

**UTMOST LIMITED**

**Annual Report and Financial Statements  
For the Year Ended 31 December 2019**

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## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2019.

### PRINCIPAL ACTIVITY

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

### RESULTS, DIVIDENDS AND TRANSFERS

The profit for the year, after taxation, amounted to £21,333,000 (2018: restated £23,989,000) which has been transferred to reserves. During the year dividends of £19,900,000 (2018: £42,100,000) were paid. The Directors do not recommend the payment of a final dividend (2018: £Nil).

### EVENTS AFTER THE BALANCE SHEET DATE

Since 31 December 2019 the COVID-19 virus has developed into a global pandemic, which has created significant levels of economic and financial insecurity. The potential impacts to the Company are included in Note 28 of the financial statements.

### DIRECTORS

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

N A Duggan	Chairman
M J Foy	
C J Hall	
I G Maidens	
S Shone	(Resigned 3 December 2019)
K S Moore	
A P Thompson	
M Coffey	

### COMPANY SECRETARY

J M McCann	(Resigned 30 January 2019)
S Lewis	(Appointed 30 January 2019, resigned 26 March 2019)
C S Bridges	(Appointed 26 March 2019)

### APPOINTED ACTUARY

J Phiri

### 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



31 March 2020  
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

31 March 2020

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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 2019 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 2019;
- 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**

3 April 2020

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	Restated* 2018 £'000
<b>Revenue</b>			
Net premiums earned	22	-	-
Fees and charges receivable	5	60,951	67,756
Commissions, fees and rebate income	6	2,259	2,783
Other income	7	2,803	2,284
		<u>66,013</u>	<u>72,823</u>
<b>Investment return</b>			
Interest income on policyholder investments		1,932	1,686
Dividend income		16,409	43,627
Gains/(Loss) on investments	8	999,527	(416,949)
		<u>1,017,868</u>	<u>(371,636)</u>
<b>Net policyholder claims and benefits incurred</b>			
Net policyholder claims	22	-	-
Changes in insurance contract liabilities, net of reinsurance	22	-	-
Changes in investment contract liabilities	21	(1,017,276)	371,603
		<u>(1,017,276)</u>	<u>371,603</u>
<b>Commission and expenses</b>			
Origination costs	9	(19,219)	(25,207)
Fees and expenses	3	(26,053)	(23,521)
		<u>(45,272)</u>	<u>(48,728)</u>
<b>Profit before taxation</b>			
		21,333	24,062
Taxation	4	-	(73)
<b>Profit after taxation</b>			
		<u>21,333</u>	<u>23,989</u>
Other items of comprehensive income		-	-
<b>Total comprehensive income</b>			
		<u><u>21,333</u></u>	<u><u>23,989</u></u>

\*See note 1 for details of the restatement of comparative information.

The notes on pages 9 to 35 form an integral part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share Capital £'000	Retained Earnings £'000	Other Reserves £'000	Total £'000
<b>Balance at 31 December 2017</b>		23,380	29,419	-	52,799
Cumulative impact of the initial application of IFRS 15 at 1 January 2018	13, 15	-	3,430	-	3,430
Correction to deferred front end fees	5, 15	-	(2,997)	-	(2,997)
<b>Balance at 1 January 2018</b>		23,380	29,852	-	53,232
Profit and total comprehensive income for the year		-	23,989	-	23,989
<b>Transactions with owners:</b>					
Dividends paid		-	(42,100)	-	(42,100)
<b>Balance at 31 December 2018</b>		<b>23,380</b>	<b>11,741</b>	<b>-</b>	<b>35,121</b>
<b>Balance at 1 January 2019</b>		23,380	11,741	-	35,121
Profit and total comprehensive income for the year		-	21,333	-	21,333
<b>Transactions with owners:</b>					
Dividends paid		-	(19,900)	-	(19,900)
<b>Balance at 31 December 2019</b>		<b>23,380</b>	<b>13,174</b>	<b>-</b>	<b>36,554</b>

The notes on pages 9 to 35 form an integral part of these financial statements.

