UTMOST LIMITED

Annual Report and Financial Statements
For the Year Ended 31 December 2020

CONTENTS

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020.

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 £22,756,000 (2019: £21,333,000) which has been transferred to reserves. During the year dividends of £19,660,000 (2019: £19,900,000) were paid. The Directors do not recommend the payment of a final dividend (2019: £NIL).

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
K S Moore
A P Thompson
M Coffey

COMPANY SECRETARY

C S Bridges

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

30 March 2021
Royalty House
Walpole Avenue
DOUGLAS
Isle of Man
IM1 2SL

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

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

30 March 2021

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 2020 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 2020;
- 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 significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants ("IESBA Code") including International Independence Standards issued by the International Ethics Standard Board for Accountants. 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

PricewaterhouseCoopers LLC
Sixty Circular Road
Douglas, Isle of Man

30 March 2021

Profit and Loss Account for the Year Ended 31 December 2020

	Notes	2020	2019
		£'000	£'000
Revenue			
Net premiums earned	22	-	-
Fees and charges receivable	5	55,691	60,951
Commissions, fees and rebate income	6	2,235	2,259
Other income	7	2,436	2,803
		60,362	66,013
Investment return			
Interest income on policyholder investments		1,426	1,932
Dividend income		26,311	16,409
Gains on investments	8	383,144	999,527
		410,881	1,017,868
Net policyholder claims and benefits incurred			
Net policyholder claims	22	-	-
Changes in insurance contract liabilities, net of reinsurance	22	-	-
Changes in investment contract liabilities	21	(410,829)	(1,017,276)
		(410,829)	(1,017,276)
Commission and expenses			
Origination costs	9	(14,807)	(19,219)
Fees and expenses	3	(22,851)	(26,053)
		(37,658)	(45,272)
Profit before taxation		22,756	21,333
Taxation	4	-	-
Profit after taxation		22,756	21,333
Other items of comprehensive income		-	-
Total comprehensive income		**22,756**	**21,333**

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 2020

	Share Capital	Retained Earnings	Total
	£'000	£'000	£'000
Balance at 1 January 2019	23,380	11,741	35,121
Profit and total comprehensive income for the year	-	21,333	21,333
Dividends paid	-	(19,900)	(19,900)
Balance at 31 December 2019	**23,380**	**13,174**	**36,554**
Balance at 1 January 2020	23,380	13,174	36,554
Profit and total comprehensive income for the year	-	22,756	22,756
Dividends paid	-	(19,660)	(19,660)
Balance at 31 December 2020	**23,380**	**16,270**	**39,650**

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

BALANCE SHEET AS AT 31 DECEMBER 2020

	Notes	2020 £'000	Restated* 2019 £'000
Assets			
Deferred origination costs	13	47,147	61,619
Financial assets			
Long term loan receivable	11	20,000	20,000
Financial assets at fair value held to cover linked liabilities	20	10,339,309	10,158,558
Reinsurer's share of insurance contract liabilities	22	218,337	220,601
Other investments	10	11,036	10,923
Debtors and other receivables	12	19,522	30,757
Deposits		10,000	17,050
Cash and cash equivalents	14	18,495	16,414
TOTAL ASSETS		**10,683,846**	**10,535,922**
Liabilities			
Technical provisions for investment contract liabilities	21	10,333,818	10,158,558
Liabilities under insurance contracts	22	218,337	220,601
Deferred front end fees	15	66,577	83,832
Amounts due to investment contract holders	17	12,083	13,186
Creditors and other payables	16	13,381	23,191
Total liabilities		10,644,196	10,499,368
Capital and reserves			
Share capital	23	23,380	23,380
Retained earnings		16,270	13,174
Total equity		39,650	36,554
TOTAL EQUITY AND LIABILITIES		**10,683,846**	**10,535,922**

*See note 1 for details of restatement on comparatives.

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 30 March 2021 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 2020 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 certain assets and liabilities to the extent required or permitted under accounting standards as set out in the relevant accounting policies.

