2,558	835
Amounts due from related parties:		
Other group companies	-	-
	13,457	19,098
Current (within 12 months)	13,378	19,044
Non-current (after 12 months)	79	54
	13,457	19,098

12. DEFERRED ORIGINATION COSTS

The movement in value over the financial year is summarised below.

	2017	2016
	£'000	£'000
At 1 January	186,158	204,900
Origination costs capitalised during the year	2,109	3,654
Origination costs amortised during the year	(19,800)	(22,396)
	168,467	186,158
Current (within 12 months)	17,456	19,809
Non-current (after 12 months)	151,011	166,349
	168,467	186,158

13. CASH AND CASH EQUIVALENTS

	2017	2016
	£'000	£'000
Deposits with credit institutions	15,699	19,108
Cash at bank	33,041	25,963
	48,740	45,071

NOTES TO THE FINANCIAL STATEMENTS

14. DEFERRED FRONT END FEES

The movement in value over the financial year is summarised below.

	2017 £'000	2016 £'000
At 1 January	220,701	240,245
Fees received and deferred during the year	3,216	7,542
Recognised in contract fees during the year	(23,919)	(27,086)
	199,998	220,701
Current (within 12 months)	19,809	23,912
Non-current (after 12 months)	180,189	196,789
	199,998	220,701

15. CREDITORS AND OTHER PAYABLES

	2017 £'000	2016 £'000
Premiums received in advance of policy issue	5,230	3,782
Commission payable	89	58
Other creditors and accruals	1,142	1,367
Investment dealing creditors	4,922	946
Amounts due to related parties:		
Other group companies	962	1,364
	12,345	7,517

The amounts owed to other Group Companies are unsecured, interest free and are repayable on demand.

All creditors are due for settlement within one year.

16. AMOUNTS DUE TO INVESTMENT CONTRACT HOLDERS

	2017 £'000	2016 £'000
Due to investment contract holders	12,558	16,185

Amounts due to investment contract holders are repayable and transferable on demand. In certain circumstances the contractual maturities of a portion of the assets may be longer than one year. Due to the unit linked nature of our contracts the Company will only settle amounts due when the linked asset is realised.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL RISK MANAGEMENT

Risk management objectives and risk policies
The Company's objective in the management of financial risk is to minimise, where practicable, its exposure to such risk, except when necessary to support other objectives. The Company seeks to manage risk through the operation of unit linked business whereby the contract holder bears the financial risk. In addition, shareholder assets are invested in highly rated investments.

Overall responsibility for the Management of the Company's exposure to risk is vested in the Board. To support it in this role, a risk management framework is in place comprising risk identification, risk assessment, control and reporting processes. Additionally, the parent Company (Utmost Holdings Limited) has established a number of Committees with defined terms of reference. These are principally the Audit Committee, the Investment Committee and the Risk & Compliance Committee.

The more significant financial risks to which the Company is exposed are set out below. For each category of risk, the Company determines its risk appetite and sets its investment, treasury and associated policies accordingly.

17.1 Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, analysed between price, interest rate and currency risk. The Company has a risk averse approach to market risk, with a stated policy of not actively pursuing or accepting market risk except where necessary to support other objectives. However, the Company accepts the risk that the fall in equity or other asset values, whether as a result of price falls or strengthening of Sterling against the currencies in which contract holder assets are denominated, will reduce the level of annual management charge income derived from such contract holder assets and the risk of lower future profits.

Sensitivity analysis to market risk
The Company's business is unit linked and the direct associated market risk is therefore borne by contract holders (although there is a secondary impact as some aspects of shareholder income are dependent upon the markets, as mentioned above). Financial assets and liabilities to support the Company's capital resources held outside unitised funds primarily consist of units in money market funds, cash and cash equivalents, and other assets and liabilities. Cash held in unitised money market funds and at bank is valued at par and is unaffected by movement in interest rates. Other assets and liabilities are similarly unaffected by market movements.

