

# **UTMOST HOLDINGS ISLE OF MAN LIMITED**

**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 December 2022**

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## DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2022. 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 a life assurance company 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 loss for the year, after taxation, amounted to £16.0m (2021: profit £293.0m) which has been transferred to retained earnings. During the year dividends of £80.0m (2021: £10.0m) were paid. Following the year end, a further dividend of £38.0m was paid on 7 February 2023.

### SIGNIFICANT EVENTS DURING THE YEAR

Pursuant to an Insurance Portfolio Transfer that was approved by the Isle of Man Courts, the entire life assurance business of one of the Company's subsidiaries, Utmost Limited, was transferred to its sister company, Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited) on 30 November 2022. The purpose of the transfer was to create operational and capital efficiencies by combining all of the Isle of Man life assurance business of the Utmost group in a single company.

### DIRECTORS

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

#### Executive Directors

M J Foy  
J S A Hemuss (appointed 1 April 2022)

#### Non-executive Directors

A Alexander (appointed 1 April 2022)  
N A Duggan (Chairman)  
P J D Quirk (appointed 1 April 2022)  
A V Lodge (appointed 28 June 2022)  
I G Maidens  
A P Thompson  
M J Coffey (resigned 31 March 2022)  
C J Hall (resigned 31 March 2022)  
K S Moore (resigned 31 March 2022)

### COMPANY SECRETARY

N S Aitken (appointed 7 December 2022)  
P W Smith (appointed 18 August 2022; resigned 7 December 2022)  
J F O'Callaghan (appointed 1 April 2022; resigned 18 August 2022)  
C S Bridges (resigned 31 March 2022)

## DIRECTORS' REPORT

### REGISTERED AGENT

Ocorian Trust (Isle of Man) Limited

### INDEPENDENT AUDITOR

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

By order of the Board



Secretary

16 March 2023  
King Edward Bay House  
King Edward Road  
Onchan, Isle of Man  
IM99 1NU

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

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

The Directors have elected to prepare the Consolidated 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 responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business; and
- preparing financial statements which give a true and fair view of the financial position of the Group and Company and of the financial performance 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 and to enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

By Order of the Board



Secretary

16 March 2023

## 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 2022 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 2022, 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 2022;
- 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 (including International Independent Standards) issued by the International Ethics Standard Board for Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

### Other information

The other information comprises all of the information in the Annual Report and 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 5 October 2022 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**  
**Chartered Accountants**  
**Douglas, Isle of Man**  
**20 March 2023**



**CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31  
DECEMBER 2022**

	Notes	Consolidated 2022 £m	Company 2022 £m	Consolidated 2021 £m	Company Restated* 2021 £m
<b>Revenue</b>					
Net premiums earned	30	83.5	-	13.9	-
Fees and charges receivable	5	197.5	-	56.8	-
Other income	6	18.6	75.0	2.6	-
		299.6	75.0	73.3	-
<b>Investment return on policyholder investments</b>					
Interest income on policyholder investments		9.6	-	1.0	-
Dividend income		228.3	-	26.6	438.9
(Losses)/ Gains on investments	7	(3,103.3)	-	1,187.3	-
		(2,865.4)	-	1,214.9	438.9
<b>Net policyholder claims and benefits incurred</b>					
Net policyholder claims	30	(102.2)	-	(1.9)	-
Changes in insurance contract liabilities, net of reinsurance	30	(41.9)	-	8.6	-
Changes in investment contract liabilities	29	2,925.0	-	(1,232.1)	-
		2,780.9	-	(1,225.4)	-
<b>Commission and expenses</b>					
Acquisition costs	8	(3.0)	-	(0.6)	-
Fees and expenses	9	(116.3)	-	(36.1)	-
Amortisation of acquired value of in-force business	11	(108.4)	-	(19.3)	-
		(227.7)	-	(56.0)	-
Impairment loss on investment in subsidiaries	14	-	(2.9)	-	(440.0)
Gain arising on bargain purchase		-	-	286.2	-
Finance costs	16	(0.6)	-	(0.1)	-
<b>(Loss)/Profit before taxation</b>	4	<b>(13.2)</b>	<b>72.1</b>	<b>292.9</b>	<b>(1.1)</b>
Taxation	10	(2.8)	-	0.1	-
<b>(Loss)/Profit after taxation</b>		<b>(16.0)</b>	<b>72.1</b>	<b>293.0</b>	<b>(1.1)</b>
Other items of comprehensive (expense)/income		-	-	-	-
<b>Total comprehensive (expense)/income for the year</b>		<b>(16.0)</b>	<b>72.1</b>	<b>293.0</b>	<b>(1.1)</b>

All the above amounts in the current and prior year materially derive from continuing activities (see note 3 for details of immaterial discontinued and discontinuing operations).

The notes on pages 12 to 63 form an integral part of these financial statements.

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Share Capital	Retained Earnings	Translation Reserve	Total
	£m	£m	£m	£m
<b>Balance at 1 January 2021</b>	183.1	(10.4)	-	172.7
Profit and total comprehensive income for the year	-	293.0	-	293.0
Translation of retained earnings	-	-	-	-
Issue of ordinary shares	431.5	-	-	431.5
Dividends paid *	-	(10.0)	-	(10.0)
<b>Balance at 31 December 2021</b>	<b>614.6</b>	<b>272.6</b>	<b>-</b>	<b>887.2</b>
<b>Balance at 1 January 2022</b>	614.6	272.6	-	887.2
Loss for the year	-	(16.0)	-	(16.0)
Translation of retained earnings	-	-	0.3	0.3
Issue of ordinary shares	-	-	-	-
Dividends paid *	-	(80.0)	-	(80.0)
<b>Balance at 31 December 2022</b>	<b>614.6</b>	<b>176.6</b>	<b>0.3</b>	<b>791.5</b>

\* The dividend per share paid by the Group and Company during the financial year was 13.0 pence (2021: 1.6 pence).

The notes on pages 12 to 63 form an integral part of these financial statements.

## COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

Company	Share Capital	Retained Earnings	Translation Reserve	Total
	£m	£m	£m	£m
<b>Balance at 1 January 2021 (as originally stated)</b>	183.1	100.1	-	283.2
Change in accounting policy	-	(114.2)	-	(114.2)
<b>Balance at 1 January 2021 (restated)**</b>	183.1	(14.1)	-	169.0
Profit and total comprehensive income for the year	-	(1.1)	-	(1.1)
Issue of ordinary shares	431.5	-	-	431.5
Dividends paid *	-	(10.0)	-	(10.0)
<b>Balance at 31 December 2021 (restated)**</b>	<b>614.6</b>	<b>(25.2)</b>	<b>-</b>	<b>589.4</b>
<b>Balance at 1 January 2022 (as originally stated)</b>	614.6	340.1	-	954.7
Change in accounting policy	-	(365.3)	-	(365.3)
<b>Balance at 1 January 2022 (restated)**</b>	614.6	(25.2)	-	589.4
Profit and total comprehensive income for the year	-	72.1	-	72.1
Dividends paid *	-	(80.0)	-	(80.0)
<b>Balance at 31 December 2022</b>	<b>614.6</b>	<b>(33.1)</b>	<b>-</b>	<b>581.5</b>

\* The dividend per share paid by the Group and Company during the financial year was 13.0 pence (2021: 1.6 pence).

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

The notes on pages 12 to 63 form an integral part of these financial statements.

## CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

		Consolidated	Company	Consolidated	Company	Company
	Notes	31 December 2022 £m	31 December 2022 £m	31 December 2021 £m	Restated* 31 December 2021 £m	Restated* 1 January 2021 £m
Acquired value of in-force business	11	592.1	-	700.5	-	-
Other intangible assets	12	0.4	-	0.6	-	-
Deferred acquisition costs	13	19.1	-	5.5	-	-
Investments in subsidiaries	14	-	603.9	-	605.1	169.0
Property, plant and equipment	15	16.3	-	12.4	-	-
Policyholder loans	27	165.2	-	171.5	-	-
Financial assets at fair value held to cover linked liabilities	28	28,510.2	-	31,691.3	-	-
Reinsurers' share of insurance contract liabilities	30	204.1	-	226.1	-	-
Other investments	17	12.2	-	12.7	-	-
Long-term loans	18	20.9	-	20.8	-	-
Other receivables	19	56.4	-	54.3	-	-
Deposits		32.1	-	39.1	-	-
Cash and cash equivalents	20	273.3	38.8	213.5	1.0	-
<b>TOTAL ASSETS</b>		<b>29,902.3</b>	<b>642.7</b>	<b>33,148.3</b>	<b>606.1</b>	<b>169.0</b>
<b>Liabilities</b>						
Investment contract liabilities	29	26,978.2	-	30,283.4	-	-
Insurance contract liabilities	30	1,865.3	-	1,845.4	-	-
Deferred front-end fees	21	17.2	-	10.8	-	-
Other payables	22	242.0	61.2	113.2	16.7	-
Provisions	23	3.2	-	2.8	-	-
Deferred tax liabilities	24	4.9	-	5.5	-	-
<b>Total liabilities</b>		<b>29,110.8</b>	<b>61.2</b>	<b>32,261.1</b>	<b>16.7</b>	<b>-</b>
<b>Equity</b>						
Called-up share capital	31	614.6	614.6	614.6	614.6	183.1
Retained earnings		176.6	(33.1)	272.6	(25.2)	(14.1)
Translation reserve		0.3	-	-	-	-
<b>Total Equity</b>		<b>791.5</b>	<b>581.5</b>	<b>887.2</b>	<b>589.4</b>	<b>169.0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>29,902.3</b>	<b>642.7</b>	<b>33,148.3</b>	<b>606.1</b>	<b>169.0</b>

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

These financial statements on pages 7 to 63 were approved and authorised for issue by the Board of Directors on 16 March 2023 and were signed on its behalf by:



Director



Director

**CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER  
2022**

		Consolidated	Company	Consolidated Restated*	Company
	Notes	2022 £m	2022 £m	2021 £m	2021 £m
<b>Net cash flows from operating activities</b>	32	<b>128.2</b>	<b>44.5</b>	<b>(4.9)</b>	<b>0.5</b>
Tax charge		(3.4)	-	(0.1)	-
		<b>124.8</b>	<b>44.5</b>	<b>(5.0)</b>	<b>0.5</b>
<b>Cash flows from investing activities</b>					
Acquisition of / investment in subsidiaries – net of acquired cash		-	(1.7)	(220.3)	(441.0)
Acquisition of property, plant and equipment		(1.6)	-	(0.2)	-
Acquisition of other intangible assets		-	-	(0.1)	-
Proceeds on disposal of property, plant and equipment		-	-	-	-
Dividends received		-	75.0	-	20.0
Shareholder bank, deposit and loan interest income received		18.6	-	2.5	-
Advances under financial reinsurance contract		-	-	(3.2)	-
<b>Net cash flows from investing activities</b>		<b>17.0</b>	<b>73.3</b>	<b>(221.3)</b>	<b>(421.0)</b>
<b>Cash flows from financing activities</b>					
Issue of ordinary share capital		-	-	431.5	431.5
Dividends paid		(80.0)	(80.0)	(10.0)	(10.0)
Payment of lease liabilities		(1.2)	-	(0.4)	-
Interest paid on lease liabilities		(0.6)	-	(0.1)	-
<b>Net cash flows from financing activities</b>		<b>(81.8)</b>	<b>(80.0)</b>	<b>421.0</b>	<b>421.5</b>
<b>Net movement in cash and cash equivalents</b>		<b>60.0</b>	<b>37.8</b>	<b>194.7</b>	<b>1.0</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>213.5</b>	<b>1.0</b>	<b>20.4</b>	<b>-</b>
Net foreign exchange gains		(0.2)	-	(1.6)	-
<b>Cash and cash equivalents at the end of the financial year</b>		<b>273.3</b>	<b>38.8</b>	<b>213.5</b>	<b>1.0</b>

The notes on pages 12 to 63 form an integral part of these financial statements.

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

## 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 King Edward Bay House, King Edward Road, Onchan, Isle of Man, IM99 1NU.

Basis of preparation

The consolidated and company financial statements (the "financial statements") have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union as applicable at 31 December 2022.

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 million pounds to one decimal place.

The principal accounting policies that the Group and Company applied in preparing its financial statements for the financial year ended 31 December 2022 are set out below.

Restatement of comparative information

During the year, the Company has changed its accounting policy for investments in subsidiaries, which were previously accounted for at fair value. Investments in subsidiaries are now accounted for at cost less impairment, which is considered to provide more reliable and relevant information.

The above represents a voluntary change in accounting policy and has been applied retrospectively, with prior year retained earnings adjusted accordingly. The impact of the change on the prior year company financial statements is in the "Investments in subsidiaries" balance in the Company Statement of Financial Position.

The comparative information for the year ended 31 December 2021 was restated to remove the fair value gains on investments in subsidiaries. The impact on opening reserves on 1 January 2022 was a debit of £365.3m (impact on opening reserves on 1 January 2021: debit of £114.2m).

The impact of the restatement is summarised below:

Company Statement of Financial Position	As reported 31 December	Change in accounting policy	Restated 31 December
	2021		2021
	£m	£m	£m
Investments in subsidiaries	970.4	(365.3)	605.1
<b>Total assets</b>	<b>971.4</b>	<b>(365.3)</b>	<b>606.1</b>
Retained earnings	340.1	(365.3)	(25.2)
<b>Total equity</b>	<b>954.7</b>	<b>(365.3)</b>	<b>589.4</b>

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

Restatement of comparative information (continued)

<b>Company Statement of Comprehensive Income</b>	<b>As reported 31 December 2021 £m</b>	<b>Change in accounting policy £m</b>	<b>Restated 31 December 2021 £m</b>
(Losses) on investments in subsidiaries	(188.9)	188.9	-
Impairment loss on investment in subsidiaries	-	(440.0)	(440.0)
<b>Profit before tax</b>	<b>250.0</b>	<b>(251.1)</b>	<b>(1.1)</b>

  

<b>Company Statement of Financial Position</b>	<b>As reported 1 January 2021 £m</b>	<b>Change in accounting policy £m</b>	<b>Restated 1 January 2021 £m</b>
Investments in subsidiaries	283.2	(114.2)	169.0
<b>Total assets</b>	<b>283.2</b>	<b>(114.2)</b>	<b>169.0</b>
Retained earnings	100.1	(114.2)	(14.1)
<b>Total equity</b>	<b>283.2</b>	<b>(114.2)</b>	<b>169.0</b>

In addition to the above, the comparative information in the Consolidated Statement of Cash Flows for the year ended 31 December 2021 was restated to correct an error in the classification of £3.1m of advances under a financial reinsurance contract from operating activities to investing activities.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and each of its subsidiary undertakings which are detailed in note 3. 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 Group 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 currency and the Company's functional currency. In the assessment of functional currency, management have considered factors including, inter alia, the primary economic 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 through profit or loss are included in "(Losses)/ Gains on investments" in the Statement of Comprehensive Income.

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 and Company therefore continues to adopt the going concern basis in preparing its consolidated financial statements.



## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (CONTINUED)

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

##### (1.3.1) Classification

The Group and Company classify their financial assets and liabilities in the following categories: measured at fair value through profit or 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. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at fair value through profit or loss because this best reflects the way they are managed.