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

Restatements of comparative information

Financial assets at fair value held to cover linked liabilities
The comparative information for the year ended 31 December 2019 has been restated to reclassify the agreement with AXA Hong Kong Insurance (Bermuda) Limited and AXA Insurance Pte Limited from Modified Coinsurance account to Financial assets at fair value held to cover linked liabilities on the Balance Sheet(2019: £523,975,000). There has been no impact to profit and loss or net assets. Note 20, has been amended as a result of the reclassification.

Financial Risk Management
The comparative information for the year ended 31 December 2019 has been restated to account for the change noted above in the Financial assets at fair value held to cover linked liabilities. The undiscounted contractual analysis profile format has changed to make it comparable to the Balance Sheet captions.

(1.1) Foreign currency

The financial statements are presented in Pounds Sterling which is the Company's presentational and functional currency. In the assessment of functional currency, management have considered factors including, inter alia, the primary economic environment in which the Company operates and the currency of the Company's external equity.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions,

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.1) Foreign currency (continued)

and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the Profit and Loss Account.

Translation differences on monetary financial assets measured at fair value and designated as held at fair value through profit or loss are included in gains on investments in the Profit and Loss Account. Translation differences on non-monetary items, which are designated as fair value, are reported as part of the fair value gain or loss.

On conversion to the presentation currency, assets and liabilities are translated at the closing rate at the year-end date, income and expenditure are converted at the transaction rate, or the average rate if this is an approximation of the transaction rate. All resulting exchange differences are recognised in Profit and Loss Account.

(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

Classification

The Company classifies its financial assets in the following categories: measured at fair value through profit and loss 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.3) Financial assets and financial liabilities (continued)

Measurement (continued)

Dividends from equity instruments are recognised in profit or loss as dividend 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 2020 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 "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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.4) Investment return (continued)

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 as this is when the income can be measured reliably. 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 Hong Kong Insurance (Bermuda) Limited and AXA Insurance Pte Limited 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 both With-Profit bond investments and investments in funds are 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 as this is when the income can be measured reliably. 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

Contracts issued by the Company which are unit-linked and do not contain any significant insurance risk are all classified as 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 investment contract 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(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 the 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.

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 less than three months, net of short term overdraft positions where a right of set-off exists.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.10) Deposits

Fixed deposits held with banks with original maturities of three months or more 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 these 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 is 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.

(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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.14) Origination costs and deferred origination costs (continued)

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 20.2

Under the modified coinsurance arrangement the statutory reserve on the ceded business is the obligation of, and held by the ceding company (detail provided in note 20). The Company remains at 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 within financial assets at fair value held to cover linked liabilities on the Balance Sheet. Premiums, claims arising and policy charges under this arrangement are included within the "Changes in investment contract liabilities" in the Profit and Loss Account and within the "financial assets at fair value held to cover linked liabilities" in the Balance Sheet. The investment return attributable to the assets held under the Modified Coinsurance arrangement is included within "Investment return" 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.

(1.18) Changes in accounting policy and disclosure

New standards, amendments and interpretations

No new accounting standards, amendments to accounting standards or IFRIC interpretations, effective for the first time for the financial year beginning on or after 1 January 2020 have had a material impact on the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.18) Changes in accounting policy and disclosure (continued)

IFRS 17 Insurance Contracts (effective 1 January 2023 subject to EU endorsement).

The IASB issued IFRS 17 in May 2017 as a replacement to the previous insurance contracts standard IFRS 4 and applies to periods beginning on or after 1 January 2023. In March 2020 the IASB approved an amendment to IFRS 17 to defer the effective date to 1 January 2023.

The Company primarily writes investment contract business without discretionary participation features which are currently accounted for under IFRS 9. However, the adoption of IFRS 17 will have a significant impact on the accounting treatment of insurance contracts and investment contracts with discretionary participation features ("DPF") written by the Company.

IFRS 17 changes the methodology under which (re) insurance contract liabilities are measured, in addition to revising the presentation of the primary statements and disclosures in the financial statements. These changes will impact the recognition of profit and add complexity to actuarial processes, system requirements and assumption setting.