The Company's financial assets and liabilities held outside unitised funds are not materially subject to market risk, and movements at the reporting date in interest rates and equity values have an immaterial impact on the Company's profit after tax and equity. Future revenues from annual management charges may be affected by movements in interest rates, foreign currencies and equity values.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL RISK MANAGEMENT (continued)

(a) Price risk
The Company offers a number of unit linked internal funds. These unit linked funds are exposed to securities price risk as the investments held are subject to prices in the future which are uncertain. The fair value of these financial assets (designated at fair value through profit or loss) exposed to price risk at 31 December 2017 was £1,142,844,000 (2016: £1,152,070,000).

These funds form part of the unit linked investments held to cover liabilities under investment contracts. The investment returns on these funds are attributable in full to the investment contracts. In the event that investment income is affected by price risk then there will be an equal and opposite impact on the value of the changes in provisions for investment contract liabilities in the same accounting period. The impact on the profit or loss before taxation in a given financial year is negligible.

An overall change in the market value of the unit linked funds would affect the net annual management charges accruing to the Company since these charges, which average 0.45% per annum, are based on the market value of contract holder assets under administration. The approximate impact on the Company's profits and equity of a 10% change in fund values, either as a result of price, interest rate or currency fluctuations, is £518,000 (2016: £523,000).

(b) Interest rate risk
Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets arising from changes in underlying interest rates.

The Company is primarily exposed to interest rate risk on the balances that it holds with credit institutions. Shareholder's funds are invested in either cash or fixed interest deposits to provide a low level of interest rate risk.

A change in interest rates will impact the Company's annual investment income and equity. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of deposits held with credit institutions will fluctuate because of changes in market interest rates.

	2017	2016
	£'000s	£'000s
Increase of 100 bps (2016: 100bps) in interest rate yields	2,593	2,269
Decrease of 45 bps (2016: 62 bps) in interest rate yields	(1,142)	(1,452)

The downward shift of 100bps would decrease rates below 0.0% and hence the impact has been floored at 45bps (2016: 62 bps) being the average effective interest rates for deposits with credit institutions.

A summary of the Company's liquid assets at the balance sheet date is set out in note 17.2.

(c) Currency risk
Currency risk is the risk that the Company is exposed to higher or lower returns as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL RISK MANAGEMENT (continued)

(c)(i) Company foreign currency exposures
The Company is exposed to currency risk on the foreign currency denominated bank balances, contract fees receivable and other liquid assets that it holds to the extent that they do not match liabilities in those currencies. The impact of currency risk is minimised by frequent repatriation of excess foreign currency funds to Sterling. The Company does not hedge foreign currency cash flows. At the balance sheet date the Company's exposures to foreign currencies is not considered material.

(c)(ii) Financial investments by currency

Certain fees and commissions are earned in currencies other than Sterling, based on the value of financial investments held in those currencies from time to time.

The sensitivity of the Company to the currency risk inherent in investments held to cover financial liabilities under investment contracts is incorporated within the analysis set out in 17(a) above.

At the balance sheet date the proportion of non-cash financial investments by currencies other than Sterling is 1.5% (2016: 1.6%). These investments are held to cover unit linked liabilities and any gains or losses arising from exchange rate movements are attributable to the underlying contracts.

17.2 Credit risk
Credit risk is the risk that the Company is exposed to lower returns or loss if another party fails to perform its financial obligations to the Company. The Company has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

The clearing and custody operations for the Company's security transactions are spread across a number of different brokers and custodians. The Directors do not consider that there is a risk to the Company in respect of assets held supporting the unit linked investment contracts and as a consequence no quantitative disclosure has been included of this.

The Company has an exposure to credit risk in relation to its deposits with credit institutions. To manage these risks, deposits are made in accordance with an established policy.

The Company invests General Cash in accordance with guidelines approved by the Board. All new deposit takers must be approved by the Board. Existing deposit takers are reviewed on a regular basis including their long term credit ratings. While no minimum rating is specified the deposit takers will have Moody's long term ratings of A2 and above. Additionally, maximum counterparty exposure limits, minimum numbers of deposit institutions and maximum deposit time periods are defined in the guidelines and monitored on an ongoing basis.