## BALANCE SHEET AS AT 31 DECEMBER 2019

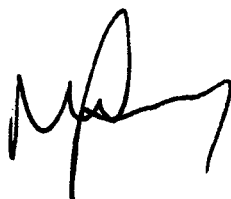
	Notes	2019 £'000	Restated* 2018 £'000	Restated* 2017 £'000
<b>Assets</b>				
Deferred origination costs	13	61,619	80,535	168,467
Modified Coinsurance Account	23	523,975	571,949	777,232
<b>Financial investments</b>				
Long term loan receivable	11	20,000	20,000	-
Assets held to cover linked liabilities	20	9,634,583	8,813,833	9,474,199
Reinsurer's share of insurance contracts	22	220,601	205,884	230,841
Other investments	10	10,923	10,279	10,181
Debtors and other receivables	12	30,757	23,182	13,457
Deposits		17,050	17,000	46,383
Cash and cash equivalents	14	16,414	26,869	48,740
<b>TOTAL ASSETS</b>		<b>10,535,922</b>	<b>9,769,531</b>	<b>10,769,500</b>
<b>Liabilities</b>				
Technical provisions for investment contract liabilities	21	10,158,558	9,385,782	10,260,959
Liabilities under insurance contracts	22	220,601	205,884	230,841
Deferred front end fees	15	83,832	106,644	199,998
Amounts due to investment contract holders	17	13,186	13,106	12,558
Creditors and other payables	16	23,191	22,994	12,345
<b>Total liabilities</b>		<b>10,499,368</b>	<b>9,734,410</b>	<b>10,716,701</b>
<b>Capital and reserves</b>				
Share capital	24	23,380	23,380	23,380
Revenue reserves		13,174	11,741	29,419
<b>Total equity</b>		<b>36,554</b>	<b>35,121</b>	<b>52,799</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>10,535,922</b>	<b>9,769,531</b>	<b>10,769,500</b>

\*See note 1 for details of the restatement of comparative information.

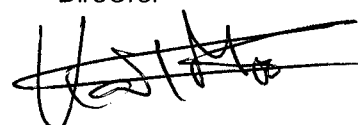
The notes on pages 9 to 35 form an integral part of these financial statements.

These financial statements on pages 6 to 35 were approved and authorised for issue by the Board of Directors on 31 March 2020 and were signed on its behalf by

Director



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 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. Utmost Limited is incorporated and domiciled in the Isle of Man. The Company also has insurance contracts relating to With-Profits bonds, which are closed to new business. The address of its registered office is Royalty House, Walpole Avenue, Douglas, Isle of Man.

The principal accounting policies that the Company applied in preparing its financial statements for the financial year ended 31 December 2019 are set out below.

#### 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.

#### Restatements of comparative information

##### **With-Profits**

The comparative information for the year ended 31 December 2018 has been restated to reclassify the Company's With-Profits business from investment contracts to insurance contracts, to be consistent with the wider Utmost Group's accounting treatment. On the Balance Sheet this has resulted in the reclassification of the assets of the With-Profits bonds (2018: £205.9m, 2017: £230.8m) from Assets held to cover linked liabilities to Reinsurer's share of insurance contracts, and the same value of liabilities of With-Profits bonds being reclassified from Technical provisions for investment contract liabilities to Liabilities under insurance contracts. In the Profit and Loss Account this has resulted in new line items for Net premiums earned and Net policyholder claims, and for a reclassification from Changes in investment contracts to Changes in insurance contracts and Gains/(Loss) on investments (2018: both £16.1m). Notes 2, 8, 18, 20 and 21 were amended as a result of these reclassifications, and note 22 has been added to the financial statements.

There is no net impact to equity or profit from this restatement as the impact of the non-unit reserve and removal of DFEF and DOC on the With-Profits business is not material.

##### **Deferred Front-end Fees**

The comparative information for the year ended 31 December 2018 was restated to recognise additional management fees that met the criteria for capitalisation under IFRS 15. This restatement required an adjustment to reserves at 1 January 2018 of £3.0m and additional net amortisation less capitalisation of £0.8m recognised within Fees and charges receivable in the Profit and Loss Account and note 5 for the year ended 31 December 2018. This adjustment resulted in an increase in the Deferred front end fees liability in the balance sheet of £2.2m as at 31 December 2018.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (continued)

#### **Adviser charges**

The comparative information for the year ended 31 December 2018 was restated to reclassify certain adviser charges totalling £3.4m from Fees and charges receivable to Fees and expenses within the Profit and Loss Account after reassessment of the nature of these transactions. This restatement was also reflected in the comparative information for Renewal commission and advisor fee deductions in Note 5 and Ongoing commission and advisor fees payable in Note 3. There is no impact on the Company's profit or net assets from this restatement.