The Company has commenced an implementation project including completion of an impact assessment in the year as well as commencement of technical and operational solution design and implementation. The implementation activities undertaken during the year include an assessment of which contracts are in scope of the standard, identification of system and data requirements and the development of accounting methodologies, policies and models.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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.

3. FEES AND EXPENSES

(3.1) Expenses charged in the year include:

	2020	2019
	£'000	£'000
Auditor's remuneration		
Statutory audit fees	123	70
Non-audit services	120	57
Total Auditor's remuneration	243	127
Directors' fees	20	20

The Company has entered into a contract with a fellow subsidiary (Utmost Services Limited) for the provision of shared 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:

	2020	2019
	£'000	£'000
Recharged operational expenses from fellow subsidiaries	12,041	12,141
Other expenses	(274)	3,875
Ongoing commission and advisor fees payable	11,084	10,037
	22,851	26,053

4. TAXATION

On the Isle of Man, with certain exceptions not relevant to the Company, corporate entities are subject to tax at 0% (2019: 0%).

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

NOTES TO THE FINANCIAL STATEMENTS

4. TAXATION (CONTINUED)

The Company is not liable for any other taxes.

5. FEES AND CHARGES RECEIVABLE

Included within fees and charges are:

	2020	2019
	£'000	£'000
Contract fee income	20,817	21,102
Renewal commission	10,180	9,096
Net movement in deferred front-end fees (note 15)	17,255	22,812
Policyholder charges	48,252	53,010
Fund management charges	7,439	7,941
	55,691	60,951

6. COMMISSIONS, FEES AND REBATE INCOME

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

	2020	2019
	£'000	£'000
Commission income	1,806	1,825
Rebates	172	174
Fees	257	260
	2,235	2,259

7. OTHER INCOME

Included within other income are:

	2020	2019
	£'000	£'000
Bank and deposit interest income	1,275	1,511
Loan interest (Note 11)	1,000	1,000
Other – including interest charged to policyholders	161	292
	2,436	2,803

NOTES TO THE FINANCIAL STATEMENTS

8. GAINS ON INVESTMENTS

Included within gains on investments are:

	2020 £'000	2019 £'000
Net gains on realisation of investments	182,048	53,412
Net movements in unrealised gains	189,062	931,690
Net foreign exchange gains	12,034	14,425
	383,144	999,527

A reclassification of £292m of policyholder investment gains has been reflected in 2019, reducing net gains on realisation of investments and increasing the net movements in unrealised gains.

9. ORIGINATION COSTS

Included within origination costs are:

	2020 £'000	2019 £'000
Initial commission payable	335	303
Deferred origination costs net movement (note 13)	14,472	18,916
	14,807	19,219

Capitalisation of origination costs consists of initial commission payable on new policies and an element of sales incentive costs.

10. OTHER INVESTMENTS

	2020 £'000	2019 £'000
OEICS	11,036	10,923

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 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 OCM Utmost Holdings 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 2019 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

	2020 £'000	2019 £'000
Investment dealing debtors	7,912	10,743
Accrued investment income and commission	1,103	1,415
Other receivables	9,530	17,551
Other group companies	977	1,048
	19,522	30,757
Current (within 12 months)	19,412	30,716
Non-current (after 12 months)	110	41
	19,522	30,757

The amounts owed from 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.

	2020 £'000	2019 £'000
At 1 January	61,619	80,535
Origination costs capitalised during the year	463	731
Origination costs amortised during the year	(14,935)	(19,647)
	47,147	61,619
Current (within 12 months)	12,897	14,869
Non-current (after 12 months)	34,250	46,750
	47,147	61,619

14. CASH AND CASH EQUIVALENTS

	2020 £'000	2019 £'000
Cash at bank and with credit institutions	18,495	16,414
	18,495	16,414

NOTES TO THE FINANCIAL STATEMENTS

15. DEFERRED FRONT-END FEES

	2020	2019
	£'000	£'000
At 1 January	83,832	106,644
Fees received and deferred during the year	2,522	2,997
Recognised in fees and charges receivable	(19,777)	(25,809)
	66,577	83,832
Current (within 12 months)	17,051	19,738
Non-current (after 12 months)	49,526	64,094
	66,577	83,832

16. CREDITORS AND OTHER PAYABLES

	2020	2019
	£'000	£'000
Premiums received in advance of policy issue	4,893	3,145
Commission payable	12	199
Other creditors and accruals	5,655	18,199
Investment dealing creditors	2,801	1,603
Amounts due to related parties:		
Other group companies	20	45
	13,381	23,191

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

	2020	2019
	£'000	£'000
Due to investment contract holders	12,083	13,186
	12,083	13,186

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 are 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.