"General Cash" comprises shareholder cash, un-invested premium and pooled cash supporting the Portfolio and Funds General Transaction Accounts.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL RISK MANAGEMENT (continued)

At the balance sheet date, an analysis of the Company's own cash (excluding cash held for the benefit of deposit contract holders) cash equivalent balances and liquid investments was as follows:

	2017	2016
	£'000	£'000
Short term deposits with credit institutions	62,082	66,691
Cash at bank	33,041	25,963
	95,123	92,654

17.3 Liquidity risk

Liquidity risk is the risk that the Company, though solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost. The Company is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives.

The Company's objective is to ensure that it has sufficient liquidity over short-term (up to one year) and medium-term time horizons to meet the needs of the business. This includes liquidity to cover, amongst other things, new business costs, planned strategic activities, servicing of equity capital as well as working capital to fund day-to-day cash flow requirements.

Liquidity risk is principally managed in the following ways:

- Assets of a suitable marketability are held to meet contract holder liabilities as they fall due.
- Forecasts are prepared regularly to predict required liquidity levels over both the short- and medium-term.

The Company's exposure to liquidity risk is considered to be low since it maintains a high level of liquid assets to meet its liabilities.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL RISK MANAGEMENT (continued)

17.4 Undiscounted contractual maturity analysis

Set out below is a summary of the undiscounted contractual maturity profile of the Company's assets.

	2017	2016
Financial Assets		
Maturity within one year	**£'000**	**£'000**
Debtors and receivables	13,378	19,044
Deposits with credit institutions	46,383	47,583
Maturity from one to five years		
Debtors and receivables	79	54
Maturity over five years		
Debtors and receivables	-	-
Total financial assets with a maturity profile	**59,840**	**66,681**
Cash and cash equivalents	48,740	45,071
Other investments	10,181	-
Assets held to cover linked liabilities under investment contracts	9,705,040	9,283,464
Modified Coinsurance Account	777,232	796,863
Total financial assets with no maturity profile	**10,541,193**	**10,125,398**
Non-financial Assets		
Deferred origination costs	168,467	186,158
Total non-financial assets	**168,467**	**186,158**
Total assets	**10,769,500**	**10,378,237**

There is no significant difference between the value of the Company's assets on an undiscounted basis and the balance sheet values.

Assets held to cover financial liabilities under investment contracts are deemed to have a maturity of up to one year since the corresponding unit linked liabilities are repayable and transferable on demand. In certain circumstances the contractual maturities of a portion of the assets may be longer than one year, but the majority of assets held within the unit linked funds are highly liquid. The Company actively monitors its funds liquidity.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL RISK MANAGEMENT (continued)

17.5 Fair value estimation

The assets held to cover linked liabilities under investment contracts are as follows:

	2017	2016
	£'000	£'000
Deposits	406,829	490,098
Cash and cash equivalents	36,036	37,190
Discretionary managed portfolios	5,572,181	5,281,587
Other assets – analysed below	3,689,994	3,474,589
	9,705,040	**9,283,464**

Assets held on behalf of investment contract holders are subject to market risk, including price and foreign exchange risk, credit risk, liquidity risk and funding risk. Any change in the value of these assets is offset by a corresponding change in the value of investment contract liabilities. The risk is borne in full by the contract holders.

IFRS 13 requires the Company to classify fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring that fair value. The hierarchy is as follows:

- **Level 1:** fair value is determined as the unadjusted quoted price for an identical instrument in an active market.
- **Level 2:** fair value is determined using observable inputs other than unadjusted quoted prices for an identical instrument and that does not use significant unobservable inputs.
- **Level 3:** fair value is determined using significant unobservable inputs.

The valuation techniques for the investments held under the unit linked contracts will comprise a mix of Level 1 through Level 3.

Level 1 financial instruments are mainly equity securities listed on a recognised stock exchange and collective investment schemes in active markets.

