

**UTMOST LIMITED**

**Annual Report and Financial Statements  
For the Year Ended 31 December 2018**

<b>CONTENTS</b>	<b>Page</b>
Directors' Report	1
Statement of Directors' Responsibilities	2
Independent Auditor's Report	3 - 5
Profit and Loss Account	6
Statement of Changes in Equity	7
Balance Sheet	8
Notes to the Financial Statements	9 - 32



## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2018.

### 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 £23,195,000 (2017: £21,132,000) which has been transferred to reserves. During the year dividends of £42,100,000 (2017: £5,000,000) were paid. The Directors do not recommend the payment of a final dividend (2017: £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	(Resigned 12 September 2018, Chairman until 12 September 2018)
N A Duggan	(Chairman from 12 September 2018)
M J Foy	
C J Hall	
I G Maidens	
S Shone	
K S Moore	(Appointed 11 September 2018)
A P Thompson	
M Coffey	(Appointed 11 September 2018)

### COMPANY SECRETARY

JM McCann	(Resigned 30 January 2019)
S Lewis	(Appointed 30 January 2019)

### APPOINTED ACTUARY

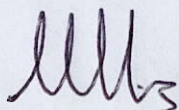
S Calder	(Resigned 31 December 2018)
J Phiri	(Appointed 31 December 2018)

### 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



26 March 2019  
Royalty House  
Walpole Avenue  
DOUGLAS  
Isle of Man  
IM1 2SL



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## 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 regulations.

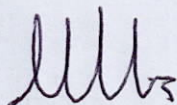
Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101). The 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

26 March 2019



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**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 2018 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 2018;
- 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 other information comprises all of the information in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

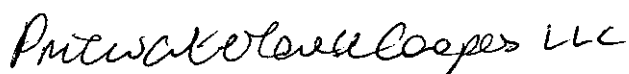
This report, including the opinion, has been prepared for and only for the Company's member in accordance with Section 15 of the Isle of Man Companies Act 1982 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to 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**  
**Chartered Accountants**  
**Douglas, Isle of Man**  
**26 March 2019**

# **PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 £'000	2017 £'000
<b>Revenue</b>			
Fees and charges receivable	5	70,385	61,507
Commissions, fees and rebate income	6	2,783	5,570
Other income	7	2,284	1,540
		<u>75,452</u>	<u>68,617</u>
<b>Investment return</b>			
Interest income on policyholder investments		1,686	2,160
Dividend income		43,627	43,751
(Loss)/Gains on investments	8	(433,093)	759,523
		<u>(387,780)</u>	<u>805,434</u>
Changes in technical provisions for investment contract liabilities		387,747	(805,251)
<b>Commission and expenses</b>			
Origination costs	9	(25,207)	(19,476)
Fees and expenses	3	(26,944)	(28,192)
		<u>(52,151)</u>	<u>(47,668)</u>
<b>Profit before taxation</b>		23,268	21,132
Taxation	4	(73)	-
<b>Profit after taxation</b>		<u>23,195</u>	<u>21,132</u>
Other items of comprehensive income		-	-
<b>Total comprehensive income</b>		<u><b>23,195</b></u>	<u><b>21,132</b></u>

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 2018

	Notes	Share Capital	Retained Earnings	Other Reserves	Total
		£'000	£'000	£'000	£'000
<b>Balance at 1 January 2017</b>		23,380	13,287	-	36,667
Profit and total comprehensive income for the year		-	21,132	-	21,132
<b>Transactions with owners:</b>					
Dividends paid		-	(5,000)	-	(5,000)
<b>Balance at 31 December 2017</b>		<b>23,380</b>	<b>29,419</b>	<b>-</b>	<b>52,799</b>
<b>Balance at 31 December 2017</b>		23,380	29,419	-	52,799
Cumulative impact of the initial application 13, 15 of IFRS 15 at 1 January 2018		-	3,430	-	3,430
<b>Balance at 1 January 2018</b>		23,380	32,849	-	56,229
Profit and total comprehensive income for the year		-	23,195	-	23,195
<b>Transactions with owners:</b>					
Dividends paid		-	(42,100)	-	(42,100)
<b>Balance at 31 December 2018</b>		<b>23,380</b>	<b>13,944</b>	<b>-</b>	<b>37,324</b>