#### **Investment adviser charges**

The comparative information for the year ended 31 December 2018 in note 21 Technical Provision for Linked Liabilities was also restated to reclassify investment adviser charges totalling £7.2m from Withdrawals from investment contracts to Fees and charges deducted including third party charges, after reassessment of the nature of these transactions. There is no impact on the Company's profit or net assets from this restatement.

#### (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/(Loss) 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.

#### (1.3) Financial assets and financial liabilities

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

#### **Classification**

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.

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (continued)

#### (1.3) Financial assets and financial liabilities (continued)

##### **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 in profit or loss on the date the asset is derecognised.

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 2019 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.

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (continued)

#### (1.3) Financial assets and financial liabilities (continued)

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 "Gains/(Loss) 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 losses on investments due or payable under the modified coinsurance agreements with AXA China Region and AXA Insurance Pte is due or payable simultaneously with the underlying contracts reassured which are recognised at the same point as for the Utmost contract.

#### (1.5) Commissions receivable

Commissions receivable arising from With-Profit bond investments and where commissions from investments in funds 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 Balance Sheet. 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (1.7) Financial liabilities under investment contracts (continued)

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) Insurance contracts

The Company classifies its with-profits business as insurance contracts. This business is 100% reinsured to Aviva Life and Pensions UK Limited. In considering the level of insurance risk, the Company has recognised the significance of the insurance guarantees attaching to the with-profits business and in particular that no market value adjustment ("MVA") is applied in the case of the death of policyholders.

This compares to policy surrenders where an MVA is applied to the value of policy at exit. The cash reserve is calculated as the present value of all projected future outgoings and income. The calculation is carried out using best estimate assumptions and a floor of zero is applied to policies which are estimated to have negative non-unit reserves, with reference to non-unit reserves. The contracts issued by the Company are long-term life assurance contracts. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder.

Insurance liabilities are determined by the directors on the advice of the Appointed Actuary and they are measured in line with IFRS 4 "Insurance contracts". The liability is computed separately for each life assurance contract, using surrender, expense and mortality assumptions that reflect the Company's expected experience.

Although the process for determining the liabilities relating to insurance contracts follows specified rules and guidelines, the provisions that result from the process are the subject of estimations. As a consequence, the eventual value of claims could vary from the amounts provided to cover future claims. The Company seeks to provide appropriate levels of contract liabilities taking known facts and experiences into account but, nevertheless, such liabilities remain uncertain.

The liabilities for insurance contracts are calculated as follows:

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premium is recognised. The liabilities of the Company's unitised with-profits business are calculated as the lower of the current unit value and the surrender value of each policy. Assumptions are made in respect of all material factors affecting future cash flows, including future interest rates, mortality and costs.

#### **Liability adequacy test**

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged as an expense to the profit and loss account.

Premiums and claims, and the related reinsurance premiums payable and claim recoveries, are recognised net in the profit and loss account as per the recognition terms for deposits and withdrawals on unit-linked investment contracts as set out in note 1.7.

**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES (CONTINUED)****(1.8) Insurance contracts (continued)**

The Company's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 "Insurance contracts" as they allow for current estimations of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the profit and loss account.

**(1.9) 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.

**(1.10) 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.

**(1.11) Fees and charges and deferred front end fees**

Fees are charged to the contract holders of investment and insurance contracts for contract administration services, investment management services, payment of benefits and other services related to the administration of investment and insurance 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 deferred in the Balance Sheet as the Company's performance obligation in respect of these up-front fees are met over the remaining duration of the policies. Deferred fees are amortised on a straight line basis based over the expected remaining duration of the underlying policyholder contract.

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) Renewal commission and advisor fees**

Renewal commission charges are charged to the holders of investment and insurance 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 and insurance 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.

Advisor and investment advisor charges are charged to holders of investment and insurance contracts as the fees fall due for payment, and are recorded within Fees and charges deducted including third party charges within movements in Technical provisions in note 21.

**(1.13) Fund administration fees**

Fund administration fees are charged on the internal funds available to investment and insurance 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.



**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES (CONTINUED)****(1.14) 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 on a straight line basis over the expected remaining duration of the underlying policyholder contract. 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.

**(1.15) Modified Coinsurance Account – see Note 23**

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/(Loss) on investments" in the profit and loss account.

**(1.16) 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.

**(1.17) Share Capital**

Ordinary shares are classified as equity.