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. Management determines the classification of its financial liabilities at initial recognition. All liabilities, other than those designated at fair value through profit or loss, are classified as carried at amortised cost.

##### (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 or loss

The Group interests in financial investments, policyholder loans and policyholder cash are mandatorily at fair value through profit or loss, as they are part of groups of financial assets which are managed and whose performance is evaluated on a fair value basis as part of the Group's unit-linked business model. These investments are recognised at fair value initially and subsequently, with changes in fair value recognised in "(Losses)/Gains on investments" in the Statement of Comprehensive Income. Certain other payables and receivables (note 1.4.6) also form part to the Group's unit-linked business model, however due to their short-term nature, the impact of classification of fair value through profit and loss would not be material.

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.

For equity and debt securities not actively traded in organised markets and where the price cannot be retrieved, the fair value is determined by reference to the latest price provided by independent third parties, such as brokers or pricing services adjusted for an estimate of market value movement by reference to similar instruments since that price date if it does not correspond with the period end. 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.

Discretionary portfolios are valued at 31 December 2022 using the latest valuation from the discretionary fund manager which is available to the Group on that date. Due to the unit-

## 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 or loss (continued)

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.

For assets that have been suspended from trading on an active market, management estimate fair value using all known information, including the last published price. Many suspended assets are still regularly priced. The length of suspension of the pricing of the asset is considered a potential indicator of re-measurement being needed, as part of this process.

Where the assets are private company shares the valuation is based on the latest available set of audited financial statements, or if more recent information on the value of underlying assets is available from investment managers or professional valuation experts, that information is used to determine fair value.

Policyholder loans are interest free and are mandatorily at fair value through profit or loss since they are taken from the policyholder's account and thereby linked to underlying investments held at fair value through profit or loss. The Group manages its exposure to credit risk arising from financial assets and liabilities in respect of policyholder loans on the basis of its net exposure. The Group has elected to measure the fair value of this group of financial assets and liabilities on the basis of the price that would be required to transfer a net position for the risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

At inception, investment contract liabilities for unit linked business are designated as financial liabilities measured at fair value through profit or loss. Their measurement at fair value is described in note 1.9.

#### (1.3.4) Financial assets and financial liabilities at amortised cost

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest rate method, less any provision. A provision for the impairment of loans and receivables is recognised in line with the Expected Credit Loss ("ECL") method as detailed in note 1.6 below.

Interest income from these financial assets is included in "Other income" 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.

Financial liabilities at amortised cost are subsequently carried at amortised cost using the effective interest method. For financial liabilities measured at amortised cost any difference between initial fair value and redemption value is recognised in the Statement of Comprehensive Income using the effective interest rate method.

#### (1.3.5) Cash and cash equivalents and deposits

Cash and cash equivalents include cash in hand, money market funds, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Cash and deposit balances held within policyholder assets are recognised as fair value through profit or loss and are included within financial assets held to cover linked liabilities. Money market funds within shareholder assets are recognised as fair value through profit or 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (1.3.5) Cash and cash equivalents and deposits (continued)

Fixed deposits held with banks within shareholder assets with original maturities in excess of three months are included in deposits. These are accounted for at amortised cost less impairment.

#### (1.3.6) 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) Investments in subsidiary undertakings

Investments in subsidiaries are carried in the Company Statement of Financial Position at cost less impairment. The Company assesses at each reporting date whether an investment in a subsidiary is impaired by evaluating whether any indicators of impairment exist. If an indicator of impairment exists, the Company calculates the recoverable amount of the subsidiary and where this amount is less than the carrying value of the subsidiary, an impairment is recognised.

Subsidiaries are entities controlled by the Company. The Company 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

In the previous year, on 30 November 2021, the Group and Company purchased 100% of the voting equity interests in Athlumney Kappa (Ireland) dac (formerly Quilter International Ireland dac). On the same day, the Group and Company sold its entire equity interest in Quilter International Ireland dac to Utmost PanEurope dac 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 Consolidated 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 on bargain purchase on acquisition with the loss on disposal within the Consolidated Statement of Comprehensive Income, as correctly reflecting the substance of the transaction.

#### (1.6) Impairments

For financial assets the Group and Company assess 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 trade receivables, the Group and Company apply 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 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 material 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

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.6) Impairments (continued)

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.

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 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.

(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-

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.9) Financial liabilities under investment contracts (continued)

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.

The Group earns revenue on investment management services provided to holders of investment contracts, as detailed in note 1.15. Revenue is recognised as the services are performed.

(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" which permits the continued usage of previously applied Generally Accepted Accounting Practices ("GAAP"), Isle of Man regulatory requirements and actuarial principles "grandfathered" at the date of transition to IFRS, including the addition of appropriate allowance for margins of prudence. 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.

(1.10.1) With-profits contracts

The Group classifies its with-profits business as insurance contracts. The business is 100% reinsured to Aviva Life and Pensions UK Limited. 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. The cash reserve is calculated as the present value of all projected future outgoings and income.

(1.10.2) Unit linked insurance business

For unit linked contracts classified as insurance contracts, the attaching liability reflects the unit value obligation and an additional provision, a non-unit reserve, for any excess of future expenses over charges. Where the non-unit reserve is negative the reserve is zeroised and is not accounted for as a reduction to the total liability.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.10.3) Other insurance contracts (continued)

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.

(1.10.4) 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, initially by writing down the deferred acquisition costs asset. Any required write down in excess of the value of the deferred acquisition costs asset is recognised in the Statement of Comprehensive Income with a corresponding additional liability in the Statement of Financial Position.

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.

(1.10.5) Gross premiums earned

In respect of insurance contracts, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums.

(1.10.6) Gross policyholder claims

Claims on insurance contracts reflect the cost of all claims arising during the period. Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities.

Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

(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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.11.1) Reinsurance premiums

Outward reinsurance premiums are accounted for on an accruals basis.

(1.11.2) Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

(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 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (1.14) Intangible fixed assets – software (continued)

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) 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 other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are premium based fees taken on receipt of the premium or over an initial period. Front-end fees that relate to the future provision of investment management services are deferred in the Statement of Financial Position and recognised as the Group's performance obligation in respect of these up-front fees is met over the expected remaining duration of the policies. Deferred fees are amortised over the expected remaining duration of the policy on a straight-line basis.
- Fund based fees and premium based fees are regular periodic fees based on the higher of the market valuation of the policy or the initial premium received. Fixed fees are periodic fees for a specified amount. Regular fees charged to contracts are recognised on a straight-line basis over the period in which the service is provided. In most cases this revenue is recognised in the same period in which the fees are charged to the policyholder. Fees that are related to services to be provided in future periods are deferred and recognised when the performance obligations are fulfilled.
- Exit fees are fees received on the surrender of a policy, which are based on the market valuation of the policy or the initial premium. These fees are recognised as income on surrender of the policy as a reduction to the surrender amount returned to policyholders.
- Transactional dealing fees are recorded at a point in time when the required action is complete.
- 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 and it is highly probable that it will not be subject to significant reversal.

#### (1.16) 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 28.

#### (1.17) Fees for trust services

Revenue from providing trustee services is recognised over time as performance obligations are satisfied.



## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.17) Fees for trust services (continued)

Establishment fees and termination fees are considered to be related to services to be provided in future periods and are recognised when the performance obligations are fulfilled, either over the expected duration of the trusts or upon termination of the trust. The establishment and termination fees are deferred from the date the invoice is raised. Establishment fees are amortised over the expected period of time that the trusts are expected to remain in force. Termination fees are recognised in the Statement of Comprehensive Income at the point in time that the trust is terminated.

Costs incurred by the Group in connection with the establishment and termination of trusts have also been deferred and are recognised in the Statement of Comprehensive Income over the same periods as the establishment or at the same point as the termination fees.

