UTMOST HOLDINGS ISLE OF MAN LIMITED

Annual Report and Consolidated Financial Statements
For the year ended 31 December 2021

CONTENTS

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2021. The consolidated financial statements include the financial statements of the Company and those of its subsidiary undertakings (collectively 'the Group').

PRINCIPAL ACTIVITY

The principal activity of the Company is that of a holding company for two life assurance companies and related subsidiary companies. It is an indirect majority owned subsidiary of Oaktree Capital Group LLC, a Delaware incorporated entity. The Company's immediate parent is Utmost International Group Holdings Limited.

RESULTS, DIVIDENDS AND TRANSFERS

The consolidated profit for the year, after taxation, amounted to £293,032,000 (2020: £6,267,000) which has been transferred to retained earnings. During the year dividends of £10,000,000 (2020: £20,000,000) were paid. The Directors do not recommend the payment of a final dividend (2020: £NIL).

On 30 November 2021, the Company purchased the entire issued share capital of Quilter International Holdings Limited (QIHL) and Quilter International Ireland dac (QIID) for a total cash consideration of £481 million. As a result of the deal, the Company also gained ownership of QIHL's wholly-owned subsidiaries (together with QIHL, referred to hereinafter as the QIHL Group). The principal activity of the QIHL Group and QIID is the writing of long-term assurance business. The directors have allocated the consideration between QIHL and QIID based on own funds, with the result that £441 million has been recorded as paid for QIHL and £40 million for QIID.

On the same day as it was acquired, the Company sold its interest in QIID to its sister company, Utmost PanEurope dac, for an amount equal to the allocated purchase consideration. The combination of the purchase and the sale resulted in no gain or loss to the Company.

Further information about the acquisitions and the disposal is provided in note 4, Business Combinations.

DIRECTORS

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

I G Maidens
A P Thompson
N A Duggan
M J Foy
C J Hall
K S Moore
M J Coffey

COMPANY SECRETARY

C S Bridges

REGISTERED AGENT

Ocorian Trust (Isle of Man) Limited

AUDITOR

PricewaterhouseCoopers LLC, being eligible, has indicated its willingness to continue in office.

By order of the Board

Secretary

30 March 2022
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 law and regulations.

The Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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

- select suitable accounting policies and then applying them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare financial statements which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

Secretary

30 March 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF UTMOST HOLDINGS ISLE OF MAN LIMITED

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the consolidated financial position of Utmost Holdings Isle of Man Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Company financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

Utmost Holdings Isle of Man Limited's consolidated and Company financial statements (the "financial statements") comprise:

- the consolidated and Company statements of financial position as at 31 December 2021;
- the consolidated and Company statements of comprehensive income for the year then ended;
- the consolidated and Company statements of changes in equity for the year then ended;
- the consolidated and Company statements of cash flows 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 Group in accordance with the International Code of Ethics for Professional Accountants ("IESBA Code") including International Independent 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 Consolidated 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 HOLDINGS ISLE OF MAN 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 International Financial Reporting Standards as adopted by the European Union 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 Group and 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 Group and Company or to cease operations, or have no realistic alternative but to do so.

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 Group's and 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 Group's and 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 Group and 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF UTMOST HOLDINGS ISLE OF MAN 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 our engagement letter dated 28 September 2021 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.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
1 April 2022

CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Consolidated 2021 £'000	Company 2021 £'000	Consolidated 2020 £'000	Company 2020 £'000
Revenue					
Net premiums earned	31	13,950	-	-	-
Fees and charges receivable	6	56,736	-	43,177	-
Other income	7	2,574	-	2,454	-
		73,260	-	45,631	-
Investment return					
Interest income on policyholder investments		987	-	1,426	-
Dividend income		26,643	438,912	26,311	20,000
Gains on investments	8	1,187,254	-	383,144	-
(Losses) on investments in subsidiaries	15	-	(188,929)	-	(1,929)
		1,214,884	249,983	410,881	18,071
Net policyholder claims and benefits incurred					
Net policyholder claims	31	(1,920)	-	-	-
Changes in insurance contract liabilities, net of reinsurance	31	8,590	-	-	-
Changes in investment contract liabilities	30	(1,232,139)	-	(410,829)	-
		(1,225,469)	-	(410,829)	-
Commission and expenses					
Acquisition costs	9	(558)	-	(219)	-
Fees and expenses	10	(36,070)	-	(26,996)	-
Amortisation of acquired value of in-force business	12	(19,293)	-	(12,122)	-
		(55,921)	-	(39,337)	-
Gain arising on bargain purchase	4	286,228	-	-	-
Finance costs	17	(76)	-	(51)	-
Profit before taxation	5	**292,906**	**249,983**	**6,295**	**18,071**
Taxation	11	126	-	(28)	-
Profit after taxation		**293,032**	**249,983**	**6,267**	**18,071**
Other comprehensive income					
Foreign currency translation movements		(30)	-	-	-
Total comprehensive income for the year		**293,002**	**249,983**	**6,267**	**18,071**

All the above amounts in the current and prior year derive from continuing activities. The notes on pages 10 to 56 form an integral part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated	Share Capital	Retained Earnings	Translation Reserve	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2020	183,080	3,342	-	186,422
Profit and total comprehensive income for the year	-	6,267	-	6,267
Dividends paid *	-	(20,000)	-	(20,000)
Balance at 31 December 2020	**183,080**	**(10,391)**	**-**	**172,689**
Balance at 1 January 2021	183,080	(10,391)	-	172,689
Profit for the year	-	293,032	-	293,032
Translation of retained earnings	-	-	(30)	(30)
Issue of ordinary shares	431,500	-	-	431,500
Dividends paid *	-	(10,000)	-	(10,000)
Balance at 31 December 2021	**614,580**	**272,641**	**(30)**	**887,191**

Company	Share Capital	Retained Earnings	Translation Reserve	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2020	183,080	102,072	-	285,152
Profit and total comprehensive income for the year	-	18,071	-	18,071
Dividends paid *	-	(20,000)	-	(20,000)
Balance at 31 December 2020	**183,080**	**100,143**	**-**	**283,223**
Balance at 1 January 2021	183,080	100,143	-	283,223
Profit and total comprehensive income for the year	-	249,983	-	249,983
Issue of ordinary shares	431,500	-	-	431,500
Dividends paid *	-	(10,000)	-	(10,000)
Balance at 31 December 2021	**614,580**	**340,126**	**-**	**954,706**

* The dividend per share paid by the Group and Company during the financial year was 1.6 pence (2020: 10.9 pence).

The notes on pages 10 to 56 form an integral part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Notes	Consolidated 2021 £'000	Company 2021 £'000	Consolidated 2020 £'000	Company 2020 £'000
Intangible Assets					
Acquired value of in-force business	12	700,479	-	115,189	-
Other intangible assets	13	585	-	608	-
Deferred acquisition costs	14	5,510	-	3,713	-
Assets					
Investments in subsidiaries	15	-	970,426	-	283,200
Property, plant and equipment	16	12,407	-	2,526	-
Financial Assets					
Financial assets at fair value held to cover linked liabilities	29	31,691,258	-	10,339,309	-
Reinsurers' share of insurance contract liabilities	31	226,142	-	218,337	-
Policyholder loans	18	171,516	-	-	-
Other investments	19	12,651	-	11,036	-
Long-term loans	20	20,805	-	20,000	-
Other receivables	21	54,298	-	20,146	-
Deposits		39,166	-	10,000	-
Cash and cash equivalents	22	213,498	951	20,372	23
TOTAL ASSETS		**33,148,315**	**971,377**	**10,761,236**	**283,223**
Liabilities					
Investment contract liabilities	30	30,283,450	-	10,333,818	-
Insurance contract liabilities	31	1,845,361	-	218,337	-
Deferred front-end fees	23	10,853	-	7,589	-
Other payables	24	113,198	16,671	28,803	-
Provisions	25	2,769	-	-	-
Deferred tax liabilities	26	5,493	-	-	-
Total liabilities		32,261,124	16,671	10,588,547	-
Equity					
Called-up share capital	32	614,580	614,580	183,080	183,080
Retained earnings		272,641	340,126	(10,391)	100,143
Translation reserve		(30)	-	-	-
Total Equity		887,191	954,706	172,689	283,223
TOTAL EQUITY AND LIABILITIES		**33,148,315**	**971,377**	**10,761,236**	**283,223**

These financial statements on pages 6 to 56 were approved and authorised for issue by the Board of Directors on 30 March 2022 and were signed on its behalf by:

Director

Director

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Consolidated 2021 £'000	Company 2021 £'000	Consolidated 2020 £'000	Company 2020 £'000
Net cash flows from operating activities	33	**(5,581)**	**475**	**22,973**	-
Interest income		(2,574)	-	(2,454)	-
Tax charge		(68)	-	(28)	-
		(8,223)	**475**	**20,491**	**-**
Cash flows from investing activities					
Acquisition of subsidiaries – net of acquired cash		(220,377)	(441,047)	-	-
Acquisition of property, plant and equipment		(101)	-	(252)	-
Acquisition of other intangible assets		(152)	-	(319)	-
Proceeds on disposal of property, plant and equipment		27	-	38	-
Dividends received		-	20,000	-	20,000
Interest income received		2,574	-	2,454	-
Net cash flows from investing activities		**(218,029)**	**(421,047)**	**1,921**	**20,000**
Cash flows from financing activities					
Issue of ordinary share capital		431,500	431,500	-	-
Dividends paid		(10,000)	(10,000)	(20,000)	(20,000)
Payment of lease liabilities		(442)	-	(392)	-
Interest paid on lease liabilities		(76)	-	(65)	-
Net cash flows from financing activities		**420,982**	**421,500**	**(20,457)**	**(20,000)**
Net movement in cash and cash equivalents		**194,730**	**928**	**1,955**	**-**
Cash and cash equivalents at the beginning of the financial year		20,372	23	18,418	23
Net foreign exchange gains		(1,604)	-	(1)	-
Cash and cash equivalents at the end of the financial year		**213,498**	**951**	**20,372**	**23**

The notes on pages 10 to 56 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

General Information

The principal activity of Utmost Holdings Isle of Man Limited ('the Company') and its subsidiaries (together, 'the Group') is the writing of long-term assurance business, the majority of which is classified as investment contracts because of the absence of significant insurance risk. The Group operates within selected international markets, in the United Arab Emirates, Singapore, Latin America, Europe, Hong Kong and the United Kingdom.