## 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 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.

#### **Insurance contracts**

The calculation of insurance contract liabilities is a critical estimate, based on the fact that although the process for the establishment of insurance liabilities follows specified rules and guidelines, the provisions that result from the process are the subject of estimations. As a consequence, the eventual value of claims could vary from the amounts provided to cover future claims. The Company's insurance contracts are 100% reinsured with Aviva. The Company seeks to provide appropriate levels of contract liabilities taking known facts and experiences into account but, nevertheless, such liabilities remain uncertain. The calculation methodology is discussed further in accounting policy, and sensitivity analysis in respect of the Company's insurance business is provided in note 18.5.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. FEES AND EXPENSES

(3.1) Expenses charged in the year include:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Auditor's remuneration		
Statutory audit fees	70	82
Non-audit services	57	58
Total Auditor's remuneration	127	140
Directors' fees	20	37

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>2019</b>	<b>Restated*</b>
	<b>£'000</b>	<b>£'000</b>
Recharged operational expenses from fellow subsidiaries	12,141	12,089
Other expenses	3,875	499
Ongoing commission and advisor fees payable	10,037	10,933
	26,053	23,521

\*See note 1 for details of the restatement of comparative information.

### 4. TAXATION

On the Isle of Man, with certain exceptions not relevant to the Company, corporate entities are subject to tax at 0% (2018: 0%).

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

Withholding tax of £nil (2018: £73,000) has been withheld by Utmost PanEurope 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>2019</b>	<b>Restated*</b>
	<b>£'000</b>	<b>£'000</b>
Contract fee income	21,102	20,863
Renewal commission and advisor fee deductions	9,096	9,565
Deferred front end fees net movement (note 15)	22,812	29,836
Policyholder charges	53,010	60,264
Fund management charges	7,941	7,492
	60,951	67,756

\*See note 1 for details of the restatement of comparative information.

### 6. COMMISSIONS, FEES AND REBATE INCOME

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

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Commission income	1,825	1,667
Rebates	174	852
Fees	260	264
	2,259	2,783

### 7. OTHER INCOME

Included within other income are:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Bank and deposit interest income	1,511	1,478
Loan interest (Note 11)	1,000	510
Other – including interest charged to policyholders	292	296
	2,803	2,284

## NOTES TO THE FINANCIAL STATEMENTS

### 8. GAINS/(LOSSES) ON INVESTMENTS

Included within gains/(losses) on investments are:

	<b>2019</b>	<b>Restated*</b>
	<b>£'000</b>	<b>£'000</b>
Net gains on realisation of investments	345,458	460,090
Net movements in unrealised gains/losses	639,644	(894,780)
Net foreign exchange gains	14,425	17,741
	<u>999,527</u>	<u>(416,949)</u>

\*See note 1 for details of the restatement of comparative information.

### 9. ORIGATION COSTS

Included within origination costs are:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Initial commission payable	303	359
Deferred origination costs net movement (note 13)	18,916	24,847
	<u>19,219</u>	<u>25,207</u>

### 10. OTHER INVESTMENTS

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
OEICS	10,923	10,279
	<u>10,923</u>	<u>10,279</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"), a 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. During the year the new Note was listed on The International Stock Exchange ("TISE") with the result that withholding tax is no longer withheld by UPE.

## NOTES TO THE FINANCIAL STATEMENTS

## 12. DEBTORS AND OTHER RECEIVABLES

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Investment dealing debtors	10,743	7,475
Accrued investment income and commission	1,415	998
Other receivables	17,551	14,709
<b>Amounts due to related parties:</b>		
Other group companies	1,048	-
	<u>30,757</u>	<u>23,182</u>
Current (within 12 months)	30,716	23,086
Non-current (after 12 months)	41	96
	<u>30,757</u>	<u>23,182</u>

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

## 13. DEFERRED ORIGINATION COSTS

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

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	80,535	168,467
Cumulative impact of the initial application of IFRS 15 at 1 January 2018	-	(63,085)
Origination costs capitalised during the year	731	485
Origination costs amortised during the year	(19,647)	(25,332)
	<u>61,619</u>	<u>80,535</u>
Current (within 12 months)	14,869	19,585
Non-current (after 12 months)	46,750	60,950
	<u>61,619</u>	<u>80,535</u>

## 14. CASH AND CASH EQUIVALENTS

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank	16,414	26,869
	<u>16,414</u>	<u>26,869</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 15. DEFERRED FRONT END FEES

	2019	Restated*
	£'000	£'000
At 1 January	106,644	199,998
Cumulative impact of the initial application of IFRS 15 at 1 January 2018	-	(66,515)
Restatement for additional management fees at 1 January 2018	-	2,997
Fees received and deferred during the year	2,997	2,816
Recognised in fees and charges receivable	(25,809)	(32,652)
	<u>83,832</u>	<u>106,644</u>
Current (within 12 months)	19,738	25,733
Non-current (after 12 months)	64,094	80,891
	<u>83,832</u>	<u>106,644</u>

\*See note 1 for details of the restatement of comparative information.