Assets held on behalf of policyholders 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.

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 £1.4m (2019: £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 (2019: £1.1m).

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

18.1 Market risk (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. The Company manages interest rate risk through the activities of the Investment Committee through regular assessment and monitoring of the assets.

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.

	2020	2019
	£'000	£'000
Increase of 100bps (2019: 100bps) in interest rate yields	1,970	1,631
Decrease of 73bps (2019: 97bps) in interest rate yields	(1,275)	(1,512)

The downward shift of 100bps would decrease rates below 0.0% and hence the impact has been floored at 73bps (2019: 97bps) 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 18.1(c) above.

At the Balance Sheet date the proportion of non-cash financial investments by currencies other than Sterling is 1.2% (2019: 1.1%). These investments are held to cover unit linked

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

18.1 Market risk (continued)

(d) Currency risk (continued)
(d) (ii) Financial investments by currency (continued)

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. 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. The maximum available investment limits are split between 50 % of available funds to primary counterparties and 50% of available funds to secondary counterparties. A minimum of three institutional deposit counterparties should be used at any one point in time and no sole deposit should be in excess of £10million (or currency equivalent).

Counterparties where institutional investments are placed are to be reviewed on an annual basis by the Investment Committee and monitored by the treasury function on a quarterly basis. Each counterparty must have a minimum of a BBB rating provided by Standard and Poor's or the equivalent Baa rating provided by Moody's. 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 OCM Utmost Holdings 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:

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

18.2 Credit risk (continued)

	2020	Restated* 2019
	£'000	£'000
Deposits with credit institutions	10,000	17,050
Cash at bank	18,495	16,414
	28,495	33,464

All short term deposits have a maturity date of less than one year.

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 2020 and 2019 year-end positions, the Company's material reinsurance counterparties have a credit rating at Moody's of Aa3 (2019:Aa). The Company does not believe that on a best estimate basis the credit risk exposure is sufficient enough to justify holding a reserve.

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 settled.

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 (continued)

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

31-Dec-20

	Total	Within 1 year	1-5 years	Over 5 years	Policy holder	No fixed contractual maturity
	£'000	£'000	£'000	£'000	£'000	£'000
Debtors and other receivables	19,522	19,412	110	-	-	-
Deposits with credit institutions	10,000	10,000	-	-	-	-
UPE loan	20,000	-	-	20,000	-	-
Cash and cash equivalents	18,495	18,495	-	-	-	-
Other investments	11,036	-	11,036	-	-	-
Financial Assets at fair value held to cover linked liabilities under investment contracts	10,339,309	-	-	-	10,339,309	-
Reinsurer's Share of Insurance Contracts	218,337	-	-	-	218,337	-
Total	**10,636,699**	**47,907**	**11,146**	**20,000**	**10,557,646**	**-**
Deferred origination costs	47,147					
Total assets	**10,683,846**					

31-Dec-20

	Total	Within 1 year	1-5 years	Over 5 years	Policy holder	No fixed contractual maturity
	£'000	£'000	£'000	£'000	£'000	£'000
Investment contract liabilities	12,083	12,083	-	-	-	-
Creditors and other payables	13,381	13,831	-	-	-	-
Technical provisions for linked liabilities	10,552,155	-	-	-	10,552,155	-
Total	**10,578,069**	**25,914**	**-**	**-**	**10,552,155**	**-**
Technical provisions for linked liabilities	10,552,155					
Deferred Front End Fees	66,577					
Total liabilities	**10,644,196**					