Utmost Holdings Isle of Man Limited is a limited company incorporated under the Companies Act 2006 and domiciled in the Isle of Man. The address of its registered office is Royalty House, Walpole Avenue, Douglas, Isle of Man, IM1 2SL.

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union as applicable at 31 December 2021.

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 in Sterling to the nearest one thousand pounds.

The principal accounting policies that the Company applied in preparing its financial statements for the financial year ended 31 December 2021 are set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, and its subsidiary undertakings. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Company controls the entity. Subsidiaries are consolidated from the date on which control is transferred to the Company until the date that control ceases.

The acquisition method of accounting is used by the Company to account for the acquisition of subsidiary undertakings. The consideration transferred for the acquisition of subsidiary undertakings is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income as a "Gain arising on bargain purchase".

Intercompany balances and any unrealised gains and losses, or income and expenses, arising on transactions between the Company and its subsidiaries are eliminated on consolidation.

(1.1) Foreign currency

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

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.1) Foreign currency (continued)

environment in which the Group and Company operates and the currency of the Group and 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, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Comprehensive Income.

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 Statement of Comprehensive Income. 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 the Statement of Comprehensive Income.

(1.2) Going concern

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

(1.3) Financial assets and financial liabilities

(1.3.1) Classification

The Group and Company classify its financial assets and liabilities in the following categories: measured at fair value through profit and loss or measured at amortised cost. The classification is determined by the Group and Company's business model for managing the financial assets and the contractual terms of the cash flows.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, or a contract that will or may be settled in the entity's own equity instruments.

(1.3.2) Recognition and de-recognition

Purchases and sales of financial assets are recognised on the trade date, the date on which the Group and 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 Group and Company have transferred substantially all the risks and rewards of ownership.

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.

Financial liabilities, are initially recognised at fair value, being their issue proceeds net of transaction costs incurred.

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

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at fair value through profit and loss because this best reflects the way they are managed. Changes in the fair value of financial assets are recognised in "Gains or losses on investments" in the Statement of Comprehensive Income.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.3.3) Financial assets and financial liabilities at fair value through profit and loss (continued)

Equity instruments are subsequently measured at fair value through profit or loss. Dividends from equity instruments are recognised in the Statement of Comprehensive Income as "Dividend income" when the Group and Company's right to receive payments is established.

Where possible financial assets are valued on the basis of the listed market bid prices for assets and offer prices for liabilities without any deduction for transaction costs.

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 2021 using the latest valuation from the discretionary fund manager which is available to the Group 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.

Loans, including policyholder loans, are recognised when cash is advanced to borrowers or policyholders. Policyholder loans are interest free and are mandatorily at fair value through profit and loss since they are taken from the policyholder's account and thereby linked to underlying investments held at fair value through profit and loss. Other loans and advances are carried at amortised cost using the effective interest rate method. These assets are subject to the impairment requirements outlined below.

(1.3.4) Debt instruments

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 "Other income" or "Interest income on policyholder investments" as appropriate in the Statement of Comprehensive Income using the effective interest method. Any gains or losses including foreign exchange gains and losses arising from de-recognition, together with any impairment losses are all included in the Statement of Comprehensive Income.

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

(1.3.5) Cash

Cash balances held within policyholder assets are recognised as fair value through profit and loss and are included within financial investments. Money market funds within shareholder assets are recognised as fair value through profit and loss and are included in "Cash and cash equivalents". All other cash and cash equivalents are classified as at amortised cost which means they are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method and are subject to the impairment requirements outlined below. Their carrying amount is considered to be the same as their fair value.

(1.3.6) Financial liabilities and equity

Management also determines the classification of financial liabilities at initial recognition. The Group classifies its financial liabilities, as measured at either amortised cost or fair value through profit and loss.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.3.6) Financial liabilities and equity (continued)

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. At inception, investment contract liabilities for unit-linked business are designated as financial liabilities and measured at fair value through profit and loss. For unit-linked contracts, the fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets in the fund.

The fair value through profit and loss classification reflects the fact that the matching investment portfolio, that mirrors the unit-linked liabilities, is managed, and its performance evaluated, on a fair value basis. Other financial liabilities are measured at amortised cost using the effective interest method.

(1.3.7) Other payables and receivables

Other payables and receivables are non-interest bearing and are stated at their amortised cost, less appropriate allowances for expected credit losses for receivables.

Due to the short term nature of other payables and receivables, their carrying amount is considered to be the same as their fair value.

(1.4) Investment in subsidiary undertakings

Investments in subsidiaries are measured at fair value through profit and loss (see note 15). The Group calculates the fair value of its investment in subsidiary in non-insurance companies on an IFRS net asset value basis and the fair value of its insurance company subsidiaries on an adjusted economic value basis. A substantial amount of the net asset value of non-insurance companies in the Group relates to the adjusted economic value of the insurance company subsidiaries. The methodology for the calculation of the adjusted economic value of insurance company subsidiaries is detailed in note 15 to the Company financial statements.

The determination of the fair value is a judgemental area and inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the assumptions that management consider market participants would use in pricing the asset or liability in the event of selling the business. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Subsidiaries are entities controlled by Utmost Holdings Isle of Man Limited. Utmost Holdings Isle of Man Limited controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Dividend income from subsidiaries is recognised when the right to receive payment is established.

(1.5) Subsidiary purchased for immediate resale

On 30 November 2021 the Group purchased 100% of the voting equity interests in Quilter International Ireland dac (QIID). On the same day, the Group sold its entire equity interest in QIID to Utmost PanEurope dac (UPE) for an equal amount of consideration.

This acquisition fell under IFRS 5 Non-Current Assets Held for Sale and Discounted Operations as a subsidiary held exclusively for resale. This exempts the subsidiary from the requirement for full consolidation but requires it to be recognised at its fair value less costs of sale and to be presented separately in the Statement of Financial Position.

The combination of the acquisition and disposal within a short space of time has resulted in an overall nil gain and nil loss transaction and the Group considers it appropriate to offset the gain

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.5) Subsidiary purchased for immediate resale (continued)

on bargain purchase on acquisition with the loss on disposal, as correctly reflecting the substance of the transaction (see note 4).

(1.6) Impairments

For financial assets the Group 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 other receivables, the Group 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income. 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.

(1.7) 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 Statement of Comprehensive Income 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 "Other income" or "Interest income on policyholder investments" as appropriate in the Statement of Comprehensive Income on an accruals basis.

Dividends receivable for investments held within unit linked funds managed by the Group 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 Group 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 period 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 Insurance Company (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 Limited contract.

(1.8) Product classification

The Group has issued both insurance contracts and investment contracts. Insurance contracts are contracts under which the Group accepts significant insurance risk from the policyholder

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.8) Product classification (continued)

by agreeing to compensate the policyholder or other beneficiary on the occurrence of a defined insured event. Investment contracts are financial instruments that do not meet the definition of an insurance contract as they do not transfer significant insurance risk from the policyholder to the Group either individually or as a discrete book of business.

All standard products sold by the Group have been classified as being investment products and they have been accounted for accordingly with the exception of permanent health insurance, with-profits bonds and term insurance contracts being categorised as insurance contracts. Optional additional life cover applies to a small number of contracts and these contracts contain a significant insurance component.

A change in the underlying assumptions that determine the split of investment and insurance contracts would impact the Statement of Comprehensive Income through an increase or decrease in the premiums received relating to insurance contracts.

(1.9) Financial liabilities under investment contracts

Contracts issued by the Group 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 Group. 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 Statement of Financial Position date, and included within "Investment contract liabilities" in the consolidated Statement of Financial Position. The decision by the Group 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 Statement of Comprehensive Income but are recognised as deposits to investment contracts and are included in financial liabilities in the Statement of Financial Position. Withdrawals from investment contracts and other benefits paid are not included in the Statement of Comprehensive Income but are deducted from financial liabilities under investment contracts in the Statement of Financial Position. Benefits are deducted from financial liabilities and transferred to amounts due to investment contract holders based on 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.

(1.10) Insurance contracts

The Group classifies its with-profits business, permanent health insurance, high death benefit unit-linked and term insurance contracts as insurance business.

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 insurance contract, using assumptions that reflect the Group'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 Group seeks to provide appropriate levels of contract liabilities taking known facts and experiences into account but, nevertheless, such liabilities remain uncertain.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.10.1) With-profits contracts

In considering the level of insurance risk that relates to the with-profits business, the Group has recognised the significance of the insurance guarantees attaching to the with-profits business, which is fully reinsured, 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.

(1.10.2) Other insurance contracts

The liability is computed separately for each insurance contract, using surrender, expense and mortality assumptions that reflect the Group's expected experience with appropriate allowance for margins of prudence. 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. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premium is recognised.

(1.10.3) 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 Statement of Comprehensive Income.

The Group'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 Statement of Comprehensive Income.

(1.11) Reinsurance

Contracts entered into by the Group with reinsurers are classified as either ceded reinsurance or financial assets and liabilities. Ceded reinsurance contracts include arrangements where regular risk premiums are paid by the Group to the reinsurer and an agreed share of claims are paid by the reinsurer to the Group.

The value of the benefits that the Group is entitled to under the ceded reinsurance arrangements are reported as "Reinsurers' share of insurance provisions". This is calculated as the difference between the insurance contract liabilities assuming no reinsurance arrangement exists (the gross basis) and the liability with explicit allowance for all cash flows relating to the reinsurance arrangement (the net basis).

Insurance contract liabilities are calculated quarterly on a gross and net basis taking into account all relevant experience effects. The reinsurers' share of insurance provisions is updated consistently with these calculations. Any resulting movement in the reinsurers' share of insurance provisions is recognised in the Statement of Comprehensive Income.

The reinsurance balances are subject to sensitivity in the value of investment and insurance contracts. Any changes in those values have an equal and opposite impact on the reinsurers' share of insurance provisions with no net impact on the Statement of Comprehensive Income.