Annual review fees are receivable on each anniversary of establishment of a trust and the service is deemed to be provided evenly over the year. When charged in advance, the income is deferred from the date the invoice is raised, and amortised over the year that the services are provided. Deferred annual fees are recognised in the Statement of Comprehensive Income on a straight-line basis.

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 administration fees and ad hoc time-based fees are recognised as revenue as the services are provided to the trusts.

(1.18) 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.

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.

(1.19) 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 accruals basis is insignificant.

(1.20) Expenses

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

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.21) Modified coinsurance account

Under the modified coinsurance arrangement (detail provided in note 27) the statutory reserve on the ceded business is the obligation of, and held by the ceding company and, as such, the modified coinsurance arrangement does not result in the transfer of significant insurance risk. The modified coinsurance arrangement is therefore a financial asset, accounted for under the requirements of IFRS 9, held at fair value backing the investment contract liabilities on unit linked policies written with the ceding company. The Group remains on risk of loss from lapse and surrenders.

In the event of the cedant's insolvency the liability of the Group is limited as the Group has the right to offset any claims arising under the arrangement against the assets held by the ceding company. 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 "(Losses)/Gains on investments" in the Statement of Comprehensive Income.

(1.22) 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.

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.

(1.23) 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**1. ACCOUNTING POLICIES (CONTINUED)****(1.23) Taxation (continued)**

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.

**(1.24) Share capital**

Ordinary shares are classified as equity. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

**(1.25) 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.

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.

**(1.26) 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.27) Changes in accounting policy and disclosure(1.27.1) 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 2022 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 or Company with an effective date after these financial statements are considered below.

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

IFRS 17 "Insurance Contracts": The IASB issued IFRS 17 in May 2017 (modified in 2020 and 2021) as a replacement to the previous insurance contracts standard IFRS 4 and applies to periods beginning on or after 1 January 2023. The standard will be applied retrospectively, subject to the transitional options provided for in the standard.

The Group primarily writes investment contract business without discretionary participation features which are accounted for under IFRS 9. However, the adoption of IFRS 17 will have a significant impact on the accounting treatment of insurance contracts written by the Group which account for approximately 6% of the liabilities arising from investment and insurance contracts written by the Group.

*Scope*

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued and reinsurance contracts held. When identifying contracts in the scope of IFRS 17 the Group have assessed the significance of any insurance risk accepted from the policyholder and for reinsurance contracts the insurance risk ceded to a reinsurer, whether a number of contracts needs to be treated as a single contract and whether investment components and goods and services are distinct and have to be separated and accounted for under another standard. Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

*Measurement models*

The General Measurement Model ("GMM") is the general accounting approach for the measurement of insurance and reinsurance contracts under IFRS 17. The GMM is formed of the following building blocks each of which are detailed further below:

- Fulfilment cashflows
- Risk adjustment
- Contractual service margin

Insurance contracts are viewed as creating an obligation to pay policyholders an amount that is equal to the fair value of the underlying items, less a variable fee for service. The variable fee comprises the Group's share of the fair value of the underlying items, which is based on policy fees and management charges (withdrawn from policyholder account values based on the fair value of underlying assets and specified in the contracts with policyholders) less other cashflows that do not vary based on the returns on underlying items. The measurement approach for insurance contracts (excluding reinsurance contracts) is referred to as the Variable Fee Approach, ("VFA"). The VFA modifies the GMM to reflect that a significant portion of the consideration an entity receives for the contracts is a variable fee.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.27.2) IFRS 17 "Insurance Contracts" (effective 1 January 2023 subject to EU endorsement) (continued)

*Level of aggregation*

Insurance contracts are aggregated into groups for measurement purposes. IFRS 17 requires a portfolio of contracts to be divided into annual cohorts. As a result, a group may not include contracts issued more than one year apart. The Group judges that division of products into portfolios according to product type meets the requirements of grouping products that are managed together and give rise to similar risks. The group, on initial recognition, further divides the portfolios into insurance groups according to whether the contracts have no significant possibility of becoming onerous, are onerous and all other contracts. Insurance contracts that would have a CSM at initial recognition even after including the risk adjustment are judged to have no significant possibility of becoming onerous. Insurance contracts where at initial recognition the total of the fulfilment cashflows, any previously recognised acquisition cash flows and any cash flows arising from the contract at that date is a net outflow are recognised as onerous. All other contracts are grouped together. Reinsurance contracts are judged to be distinct and are not grouped together.

*Contract boundaries*

The Group uses the concept of contract boundaries to determine the cash flows that should be considered in the measurement of groups of insurance contracts. This assessment is reviewed for new contracts issued each reporting period. Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Group has a substantive obligation to provide the policyholder with insurance coverage or other services.

For reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Group that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or in which the Group has a substantive right to receive services from the reinsurer.

*Insurance acquisition cashflows*

The Group includes the following acquisition cash flows within the contract boundary that arise from selling, underwriting and starting a group of insurance contracts and that are:

- (a) costs directly attributable to individual contracts and groups of contracts; and
- (b) costs directly attributable to the portfolio of insurance contracts to which the group belongs, which are allocated on a systematic and rational basis to measure the group of insurance contracts.

*Measurement*

*Fulfilment cash flows ("FCF")*

The FCF are an explicit, unbiased and probability-weighted estimate (ie expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk.

The estimates of future cash flows:

- (a) are based on a probability weighted mean of the full range of possible outcomes;
- (b) are determined from the perspective of the Group, provided the estimates are consistent with observable market prices for market variables; and
- (c) reflect conditions existing at the measurement date.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (CONTINUED)

(1.27.2) IFRS 17 "Insurance Contracts" (effective 1 January 2023 subject to EU endorsement (continued))

Where the effect of future variations in experience on future cashflows are symmetric a single best estimate is assumed to represent the full range of possible outcomes.

Underlying cashflows, where these arise in multiple currencies, are converted into a single functional currency at the appropriate prevailing foreign exchange rates. In order to discount the FCF the Group uses the bottom-up approach to determine in each applicable currency, a discount rate curve by applying a liquidity adjustment, where appropriate, to a risk-free yield. The risk-free yield curve is estimated from the published yield curve for the currency adjusted to remove the effects of ultimate forward rate adjustments. For the GMM a locked-in discount rate set at inception is used and for the VFA a current rate is used at each reporting period.

#### *Risk Adjustment*

An explicit risk adjustment for non-financial risk is calculated separately from the other estimates and is included in the fulfilment cashflows. The risk adjustment is determined as the difference between the fulfilment cashflows under a single, insurance group specific, stress scenario and the base scenario calculated using the probability weighted best estimate of the cash flows. The risk adjustment is calculated without consideration for any reinsurance in place.

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation. Risk of the Group's non-performance is not included in the measurement of groups of insurance contracts issued.

The value of reinsurance contract assets held are stated after allowance for the risk of non-performance of the counterparty. The Group uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held and such estimates for the groups of underlying insurance contracts. The risk adjustment for reinsurance is determined in the same way as for insurance business but with the stress scenario being determined from a scenario relevant to the underlying insurance portfolio. The risk adjustment for reinsurance represents the risk adjustment transferred to the reinsurer and as such will not exceed the risk adjustment on the underlying insurance contract.

#### *Contractual service margin*

The CSM is a component of the carrying amount of the asset or liability for a group of insurance contracts issued representing the unearned profit that the Group will recognise as it provides services in the future.

At initial recognition, the CSM is an amount that results in no income or expenses (unless a group of contracts is onerous) arising from:

- (a) the initial recognition of the FCF; and
- (b) cash flows arising from the contracts in the group at that date.
- (c) the de-recognition at the date of initial recognition of:
  - (i) any asset for insurance acquisition cash flows; and
  - (ii) any other asset or liability previously recognised for cash flows related to the group of contracts

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**1. ACCOUNTING POLICIES (CONTINUED)**

(1.27.2) IFRS 17 "Insurance Contracts" (effective 1 January 2023 subject to EU endorsement) (continued)

A negative CSM at the date of inception means the group of insurance contracts issued is onerous. A loss from onerous insurance contracts is recognised in the Statement of Comprehensive Income immediately with no CSM recognised on the Statement of Financial Position.