Level 2 financial instruments are mainly listed corporate bonds, medium term notes (MTNs), structured products in inactive markets and collective investment schemes, external life and managed portfolios with other than daily dealing frequencies. These have generally been classified as Level 2 as the prices provided by the third party sources do not met the definition of Level 1 as they include inputs which are not based on inputs which are readily observable.

Level 3 financial instruments include interests in private equities and other investments funds that have been illiquid, suspended or in liquidation.

The Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where the Directors determine that there is no active market for a particular financial instrument, fair value is assessed using valuation techniques based on available, relevant, information and an appraisal of all associated risks. This process requires the exercise of significant judgement on the part of the Directors.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL RISK MANAGEMENT (continued)

The following tables show an analysis by fair value hierarchy of other assets.

Analysis as at 31 December 2017:

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equities and exchange traded funds	35,018	34,517	501	-
Collective investment funds	3,324,788	3,255,337	57,431	12,020
Fixed interest securities	-	-	-	-
External life funds	277,530	-	277,530	-
Managed portfolios	31,247	-	31,247	-
Structured products and MTNs	20,204	-	20,204	-
Other including private equities	1,207	-	3	1,204
	3,689,994	**3,289,854**	**386,916**	**13,224**

Analysis as at 31 December 2016:

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equities and exchange traded funds	11,226	11,224	-	2
Collective investment funds	3,249,825	3,168,875	64,353	16,597
Fixed interest securities	237	-	237	-
External life funds	144,394	-	144,394	-
Managed portfolios	31,358	-	31,358	-
Structured products and MTNs	36,493	-	36,493	-
Other including private equities	1,056	-	-	1,056
	3,474,589	**3,180,099**	**276,835**	**17,655**

Investments are transferred from Level 1 to Level 2 and vice versa when dealing/pricing frequencies change. Transfers into Level 3 occur when an equity or collective investment scheme is suspended or enters liquidation, as notified by its fund administrator or investment manager. Transfers out of Level 3 occur when such suspension is lifted, as notified by the fund administrator or investment manager. There were no significant transfers between Level 1, 2 and 3 during the current and prior year.

Only a small proportion of the assets are valued at a fair value derived using unobservable Level 3 inputs. The majority of these are valued using valuations obtained from external parties which are reviewed internally to ensure they are appropriate. The Company has limited access to the key assumptions and data underlying these valuations and most of these investments are in suspended funds or funds in liquidation for which any changes in valuation is derived from realisation of underlying assets therefore no sensitivity analysis has been presented.

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL RISK MANAGEMENT (continued)

The Company has a general policy of no further investment into a Level 3 instrument. The Level 3 investments in respect of illiquid, suspended or liquidating securities as at 31 December 2017, 31 December 2016 and 31 December 2015 were £13,224,000, £17,665,000 and £38,334,000 respectively which indicate that movements during these periods will generally be due to realisations.

The application of the three tier analysis of invested assets has not been applied to discretionary managed portfolios. This is because Management do not consider that there is a risk to shareholders of any movements in the quoted price for these assets in the unit linked funds.

For discretionary portfolios, which represent groups of policyholder assets where the power to make investment decisions has been delegated to an approved discretionary manager (these are termed "Externally Managed Contracts" or "EMCs"), Management believe that the appropriate valuation technique is to use the valuation provided by the External Manager (which may not be at the year end, due to timing delays in receiving information from them). Whilst this may mean that different prices are used for the same assets (those held by the Company on behalf of contract holders directly, against those held within different EMCs which may use different price sources), this is considered to be appropriate in the circumstances and maximises the use of relevant observable inputs - the External Managers' statements.

Due to the unit linked nature of the contracts administered by the Company, any change in the value of financial assets held to cover financial liabilities under those contracts will result in an equal and opposite change in the value of contract liabilities. The separate effect on financial assets and financial liabilities is included in Gains on investments and Changes in technical provisions for investment contract liabilities, respectively, in the profit and loss account.