(1.12) Pension obligations

The Group operates a defined contribution plan, and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.12) Pension obligations (continued)

contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

(1.13) Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation. The costs of property plant and equipment are depreciated over their expected useful lives on a straight line basis as follows:

Computer and office equipment	20% - 50%
Fixtures and fittings	20% - 33%
Motor vehicles	15% - 35%

The right-of-use asset over the leasehold properties is depreciated over the duration of the non-cancellable lease payments.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Fees and expenses" in the Statement of Comprehensive Income.

(1.14) Intangible fixed assets – software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not subsequently recognised as an asset in a subsequent period.

Capitalised computer software is stated at cost less amortisation and is amortised over three to five years.

(1.15) 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.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.16) Cash and cash equivalents

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

(1.17) 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 Statement of Financial Position as the Group's performance obligation in respect of these up-front fees is met over the remaining duration of the policies. Deferred fees are amortised 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.

(1.18) Renewal commission and advisor fees

Renewal commission charges are charged to the contract 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 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.

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 investment contract liabilities in note 30.

(1.19) Trustee fees

Establishment fees and termination fees are considered to be advance payment for services that the Group will provide over the expected duration of the trusts. The establishment and termination fees are capitalised from the date the invoice is raised, and amortised over the expected period of time that the trusts are expected to remain in force. Capitalised fees are amortised to the Statement of Comprehensive Income on a straight-line basis.

Costs incurred by the Group in connection with the establishment and termination of trusts have also been capitalised and amortised over the same periods as the establishment and termination fees.

The Group also recognises surrender fees in connection with the closure of trusts that are recognised at a point in time when the service is delivered.

Annual fees and ad hoc time-based fees are recognised as income as the services are provided to the trusts. Administration fees are charged to Utmost Limited on a monthly basis based on a fixed fee per in-force trust, and recognised in profit and loss when they are charged. Interest income is accounted for on an accruals basis.

(1.20) Acquisition costs and deferred acquisition costs

Acquisition costs include commissions, intermediary incentives, and sales and marketing costs. Incremental costs that are directly attributable to securing unit linked investment and insurance contracts, and are expected to be recoverable, are deferred and recognised in the Statement of Financial Position as deferred acquisition costs. Acquisition costs that do not meet the criteria for deferral are expensed as incurred.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.20) Acquisition costs and deferred acquisition costs (continued)

Deferred acquisition costs are amortised over the expected remaining duration of the underlying policyholder contract. The amortisation of deferred acquisition costs is charged to the Statement of Comprehensive Income within the acquisition costs line.

Formal reviews to assess the recoverability of deferred acquisition costs on investment and insurance contracts are carried out at each Statement of Financial Position 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 Statement of Comprehensive Income 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.

(1.21) Commissions receivable

Commissions receivable arising from both with-profits bond investments and from 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 to accounting on an accrual basis is insignificant.

(1.22) Expenses

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

(1.23) Modified coinsurance account

Under the modified coinsurance arrangement (detail provided in note 29) the statutory reserve on the ceded business is the obligation of, and held by the ceding company. The Group 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" within "Financial assets at fair value held to cover linked liabilities" on the Statement of Financial Position. Premiums, claims arising and policy charges under this arrangement are included within the "Changes in investment contract liabilities" in the Statement of Comprehensive Income and within the "Financial Assets at fair value held to cover linked liabilities" in the Statement of Financial Position. The investment return attributable to the assets held under the Modified Coinsurance arrangement is included within "Dividend income" or "Gains on investments" in the Statement of Comprehensive Income.

(1.24) Goodwill, intangible assets and acquired value of in-force policies ('VIF')

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Negative goodwill arises when the purchase consideration is less than the fair values of the identifiable assets and liabilities.

In accordance with IFRS 10, positive goodwill is recognised as an intangible asset in the Statement of Financial Position. Negative goodwill, a bargain purchase gain, is recognised immediately in the Statement of Comprehensive Income.

An intangible asset may be acquired in a business combination. If an intangible asset is acquired in a business combination, the cost of the asset is specified by IAS38 (in accordance with IFRS3) to be its fair value on the date of acquisition. The fact that a price can be established for an intangible asset which is acquired in a business combination is accepted as evidence that future economic benefits are expected to accrue to the entity.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.24) Goodwill Intangible assets and acquired value of in-force policies ('VIF') (continued)

The present value of future profits on a portfolio of long-term insurance and investment contracts, representing the value of in-force policies ('VIF'), acquired directly or through the purchase of a subsidiary, is recognised as an intangible asset. The VIF is amortised over the useful lifetime of the related contracts in the portfolio on a systemic basis. The rate of amortisation is chosen by considering the profile of the value of in-force business acquired and the expected depletion in its value.

Acquired VIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Significant estimates include forecast expenses, charges, persistency rates, guarantee costs and discount rates.

(1.25) Taxation

Current tax payable is the expected tax payable on the taxable income for the period adjusted for changes to previous periods and is calculated based on the applicable tax law in the relevant tax jurisdiction. A current tax liability is recognised for the tax payable on the taxable profit of the current and past periods. A current tax asset is recognised in respect of a tax loss that can be carried back to recover tax paid in previous periods. Tax assets and liabilities are only offset when they arise in the same reporting group for tax purposes and where there is both the legal right and intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which temporary differences will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are recognised when there are temporary differences between the carrying value of assets and the tax base.

Tax assets and liabilities are only offset when they arise in the same reporting group for tax purposes and where there is both the legal right and intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(1.26) Share capital

Ordinary shares are classified as equity.

(1.27) Leases

Where the Group acts as a lessee, it recognises a right-of-use asset and a corresponding lease liability, representing the obligation to make lease payments at the lease commencement date.

The right-of-use asset is initially measured at cost which comprises the lease liability, payments made on the lease before the commencement date and any initial direct costs less any lease incentives received. The asset is subsequently measured at cost less depreciation and impairment and is depreciated on a straight-line basis from the commencement date to the earlier of (i) the end of the right-of-use asset's useful life and (ii) the end of the lease term.

The lease liability is initially measured at the present value of future lease payments at the commencement date, discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate.

Subsequently, the lease liability is measured at amortised cost, using the effective interest method. The lease liability may be re-measured where there is a change in future lease payments for instance where the Group reassesses whether it will exercise a purchase, extension or termination option. Where this happens, a corresponding adjustment is made to the carrying amount of the right-of-use asset or an amount is recognised in the Statement of Comprehensive Income if the carrying amount of the right-of-use asset has been reduced to zero.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

(1.27) Leases (continued)

The Group presents the right-of-use assets in property, plant and equipment on the consolidated Statement of Financial Position. The corresponding lease liabilities are presented in other payables.

(1.28) Provisions and contingent liabilities

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

Contingent liabilities are possible obligations of the Group of which the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the Statement of Financial Position. They are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and recognised as a liability.

(1.29) 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 2021 have had a material impact on the financial statements.

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

IFRS 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 Group 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 for other business written by the Group, including unit-linked insurance contracts and investment contracts with discretionary participation features ("DPF") as well as non-linked contracts that are all currently recognised as insurance contracts under IFRS 4.

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 Group has commenced an implementation project including completion of an initial 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.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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.

Initial measurement of acquired value of in-force business (AVIF)

The initial measurement of the value of the in-force policies acquired upon completion of purchase of the group belonging to Quilter International Holdings Limited (QIHL) is a critical estimate (see note 4).

The following is a list of the critical judgements used in producing this estimate:

- Persistency assumptions are based on 5 years of historic data, consistent with the approach taken by the wider Utmost group
- Maintenance assumptions are based on the 2021 run-rate expenses and policy counts that were adjusted for changes, which have either happened or are clearly foreseeable.
- Persistency assumptions are based on a weighted average based on experience with reference to 25% of policy count and 75% of premium, premium being a proxy for policy size
- Expenses and inflation-linked charges are assumed to increase over time by the United Kingdom RPI rate + 0.5%
- The trended rate of rebates from 2012 to 2021 has been used to determine the future level of rebates included in the cash flow projections.

Recognition and valuation of deferred acquisition costs and deferred front-end fees

Expenses are reviewed to determine the relationship of these expenses to the issuance of an investment contract and to the establishment and/or termination of trusts. Expenses which relate to the acquisition of a contract are deferred. Other expenses are written-off as incurred.

Deferred acquisition costs consists of sales incentives, initial commission payable on new policies, enhanced allocations and the costs of establishing trusts.

Deferred acquisition costs are tested annually, at Group level, for recoverability by comparing the present value of estimated future profits to the value of deferred acquisition costs.

Deferred front-end fees consist of establishment fees and termination fees receivable in the year, together with a portion of initial fees receivable.

Deferred acquisition costs and deferred front-end fees are amortised on a straight-line basis, consistent with the transfer of services to customers over the policy term. Each policy is considered separately with whole of life contracts amortised over an expected policy life of 30 years.

Recoverability of acquired in-force business

Acquired VIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Significant estimates include forecast expenses, charges, persistency rates, guarantee costs and discount rates.

Classification of financial investments

The Group 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 CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Fair value assessment of investments and investment in subsidiaries

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 publicly available.

Critical judgements used in determining the lease term and discount rate

In determining the lease term, management have considered all facts and circumstances that create an economic incentive to continue the lease beyond the termination option date. Lease payments beyond a termination option date are only included in the lease term if the lease is reasonably certain to be extended. Lease payments beyond the termination option date have not been included in the lease term as management are not reasonably certain that the term will be extended beyond the termination option date.

The incremental borrowing rates applicable to the Group's leases are based on a market assessment of those available to it on borrowings with similar maturity and security and in the same currency as the lease.

Classification of insurance and investment contracts

The Group may issue both insurance contracts and investment contracts. Insurance contracts are contracts under which the Group accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary on the occurrence of a defined insured event. Investment contracts are financial instruments that do not meet the definition of an insurance contract as they do not transfer significant insurance risk from the policyholder to the Group either individually or as a discrete book of business.

Calculation of insurance contract liabilities

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 Group 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 the accounting policy, and risk management in respect of the Group's insurance business is provided in note 27.6.

Recognition of provisions and contingent liabilities

The Group is committed to treating customers fairly and supporting its customers in meeting their lifetime goals. The Group does from time to time receive complaints, claims and have commercial disputes with service providers, in the normal course of business. The costs including legal costs, of these issues as they arise can be significant and where appropriate, provisions have been made.