For groups of reinsurance contracts held, any net gain or loss at initial recognition is recognised as the CSM unless the net cost of purchasing reinsurance relates to past events, in which case the Group recognises the net cost immediately in the Statement of Comprehensive Income. For reinsurance contracts held, the CSM represents a deferred gain or loss that the Group will recognise as a reinsurance expense as it receives reinsurance coverage in the future.

At initial recognition contracts are assessed as to whether they are onerous, profitable or initially profitable but have the potential to become unprofitable. The approach taken is to compare at initial recognition, for each insurance contract, the CSM with the Risk Adjustment. If the CSM is greater than the Risk Adjustment the insurance contract is classified as profitable, if the CSM is 0 the contract is classified as onerous. All other contracts are classified as having the potential to become onerous.

At the end of each reporting period the carrying amount of the CSM is adjusted by the Group to reflect the effect of the following changes:

- (a) The effect of any new contracts added to the group.
- (b) For contracts measured under the GMM, interest accreted on the carrying amount of the CSM.
- (c) Changes in the FCF relating to future service are recognised by adjusting the CSM. Changes in the FCF are recognised in the CSM to the extent the CSM is available. When an increase in the FCF exceeds the carrying amount of the CSM, the CSM is reduced to zero with the excess recognised in insurance service expenses and a loss component recognised within the Liability for Remaining Coverage ("LRC").  
When the CSM is negative, changes in the FCF adjust the loss component within the LRC with correspondence to insurance service expenses. The excess of any decrease in the FCF over the loss component reduces the loss component to zero and creates a CSM.
- (d) The effect of any currency exchange differences.
- (e) The amount recognised as insurance revenue for services provided during the period determined after all other adjustments above.

For a group of reinsurance contracts held, the carrying amount of the CSM at the end of each reporting period is adjusted to reflect changes in the FCF. Where underlying contracts are onerous and thus changes in the underlying FCF related to future service are recognised in insurance service expenses by adjusting the loss component, respective changes in the FCF of reinsurance contracts held are also recognised in the insurance service result.

The amount of the CSM recognised in the Statement of Comprehensive Income for services in the period is determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining expected coverage period of the group of insurance contracts based on coverage units.

For contracts issued, the Group determines the proportion of coverage provided in the period for the purpose of CSM recognition as follows:

- (a) Expected in-period coverage units using start of period forecasts, divided by

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (CONTINUED)

(1.27.2) IFRS 17 "Insurance Contracts" (effective 1 January 2023 subject to EU endorsement) (continued)

- (b) The sum of:
  - i. Expected in-period coverage units using start of period forecasts, and
  - ii. Expected end of period future coverage units forecast.
- (c) Where all amounts included in this calculation are undiscounted.

The Group uses the amount that it expects the policyholder to be able to validly claim in each period if an insured event occurs as the basis for the quantity of benefits.

The coverage units used by the Group are the higher of Unit reserves and sum assured.

*Insurance service result*

The insurance service result consists of insurance revenue less insurance service expenses plus the net income or expense from reinsurance contracts held.

As the Group provides services under a group of insurance contracts, it reduces the LRC and risk adjustment and recognises insurance revenue. The amount of insurance revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration the Group expects to be entitled to in exchange for those services. The requirements in IFRS 17 to recognise insurance revenue over the coverage period of the underlying contracts will generally result in slower recognition of revenue compared with the Group's current accounting policy under IFRS 4.

Expenses that relate directly to the fulfilment of contracts will be recognised in the Statement of Comprehensive Income as insurance service expenses, generally as they are incurred. Expenses that do not relate directly to contracts in the scope of IFRS 17 will be presented in other financial statement line items under the relevant accounting standard.

The amounts recovered from reinsurers and reinsurance expenses will be presented on a net basis in the Statement of Comprehensive Income within the insurance service result.

Changes in investment components will not be included in the insurance service result.

*Transition*

During the year the Group has progressed the calculation of the transition balance sheet as at 1 January 2022 – this is the transition date to IFRS 17 under the requirements of the standard. The transition balance sheet is being prepared using the Fair Value Approach for all in-scope business as it is impracticable to use the Fully Retrospective Approach that applies IFRS 17 from the inception of the pre-existing insurance contracts because it is not possible to determine a Risk Adjustment at historic reporting dates. This is a key judgement taken by the Group in preparing the transition balance sheet.

The Group had no basis upon which to determine the Risk Adjustment since it had no policy from which a reliable margin for taking on non-financial risk associated with the contracts in scope of IFRS 17 could be determined at the transition date and there was no explicit historical view of the compensation required for non-financial risk on acquired insurance contracts. Consideration was taken to deriving an approach that used margins from historical acquisitions however as the majority of the acquired policies have been investment contracts, with significant reinsurance on insurance contracts, it was not possible to accurately reflect the view of insurance risk at historic reporting dates.



## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES (CONTINUED)

(1.27.2) IFRS 17 "Insurance Contracts" (effective 1 January 2023 subject to EU endorsement) (continued)

Under the Fair Value Approach, the CSM or loss component at the transition date will be calculated as the difference between the fair value of a group of contracts at that date and the FCF at that date.

Under the requirements of IFRS 4 the Group had previously recognised for insurance contracts an asset for the Acquired Value of In-Force ("AVIF") policies which was measured as the difference between the fair value of acquired contracts and the value of the liability as measured in accordance with the Group's accounting policies under IFRS 4. Under the requirements of IFRS 17 the previously recognised AVIF for insurance contracts no longer exists as the related cash flows are required to be included in measuring the FCF of the acquired contracts at the acquisition date. The elimination of balances under IFRS 4 and replacement with IFRS 17 balances leads to a corresponding change in shareholders' equity. The AVIF for investment contracts will continue to be recognised.

In applying IFRS 17 the Group has used both the GMM and the VFA. The VFA is used where the Group has direct participation in an insurance contract.

The Group's implementation project continued through 2022 with key items including the continued finalisation of methodology and developing the operational and reporting capabilities needed to implement the standard including data, systems and business processes including the control environment. In 2023 the Group will continue to embed the process and controls in respect of the standard and the calculation of the comparatives required for 2023 reporting including the finalisation of the transition balance sheet as at 1 January 2022. The Group is not in a position to disclose the impact to equity of the implementation of IFRS 17, as the application of the Utmost Group plc methodology to the Group is not yet finalised.

### 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 and Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

#### 2.1 Critical accounting judgements

##### 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.

##### 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### 2.2 Critical accounting estimates

##### Initial measurement of acquired value of in-force business

The initial measurement of the value of the in-force policies acquired upon completion of purchase of the group belonging to Utmost International Holdings Limited (formerly Quilter International Holdings Limited) in 2021 was a critical estimate.

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.

##### 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.

##### 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 or terminating 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 initial and other "front-end fees" (fees that are assessed against the policyholder balance as consideration for the origination of the contract), together with a portion of trust establishment and termination 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### 2.2 Critical accounting estimates (continued)

##### Fair value of financial assets and liabilities

Where possible financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair values are determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as level 3 financial instruments. Level 3 financial instruments therefore involve the use of estimates.

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 being £nil even though a price may be publicly available.