## 16. CREDITORS AND OTHER PAYABLES

	2019	2018
	£'000	£'000
Premiums received in advance of policy issue	3,145	5,133
Commission payable	199	118
Other creditors and accruals	18,199	14,673
Investment dealing creditors	1,603	2,675
<b>Amounts due to related parties:</b>		
Other group companies	45	395
	<u>23,191</u>	<u>22,994</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

	2019	2018
	£'000	£'000
Due to investment contract holders	<u>13,186</u>	<u>13,106</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 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 immediate 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.

##### **(a) Unit-linked investments**

Assets held on behalf of policyholders 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 the investment contract liabilities. The Company's exposure to market risk on unit linked investments is limited to the extent that income arising from asset management charges in certain investments, and its ability to collect that income, is based on the cash flows arising and the value of the assets. In many cases the asset management charges are based on the higher of premiums paid or fund value, further limiting this risk.

The impact on the Company if markets were to suffer a permanent fall of 10% would be a reduction in fee income of approximately £1.5m (2018: £1.5m). The impact on the Company's profit would be lower than this as certain expenses are also variable in nature.

##### **(b) Company price risk**

The Company holds one investment on behalf of the shareholder that is exposed to market price risk, the investment in the Oaktree European Senior Loan Fund (see note 10). If the price of this investment fell permanently by 10% the impact on net assets and profit would be a decrease of £1.1m (2018: £1.0m).



## NOTES TO THE FINANCIAL STATEMENTS

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) 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>2019</b>	<b>2018</b>
	<b>£'000s</b>	<b>£'000s</b>
Increase of 100bps (2018: 100bps) in interest rate yields	1,631	2,152
Decrease of 97bps (2018: 76bps) in interest rate yields	(1,512)	(1,478)

The downward shift of 100bps would decrease rates below 0.0% and hence the impact has been floored at 97bps (2018: 76bps) 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.

#### (d) 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.

##### (d)(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.

##### (d)(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 1.1% (2018: 1.4%). 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 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. 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 3 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 Company 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.

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>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Deposits with credit institutions	17,050	17,000
Cash at bank	16,414	26,869
	33,464	43,869

#### Reinsurance

The Company is exposed to credit risk as a result of insurance risk transfer through contracts with reinsurers. This also gives rise to concentration of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. At both 31 December 2019 and 2018 year-end positions, the Company's material reinsurance counterparties have a credit rating at Moodys of Aa. The Company does not believe that on a best estimate basis the credit risk exposure is sufficient enough to justify holding a reserve.

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## NOTES TO THE FINANCIAL STATEMENTS

### 18. FINANCIAL RISK MANAGEMENT (continued)

#### 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 will only settle amounts due to policyholders when the linked asset is realised.

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 Group's assets and liabilities.

	2019	2018
	£'000	£'000
<b>Assets</b>		
Maturity within one year	45,414	40,086
Maturity from one to five years	41	96
Maturity greater than five years	20,000	20,000
<b>Total assets with a maturity profile</b>	<b>65,455</b>	<b>60,182</b>
Total financial assets with no contractual maturity profile	10,406,496	9,628,814
Total non-financial assets	63,971	80,535
<b>Total assets</b>	<b>10,535,922</b>	<b>9,769,531</b>
<b>Liabilities</b>		
Maturity within one year	33,232	30,967
<b>Total liabilities with a maturity profile</b>	<b>33,232</b>	<b>30,967</b>
Total liabilities with no contractual maturity profile	10,379,159	9,591,666
Total non-financial liabilities	86,364	111,777
<b>Total liabilities, excluding equity</b>	<b>10,499,368</b>	<b>9,734,410</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.

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**NOTES TO THE FINANCIAL STATEMENTS****18. FINANCIAL RISK MANAGEMENT** (continued)**18.5 Insurance risk**

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Company carries insurance risk in respect of its With-Profits contracts however these are fully reinsured with Aviva.