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

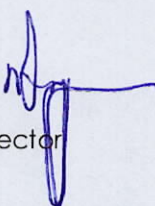


**BALANCE SHEET AS AT 31 DECEMBER 2018**


	Notes	2018 £'000	2017 £'000
<b>Assets</b>			
Deferred origination costs	13	80,535	168,467
Modified Coinsurance Account	22	571,949	777,232
<b>Financial investments</b>			
Long term loan receivable	11	20,000	-
Assets held to cover linked liabilities	20	9,019,717	9,705,040
Other investments	10	10,279	10,181
Debtors and other receivables	12	23,182	13,457
Deposits		17,000	46,383
Cash and cash equivalents	14	26,869	48,740
<b>TOTAL ASSETS</b>		<b>9,769,531</b>	<b>10,769,500</b>
<b>Liabilities</b>			
Technical provisions for linked liabilities	21	9,591,666	10,491,800
Deferred front end fees	15	104,441	199,998
Amounts due to investment contract holders	17	13,106	12,558
Creditors and other payables	16	22,994	12,345
		<u>9,732,207</u>	<u>10,716,701</u>
<b>Capital and reserves</b>			
Share capital	23	23,380	23,380
Revenue reserves		13,944	29,419
		<u>37,324</u>	<u>52,799</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,769,531</b>	<b>10,769,500</b>

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 26 March 2019 and were signed on its behalf by



Director



Director



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## 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 2018 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 "(Loss)/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

The Company adopted IFRS 9 "Financial Instruments" on 1 January 2018.

#### **Classification**

From 1 January 2018 the Company classifies its financial assets in the following categories: measured subsequently at fair value, or measured at amortised cost. The classification is determined by the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets subsequently measured at fair value, gains and losses are recorded in profit or loss. The Company has not elected to account for any equity investments at fair value through other comprehensive income.

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 derecognition**

Purchases and sales of financial assets are recognised on the trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

#### **Measurement**

At initial recognition, financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the purchase of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Equity instruments are subsequently measured at fair value through profit or loss. Changes in the fair value of financial assets are recognised in gains or losses on investments in the Profit and Loss Account. Dividends from equity instruments are recognised in profit or loss as other income when the Company's right to receive payments is established.

The subsequent measurement of debt instruments depends on the Company's business model for managing the asset and on the cash flow characteristics of the asset. There are three measurement categories: amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

Debt instruments are measured at amortised cost where the assets are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in investment income in the Profit and Loss Account using the effective interest method. Any gains or losses including foreign exchange gains and losses arising from derecognition, together with any impairment losses are all included in the Profit and Loss Account.

Debt instruments are measured at fair value through profit or loss when they are managed, and their performance is evaluated, on a fair value basis. A gain or loss on the derecognition of a debt instrument is recognised and included in profit or loss on the date the asset is derecognised.



## 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 unit 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 valued at 31 December 2018 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 valuation statements prepared for clients, as this represents the consistent practice of the Company in valuing the policyholders' investments 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.

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 "(Loss)/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.



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**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 for other inward commissions and rebates 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, and included within 'Technical provisions for linked liabilities' in the consolidated Statement of financial position. 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.



## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (continued)

Initial and establishment fees that exceed the level of recurring fees and relate to the future provision of services are deferred in the statement of financial position as the Company's performance obligation in respect of these up-front fees are met over the remaining duration of the policies. Following the adoption of IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018, deferred fees are amortised on a straight line basis based over the expected remaining duration of the underlying policyholder contract. Prior to this they were 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.

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. There has been no change in the accounting of renewal commission and advisor fees from the adoption of IFRS 15.

#### (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. There has been no change in the accounting of fund administration fees from the adoption of IFRS 15.

#### (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.

Following the adoption of IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018, deferred origination costs are amortised on a straight line basis based over the expected remaining duration of the underlying policyholder contract. Prior to this deferred origination costs were 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (continued)

#### (1.14) Modified Coinsurance Account – see Note 22

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/losses on investments" in the profit and loss account.

#### (1.15) Impairment

For financial assets the company assesses on a forward looking basis the expected credit losses associated with its debtors and other receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For debtors and other receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Impairment losses are recognised within operating profit in the profit and loss account. Subsequent recoveries of amounts previously written off are credited against the same line item. Management have considered the expected credit losses and deem that there is no exposure.

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 to standards, and interpretations.

The following new accounting standards became effective for the financial year beginning 1 January 2018 and have been adopted for the first time in these financial statements.