Valuation of provisions

Provisions are recognised when the Group has an obligation, legal or constructive, as a result of a past event, and it is probable that the Group will be required to settle that obligation. Assessing the probability of a claim is a critical judgement.

Provisions are then estimated as the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present values where the effect is material.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

3. SUBSIDIARIES

The consolidated financial statements include the following subsidiaries. The Group holds 100% of the issued and voting share capital of all of the subsidiary companies.

Company	Jurisdiction	Nature of business
Utmost Limited *	Isle of Man	Writing long-term assurance business
Utmost Services Limited *	Isle of Man	Management and administration services
Utmost Trustee Solutions Limited *	Isle of Man	Provision of trustee services
Utmost Administration Limited *	Isle of Man	Third party administration services
Utmost Partnerships Limited *	Isle of Man	Dormant company
Quilter International Holdings Limited **	Isle of Man	Holding company
Quilter International Isle of Man Limited **	Isle of Man+	Writing long-term assurance business
Quilter International Business Services Limited **	Isle of Man	Third party administration services
Quilter International Trust Company Limited **	Isle of Man	Provision of trustee services
Quilter International Middle East Limited **	Dubai	Financial advisory services
AAM Advisory Pte Limited **	Singapore	Financial advisory services

* Date of acquisition: 21 October 2016. Registered office address: Royalty House, Walpole Avenue, Douglas, Isle of Man, IM1 12SL.

** Date of acquisition: 30 November 2021. Registered office address: King Edward Bay House, King Edward Road, Onchan, Isle of Man, IM99 1NU.

+ Quilter International Isle of Man Limited also operates branches in Hong Kong and Singapore.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

4. BUSINESS COMBINATIONS

On 30 November 2021, the Group acquired the entire issued share capital of Quilter International Holdings Limited (QIHL) and Quilter International Ireland dac (QIID) for a total consideration in cash of £481 million. The directors used the own funds value to allocate the consideration such that £441 million has been recognised as the price paid for QIHL, and its wholly-owned subsidiaries, and £40 million for QIID.

Upon completion of the QIHL acquisition, and as part of a group reorganisation, the Group directly acquired the issued share capital of QIHL's subsidiaries. The consideration attributed to the subsidiaries was £440 million, which was satisfied by a non-interest bearing intercompany payable. Following the acquisition of the subsidiaries, the original investment in QIHL was impaired by an amount of £440 million (see note 15).

On the same day as QIID was acquired, the Group sold it to its sister company, Utmost PanEurope dac (UPE) for the same amount as the allocated purchase consideration. The sale and purchase resulted in neither a gain nor a loss being realised by the Group: the resulting gain on bargain purchase and loss on sale of QIID have been offset in the Statement of Comprehensive Income; the cash consideration paid and received has also been offset in the Statement of Cash Flows. This accounting treatment is explained in more detail below, where further information about the business combinations is presented.

<u>Quilter International Holdings Limited</u>

QIHL and its subsidiaries constitute a group undertaking long-term assurance business. The business was acquired to expand the international reach of the Group, consistent with its growth strategy.

The table below contains an analysis of the fair value of net assets of the group of companies that was acquired during the financial period, the cash consideration paid and the intangible assets arising from these acquisitions:

	Notes	Quilter International Holdings Limited Fair value £'000
Assets		
Property, plant and equipment	16	10,634
Financial assets at fair value held to cover linked liabilities		20,136,369
Reinsurer's share of insurance contracts		3
Other assets		61,202
Deposits and loans		200,309
Cash and cash equivalents		220,670
Total assets		**20,629,187**
Liabilities		
Investment contract liabilities	30	18,750,712
Insurance contract liabilities	31	1,627,813
Provisions	25	2,226
Other liabilities		120,057
Total liabilities		**20,500,808**
Fair value of net identifiable assets acquired		128,379
Acquired value of in-force policies ('VIF')	12	604,583
Deferred tax liability arising on VIF	11, 26	(5,687)
Fair value of net assets acquired including VIF		**727,275**
Cash consideration paid		(441,047)
Gain arising on bargain purchase		**286,228**

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

4. BUSINESS COMBINATIONS (CONTINUED)

Quilter International Holdings Limited (continued)

The fair value of the net assets acquired includes provisions of £2,226,000. Further details of these provisions are included in note 25.

This business combination resulted in a gain on bargain purchase because the fair value of the assets acquired, including the value of in-force policies, and liabilities assumed exceeded the total of the fair value of consideration paid. This was driven by the fact that Quilter plc considered the business to be non-core and wished to exit the market, in order to focus on its core activities in the UK market.

From the date of acquisition on 30 November 2021, the business contributed £28 million of total revenue, net of reinsurance payable, and a loss after tax of £0.8 million to the consolidated results of the Group. The loss after tax is based on the actual amounts realised post-acquisition plus one month of amortisation of the AVIF intangible.

If the acquisition had taken place at the beginning of the year, total revenue net of reinsurance payable is estimated at £320.6 million and the loss after tax is estimated at £14.2 million. The loss after tax is calculated on actual profit of the business for the year ended 31 December 2021, excluding pre-acquisition movements in deferred acquisition costs and deferred front-end fees, but including an estimate of what the amortisation of the AVIF intangible over the same period would have been. The pro-forma results are provided for information purposes only and do not necessarily reflect the actual results that would have occurred had the acquisition taken place on 1 January 2021, nor are they necessarily indication of the future results of the combined group.

Costs associated with the acquisition amount to £1,926,000 and have been paid by a related party, Utmost Holdings (Guernsey) Limited.

Acquisition and disposal of Quilter International Ireland dac

QIID was acquired to expand the life assurance business of the wider Utmost group, consistent with its growth strategy. The purchase by the Group and subsequent sale to its sister company UPE was designed to facilitate the completion of the acquisition of all the relevant entities on the same day.

The transfer of ownership of QIID to UPE required the formal approval by the Central Bank of Ireland, which was received in advance of the acquisition.

The Group has used the short-cut method permitted under IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations that exempts the subsidiary from the requirement for full consolidation (see note 1.5).

Furthermore, given the substance of the transactions, that were intended to provide the Group with neither economic benefit nor detriment, the gain on bargain purchase and loss on sale have been offset in the Statement of Comprehensive Income as permitted by IAS 1 paragraph 33. Similarly, the payment of consideration of £40 million on purchase and receipt of the same amount of proceeds on sale have been offset in the Statement of Cash Flows.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

4. BUSINESS COMBINATIONS (CONTINUED)

Acquisition and disposal of Quilter International Ireland dac (continued)

	30 November 2021 Acquisition Quilter International Ireland dac £'000	30 November 2021 Disposal Quilter International Ireland dac £'000
Fair value of assets acquired/ (disposed)	3,760,568	(3,760,568)
Fair value of liabilities (acquired)/ disposed	(3,775,521)	3,775,521
Fair value of net identifiable liabilities acquired/ (disposed) *	(14,953)	14,953
Acquired value of in-force policies ('VIF')	75,999	(75,999)
Fair value of net assets acquired including VIF	61,046	(61,046)
(Purchase consideration)/ sales proceeds	(40,000)	40,000
Gain on bargain purchase/ (loss on sale)	21,046	(21,046)

* Costs to sell have been suffered by a related party, Utmost Holdings (Guernsey) Limited.

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2021	2020
Profit before taxation is stated after charging / (crediting) within fees and expenses:-	£'000	£'000
Wages and salaries	11,092	8,212
Social security costs	1,306	880
Termination costs	982	29
Other staff benefits	1,331	343
Pension costs - defined contributions	1,275	1,051
Depreciation and amortisation (notes 13 & 16)	1,014	768
Profit on sale of tangible fixed assets	(17)	(5)
Auditor's fees – statutory audit	293	175
Auditor's fees – non-audit services	100	124
Directors' fees	139	122

An amount of depreciation of £546,000 has been reclassified as a reduction in the capital value of the right-of-use asset in 2020 (note 16).

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

6. FEES AND CHARGES RECEIVABLE

Included within fees and charges are:

	2021	2020
	£'000	£'000
Fee income from investment contracts	55,857	42,642
Net movement in deferred front-end fees (note 23)	(3,264)	(1,700)
Other fee income – including commission and rebate income	4,143	2,235
Total fee income	56,736	43,177

7. OTHER INCOME

Included within other income are:

	2021	2020
	£'000	£'000
Bank and deposit interest income	988	1,275
Loan interest (note 20)	1,074	1,000
Other – including interest charged to policyholders	512	179
	2,574	2,454

8. GAINS ON INVESTMENTS

Included within gains on investments are:

	2021	2020
	£'000	£'000
Net gains on realisation of investments	471,065	182,048
Change in fair value of financial assets	716,189	201,096
	1,187,254	383,144

9. ACQUISITION COSTS

Included within acquisition costs are:

	2021	2020
	£'000	£'000
Initial commission payable	2,355	335
Capitalisation of acquisition costs (note 14)	(2,139)	(430)
Amortisation of deferred acquisition costs (note 14)	342	314
	558	219

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

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

10. FEES AND EXPENSES

Included within fees and expenses are:

	2021	2020
	£'000	£'000
Operational expenses	23,924	16,185
Other expenses	798	(274)
Ongoing renewal commission payable	11,348	11,085
	36,070	26,996

11. TAXATION

	2021	2020
	£'000	£'000
Current taxation charge	68	28
Deferred tax on amortisation of AVIF (note 26)	(194)	-
Tax (credit)/ charge for the year	(126)	28

ISLE OF MAN TAXATION

On the Isle of Man, with certain exceptions not relevant to the Group, corporate entities are subject to tax at 0% (2020: 0%). This rate is not expected to change in the foreseeable future.

UK TAXATION

One subsidiary, Utmost Services Limited charges an administration fee on the recharge of certain costs arising in the United Kingdom, which it recharges to fellow Utmost group companies. This is a notional charge. The Group is liable to corporation tax in the United Kingdom on this administration fee.

The Group can make full use of tax losses available in the direct parent company Utmost International Group Holdings Limited and has agreed to pay the parent company an amount equal to the value of the tax relief utilised of £33,000 (2020: £28,000). There are sufficient losses available to reduce the current taxation liability to £nil.