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

18.4 Undiscounted contractual maturity analysis (continued)

31-Dec-19

	Total	Within 1 year	1-5 years	Over 5 years	Policy holder	No fixed contractual maturity
	£'000	£'000	£'000	£'000	£'000	£'000
Debtors and other receivables	30,757	30,716	41	-	-	-
Deposits with credit institutions	17,050	17,050	-	-	-	-
UPE loan	20,000	-	-	20,000	-	-
Cash and cash equivalents	16,414	16,414	-	-	-	-
Other investments	10,923	-	10,923	-	-	-
Financial Assets at fair value held to cover linked liabilities under investment contracts	10,158,558	-	-	-	10,158,558	-
Reinsurer's Share of Insurance Contracts	220,601	-	-	-	220,601	-
Total	**10,474,303**	**64,180**	**10,964**	**20,000**	**10,379,159**	**-**
Deferred origination costs	61,619					
Total assets	**10,535,922**					

31-Dec-19

	Total	Within 1 year	1-5 years	Over 5 years	Policy holder	No fixed contractual maturity
	£'000	£'000	£'000	£'000	£'000	£'000
Investment contract liabilities	13,186	13,186	-	-	-	-
Creditors and other payables	23,191	23,191	-	-	-	-
Technical provisions for linked liabilities	10,379,159	-	-	-	10,379,159	-
Total	**10,415,536**	**36,377**	**-**	**-**	**10,379,159**	**-**
Deferred Front End Fees	83,832					
Total liabilities	**10,499,368**					

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

18.4 Undiscounted contractual maturity analysis (continued)

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 manages liquidity risk through ensuring a minimum percentage of assets are liquid at any time as monitored by the Investment Committee, and through the preparation of cashflow forecasts on a monthly basis in order to ensure sufficient assets are in place to meet existing and future obligations.

18.5 Fair value estimation

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. Fair value as defined by IFRS 13 "Fair Value measurement" is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. 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 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.

The following tables show an analysis of assets measured at fair value across the three levels of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

18.5 Fair value estimation (continued)

Analysis as at 31 December 2020:

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Financial Assets at fair value to cover linked liabilities	10,339,309	8,321,681	1,989,544	28,084
Other investments	11,036	-	11,036	-
Modified Coinsurance	402,073	-	402,073	-
Total assets at fair value	**10,350,345**	**8,321,681**	**2,000,580**	**28,084**
Assets not at fair value	333,501			
Total assets	**10,683,846**			

Analysis as at 31 December 2019:

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Financial Assets at fair value to cover linked liabilities	10,158,558	9,485,512	635,007	38,039
Other investments	10,923	-	10,923	-
Modified coinsurance	523,975	-	523,975	-
Total assets at fair value	**10,169,481**	**9,485,512**	**645,930**	**38,039**
Assets not at fair value	366,441			
Total assets	**10,535,922**			

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.

All financial liabilities are classified as Level 2.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

18.5 Fair value estimation (continued)

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 2020 and 2019 totalling £27,675,775 and £29,748,857 respectively, which indicate that movements during these periods will generally be due to realisations.

A reconciliation of the opening to closing balances in the Level 3 fair value hierarchy is shown in the table below:

	Financial assets held at fair value through profit and loss	Total
	£'000	
Balance at 1 January 2019	43,783	43,783
Total gains or losses:		
In policyholder liabilities	5,687	5,687
Disposals	(11,431)	(11,431)
Foreign exchange movements	-	-
Balance at 31 December 2019	**38,039**	**38,039**
Transfers into Level 3	19,000	19,000
Transfers out of Level 3	(182)	(182)
Total gains or losses:		
In profit or loss	-	-
In policyholder liabilities	(18,825)	(18,825)
Disposals	(9,948)	(9,948)
Foreign exchange movements	-	-
Balance at 31 December 2020	**28,084**	**28,084**

Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred. The Company aims to minimise undue exposure to Level 3 assets, and regularly reviews the composition of the portfolio including Level 3 assets through the Investment Committee. The Company has a general policy of no further investment into Level 3 assets.

18.6 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.

18.6.1 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.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

18.6 Insurance risk (continued)

18.6.2 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.