- IFRS 9 "Financial Instruments". The adoption of IFRS 9 has resulted in different criteria by which to assess the classification of financial assets, as well as the introduction of an expected credit loss model instead of the previous incurred loss model for impairments of assets held at amortised cost. However no changes have arisen in the recognition or measurement of financial assets or financial liabilities.
- IFRS 15 "Revenue from Contracts with Customers". The adoption of IFRS 15 has resulted in a change in the amortisation method applied for both deferred front end fees and deferred origination costs. The amortisation basis is now on a straight line basis whereas prior to 1 January 2018 it was amortised in line with the projected payment of fees.



## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (continued)

On adoption of the standard the Company has applied the practical expedient available in the standard to group transactions by year of business and product on open policies at the date of transition. Using the provisions for first time adoption available in the standard, the cumulative impact of this adjustment amounting to £3,430,000 has been recognised in the statement of changes in equity at 1 January 2018, with no restatement of the comparative amounts required. The impact of the change in amortisation to the Company's Profit and Loss Account for the year ended 31 December 2018 is an increase in profit of £1,550,000. The cumulative adjustment as at 31 December 2018 is £4,980,000 (see Note 27).

There are no new accounting standards, amendments to accounting standards or IFRIC interpretations that will impact the Company for the financial year commencing 1 January 2019.

### 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 on a straight line basis over the expected duration of the policies.

#### 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:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Auditor's remuneration		
Audit fees	82	66
Non- audit fees	58	-
Total Auditor's remuneration	<u>140</u>	<u>66</u>
Directors' fees	<u>37</u>	<u>35</u>

The Company has entered into a contract with a fellow subsidiary (Utmost Services Limited) for the provision of administration services. The Directors' fees and Auditor's remuneration are paid by this fellow subsidiary and recovered in the service charge to the Company.

(3.2) Included within Fees and expenses are:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Recharged operational expenses from fellow subsidiaries	12,089	13,374
Other expenses	499	369
Ongoing commission and advisor fees payable	<u>14,356</u>	<u>14,449</u>
	<u>26,944</u>	<u>28,192</u>

**4. TAXATION**

On the Isle of Man, with certain exceptions not relevant to the Company, corporate entities are subject to tax at 0% (2017: 0%).

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

Withholding tax of £73,000 has been withheld by Utmost Pan Europe dac, a fellow subsidiary company, under the terms of the Facility Agreement as set out in note 11.

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:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Contract fee income	20,863	22,448
Renewal commission and advisor fee deductions	12,988	13,121
Deferred front end fees net movement (note 15)	29,042	20,703
Policyholder charges	62,893	56,272
Fund management charges	7,492	5,235
	<u>70,385</u>	<u>61,507</u>

**6. COMMISSIONS, FEES AND REBATE INCOME**

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Commission income	1,667	1,473
Rebates	852	3,834
Fees	264	263
	<u>2,783</u>	<u>5,570</u>

**7. OTHER INCOME**

Included within other income are:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Bank and deposit interest income	1,478	1,142
Loan interest (Note 11)	510	-
Other – including interest charged to policyholders	296	398
	<u>2,284</u>	<u>1,540</u>



## NOTES TO THE FINANCIAL STATEMENTS

**8. (LOSS)/GAINS ON INVESTMENTS**

Included within (loss)/gains on investments are:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Net gains on realisation of investments	460,090	284,928
Net movements in unrealised gains	(910,924)	473,041
Net foreign exchange gains	17,741	1,554
	<u>(433,093)</u>	<u>759,523</u>

**9. ORIGATION COSTS**

Included within origination costs are:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Initial commission payable	359	1,784
Deferred origination costs net movement (note 13)	24,847	17,691
Premium enhancements	-	1
	<u>25,207</u>	<u>19,476</u>

**10. OTHER INVESTMENTS**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
OEICS	<u>10,279</u>	<u>10,181</u>

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 18.5.

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 price risk falls to the Company.

**11. LONG TERM LOAN RECEIVABLE**

In June 2018 the Company issued a £20m Facility Agreement to Utmost PanEurope dac ("UPE"), fellow subsidiary of Life Company Consolidation Group (No 2) Limited. The loan was for a period of 11 years, was unsecured, and carried interest at 5% per annum subject to withholding tax of 20%. In November 2018 the loan was repaid and a new £20m Note issued on near identical terms. The new Note is in the process of being listed on The International Stock Exchange ("TISE") with the result that withholding tax will no longer be withheld by UPE.