REPUBLIC OF IRELAND TAXATION

One subsidiary, Utmost Services Limited charges an administration fee on costs arising in the Republic of Ireland (ROI) which it recharges to fellow Utmost group companies. The Company is liable to corporation tax on this administration fee at 12.5% (2020: 12.5%). During 2021, the Group received a charge of £6,000 (2020: £nil)

HONG KONG TAXATION

One subsidiary, Quilter International Isle of Man Limited (QIIOML) operates a branch in Hong Kong. Tax is payable on the profits of that branch at 16.5% (2020: 16.5%) of assessable profits. During 2021, the Group received a charge in respect of Hong Kong assessable profits of £29,000 (2020: £nil).

A deferred tax liability has been recognised in relation to the temporary differences that arise as a result of the part of the acquired value of in-force business intangible asset attributable to the Hong Kong branch. Amortisation of this liability has resulted in a credit to the Statement of Comprehensive Income of £194,000 (2020: £nil).

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

11. TAXATION (CONTINUED)

SINGAPORE TAXATION

One subsidiary, AAM Advisory Pte, Ltd. (AAM), is incorporated and domiciled in Singapore. Tax is payable on the profits of the AAM and the Singapore branch of QIIOML at 17% (2020: 17%). Both AAM and the branch have accumulated tax losses; therefore no provision has been made for Singapore tax and no deferred tax liability has been recognised as arising on the acquired value in-force intangible assets attributable to the Singapore branch.

12. ACQUIRED VALUE OF IN-FORCE BUSINESS

	2021 £'000	2020 £'000
Cost		
At 1 January	178,891	178,891
Value of in-force policies acquired (VIF) (note 4)	604,583	-
At 31 December	**783,474**	**178,891**
Accumulated amortisation		
At 1 January	63,702	51,580
Charge for the year	19,293	12,122
At 31 December	**82,995**	**63,702**
Net book value at 31 December	**700,479**	**115,189**
Current (within 12 months)	108,333	10,580
Non-current (after 12 month)	592,146	104,609
	700,479	**115,189**

No acquired VIF has been presented in respect of Quilter International Ireland dac, since that entity was disposed during the period (see note 4).

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

13. OTHER INTANGIBLE ASSETS

	Computer software £'000
Year ended 31 December 2020	
Opening net book amount	455
Additions	319
Amortisation charge	(166)
Closing net book value	**608**
Net book value	
Cost	3,618
Accumulated amortisation	(3,010)
At 31 December 2020	**608**
Year ended 31 December 2021	
Opening net book amount	608
Additions	152
Amortisation charge	(175)
Closing net book value	**585**
Net book value	
Cost	3,770
Accumulated amortisation	(3,185)
At 31 December 2021	**585**

14. DEFERRED ACQUISITION COSTS

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

	2021 £'000	2020 £'000
At 1 January	3,713	3,597
Capitalised during the year	2,139	430
Amortised during the year	(342)	(314)
	5,510	**3,713**
Current (within 12 months)	352	265
Non-current (after 12 months)	5,158	3,448
	5,510	**3,713**

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

15. INVESTMENT IN SUBSIDIARIES

	Company 2021 £'000	Company 2020 £'000
Balance at 1 January	283,200	285,129
Additions (see note 4)	481,047	-
Additions (inter-Group transaction undertaken as part of Group reorganisation – see note 4)	440,000	-
Distributions from pre-acquisition reserves (as part of Group reorganisation)	(4,892)	-
Disposals (see note 4)	(40,000)	-
Fair value gains/ (losses) on investment in subsidiaries	251,071	(1,929)
Fair value loss (on Quilter International Holdings Limited following Group reorganisation - see note 4)	(440,000)	-
Balance at 31 December	**970,426**	**283,200**

The Group calculates the fair value of its investment in subsidiary non-insurance companies on an IFRS net asset value basis. For insurance company subsidiaries the fair value approach applied by the Company is to measure the 'economic value' of the underlying subsidiaries based on a Solvency II assessment of the value of the business, adjusted for other components where management view that Solvency II does not reflect the commercial value of the business. One such component is to adjust the 'risk margin' (an amount required under Solvency II rules to represent the potential cost of transferring insurance obligations to a third-party should an insurer fail), calculated using a cost of capital set to 6% under regulatory rules. For determining fair value in accordance with IFRS, management have applied a 3% cost of capital (2020: 3%) in calculating the risk margin, to more appropriately reflect management's view of economic value. The impact on the fair value of investment in subsidiaries of a 1% change in the cost of capital would £45.8 million (2020: £15.0 million).

A further component of economic value relates to the value of in-force business (VIF) outside the contract boundary, the point which determines which cash flows should be included for Solvency II capital. As at 31 December 2021, the value of VIF outside the contract boundary was £11.1 million (2020: £0.3 million) (see note 12).

Net fair value losses of £188.9 million are recognised in the Statement of Comprehensive Income in the year ended 31 December 2021 (2020: losses £1.9 million) in respect of re-measuring the Company's investment in subsidiaries at fair value.

The fair value of insurance companies is inherently uncertain and the valuation is dependent upon the prevailing market, economic and other conditions at the valuation date.

In determining fair value, management have applied a valuation multiple of 90% of economic value (2020: valuation multiple of 100%). The valuation multiples used in market valuations and acquisition prices of life insurance companies vary depending on a number of factors including the location of the subsidiary and the type of business but are generally in the range 80% to 120%. The impact on the fair value of investment subsidiaries of a 5% change in the valuation multiple would be £47.6 million (2020: £14.0 million).

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

16. PROPERTY, PLANT AND EQUIPMENT

	Computer and office equipment £'000	Motor vehicles £'000	Right-of-use asset £'000	Total £'000
Year ended 31 December 2020				
Opening net book amount	552	64	2,839	3,455
Additions	177	75	-	252
Disposals/ Re-measurement of right-of-use asset	-	(33)	(546)	(579)
Depreciation charge	(237)	(28)	(337)	(602)
Closing net book value	**492**	**78**	**1,956**	**2,526**
At 31 December 2020				
Cost	1,537	124	2,796	4,457
Accumulated depreciation	(1,045)	(46)	(840)	(1,931)
Net Book Amount	**492**	**78**	**1,956**	**2,526**
Year ended 31 December 2021				
Opening net book amount	492	78	1,956	2,526
Additions on acquisition of subsidiaries	-	-	10,634	10,634
Foreign exchanges movement	-	-	(5)	(5)
Additions	101	-	-	101
Disposals	-	(10)	-	(10)
Depreciation charge	(235)	(15)	(589)	(839)
Closing net book value	**358**	**53**	**11,996**	**12,407**
At 31 December 2021				
Cost	1,638	74	13,425	15,137
Accumulated depreciation	(1,280)	(21)	(1,429)	(2,730)
Net Book Amount	**358**	**53**	**11,996**	**12,407**

The right-of-use assest are derived from the Group's leasehold office properties held in the Isle of Man, UK, Singapore and Hong Kong (see note 17).

An amount of depreciation of £546,000 has been reclassified as a reduction in the capital value of the right-of-use asset in 2020.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

17. LEASES

17.1 Amounts recognised in the Statement of Financial Position

	2021	2020
	£'000	£'000
Right-of-use asset		
Buildings (note 16)	11,996	1,956
Lease liabilities		
At 1 January	1,953	2,814
Impact of re-measurement	-	(455)
Additions on acquisition of subsidiaries	10,634	-
FX movement	4	-
Interest charge in the year	76	51
Lease payments made in the year (exclusive of VAT)	(518)	(457)
At 31 December	12,149	1,953
Current (within 12 months)	2,382	407
Non-current (after 12 months)	9,767	1,546
	12,149	1,953

In its capacity as a lessor, the Group sub-leases a proportion of one of its premises situated in the Isle of Man. At the reporting date the future minimum lease payments receivable from a non-cancellable operating sub-lease are as follows:

	2021	2020
	£'000	£'000
Within one year	1,967	-
Between one and five years	8,633	-
	10,600	-

An amount of £nil was received during the year (2020: £nil).

The Company guarantees all future lease payments in respect of a lease of the premises known as King Edward Bay House, where its wholly-owned subsidiary, Quilter International Isle of Man Limited, is the lessee.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

17. LEASES (CONTINUED)

17.2 Amounts recognised in the Statement of Comprehensive Income

	2021 £'000	2020 £'000
Fees and expenses		
Depreciation charge on buildings	589	337
Interest expense		
Finance cost of lease payments	76	51

The total cash outflow for leases in the year ended 31 December 2021 was £518,000 (2020: £457,000), exclusive of VAT.

18. POLICYHOLDER LOANS

	2021 £'000	2020 £'000
Policyholder loans	171,516	-

Policyholder loans are amounts taken from an individual policyholder's transaction account and loaned to the same policyholder. Policyholder loans are non-interest bearing and are deemed to be risk free from a shareholder perspective as the policyholder retains all associated risk. The loans are classed as repayable on demand as theyhave no specified repayment schedule. The impact of credit risk on fair value is not considered to be material as they are backed by the value of other policyholder assets.

19. OTHER INVESTMENTS

	2021 £'000	2020 £'000
Investment in Oaktree	11,668	10,943
Sundry other investments	983	93
	12,651	11,036

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 valuations and is liquid. This investment falls into the Level 2 fair value hierarchy as per note 27.5.

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

Sundry other investments include holdings in OEICs, debt instruments, equities and exchange traded funds.

All other investments are available for sale.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

20. LONG-TERM LOANS

	2021	2020
Consolidated	**£'000**	**£'000**
Loan note to UPE	20,000	20,000
Broker loan	805	-
	20,805	20,000

In June 2018, the Group listed a £20m loan note to Utmost PanEurope dac ("UPE"), a fellow subsidiary of OCM Utmost Holdings Limited, incorporated in the Republic of Ireland on the International Stock Exchange. The loan note was for a period of 11 years, is unsecured and carries interest at 5% per annum.

The broker loan is on standard commercial terms charging interest at 6% per annum. Interest is accrued annually and will be paid on the repayment due date of 1 December 2023. The loan is guaranteed by the directors of the broker.