18.6.3 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.

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 154% (2019: 166%), 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. FINANCIAL ASSETS AT FAIR VALUE HELD TO COVER LINKED LIABILITIES

The financial assets at fair value held to cover financial liabilities under investment contracts are set out below.

	2020 £'000	Restated* 2019 £'000
Deposits	398,698	358,136
Ordinary Shares and Funds	3,107,313	2,983,708
Discretionary managed portfolios	6,359,370	5,988,208
Other investments	47,605	265,200
Modified Coinsurance Account	402,073	523,975
Cash and cash equivalents	24,250	39,331
	10,339,309	**10,158,558**

Included in the analysis above are investments of £27,675,775 (2019: £29,748,857) 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 Ordinary shares and funds and Discretionary managed funds to be unconsolidated structured entities, which are recognised within financial assets at fair value 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 Profit & Loss Account, is matched by a change in technical provisions for linked liabilities in the Profit & Loss Account. The Company also considers its Other Investments to be unconsolidated structured entities. The Company's maximum exposure to unconsolidated structured entities at 31 December 2020 is £9,514,289 (2019: Restated £9,237,116). The Company has not sponsored any structured entities in either 2020 or 2019.

20.1 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.

NOTES TO THE FINANCIAL STATEMENTS

20. FINANCIAL ASSETS AT FAIR VALUE HELD TO COVER LINKED LIABILITIES (CONTINUED)

20.1 Modified coinsurance account (continued)

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 included in Financial Assets at fair value held to cover linked liabilities and 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:

	2020	2019
	£'000	£'000
Opening balance brought forward	523,975	571,949
Deposits to investment contracts	4,633	5,350
Withdrawals from investment contracts	(60,220)	(39,748)
Attributable investment income	7,636	2,576
Attributable net loss on investments	(70,842)	(12,164)
Policy charges	(3,069)	(3,949)
Attributable expenses and charges	(40)	(39)
Closing balance carried forward	**402,073**	**523,975**

21. TECHNICAL PROVISIONS FOR INVESTMENT CONTRACT LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS

21. TECHNICAL PROVISIONS FOR INVESTMENT CONTRACT LIABILITIES (CONTINUED)

	2020	2019
	£'000	£'000
Deposits to investment contracts	375,844	385,853
Withdrawals from investment contracts	(561,209)	(581,077)
Fees and charges deducted	(51,117)	(51,605)
Third party compensation applied	(25)	44
Commissions and rebates receivable	938	2,285
Changes in investment contract liabilities	410,829	1,017,276
Movement in the year	175,260	772,776
Balance at 1 January	10,158,558	9,385,782
	10,333,818	**10,158,558**

Any policy can be surrendered at any time, Investment contract liabilities therefore have a minimum maturity of 0-1 years. In practice, this is extremely unlikely to happen given that these products are long-term investment contracts and more specifically, may reflect the settlement terms achieved on the disposal of assets in the terms it offers on the settlement of liabilities backed by those assets.

22. LIABILITIES UNDER INSURANCE CONTRACTS

	Gross liabilities	Reinsurer's share	Gross liabilities	Reinsurer's share
	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
At 1 January	220,601	220,601	205,884	205,884
Policyholder premiums	-	-	415	415
Policyholder claims	(4,271)	(4,271)	(8,709)	(8,709)
Other changes in liabilities	2,007	2,007	23,011	23,011
At 31 December	**218,337**	**218,337**	**220,601**	**220,601**

NOTES TO THE FINANCIAL STATEMENTS

23. CALLED UP SHARE CAPITAL PRESENTED AS EQUITY

		2020		2019
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of £1 each	23,380,000	23,380	23,380,000	23,380
Allotted, issued and fully paid				
Ordinary shares of £1 each	23,380,000	23,380	23,380,000	23,380

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 2020 and 2019 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.

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 Utmost Holdings Limited, a Cayman incorporated entity. OCM Utmost 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 Group Limited, the financial statements for which are available from www.utmostgroup.co.uk.

NOTES TO THE FINANCIAL STATEMENTS

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.