## NOTES TO THE FINANCIAL STATEMENTS

**12. DEBTORS AND OTHER RECEIVABLES**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Investment dealing debtors	7,475	9,439
Accrued investment income and commission	998	1,460
Other receivables	14,709	2,558
	<u>23,182</u>	<u>13,457</u>
Current (within 12 months)	23,086	13,378
Non-current (after 12 months)	96	79
	<u>23,182</u>	<u>13,457</u>

**13. DEFERRED ORIGATION COSTS**

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	168,467	186,158
Cumulative impact of the initial application of IFRS 15 at 1 January 2018	(63,085)	-
Origination costs capitalised during the year	485	2,109
Origination costs amortised during the year	(25,332)	(19,800)
	<u>80,535</u>	<u>168,467</u>
Current (within 12 months)	19,585	17,456
Non-current (after 12 months)	60,950	151,011
	<u>80,535</u>	<u>168,467</u>

**14. CASH AND CASH EQUIVALENTS**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Deposits at less than 3 months maturity	-	15,699
Cash at bank	26,869	33,041
	<u>26,869</u>	<u>48,740</u>



## NOTES TO THE FINANCIAL STATEMENTS

**15. DEFERRED FRONT END FEES**

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	199,998	220,701
Cumulative impact of the initial application of IFRS 15 at 1 January 2018	(66,515)	-
Fees received and deferred during the year	2,816	3,216
Recognised in fees and charges receivable	(31,858)	(23,919)
	<u>104,441</u>	<u>199,998</u>
Current (within 12 months)	25,076	19,809
Non-current (after 12 months)	79,365	180,189
	<u>104,441</u>	<u>199,998</u>

**16. CREDITORS AND OTHER PAYABLES**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Premiums received in advance of policy issue	5,133	5,230
Commission payable	118	89
Other creditors and accruals	14,673	1,142
Investment dealing creditors	2,675	4,922
<b>Amounts due to related parties:</b>		
Other group companies	395	962
	<u>22,994</u>	<u>12,345</u>

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.

**17. AMOUNTS DUE TO INVESTMENT CONTRACT HOLDERS**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Due to investment contract holders	<u>13,106</u>	<u>12,558</u>

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

### 18. 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 Isle of Man 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.

#### **18.1 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

**18. 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 2018 was £1,348,969,377 (2017: £1,142,844,000).

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 0.56% per annum (2017: average of 0.45%), 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 £749,000 (2017: £518,000).

**(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, fixed interest deposits, loan note with a related party and an investment into Oaktree Senior Loan Fund 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.

	<b>2018</b>	<b>2017</b>
	<b>£'000s</b>	<b>£'000s</b>
Increase of 100bps (2017: 100bps) in interest rate yields	2,152	2,593
Decrease of 76bps (2017: 45 bps) in interest rate yields	(1,478)	(1,142)

The downward shift of 100bps would decrease rates below 0.0% and hence the impact has been floored at 76bps (2017: 45bps) 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 18.2.

**(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

### 18. 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 18(a) above.

At the balance sheet date the proportion of non-cash financial investments by currencies other than Sterling is 1.4% (2017: 1.5%). 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.

### 18.2 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 both its own cash and deposit balances, and policyholder un-invested cash balances in accordance with guidelines approved by the Board. During 2018 the Company approved a revised Investment Policy for its counterparties. All new deposit takers must be approved by the Investment Committee of Utmost Holdings Isle of Man Limited. Existing deposit takers are reviewed on a regular basis including their long term credit ratings.

The Investment Policy sets limits for amounts to be held with primary and secondary counterparties of £80m and £60m each respectively, that a minimum of 5 deposit takers must be used at any one point in time, and no single deposit can exceed £10 million. The minimum acceptable credit rating for all counterparties as set out in the Investment Policy is Standard & Poor's BBB or Moody's Baa, and all counterparties have remained above these limits throughout the year.

The Group has an exposure to credit risk in relation to its long term loan with Utmost PanEurope dac, a fellow subsidiary company of Life Company Consolidation Group (No 2) Limited (see Note 11). Management monitor this risk primarily through monitoring the solvency coverage ratio of the counterparty.