##### 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 25.5.

##### 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.

##### Impairment of property, plant and equipment

Right-of-use assets include the Group's lease over Royalty House, Douglas, Isle of Man. The right-of-use asset was capitalised to the termination option in 2025. In 2022 the property was vacated and is currently not in use, accordingly the right of use asset's recoverable amount was re-estimated and impaired in full. The recoverable amount was estimated to reflect current estimates, based on economic utilisation and the physical condition of the asset. See notes 15 and 16 for the carrying amount of the asset.

## 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	Applying to be de-authorised, following the transfer of assurance business on 30 November 2022 to Utmost International Isle of Man Limited
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
Utmost International Holdings Limited (formerly Quilter International Holdings Limited) **	Isle of Man	Holding company
Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited) **	Isle of Man <sup>+</sup>	Writing long-term assurance business
Utmost International Business Service Limited (formerly Quilter International Business Services Limited) **	Isle of Man	Third-party administration services
Utmost International Trustee Solutions Limited (formerly Quilter International Trust Company Limited) **	Isle of Man	Provision of trustee services
Quilter International Middle East Limited **	Dubai	Placed into liquidation on 27 September 2022 and de-authorised on 10 October 2022. The business of QIME has been transferred to a fellow subsidiary of Utmost Group plc <sup>++</sup>
AAM Advisory Pte Limited **	Singapore	Financial advisory services. This business is being wound-down and is expected to be placed into liquidation during 2023 <sup>++</sup>

\* Date of acquisition: 21 October 2016. Registered office address: King Edward Bay House, King Edward Road, Onchan, Isle of Man, IM99 1NU.

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

<sup>+</sup> Utmost International Isle of Man Limited also operates branches in Hong Kong and Singapore.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**3. SUBSIDIARIES (CONTINUED)**

++ Neither QIME nor AAM have made a material contribution to the consolidated results of the Group during the financial year or during the prior year. The profit of QIME was £ nil (2021: £ nil) and AAM contributed a loss of £(1.1)m (2021: £0.3m). The net assets of QIME at the point of liquidation were £1.8m(2021: £1.4m). The net assets of AAM at year end were £1.9m (2021: £0.1m).

**4. (LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

<b>Consolidated</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Profit before taxation is stated after charging / (crediting) within fees and expenses:-		
Wages and salaries	23.8	11.1
Social security costs	2.6	1.3
Termination costs	0.4	1.0
Other staff benefits	0.9	1.3
Pension costs – defined contributions	2.4	1.3
Depreciation and amortisation (notes 12 & 15)	2.9	1.0
Loss/ (Profit) on sale of property, plant and equipment	-	(0.1)
Impairment of property, plant and equipment	2.7	-
Auditor's fees – statutory audit	1.2	0.3
Auditor's fees – non-audit services	-	0.1
Directors' fees	0.1	0.1

**5. FEES AND CHARGES RECEIVABLE**

Included within fees and charges are:

<b>Consolidated</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Premium based fees	9.2	13.0
Fund based fees	116.4	32.3
Fixed fees	36.0	2.1
Exit fees	5.9	1.0
Transactional dealing fees	4.8	0.4
Net movement in deferred front-end fees (note 21)	(6.4)	(3.3)
Other fee income – including commission and rebate income	31.6	11.2
<b>Total fee income</b>	<b>197.5</b>	<b>56.8</b>

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**6. OTHER INCOME**

Included within other income are:

<b>Consolidated</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Bank and deposit interest income	13.3	1.0
Loan interest (note 18)	1.4	1.1
Other – including interest charged to policyholders	3.9	0.5
	<u>18.6</u>	<u>2.6</u>

**7. (LOSSES)/ GAINS ON INVESTMENTS**

Included within (losses)/gains on investments are:

<b>Consolidated</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Net gains on realisation of investments	196.3	471.1
Change in fair value of financial assets	(3,299.6)	716.2
	<u>(3,103.3)</u>	<u>1,187.3</u>

**8. ACQUISITION COSTS**

Included within acquisition costs are:

<b>Consolidated</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Initial commission payable	16.6	2.4
Deferral of acquisition costs (note 13)	(15.5)	(2.1)
Amortisation of deferred acquisition costs (note 13)	1.9	0.3
	<u>3.0</u>	<u>0.6</u>

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

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 9. FEES AND EXPENSES

Included within fees and expenses are:

Consolidated	2022	2021
	£m	£m
Operational expenses	90.0	23.9
Other expenses	0.1	0.8
Ongoing renewal commission payable	26.2	11.4
	<u>116.3</u>	<u>36.1</u>

## 10. TAXATION

Consolidated	2022	2021
	£m	£m
Current taxation charge	3.3	0.1
Deferred tax on amortisation of AVIF (note 24)	(0.5)	(0.2)
<b>Tax charge/(credit) for the year</b>	<u>2.8</u>	<u>(0.1)</u>

## ISLE OF MAN TAXATION

In the Isle of Man, with certain exceptions not relevant to the Group, corporate entities are subject to tax at 0% (2021: 0%). This rate is not expected to change during 2023.

## 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 £83k (2021: £33k). 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 Group is liable to corporation tax on this administration fee at 12.5% (2021: 12.5%). During 2022, the Group received a charge of £4k (2021: £6k)

## HONG KONG TAXATION

One subsidiary, Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited), operates a branch in Hong Kong. Tax is payable on the profits of that branch at 16.5% (2021: 16.5%) of assessable profits. During 2022, the Group received a charge in respect of Hong Kong assessable profits of £2.9m (2021: £29k).

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. An increase in this liability has resulted in a charge to the Consolidated Statement of Comprehensive Income of £0.3m (2021: £194k).

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 10. TAXATION (CONTINUED)

## SINGAPORE TAXATION

One subsidiary, AAM Advisory Pte, Ltd., is incorporated and domiciled in Singapore. Tax is payable on the profits of the AAM and the Singapore branch of Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited) at 17% (2021: 17%). Both AAM Advisory Pte, Ltd. 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 of in-force business intangible assets attributable to the Singapore branch.

## 11. ACQUIRED VALUE OF IN-FORCE BUSINESS

Consolidated	2022	2021
	£m	£m
<b>Cost</b>		
At 1 January	783.5	178.9
Value of in-force policies acquired	-	604.6
At 31 December	<b>783.5</b>	<b>783.5</b>
<b>Accumulated amortisation</b>		
At 1 January	83.0	63.7
Charge for the year	108.4	19.3
At 31 December	<b>191.4</b>	<b>83.0</b>
Net book value at 31 December	<b>592.1</b>	<b>700.5</b>
Current (within 12 months)	94.3	108.4
Non-current (after 12 month)	497.8	592.1
	<b>592.1</b>	<b>700.5</b>



## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 12. OTHER INTANGIBLE ASSETS

Consolidated	Computer Software £m
<b>Year ended 31 December 2021</b>	
Opening net book amount	0.6
Additions	0.2
Amortisation charge	(0.2)
<b>Closing net book value</b>	<b>0.6</b>
<b>At 31 December 2021</b>	
Cost	3.8
Accumulated amortisation	(3.2)
<b>Net Book Amount</b>	<b>0.6</b>
<b>Year ended 31 December 2022</b>	
Opening net book amount	0.6
Additions	-
Amortisation charge	(0.2)
<b>Closing net book value</b>	<b>0.4</b>
<b>At 31 December 2022</b>	
Cost	3.8
Accumulated amortisation	(3.4)
<b>Net Book Amount</b>	<b>0.4</b>

## 13. DEFERRED ACQUISITION COSTS

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

Consolidated	2022 £m	2021 £m
At 1 January	5.5	3.7
Deferred during the year	15.5	2.1
Amortised during the year	(1.9)	(0.3)
	<b>19.1</b>	<b>5.5</b>
Current (within 12 months)	0.8	0.3
Non-current (after 12 months)	18.3	5.2
	<b>19.1</b>	<b>5.5</b>

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 14. INVESTMENT IN SUBSIDIARIES

Company	Restated *	
	2022	2021
	£m	£m
Balance at 1 January	605.1	169.0
Additions	1.7	481.0
Additions (inter-Group transaction undertaken as part of Group reorganisation – see below)	-	440.0
Distributions from pre-acquisition reserves (as part of Group reorganisation)	-	(4.9)
Disposals (see below)	-	(40.0)
Impairment loss (see below)	(2.9)	(440.0)
<b>Balance at 31 December</b>	<b>603.9</b>	<b>605.1</b>

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

In the previous year, on 30 November 2021, the Group and Company acquired the entire issued share capital of Quilter International Holdings Limited (QIHL), now known as Utmost International Holdings Limited (UIHL) and Athlumney Kappa dac (formerly Quilter International Ireland dac) (QIID) for a total consideration in cash of £481.0m. The own funds value of QIHL and its subsidiaries, as well as QIID, were used to allocate the consideration, such that £441.0m has been recognised as the price paid for QIHL and its wholly-owned subsidiaries, and £40.0m 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 £440.0m, 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 £440.0m.