18. CAPITAL MANAGEMENT

It is the Company's policy to maintain a strong capital base in order to:

- satisfy the requirements of its contract holders, creditors and regulators;
- maintain financial strength to support new business growth and create shareholder value; and
- match the profile of its assets and liabilities, taking account of the risks inherent in the business.

The Company's capital requirements are regularly monitored by the Board. The Company's policy is to at all times hold the higher of:

- the Company's internal assessment of the capital required; and
- the capital requirement of the relevant supervisory body.

There has been no material change in the Company's management of capital during the period and the Company has capital in excess of the minimum solvency requirement at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

18. CAPITAL MANAGEMENT (continued))

The Company is required to maintain a certain margin of solvency by the Isle of Man regulator. This is calculated as the higher of £500,000 and 0.25% of the actuarial valuation of liabilities to policyholders net of reinsurance. The solvency requirement at 31 December 2017 was £26,231,000 (2016: £25,239,000). The excess over the minimum margin is £55,855,000 (2016: £47,596,000).

The Company has complied with all externally and internally imposed capital requirements throughout the period. The capital, defined as total equity, is available to meet the regulatory capital requirements without any restrictions. The Group's other assets are largely investment in Oaktree European Senior Loan Fund (note 10), cash and cash equivalents and deposits with credit institutions.

19. ASSETS HELD TO COVER LINKED LIABILITIES

The following financial investments, cash and cash equivalents, other assets and liabilities are held to cover financial liabilities under investment contracts.

Other investments comprise £277,530,000 (2016: £144,394,000) of investments reassured to the Friends Life Assurance Society With Profit Fund and the Friends Life With Profit Fund. These funds were originally invested by the Company in the with profits funds managed by the AXA UK Group. Following the transfer of these funds to those managed by the Friends Life, part of the AVIVA Group, the investments are now held under a reassurance contract and are managed by Friends Life at the valuation provided as at 31 December 2017. The Company holds a floating charge over the assets of Friends Life as additional security on these investments.

	2017	2016
	£'000	£'000
Fixed interest securities	-	237
Deposits	406,829	490,098
Ordinary shares and funds	3,412,464	3,329,958
Discretionary managed portfolios	5,572,181	5,281,587
Other investments	277,530	144,394
Cash and cash equivalents	36,036	37,190
	9,705,040	**9,283,464**

Included in the analysis above are investments of £13,224,000 (2016: £17,655,000) which have restricted liquidity through suspensions, liquidations or by the nature of underlying assets the fund invests into.

NOTES TO THE FINANCIAL STATEMENTS

20. TECHNICAL PROVISION FOR LINKED LIABILITIES

The following table summarises the movement in financial liabilities under investment contracts during the year:

	2017	2016
	£'000	£'000
Deposits to investment contracts	389,759	479,807
Withdrawals from investment contracts	(762,642)	(796,431)
Fees and charges deducted including third party charges	(43,177)	(47,377)
Third party compensation applied	196	803
Commissions and rebates receivable	5,246	3,949
Change in technical provision for linked liabilities	805,251	1,140,568
Movement in the year	394,633	781,319
Balance at 1 January	10,097,167	9,315,848
	10,491,800	**10,097,167**

21. MODIFIED COINSURANCE ACCOUNT

In 2013 the Company entered into an agreement with AXA Hong Kong (AXA China Region Insurance (Bermuda) Limited) – (CRIB)). Under this agreement the AXA Hong Kong (ACR) book of business migrated from traditional reinsurance to a modified coinsurance (ModCo) arrangement. The main effect of the ModCo arrangement is that the statutory reserve on the ceded business is the obligation of, and held by the ceding company (CRIB) rather than the reinsurer (Utmost Limited). The Company remains on risk of loss from lapse and surrenders.

On migration the underlying unit linked assets relating to the ACR book of business equal to the reserve were provided to and become the property of CRIB as the ceding insurance company.

In the event of the cedant's insolvency the liability of the reinsurer (Utmost Limited) is limited as the Company has the right to offset any claims arising under the arrangement against the assets held by the ceding company.