## NOTES TO THE FINANCIAL STATEMENTS

**18. FINANCIAL RISK MANAGEMENT** (continued)

At the balance sheet date, an analysis of the Company's cash balances and liquid investments (excluding Assets held to cover linked liabilities) was as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Deposits with credit institutions	17,000	62,082
Cash at bank	26,869	33,041
	<u>43,869</u>	<u>95,123</u>

**18.3 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

## 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.4 Undiscounted contractual maturity analysis

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

	2018	2017
<b>Financial Assets</b>		
<b>Maturity within one year</b>	<b>£'000</b>	<b>£'000</b>
Debtors and receivables	23,086	13,378
Deposits with credit institutions	17,000	46,383
<b>Maturity from one to five years</b>		
Debtors and receivables	96	79
<b>Maturity greater than five years</b>		
Long term loan	20,000	-
<b>Total financial assets with a maturity profile</b>	<b>60,182</b>	<b>59,840</b>
Cash and cash equivalents	26,869	48,740
Other investments	10,279	10,181
Assets held to cover linked liabilities under investment contracts	9,019,717	9,705,040
Modified Coinsurance Account	571,949	777,232
<b>Total financial assets with no maturity profile</b>	<b>9,628,814</b>	<b>10,541,193</b>
<b>Non-financial Assets</b>		
Deferred origination costs	80,535	168,467
<b>Total non-financial assets</b>	<b>80,535</b>	<b>168,467</b>
<b>Total assets</b>	<b>9,769,531</b>	<b>10,769,500</b>

There is no significant difference between the value of the Company's assets on an undiscounted basis and the balance sheet carrying 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 the liquidity of unit linked funds.



## NOTES TO THE FINANCIAL STATEMENTS

## 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.5 Fair value estimation

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

	2018	2017
	£'000	£'000
Deposits	309,477	406,829
Cash and cash equivalents	75,609	36,036
Discretionary managed portfolios	5,409,858	5,572,181
Other assets – analysed below	3,224,773	3,689,994
	<b>9,019,717</b>	<b>9,705,040</b>

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 are illiquid, have been suspended or are 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

**18. FINANCIAL RISK MANAGEMENT** (continued)

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

**Analysis as at 31 December 2018:**

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities and exchange traded funds	30,599	30,165	434	-
Collective investment funds	2,918,592	2,864,057	44,869	9,666
External life funds	247,460	-	247,460	-
Managed portfolios	9,839	-	9,839	-
Structured products and MTNs	18,110	3,548	14,562	-
Other including private equities	173	-	1	172
	<b>3,224,773</b>	<b>2,897,770</b>	<b>317,165</b>	<b>9,838</b>

**Analysis as at 31 December 2017:**

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities and exchange traded funds	35,018	34,517	501	-
Collective investment funds	3,324,788	3,255,337	57,431	12,020
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
	<b>3,689,994</b>	<b>3,289,854</b>	<b>386,916</b>	<b>13,224</b>

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 or 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

### 18. 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 2018, and 31 December 2017 were £9,666,000 and £12,020,000 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 (Loss)/gains on investments and Changes in technical provisions for investment contract liabilities, respectively, in the profit and loss account.

### 19. 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 year and the Company has capital in excess of the minimum solvency requirement at the balance sheet date.



## NOTES TO THE FINANCIAL STATEMENTS

### 19. CAPITAL MANAGEMENT (continued)

The Company is required to maintain a certain margin of solvency by the Isle of Man Financial Services Authority (the "FSA"). From 30 June 2018, the FSA implemented a risk based solvency regime. This requires the Company to set a Minimum Capital Requirement and a Solvency Capital Requirement. The Company's policy is to maintain a Solvency Coverage Ratio in excess of its Solvency Capital Requirement of at least 135% at all times, and at least 150% immediately after payment of a dividend. At 31 December 2018 the Company's Solvency Coverage Ratio was 167%, and the Company has remained above its minimum coverage ratio thresholds at all times since 30 June 2018.

Prior to 30 June 2018, solvency was 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 and the excess over the minimum margin was £55,855,000.

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 Company's other assets are largely the investment in Oaktree European Senior Loan Fund (note 10), the long term loan (note 11) cash and cash equivalents and deposits with credit institutions.