On the same day as QIID was acquired, the Group sold it to its sister company, Utmost PanEurope dac 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 Consolidated Statement of Comprehensive Income; the cash consideration paid and received has also been offset in the Consolidated and Company Statements of Cash Flows.

The Company has fully impaired the cost of its investment in AAM Advisory Pte. Ltd., following the decision to complete the winding-up of operations of that business during the course of 2023.

No impairment has been recognised against the cost of Company's investment in Quilter International Middle East Limited, following a resolution to liquidate that company that was taken on 27 September 2022, since the proceeds from the liquidation are expected to exceed the cost of the investment.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 15. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Computer and office equipment £m	Motor vehicles £m	Right-of- use asset £m	Leasehold improve- ments £m	Total £m
<b>Year ended 31 December 2021</b>					
Opening net book amount	0.4	0.1	2.0	-	2.5
Additions on acquisition of subsidiaries	-	-	10.6	-	10.6
Foreign exchanges movement	-	-	-	-	-
Additions	0.1	-	-	-	0.1
Disposals	-	-	-	-	-
Depreciation charge	(0.2)	-	(0.6)	-	(0.8)
<b>Closing net book value</b>	<b>0.3</b>	<b>0.1</b>	<b>12.0</b>		<b>12.4</b>
<b>At 31 December 2021</b>					
Cost	1.6	0.1	13.4	-	15.1
Accumulated depreciation	(1.3)	-	(1.4)	-	(2.7)
<b>Net Book Amount</b>	<b>0.3</b>	<b>0.1</b>	<b>12.0</b>	-	<b>12.4</b>
<b>Year ended 31 December 2022</b>					
Opening net book amount	0.3	0.1	12.0	-	12.4
Additions on acquisition of subsidiaries	-	-	-	-	-
Foreign exchanges movement	-	-	0.4	-	0.4
Additions *	0.1	-	7.4	1.5	9.0
Disposals **	(0.1)	-	(0.7)	-	(0.8)
Impairment ***	-	-	(2.0)	-	(2.0)
Depreciation charge	(0.1)	(0.1)	(2.2)	(0.3)	(2.7)
<b>Closing net book value</b>	<b>0.2</b>	<b>-</b>	<b>14.9</b>	<b>1.2</b>	<b>16.3</b>
<b>At 31 December 2022</b>					
Cost	1.6	0.1	18.5	1.5	21.7
Accumulated depreciation	(1.4)	(0.1)	(3.6)	(0.3)	(5.4)
<b>Net Book Amount</b>	<b>0.2</b>	<b>-</b>	<b>14.9</b>	<b>1.2</b>	<b>16.3</b>

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

The right-of-use assets are derived from the Group's leasehold office properties held in the Isle of Man and Singapore (see note 16).

\* The Group extended its lease on the leaseholder office property known as King Edward Bay House by 10 years from 18 December 2026 to 18 December 2036. The re-measurement of the lease has been recognised as an addition. On 31 January 2023, the Group acquired the freehold title to King Edward Bay House (see note 36).

\*\* On 1 July 2022, prior to the entity being placed into liquidation, Quilter International Middle East Limited, novated its lease of Gate Village, Floor 7, Dubai to an affiliate thereby disposing of the associated right-of-use asset.

\*\*\* During the year, the Group vacated a leasehold property in the Isle of Man known as Royalty House. The recoverable amount of the right-of-use asset arising on that lease was re-estimated and consequently fully impaired resulting in a charge of £1.1m being recognised in the Statement of Comprehensive Income. In addition, the right-of-use asset arising on the office premises known as 6<sup>th</sup> Floor, 138 Market Street, Singapore has also been impaired by 65.1% of its value at year end, that being the proportion of the leased space that is currently vacant, resulting in an additional charge of £0.9m being recognised in the Statement of Comprehensive Income.

**16. LEASES****16.1 Amounts recognised in the Consolidated Statement of Financial Position**

<b>Consolidated</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
<b>Right-of-use asset</b>		
Buildings (note 15)	14.9	12.0
<b>Lease liabilities</b>		
At 1 January	12.2	2.0
Additions on acquisition of subsidiaries	-	10.6
Movement generated by modification of leases *	5.3	-
FX movement	0.7	-
Interest charge in the year	0.6	0.1
Lease payments made in the year (exclusive of VAT)	(1.8)	(0.5)
At 31 December	17.0	12.2
Current (within 12 months)	0.3	2.4
Non-current (after 12 months)	16.7	9.8
	17.0	12.2

\* This movement represents the aggregate adjustment generated by the extension of the lease of the premises at King Edward Bay House and the disposal of the lease of the premises at Gate Village, Floor 7, Dubai. Further details are provided in note 15.

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:

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 16. LEASES (CONTINUED)

## 16.1 Amounts recognised in the Consolidated Statement of Financial Position (continued)

	2022	2021
	£m	£m
Current (within 12 months)	0.9	-
Non-current (after 12 months)	0.6	-
	<u>1.5</u>	<u>-</u>

An amount of £1.0m was received during the year (2021: £0.7m).

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, Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited), is the lessee. The Company has considered both quantitative factors, such as actual and forecasted profits for its subsidiary, and qualitative factors, such as performance of the subsidiary and the probability of default of the subsidiary, as being negligible, thus, the assessed fair value of the above guarantee is considered to be immaterial. Following the Group's acquisition of King Edward Bay House on 31 January 2023, the guarantee has continued, but is now an entirely intergroup arrangement, concerning amounts paid by Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited) to Douglas Bay Property Limited, both being subsidiaries of the Company.

## 16.2 Amounts recognised in the Consolidated Statement of Comprehensive Income

	2022	2021
	£m	£m
<b>Fees and expenses</b>		
Depreciation charge on right-of-use assets	2.2	0.6
Impairment of right-of-use asset	<u>2.0</u>	<u>-</u>
<b>Interest expense</b>		
Finance cost of lease payments	<u>0.6</u>	<u>0.1</u>

The total cash outflow for leases in the year ended 31 December 2022 was £1.8m (2021: £0.5m), exclusive of VAT.

## 17. OTHER INVESTMENTS

Consolidated	2022	2021
	£m	£m
Investment in Oaktree Fund	11.3	11.7
Sundry other investments	<u>0.9</u>	<u>1.0</u>
	<u>12.2</u>	<u>12.7</u>

The investment in Oaktree Fund comprises 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 25.4. Dividends are made quarterly and reinvested in additional units in the fund. The

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 17. OTHER INVESTMENTS (CONTINUED)

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 shareholder holdings in OEICs, debt instruments, equities and exchange traded funds.