A new modified coinsurance arrangement similar to the one above was entered into by AXA Life Singapore Limited (ALS) and the Company. The terms and conditions under this modified coinsurance arrangement are similar to the agreement with ACR. In addition to the risk of loss from lapse and surrenders the Company retains the mortality risk on the ALS policies. AXA Life Singapore Limited changed its name to AXA Insurance Pte Limited in January 2017.

The modified coinsurance account is categorised as Level 2 in the fair value hierarchy under IFRS 13.

NOTES TO THE FINANCIAL STATEMENTS

21. MODIFIED COINSURANCE ACCOUNT (continued))

The movement and closing balance on the Modified Coinsurance Account at 31 December comprises:

	2017	2016
	£'000	£'000
Opening balance brought forward	796,863	671,487
Deposits to investment contracts	88,835	177,176
Withdrawals from investment contracts	(68,491)	(182,622)
Attributable investment income	29,197	11,772
Attributable net (loss) / gain on investments	(63,103)	127,072
Policy charges	(5,955)	(7,864)
Attributable expenses and charges	(114)	(158)
Closing balance carried forward	**777,232**	**796,863**

22. SHARE CAPITAL

	2017		2016	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of £1 each	23,380,000	23,380	23,380,000	23,380
Allotted, issued and fully paid				
Ordinary shares of £1 each	23,380,000	23,380	23,380,000	23,380

23. CONTINGENT LIABILITY

The Company is a member of the Isle of Man Policyholders' Compensation Scheme governed by the Life Assurance (Compensation of Policyholders) Regulations 1991. The objective of the Scheme is to provide a compensation scheme for policyholders should an authorised insurer be unable to satisfy its liabilities. In the event of a levy being charged on Scheme members the Company would be obliged to satisfy the liability arising at that time. The maximum levy payable under the Scheme in respect of the insolvency of any Insurer is 2% of the long term business liabilities. The majority of the products issued by the Company include a clause permitting the Company to recover any monies paid out under the Scheme from policyholders.

The Company does not offer investment advice to its policyholders. All investment decisions are made either by the policyholders directly or by advisers appointed by the policyholders, and all of the investment performance risk lies with policyholders. Nevertheless, occasionally policyholders may seek to take action against the Company when the investments selected by either themselves or their advisers do not perform to their expectations. At both 31 December 2017 and 2016 there are no outstanding claims against the Company, however it is possible that future claims could be made about past investment performance. If such claims were made and substantiated, it is possible that an adverse resolution could have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

24. IMMEDIATE AND ULTIMATE PARENT COMPANIES

The Company is incorporated in the Isle of Man and is a direct wholly owned subsidiary of Utmost Holdings Limited, a company incorporated in the Isle of Man. The ultimate parent company which contains a majority controlling interest in the group is recognised by the Directors as OCM LCCG2 Holdings Limited, a Cayman incorporated entity.

The parent undertaking of the largest and smallest group which includes the Company and for which group financial statements are prepared Life Company Consolidation Group (No 2) Limited and Utmost Holdings Limited respectively which are available from www.lccgl.co.uk.

25. DISCLOSURE EXEMPTIONS

In preparing these financial statements, the Company has taken advantage of the following relevant disclosure exemptions in FRS 101 paragraphs 7A to 9:

Cash flow statement
The exemption from preparing a cash flow statement under FRS101 paragraph 8(g) has been taken, as the Company is a qualifying entity as defined in FRS 100.

Related party transactions
As permitted by FRS 101 paragraph 8(j) disclosure of material related party transactions between wholly owned subsidiaries of the group has not been made.

26. AXA SHARES COST

When the Company was part of the AXA Group a number of members of staff qualified for a bonus issue of AXA S.A. shares under a Group share based equity compensation scheme. The Company was charged an expense by AXA S.A. in relation to the issuance of those shares in 2014.

The cumulative cost of this Group share scheme was previously recognised in "Other reserves". Following the transfer of ownership of the Company in October 2016 the balance on "Other reserves" was transferred to Revenue Reserves.