### 20. 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 £247,460,000 (2017: £277,530,000) of investments reassured to the Friends Life Assurance Society With-Profits Fund and the Friends Life With-Profits 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 reinsurance contract and are managed by Friends Life at the valuation provided as at 31 December 2018. The Company holds a floating charge over the assets of Aviva Life and Pensions UK Limited (formerly Friends Life) as additional security on these investments.

	2018	2017
	£'000	£'000
Deposits	309,477	406,829
Ordinary shares and funds	2,977,313	3,412,464
Discretionary managed portfolios	5,409,858	5,572,181
Other investments	247,460	277,530
Cash and cash equivalents	75,609	36,036
	<b>9,019,717</b>	<b>9,705,040</b>

Included in the analysis above are investments of £9,838,000 (2017: £13,224,000) which have restricted liquidity through suspensions, liquidations or by the nature of underlying assets the fund invests into.



## NOTES TO THE FINANCIAL STATEMENTS

**21. TECHNICAL PROVISION FOR LINKED LIABILITIES**

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Deposits to investment contracts	297,995	389,759
Withdrawals from investment contracts	(771,690)	(762,642)
Fees and charges deducted including third party charges	(43,111)	(43,177)
Third party compensation applied	57	196
Commissions and rebates receivable	4,362	5,246
Change in technical provision for linked liabilities	(387,747)	805,251
<b>Movement in the year</b>	<b>(900,134)</b>	<b>394,633</b>
Balance at 1 January	10,491,800	10,097,167
	<b>9,591,666</b>	<b>10,491,800</b>

**22. 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 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

**22. MODIFIED COINSURANCE ACCOUNT (continued))**

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

	2018	2017
	£'000	£'000
Opening balance brought forward	777,232	796,863
Deposits to investment contracts	9,142	88,835
Withdrawals from investment contracts	(192,144)	(68,491)
Attributable investment income	29,504	29,197
Attributable net (loss) / gain on investments	(47,231)	(63,103)
Policy charges	(4,493)	(5,955)
Attributable expenses and charges	(61)	(114)
<b>Closing balance carried forward</b>	<b>571,949</b>	<b>777,232</b>

**23. SHARE CAPITAL**

		2018		2017
	Number	£'000	Number	£'000
<b>Authorised</b>				
Ordinary shares of £1 each	23,380,000	23,380	23,380,000	23,380
<b>Allotted, issued and fully paid</b>				
Ordinary shares of £1 each	23,380,000	23,380	23,380,000	23,380

**24. 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 2018 and 2017 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

**25. IMMEDIATE AND ULTIMATE PARENT COMPANIES**

The Company is incorporated in the Isle of Man and is a direct wholly owned subsidiary of Utmost Holdings Isle of Man Limited, a company incorporated in the Isle of Man. The ultimate parent company which maintains a majority controlling interest in the group is recognised by the Directors as OCM LCCG2 Holdings Limited, a Cayman incorporated entity. OCM LCCG2 Holdings Limited is an investment vehicle owned by funds which are managed and advised by Oaktree Capital Management, L.P., a subsidiary of the ultimate controlling party Oaktree Capital Group LLC.

The parent undertaking of the largest and smallest group which includes the Company and for which group financial statements are prepared are Life Company Consolidation Group (No 2) Limited and Utmost Holdings Isle of Man Limited respectively which are available from [www.utmostgroup.co.uk](http://www.utmostgroup.co.uk).

**26. 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.

**27. FIRST TIME ADOPTION OF IFRS 15**

The impact of the adoption of IFRS 15 "Revenue from Contracts with Customers" on the reported Profit and Loss account and Balance sheet for the year ended 31 December 2018 is shown in the table below. The adjustments are due to the change in amortisation method for deferred fees and costs to a straight line basis, based on the expected duration of the contracts.

<b>Profit and Loss account</b>	<b>As reported</b>	<b>Adjustments</b>	<b>Amounts without adoption of IFRS 15</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fees and charges receivable	29,042	(9,783)	19,259
Origination costs	(24,847)	8,233	(16,614)
<b>Profit before and after taxation</b>	<b>4,194</b>	<b>(1,550)</b>	<b>2,645</b>

<b>Balance sheet</b>	<b>As reported</b>	<b>Adjustments</b>	<b>Amounts without adoption of IFRS 15</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deferred front end fees	(104,441)	(76,298)	(180,739)
Deferred origination costs	80,535	71,318	151,853
	<b>(23,906)</b>	<b>(4,980)</b>	<b>(28,886)</b>