21. OTHER RECEIVABLES

	2021	2020
	£'000	**£'000**
Investment dealing receivables	13,966	7,912
Accrued investment income and commission	4,495	1,103
Other receivables and prepayments	12,290	10,485
Due from related parties (note 34)	23,547	646
	54,298	20,146
Current (within 12 months)	39,363	20,036
Non-current (after 12 months)	14,935	110
	54,298	20,146

22. CASH AND CASH EQUIVALENTS

	2021	2020
Consolidated	**£'000**	**£'000**
Cash at bank and with credit institutions	43,802	20,372
Money market funds	169,696	-
	213,498	20,372
Company		
Cash at bank and with credit institutions	951	23

All cash and cash equivalents are current and available for use by the Company, other than £3.2m (2020: £nil) of cash and cash equivalents ring fenced for regulatory purposes.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

23. DEFERRED FRONT-END FEES

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

	2021	2020
	£'000	£'000
At 1 January	7,589	5,889
Fees received and deferred during the period	3,850	2,181
Recognised in contract fees during the period	(586)	(481)
	10,853	7,589
Current (within 12 months)	596	463
Non-current (after 12 months)	10,257	7,126
	10,853	7,589

24. OTHER PAYABLES

Consolidated	2021	2020
	£'000	£'000
Due to investment contract holders	23,297	12,083
Premiums received in advance of policy issue	30,080	4,892
Investment dealing creditors	7,812	2,802
Commission payable	6,287	12
Other creditors and accruals	30,207	7,035
Due to related parties (note 34)	3,366	26
Lease creditor – due within one year (note 17)	2,382	407
Lease creditor – due after more than one year (note 17)	9,767	1,546
	113,198	28,803

Company	2021	2020
	£'000	£'000
Due to related parties	16,671	-

The amounts owed to related parties are unsecured, interest free and are repayable on demand.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

25. PROVISIONS

	2021 £'000	2020 £'000
Opening balance	-	-
Provisions arising from acquisition of subsidiary	2,226	-
Provisions made during the year	683	-
Provisions utilised during the year	(38)	-
Provisions released during the year	(102)	-
	2,769	-

As a result of the Group's acquisition of Quilter International Holdings and its subsidiaries, it has recognised an amount of provisions that have been included at their fair value (see note 4, Business Combinations) and that are shown above.

The total provisions balance above comprises of six elements.

The first relates to litigation costs likely in either defending claims made by policyholders against the Group or pursuing claims against third parties on behalf of customers. The Group expects to be successful in all current cases however successful recovery of costs from plaintiffs is uncertain.

The second relates to policy charge calculation deficiencies in one of the Group's policy administration system. The estimated costs provided for include policy charges levied on policyholders in excess of those due under their policy terms, the expected project costs associated with calculating the compensation due, correcting systems and policy records where necessary, and then locating policyholders and paying amounts due to them. The amount provided is based on the expected number of policies needing to be corrected, the time required to locate necessary policy records and calculate and pay balances due and estimated system rectification costs.

The third relates to the expected costs to correct all policyholder accounts where an error has been made in the processing of transactions prior to the reporting date, which have not yet been identified or rectified. An analysis of historical complaints has confirmed that errors can emerge from the in force book up to 2 years from the reporting date. Based on this experience, the cost incurred in the year prior to the reporting date is used to estimate the unidentified policyholder amendment cost. Management experience of the most recent losses is applied to the calculation. There is an uncertainty as to the volume of errors, and the costs to correct individual events, which depends on investment market volatility.

The fourth relates to the expected costs to correct policyholder tax reporting errors. This includes the expected costs of identifying, remediating and an estimate of the possible sanctions. The cost of possible sanctions from the three tax authorities involved (Isle of Man Income Tax, Inland Revenue Authority of Singapore and Office of the Revenue Commissioners Ireland) has been based on their published guidance and discussions held. The provision has been done as the best estimate calculation of the total number of corrections that will be needed, taking into account a discount based on the transparent and proactive way in which the Group considers that the issue has been addressed. It is possible that any of the inputs to the estimated cost may be inaccurate as we are still remediating the issues and holding discussions with the tax authorities and there is therefore a significant degree of uncertainty in this estimate.

The fifth relates to potentially unrecoverable overpayments made during the normal course of business.

The sixth relates to sundry other provisions.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

25. PROVISIONS (CONTINUED)

All provisions are estimated to be paid within 12 months. Furthermore the six elements can be quantified into the following numbers:

	2021	2020
	£'000	£'000
Litigation	265	-
Fees and charges	4	-
Policy amendments	747	-
Policy tax reporting	994	-
Overpayments	500	-
Other	259	-
	2,769	-

26. DEFERRED TAX

	2021	2020
	£'000	£'000
Deferred tax liability	5,493	-

The deferred tax liability has been recognised as arising on the part of the acquired value of in-force business intangible asset attributable to the Hong Kong branch of Quilter International Isle of Man Limited. This is set out in further detail in notes 4 and 11. It is expected that the tax liability will be paid as future profits emerge from the in-force business.

27. FINANCIAL RISK MANAGEMENT

Risk management objectives and risk policies

The Group'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 Group 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 Group'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 Board 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 Group is exposed are set out below. For each category of risk, the Group determines its risk appetite and sets its associated policies accordingly.

27.1 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 Group 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.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.1 Market risk (continued)

However, the Group 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) (i) 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 Group'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 Group if markets were to suffer a permanent fall of 10% would be a reduction in fee income of approximately £2.4 million (2020: £1.4 million). The impact on the Group's profit would be lower than this as certain expenses are also variable in nature.

(a) (ii) Non unit-linked investments price risk
Shareholder's funds include one investment which is exposed to market price risk, the investment in the Oaktree European Senior Loan Fund (see note 20). If the price of this investment fell permanently by 10% the impact on net assets and profit would be a decrease of £1.2 million (2020: £1.1 million).

(b) Interest rate risk
Interest rate risk is the risk that the Group 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 Group is primarily exposed to interest rate risk on the balances that it holds with credit institutions and fixed interest government securities.

Fixed income securities are primarily held to match liabilities for unit-linked portfolio business. Assets are well matched against liabilities; therefore there is no material net exposure to interest rate movements.

A rise in interest rates would cause an immediate fall in the value of investments in fixed income securities, resulting in a short term fall in fund based fees.

Shareholder's funds are invested in either cash, fixed interest deposits, money market funds, a loan note with a related party and an investment into Oaktree Senior Loan Fund to provide a low level of interest rate risk. The Group manages interest rate risk through the activities of the Investment Committee through regular assessment and monitoring of the investment portfolios.

A change in interest rates will impact the Group'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.

	2021	2020
	£'000	£'000
Increase of 100 bps (2020: 100bps) in interest rate yields	2,295	1,973
Decrease of 34 bps (2020: 73bps) in interest rate yields	(988)	(1,276)

A summary of the Group's liquid assets at the Statement of Financial Position date is set out in note 27.2.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.1 Market risk (continued)

(c) Currency risk
Currency risk is the risk that the Group 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.

(c) (i) Group foreign currency exposures
The Group 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 Group mitigates some of its currency risk through derivative financial instruments. Forward foreign exchange contracts are used to reduce the currency risk on certain US Dollar, Euro and Swedish Krona denominated future revenues and accounts receivable balances.

(c) (ii) Financial investments by currency
Certain fees and commissions are earned in currencies other than Sterling, based on the value of financial investments held in those currencies from time-to-time.

The sensitivity of the Group to the currency risk inherent in investments held to cover financial liabilities under investment contracts is incorporated within the analysis set out in 27.1(a)(i) above.

27.2 Credit risk

Credit risk is the risk that the Group is exposed to lower returns or loss if another party fails to perform its financial obligations to the Group. The Group 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 Group'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 Group in respect of assets held supporting the unit linked investment contracts and as a consequence no quantitative disclosure has been included of this.

The Group 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 Group invests both its own cash and deposit balances, and policyholder uninvested 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 Group 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 20). Management monitors this risk primarily through monitoring the solvency coverage ratio of the counterparty.

The maximum exposure to credit risk before any credit enhancements at 31 December 2021 and 31 December 2020 is the carrying amount of the financial assets detailed in the shareholder backed assets credit rating table below.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Credit risk (continued)

Consolidated Analysis as at 31 December 2021	Aa3	A1	A2	A3	Baa3	<Ba2	Total
Cash and cash equivalents	16,591	412	2,489	22,160	2,114	169,732	**213,498**
Deposits	14,971	8,169	3,008	13,018	-	-	**39,166**
Other investments	-	-	-	-	-	12,651	**12,651**
Long-term loan			20,000	-	-	805	**20,805**
Other receivables	-	-	-	-	-	34,607	**34,607**
Total	**31,562**	**8,581**	**25,497**	**35,178**	**2,114**	**217,795**	**320,727**

Consolidated Analysis as at 31 December 2020	Aa3	A1	A2	A3	Baa3	<Ba2	Total
Cash and cash equivalents	274	-	-	2	20,096	-	**20,372**
Deposits	-	10,000	-	-	-	-	**10,000**
Other investments	-	-	-	-	-	11,036	**11,036**
Long-term loan	-	-	20,000	-	-	-	**20,000**
Other receivables						2,127	**2,127**
Total	**274**	**10,000**	**20,000**	**2**	**20,096**	**13,163**	**63,535**

Company Analysis as at 31 December 2021	Aa3	A1	A2	A3	Baa3	<Ba2	Total
Cash and cash equivalents	-	-	-	951	-	-	**951**

Company Analysis as at 31 December 2020	Aa3	A1	A2	A3	Baa3	<Ba2	Total
Cash and cash equivalents	-	-	-	-	23	-	**23**

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

Reinsurance

The Group 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 2021 and 2020 year-end positions, the Group's material reinsurance counterparties have a credit rating at Moody's of Aa3 (2020:Aa3). The Group does not believe that on a best estimate basis the credit risk exposure is sufficient enough to justify holding a reserve.

27.3 Liquidity risk

Liquidity risk is the risk that the Group, 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 Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives.

The Group'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:

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Liquidity risk

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

27.4 Undiscounted contractual maturity analysis

The following page contains a summary of the undiscounted contractual maturity profile of the Group's assets and liabilities.