**18.5.1 Objectives and policies for mitigating insurance risk**

The Company has fully reinsured the insurance risk relating to its With-Profits contracts. Whilst the Company is under no obligation to retain this reinsurance arrangement it is the Company's policy to minimise all insurance risk.

**18.5.2 Valuation of insurance contracts**

For unitised with-profit contracts, the number of units allocated to the contract is multiplied by the bid price and then either reduced by Market Value Adjustment factors, where appropriate, or enhanced by the unallocated surplus within the With-Profits fund of the reinsurer who manages the fund. This will give a liability which represents a fair assessment of the surrender value according to the Board's interpretation of policyholder reasonable expectations.

Demographic assumptions are set equal to the best estimate assumptions. They are determined after considering the Company's recent experience and/or relevant industry data. Economic assumptions are set by reference to the EIOPA risk free yield curve and relevant inflation rates.

During the financial year a number of changes were made to assumptions to reflect changes in expected experience. None of the changes had a material impact on the valuation of the insurance contracts.

**18.5.3 Policyholder options and guarantees**

Some of the Company's products offer capital redemption guarantees, typically offering a guaranteed return after 99 years. The value of these guarantees have been assessed to be immaterial at the balance sheet date. Some With-Profits bonds offer guaranteed returns on the 5th and 10th anniversary, however these guarantees are provided for through reinsurance treaties and therefore offers no risk to the Company.

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## NOTES TO THE FINANCIAL STATEMENTS

### FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 18.6 Fair value estimation

Assets held at fair value 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 applied 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 meet 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 of assets measured at fair value across the three levels of the fair value hierarchy. The 2018 amounts have been restated to include an analysis of discretionary managed accounts which could not be analysed into the fair value hierarchy tiers in 2018 and to remove the With-Profits bonds as explained in note 1.

**Analysis as at 31 December 2019:**

	<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	592,268	592,268	-	-
Collective investment funds	8,623,253	8,473,496	111,890	37,867
Managed portfolios	10,065	-	10,065	-
Structured products and MTNs	22,220	22,220	-	-
Other including private equities	172	-	-	172
<b>Total assets at fair value</b>	<b>9,247,978</b>	<b>9,087,984</b>	<b>121,955</b>	<b>38,039</b>
Modified Coinsurance assets not in the tier analysis	523,975			
Assets not at fair value	763,969			
<b>Total assets</b>	<b>10,535,922</b>			

**Analysis as at 31 December 2018 (restated):**

	<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	466,711	466,277	434	-
Collective investment funds	7,936,428	7,790,442	102,405	43,581
Managed portfolios	9,839	-	9,839	-
Structured products and MTNs	25,870	11,279	14,562	29
Other including private equities	178	5	1	172
<b>Total assets at fair value</b>	<b>8,439,026</b>	<b>8,268,003</b>	<b>127,241</b>	<b>43,782</b>
Modified Coinsurance assets not in the tier analysis	571,949			
Assets not at fair value	758,556			
<b>Total assets</b>	<b>9,769,531</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.

## NOTES TO THE FINANCIAL STATEMENTS

### 18. FINANCIAL RISK MANAGEMENT (continued)

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.

The Company has a general policy of no further investment into a Level 3 instrument. Included within the Level 3 investments are illiquid, suspended or liquidating securities as at 31 December 2019 and 2018 totalling £29,748,857 and £34,498,204 respectively, which indicate that movements during these periods will generally be due to realisations.

### 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.

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 the Company's Solvency Coverage Ratio was 166% (2018: 167%), and the Company has remained above its minimum coverage ratio thresholds at all times since 30 June 2018 to the date of this report.

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 non unit-linked 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.



## NOTES TO THE FINANCIAL STATEMENTS

### 20. ASSETS HELD TO COVER LINKED LIABILITIES

The financial assets held to cover financial liabilities under investment contracts are set out below. The 2018 amounts have been restated to remove the With-Profits bonds as explained in note 1.

	<b>2019</b>	<b>Restated 2018</b>
	<b>£'000</b>	<b>£'000</b>
Equities and exchange traded funds	592,268	466,711
Collective investment funds	8,608,855	7,926,149
Managed portfolios	10,065	9,839
Structured products and MTNs	22,220	25,870
Other including private equities	172	178
Deposits	358,136	309,477
Cash and cash equivalents	42,867	75,609
	<b>9,634,583</b>	<b>8,813,833</b>

Included in the analysis above are investments of £29,748,857 (2018: £34,498,204) which have restricted liquidity through suspensions, liquidations or by the nature of underlying assets the fund invests into.