Consolidated

Analysis as at 31 December 2021	**Total**	**Within 1 year**	**1-5 years**	**Over 5 years**	**Policy holder**	**No fixed contractual maturity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value held to cover linked liabilities	31,691,258	-	-	-	31,691,258	-
Reinsurers' share of insurance contracts liabilities	226,142	-	-	-	226,142	-
Policyholder loans	171,516	-	-	-	171,516	-
Other investments	12,651	-	-	-	-	12,651
Long-term loans	20,805	805	-	20,000	-	-
Other receivables	54,298	39,363	11,036	3,899	-	-
Deposits	39,166	39,166	-	-	-	-
Cash and cash equivalents	213,498	213,498	-	-	-	-
Total	**32,429,334**	**292,832**	**11,036**	**23,899**	**32,088,916**	**12,651**
Other assets	718,981					
Total assets	**33,148,315**					

Consolidated

Analysis as at 31 December 2021	**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	30,283,450	-	-	-	30,283,450	-
Insurance contract liabilities	1,845,361	-	-	-	1,845,361	-
Financial liabilities	101,049	101,049	-	-	-	-
Lease liability	12,149	2,382	9,767	-	-	-
Total	**32,242,009**	**103,431**	**9,767**	**-**	**32,128,811**	**-**
Other liabilities	19,115					
Total liabilities	**32,261,124**					

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Undiscounted contractual maturity analysis (continued)

Consolidated

Analysis as at 31 December 2020	**Total**	**Within 1 year**	**1-5 years**	**Over 5 years**	**Policy holder**	**No fixed contractual maturity**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value held to cover linked liabilities	10,339,309	-	-	-	10,339,309	-
Reinsurers' share of insurance contracts liabilities	218,337	-	-	-	218,337	-
Other investments	11,036	-	11,036	-	-	-
Long-term loan	20,000	-	-	20,000	-	-
Other receivables	20,146	20,036	110	-	-	-
Deposits	10,000	10,000	-	-	-	-
Cash and cash equivalents	20,372	20,372	-	-	-	-
Total	**10,639,200**	**50,408**	**11,146**	**20,000**	**10,557,646**	**-**
Other assets	122,036					
Total assets	**10,761,236**					

Consolidated

Analysis as at 31 December 2020	**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	10,333,818	-	-	-	10,333,818	-
Insurance contract liabilities	218,337	-	-	-	218,337	-
Financial liabilities	26,850	26,850	-	-	-	-
Lease liability	1,953	407	1,546	-	-	
Total	**10,580,958**	**27,257**	**1,546**	**-**	**10,552,155**	**-**
Other liabilities	7,589					
Total liabilities	**10,558,547**					

The financial assets of the Company consist of cash and cash equivalents of £951,000 (2020: £23,000). The financial liabilities of the Company consist of intercompany liabilities of £16,671,000 (2020: £nil). The financial assets and financial liabilities of the Company all have a maturity of less than one year (2020: maturity of less than one year).

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Undiscounted contractual maturity analysis (continued)

There is no significant difference between the value of the Group's assets on an undiscounted basis and the Statement of Financial Position 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 Group 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 cash flow forecasts on a monthly basis in order to ensure sufficient assets are in place to meet existing and future obligations.

27.5 Fair value estimation

IFRS 13 requires the Group 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; and;
- **Level 3:** fair value is determined using significant unobservable inputs.

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

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

Level 2 financial instruments are mainly listed corporate bonds; medium term notes (MTNs), structured products in inactive markets and collective investment schemes, external life and managed portfolios with other than daily dealing frequencies. These have generally been classified as Level 2 as the prices provided by the third party sources do not 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 company shares, policy holder loans and other investments funds that are illiquid, have been suspended or are in liquidation.

The Group 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 CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.5 Fair value estimation (continued)

Analysis as at 31 December 2021:

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Financial assets at fair value to cover linked liabilities	31,691,258	29,178,465	971,723	1,541,070
Policyholder loans	171,516	-	171,516	-
Other investments	12,651	599	11,887	165
Money market funds	169,696	169,696	-	-
	32,045,121	**29,348,760**	**1,155,126**	**1,541,235**
Assets not at fair value	1,103,194			
Total assets	**33,148,315**			

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	-
	10,350,345	**8,321,681**	**2,000,580**	**28,084**
Assets not at fair value	410,891			
Total assets	**10,761,236**			

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

Only a small proportion of the assets are valued at a fair value derived using unobservable Level 3 inputs. The majority of these are valued using valuations obtained from external parties which are reviewed internally to ensure they are appropriate. The Group 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 at fair value are classified as Level 2, other than those matched by policyholder financial assets that are classed as Level 3 in the fair value hierarchies set out above.

The Level 3 investments in respect of illiquid, suspended or liquidating funds as at 31 December 2021 and 2020 were £8,453,000 and £27,676,000. Any significant movements during the period will be realisations.

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

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.5 Fair value estimation (continued)

	Financial assets held at fair value through profit and loss
	£'000
Balance at 1 January 2020	38,039
Transfers into Level 3	19,000
Transfers out of Level 3	(182)
Total gains or losses:	
In profit or loss	-
In policyholder liabilities	(18,825)
Disposals	(9,948)
Foreign exchange movements	-
Balance at 31 December 2020	**28,084**
Transfers into Level 3	41,913
Transfers out of Level 3	(40,458)
Additions on acquisition of subsidiary	1,520,695
Total gains or losses:	
- In profit or loss	(5,854)
- In policyholder liabilities	-
Disposals	(3,145)
Foreign exchange movements	-
Balance at 31 December 2021	**1,541,235**

Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred. The Group 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 Group has a general policy of no further investment into Level 3 assets.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.6 Insurance risk

Insurance risk arises due to uncertainty in mortality, persistency, expense levels and claim rates, relative to the actuarial assumptions made in the pricing process which may prevent the Group from achieving its profit objectives.

27.6.1 Objectives and policies for mitigating insurance risk

The Group has an insurance risk policy which sets out the practices which are used to manage insurance risk, this includes requirements on management information for monitoring purposes and stress testing requirements. As well as management of persistency, expense levels and claims experience, the insurance risk policy sets requirements and standards on matters such as underwriting and claims, management practices, use of reinsurance to mitigate insurance risk and the exercise of discretion.

Significantly among its reinsurance arrangements, the Group has fully reinsured the insurance risk relating to its with-profits contracts. Whilst the Group is under no obligation to retain this reinsurance arrangement, it is its policy to minimise all insurance risk.

The Group's contracts include the following sources of insurance risk:

Mortality/longevity

Mortality risk is the risk that death claims are higher than expected within the Group's pricing assumptions. Mortality risk is not material as any mortality benefits are reinsured.

Margin risk

Margin risk is the risk that margins could reduce through reduction or loss of retained rebates on collectives, or policyholders choosing to transfer to lower margin products.

Margin risk and the risk of increased surrenders are related in that risk of worsening persistency experience leads to margin risk (through higher per policy expense costs potentially) and margin risk (sacrifice of margin) is to some extent a mitigant to lapse risk, since action to reduce margins (and hence improve the competitiveness of products) can be used to manage and mitigate the risk of higher than expected surrender and lapse experience.

Lapse or persistency risk

Lapse or persistency risk is the risk that the surrender rate is higher than expected within the Group's pricing assumptions.

The risk of increased surrenders is a significant risk for the Group because the unit-linked investment business relies on persistency of policies to generate future revenues. The capital requirement to allow for the risk of increased surrenders is determined as the greater of the capital requirement for the persistency stress test (general worsening in persistency experience for the remaining life of the in-force business) and the persistency catastrophe stress test (which allows for a 'mass lapse' over the next year). The more onerous test for the Group was the persistency catastrophe stress test. The risk of increased surrenders is partially mitigated on some product lines through the existence of exit charges.

Claims risk

Claims risk is the risk of higher than expected claims on short term insurance contracts.

The insurance risk profile and experience is monitored to ensure that the exposure remains acceptable. The financial impact of insurance risk events is examined through stress tests carried out.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.6.1 Objectives and policies for mitigating insurance risk (continued)

Expense risk

Expense risk is the risk that actual expenses exceed expense levels assumed in product pricing. This may result in emerging profit falling below the Group's profit objectives.

27.6.2 Policyholder options and guarantees

Some of the Group'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 date of the Statement of Financial Position. 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 Group.

28. CAPITAL MANAGEMENT

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

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

There has been no material change in the Group's management of capital during the year.

Utmost Limited and Quilter International Isle of Man Limited are 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 Group to set a Minimum Capital Requirement and a Solvency Capital Requirement. The Group'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 2021, Utmost Limited's Solvency Coverage Ratio was 153% (2020: 154%). At 31 December 2021 the Solvency Coverage Ratio of Quilter International Isle of Man Limited was 192.6%.

Utmost Trustee Solutions Limited and Quilter International Trust Company Limited are required to meet a number of minimum requirements in respect of share capital, net tangible assets and liquid capital by the Isle of Man FSA. They are also required to submit an annual Financial Resources Statement. At the Statement of Financial Position date, the minimum share capital requirement for both companies was £25,000 (2020: £25,000) and the minimum net tangible asset requirement is £25,000 (2020: £25,000). The minimum liquid capital requirement for Utmost Trustee Solutions Limited was £185,759 (2020: £168,288) and for Quilter International Trust Company Limited was £86,831. Both companies have complied with and exceeded these requirements.

Quilter International Middle East Limited is regulated by the Dubai Financial Services Authority (DFSA) and actively monitors its capital adequacy to ensure compliance with the minimum capital resources requirement for a category 4 licenced firm. The DFSA currently requires that company to maintain a minimum capital base as well as liquid assets of US$ 360,000. The company has complied with this requirement as at 31 December 2021.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

28. CAPITAL MANAGEMENT (CONTINUED)

AAM Advisory PTE Ltd. Is subject to an externally imposed requirement as prescribed by the Singapore Financial Advisors Act and Regulations to maintain continuing financial requirements. During 2021, this company has been in compliance with such requirements.

The Group has complied with all externally and internally imposed capital requirements throughout the period. The capital, defined as total equity, is available to meet the regulatory capital requirements without any restrictions. The Group's non unit-linked assets are largely the investment in the Oaktree European Senior Loan Fund (note 19), the long-term loan note (note 20), cash and cash equivalents and deposits with credit institutions.

29. 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.