#### 20.1 Interest in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities, (b) a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Company considers its investments in equities and funds to be unconsolidated structured entities, which are recognised within Assets held to cover linked liabilities on the Balance Sheet. These investments represent assets held to back policyholder linked liabilities, and as such any market movements, which are recognised within Investment return in the Statement of Comprehensive Income, is matched by a change in technical provisions for linked liabilities in the Statement of Comprehensive Income. The Company also considers its Other Investments to be unconsolidated structured entities. The Company's maximum exposure to unconsolidated structured entities at 31 December is £9,237,947,000 (2018: £8,428,154,000). The Company has not sponsored any structured entities in either 2019 or 2018.

## NOTES TO THE FINANCIAL STATEMENTS

**21. TECHNICAL PROVISION FOR INVESTMENT CONTRACT LIABILITIES**

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

	<b>2019</b>	<b>Restated*</b>
	<b>£'000</b>	<b>2018</b>
		<b>£'000</b>
Deposits to investment contracts	385,853	297,777
Withdrawals from investment contracts	(581,077)	(755,426)
Fees and charges deducted including third party charges	(51,605)	(50,344)
Third party compensation applied	44	57
Commissions and rebates receivable	2,285	4,362
Change in technical provision for linked liabilities	1,017,276	(371,603)
<b>Movement in the year</b>	<b>772,776</b>	<b>(875,177)</b>
Balance at 1 January	9,385,782	10,260,959
	<b>10,158,558</b>	<b>9,385,782</b>

\*See note 1 for details of the restatement of comparative information.

**22. LIABILITIES UNDER INSURANCE CONTRACTS**

	<b>Gross liabilities</b>	<b>Reinsurer's share</b>	<b>Gross liabilities</b>	<b>Reinsurer's share</b>
	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 January	205,884	205,884	230,841	230,841
Policyholder premiums	415	415	218	218
Policyholder claims	(8,709)	(8,709)	(9,031)	(9,031)
Other changes in liabilities	23,011	23,011	(16,144)	(16,144)
<b>At 31 December</b>	<b>220,601</b>	<b>220,601</b>	<b>205,884</b>	<b>205,884</b>

**23. 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. MODIFIED COINSURANCE ACCOUNT (continued)

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.

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

	2019	2018
	£'000	£'000
Opening balance brought forward	571,949	777,232
Deposits to investment contracts	5,350	9,142
Withdrawals from investment contracts	(39,748)	(192,144)
Attributable investment income	2,576	29,504
Attributable net loss on investments	(12,164)	(47,231)
Policy charges	(3,949)	(4,493)
Attributable expenses and charges	(39)	(61)
<b>Closing balance carried forward</b>	<b>523,975</b>	<b>571,949</b>

### 24. SHARE CAPITAL

	2019		2018	
	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

## NOTES TO THE FINANCIAL STATEMENTS

### 25. 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 2019 and 2018 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.

### 26. 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 smallest group which includes the Company and for which group financial statements are prepared is Utmost Holdings Isle of Man Limited. The Company is also consolidated into the financial statements of Utmost International Group Holdings Ltd, the financial statements for which are available from [www.utmostgroup.co.uk](http://www.utmostgroup.co.uk).

### 27. 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.

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## NOTES TO THE FINANCIAL STATEMENTS

### 28. POST BALANCE SHEET EVENTS

In the period since the year end the COVID-19 virus has spread to pandemic levels globally. At the date the financial statements were approved the impacts both globally and nationally were unclear, however it appears almost inevitable that there will be a period of economic recession and significant market uncertainty.

Given the high degree of uncertainty it is not possible to make accurate predictions of the potential impact of the pandemic. However a significant prolonged fall in markets will result in a material drop in the Company's fund-based fees, and continued period of historically low interest rates will see a major drop in the Company's interest income from its cash and deposits.

At the date the financial statements were approved new business levels in the first quarter of 2020 have performed well, and surrender levels remain in line with expectations pre-COVID-19. At the date the financial statements were approved the Company's solvency and liquidity positions remain strong. The Directors and management are continually monitoring the potential impacts on the Company, including its key financial metrics including the solvency coverage ratio.