	2021	2020
	£'000	£'000
Deposits	996,247	398,698
Ordinary shares and funds	14,814,240	3,107,313
Discretionary managed portfolios	14,092,693	6,359,370
Other investments	342,924	47,605
Modified coinsurance account	408,943	402,073
Cash and cash equivalents	1,036,211	24,250
	31,691,258	**10,339,309**

Included in the analysis above are investments of £8,453,000 (2020: £27,676,000) which have restricted liquidity through suspensions, liquidations or by the nature of underlying assets the fund invests into.

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 Group considers its investments in Ordinary shares and funds, Discretionary managed portfolios and Private company shares to be unconsolidated structured entities, which are recognised within Assets held to cover linked liabilities on the Statement of Financial Position. The Group also considers its Other Investments to be unconsolidated structured entities.

The Group's maximum exposure to unconsolidated structured entities at 31 December 2021 is £29,250 million (2020: £9,514 million).

The Group has not sponsored any structured entities in either 2021 or 2020.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

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

Modified coinsurance account

In 2013 Utmost Limited 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 remains at risk of loss from lapse and surrenders.

On migration the underlying unit linked assets relating to the ACR book of business equal to the reserve were provided to and become the property of CRIB as the ceding insurance company. In the event of the cedant's insolvency the liability of the reinsurer (Utmost Limited) is limited as Utmost Limited 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 Utmost Limited. 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 Utmost Limited 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:

	2021	2020
	£'000	£'000
Opening balance brought forward	402,073	523,975
Deposits to investment contracts	3,958	4,633
Withdrawals from investment contracts	(118,214)	(60,220)
Attributable investment income	1,537	7,636
Change in investment contract liabilities	121,879	(70,842)
Policy charges	(2,250)	(3,069)
Attributable expenses and charges	(40)	(40)
Closing balance carried forward	**408,943**	**402,073**

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

30. INVESTMENT CONTRACT LIABILITIES

	2021	2020
	£'000	£'000
Deposits to investment contracts	791,190	375,844
Withdrawals from investment contracts	(754,335)	(561,209)
Fees and charges deducted including third party charges	(69,509)	(51,117)
Third party compensation applied	115	(25)
Commissions and rebates receivable	479	938
Change in investment contract liabilities	1,232,139	410,829
Additions on acquisition of subsidiaries	18,750,712	-
Policyholder mismatch position	(1,159)	-
Movement in the year	19,949,632	175,260
Balance at 1 January	10,333,818	10,158,558
	30,283,450	**10,333,818**

Any policy can be surrendered at any time, investment contract liabilities therefore have a minimum maturity of 0-1years. 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.

Unit-linked liabilities also include £7m (2020: £nil) due to Quilter International Ireland dac ("QIID") as a reinsurance policyholder. QIID reinsures 100% of the assets for a specified group of legacy products into the Group, therefore the assets are held in the statement of financial position of the Group, with a corresponding liability due to QIID under the reinsurance agreement.

31. INSURANCE CONTRACT LIABILITIES

	Gross liabilities	Reinsurers' share	Gross liabilities	Reinsurers' share
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
At 1 January	218,337	218,337	220,601	220,601
Additions on acquisition of subsidiaries	1,627,813	4	-	-
Policyholder premiums	14,204	254	-	-
Policyholder claims	(6,649)	(4,729)	(4,271)	(4,271)
Other changes in liabilities	(8,344)	12,276	2,007	2,007
At 31 December	**1,845,361**	**226,142**	**218,337**	**218,337**

The movement in insurance liabilities net of reinsurance is £8,590,000 (2020: £NIL).

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

32. CALLED-UP SHARE CAPITAL

CONSOLIDATED AND COMPANY

	2021	2020
Allotted, issued and fully paid		
Ordinary shares of £1 each		
Number	614,580,002	183,080,002
Value (£'000)	614,580	183,080

On 23 November 2021, the Company issued 431,500,000 ordinary shares of £1 each that are fully paid-up.

33. NET CASH FLOWS FROM OPERATING ACTIVITIES

Cash generated from operations:

Consolidated	**2021 £'000**	**2020 £'000**
Profit before taxation	**292,906**	**6,295**
Adjustments for		
Gain arising on bargain purchase	(286,228)	-
Profit on disposal of property, plant and equipment	(17)	(5)
Amortisation of acquired in-force business	19,293	12,122
Amortisation of intangible fixed asset	175	166
Depreciation of Property, plant and equipment	839	602
Finance cost	76	65
Change in deferred acquisition costs	(1,797)	(116)
Change in deferred front-end fees	3,264	1,700
Net (acquisition)/ disposal of financial investments	(28,327)	202,393
Net fair values gains on financial investments	(1,186,465)	(380,992)
Change in investment contract liabilities	1,198,922	175,260
Change in insurance contract liabilities	(8,590)	(2,264)
Change in operating receivables	28,517	11,601
Change in deposits	(3,472)	7,050
Change in operating payables	(35,220)	(10,981)
Change in provisions	543	-
Re-measurement of right-of-use asset (non-cash)	-	546
Re-measurement of lease liability (non-cash)	-	(469)
Net cash flows from operating activities	**(5,581)**	**22,973**

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

33. NET CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

Company	2021 £'000	2020 £'000
Profit before taxation	249,983	18,071
Dividend received	(438,912)	(20,000)
Net fair values losses on investment in subsidiaries	188,929	1,929
Change in operating payables	475	-
Net cash flows from operating activities	**475**	**-**

Total dividends received in 2021 of £438,912,000 were made-up of £418,912,000 that was received *in specie* and was used to reduce a balance payable to QIHL and £20,000,000 that was received in cash (2020: cash dividends only).

An amount of foreign exchanges losses on policyholder cash balances has been reclassified from net foreign exchanges losses, on the face of the statement of consolidated cash flows, to operating class flows in 2020 within the statement of consolidated cash flow.

The presentation of cash flows relating to the leasehold right-of-use asset and liability in 2020 has been changed in order better illustrate the elements of the statement of consolidated cash flows impacted by the re-measurement that removed the VAT portion of the rental payments from the calculation of those items.

34. IMMEDIATE AND ULTIMATE PARENT COMPANIES

The Company is incorporated in the Isle of Man and is an indirect wholly owned subsidiary of Utmost Group Plc, a company incorporated in Great Britain and registered in England and Wales. 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 Group and Company financial statements are consolidated into the financial statements of Utmost Group PLC, the financial statements. The financial statements for Utmost Group Plc as well as these financial statements are available from www.utmostgroup.co.uk.

Related parties

Transactions with key management personnel

Key management personnel comprise persons who, at any time during the financial period ended 31 December 2021, were members of the Board of Directors and certain members of management. Key management compensation for the period includes salaries and short term benefits of £521,825 (2020: £429,673), Non-Executive Directors' fees of £131,793 (2020: £122,095) and post-employment benefits of £65,496 (2020: £55,068).

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

34. IMMEDIATE AND ULTIMATE PARENT COMPANIES (CONTINUED)

Transactions and balances with related parties

	Amounts owed from/(to) related parties		Revenue/(expenses) with related parties	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Fellow subsidiaries of OCM Utmost Holdings Limited	23,547	534	6,770	3,799
	(3,351)	-	(134)	-
Direct parent, Utmost International Group Holdings Limited	(15)	(26)	(33)	(28)

Included within the amount receivable from fellow subsidiaries of OCM Utmost Holdings Limited is amount of financial reinsurance which is due to be repaid as profits emerge from Quilter International Ireland dac, per the terms of an agreement. The interest under the agreement is charged at a commercial rate that has been agreed on an arm's length basis. The outstanding balance as at 31 December 2021 was £18.9 million (2020: £NIL) and had a fair value of £19.1 million (2020: £NIL). £4.1million of the balance is due within one year.

Other receivables and revenue from related parties arise from the provision of third party administration and sales support services. The receivables are unsecured, interest free and normally settled monthly in arrears. No provisions are held against the amounts due.

The expenses and payable balance due to Utmost International Group Holdings Limited relate to a fee levied equal to the amount of tax relieved through losses available in the direct parent company utilised (see note 11). The balance is interest free and there is no set repayment date.

35. DIRECTORS' AND SECRETARIES INTERESTS

As at 31 December 2021 and 31 December 2020 the Secretary had no beneficial interest in the shares of any company in the Group or any related parties. The directors' interests in the Company's parent company held directly, through personal investment vehicles and family trusts are detailed below:

31 December 2021	A P Thompson	I G Maidens
Utmost Topco Limited - C ordinary shares of £1 each	2,530	2,530
Utmost Topco Limited - D ordinary shares of £1 each	5,000	5,000
Utmost Topco Limited - Non-voting S ordinary shares of £1 each	50	50
Utmost Topco Limited - Non-voting GBP preference shares of £1 each	30,177,615	30,177,615

31 December 2020	A P Thompson	I G Maidens
Utmost Topco Limited - C ordinary shares of £1 each	2,750	2,750
Utmost Topco Limited - D ordinary shares of £1 each	5,000	5,000
Utmost Topco Limited - Non-voting S ordinary shares of £1 each	50	50
Utmost Topco Limited - Non-voting GBP preference shares of £1 each	30,014,243	30,014,243

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

36. CONTINGENT LIABILITY

Two of the Group's subsidiaries, Utmost Limited and Quilter International Isle of Man Limited, are members 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 Group 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 Group include a clause permitting the Group to recover any monies paid out under the Scheme from policyholders.

A subsidiary, Utmost Trustee Solutions Limited, acts as Trustee on a loan trust with a loan value of £73,991 (2020: £78,174). In the event of any ultimate default on the loan, the Trustees may be held liable for any shortfall between the outstanding amount due on the loan and the value of the policies concerned. At the date of the Statement of Financial Position there was a surplus on the policy (2020: Surplus on the policy) between the outstanding amounts due on the loan and the current value of the policy. The policy is active at year end and is continually monitored.

The Group is committed to treating customers fairly and supporting its customers in meeting their lifetime goals. The Group does from time to time receive complaints, claims and have commercial disputes with service providers, in the normal course of business. The costs including legal costs, of these issues as they arise can be significant and where appropriate, provisions have been made under IAS37, see note 25.

37. POST BALANCE SHEET EVENTS

There were no events subsequent to the year end which require disclosure in, or amendment to, the financial statements.