## 18. LONG-TERM LOANS

	2022	2021
Consolidated	£m	£m
Loan note to UPE	20.1	20.0
Broker loan	0.8	0.8
	<u>20.9</u>	<u>20.8</u>

In June 2018, the Group advanced a £20.0m loan note to Utmost PanEurope dac ("UPE"), a fellow subsidiary of Utmost Group plc, incorporated in the Republic of Ireland. 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.

## 19. OTHER RECEIVABLES

	2022	2021
Consolidated	£m	£m
Investment dealing receivables	26.1	14.0
Accrued investment income and commission	11.1	4.5
Other receivables and prepayments	15.9	12.3
Due from related parties (note 33)	3.3	23.5
	<u>56.4</u>	<u>54.3</u>
Current (within 12 months)	56.4	39.4
Non-current (after 12 months)	-	14.9
	<u>56.4</u>	<u>54.3</u>

## 20. CASH AND CASH EQUIVALENTS

	2022	2021
Consolidated	£m	£m
Cash at bank and with credit institutions	70.5	43.8
Money market funds	202.8	169.7
	<u>273.3</u>	<u>213.5</u>

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**20. CASH AND CASH EQUIVALENTS (CONTINUED)****Company**

Cash at bank and with credit institutions	38.8	1.0
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All cash and cash equivalents are current and available for use by the Group, other than £3.2m (2021: £3.2m) of cash and cash equivalents in a subsidiary of the Company that are ring fenced for regulatory purposes.

**21. DEFERRED FRONT-END FEES**

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

	<b>2022</b>	<b>2021</b>
<b>Consolidated</b>	<b>£m</b>	<b>£m</b>
At 1 January	10.8	7.5
Fees received and deferred during the period	7.8	3.9
Amortised during the period	(1.4)	(0.6)
	<u>17.2</u>	<u>10.8</u>
Current (within 12 months)	1.4	0.6
Non-current (after 12 months)	15.8	10.2
	<u>17.2</u>	<u>10.8</u>

**22. OTHER PAYABLES**

	<b>2022</b>	<b>2021</b>
<b>Consolidated</b>	<b>£m</b>	<b>£m</b>
Due to investment contract holders	148.6	23.3
Premiums received in advance of policy issue	25.0	30.0
Investment dealing creditors	6.2	7.8
Commission payable	5.9	6.3
Other creditors and accruals	33.1	30.2
Due to related parties (note 33)	6.2	3.4
Lease liability – due within one year (note 16)	0.3	2.4
Lease liability – due after more than one year (note 16)	16.7	9.8
	<u>242.0</u>	<u>113.2</u>
<b>Company</b>		
Due to related parties (note 33)	<u>61.2</u>	<u>16.7</u>

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

All other payables are due within one year, with the exception of the lease liability.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 23. PROVISIONS

	2022	2021
Consolidated	£m	£m
Opening balance	2.8	-
Provisions arising from acquisition of subsidiary	-	2.2
Provisions made during the year	0.5	0.7
Provisions utilised during the year	-	-
Provisions released during the year	(0.1)	(0.1)
	<u>3.2</u>	<u>2.8</u>

The total provisions balance above consists of five principle 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 counterparties is always uncertain.

The second relates to the expected costs to correct policyholder accounts, that have experienced a transaction processing error prior to the reporting date, but that have not yet been identified or rectified. The Group's experience is that these issues may emerge from the in-force book up to 2 years after the reporting date. Historic experience is used to estimate the required provision.

The third relates to the expected costs to correct certain historic errors in policyholder tax reporting to the tax authorities in the Isle of Man, Singapore and Republic of Ireland. This provision includes the expected costs of correcting the tax reporting as well as the estimated amount of any financial penalties imposed by the relevant tax authorities. There remains a degree of uncertainty in the amount of this provision, while both the remediation work and discussions with the tax authorities on the final amount of penalties continue.

The fourth relates to the underpayment of VAT on reverse charge services received from a group entity.

The fifth relates to sundry other provisions.



## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**23. PROVISIONS (CONTINUED)**

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

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Litigation	0.4	0.3
Policy amendments	0.4	0.7
Policy tax reporting	1.5	1.0
Under payment of VAT	0.6	-
Other	0.3	0.8
	<u>3.2</u>	<u>2.8</u>

**24. DEFERRED TAX**

	<b>2022</b>	<b>2021</b>
<b>Consolidated</b>	<b>£m</b>	<b>£m</b>
Deferred tax liability	<u>4.9</u>	<u>5.5</u>

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 Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited). This is set out in further detail in note 10. It is expected that the tax liability will be paid as future profits emerge from the in-force business.

**25. 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 and Company's exposure to risk is vested in the Board. To support it in this role, a risk management framework is in place comprising risk identification, risk assessment, control and reporting processes. Additionally, the 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 and Company are exposed are set out below. For each category of risk, the Group determines its risk appetite and sets its associated policies accordingly.

**25.1 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****25.1 Market risk (continued)**

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.

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 £11.5m (2021: £2.4m). 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 17). If the price of this investment fell permanently by 10% the impact on net assets and profit would be a decrease of £1.1m (2021: £1.2m).

**(b) Interest rate risk**

Interest rate risk is the risk that the Group or Company are 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 and Company are primarily exposed to interest rate risk on shareholder's funds that are invested in either cash, fixed interest deposits, money market funds, a loan note with a related party (note 33) and an investment into Oaktree European Senior Loan Fund (note 17) 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.

The Group also holds assets, on behalf of policyholders, which are exposed to interest rate movements. Any change in the value of these assets is offset by a corresponding change in the value of investment contract liabilities.

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 interest income on shareholder assets ("Other income", note 6) and equity will fluctuate because of changes in market interest rates.

	<b>2022</b>	<b>2021</b>
<b>Consolidated</b>	<b>£m</b>	<b>£m</b>
Increase of 100 bps (2021: 100bps) in interest rates	8.8	2.3
Decrease of 100 bps (2021: 34bps) in interest rates	(8.6)	(1.0)

The Company has no exposure to interest rate risk.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****25.1 Market risk (continued)****(c) Currency risk**

Currency risk is the risk that the Group or Company are 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.

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. At the Statement of Financial Position date the Group and Company's exposures to foreign currencies are not considered material.

**25.2 Credit risk**

Credit risk is the risk that the Group and Company are exposed to lower returns or loss if another party fails to perform its financial obligations to the Group or Company. The Group and Company have 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 Utmost Group plc (see note 18). 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 2022 and 31 December 2021 is the carrying amount of the financial assets detailed in the shareholder backed assets credit rating table on the following page.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 25.2 Credit risk (continued)

## Consolidated

## Analysis as at 31 December 2022

	Aa3	A1	A2	A3	Baa3	<Ba2	Total
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	209.6	1.7	0.4	61.6	-	-	273.3
Deposits	7.1	1.0	22.2	1.8	-	-	32.1
Other investments	-	-	-	-	-	12.2	12.2
Long-term loan	-	-	20.0	-	-	0.8	20.8
Other receivables	-	-	-	-	-	68.9	68.9
<b>Total</b>	<b>216.7</b>	<b>2.7</b>	<b>42.6</b>	<b>63.4</b>	<b>-</b>	<b>81.9</b>	<b>407.3</b>

## Analysis as at 31 December 2021

	Aa3	A1	A2	A3	Baa3	<Ba2	Total
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	16.6	0.4	2.5	22.2	2.1	169.7	213.5
Deposits	15.0	8.1	3.0	13.0	-	-	39.1
Other investments	-	-	-	-	-	12.7	12.7
Long-term loan	-	-	20.0	-	-	0.8	20.8
Other receivables	-	-	-	-	-	34.6	34.6
<b>Total</b>	<b>31.6</b>	<b>8.5</b>	<b>25.5</b>	<b>35.2</b>	<b>2.1</b>	<b>217.8</b>	<b>320.7</b>

## Company

## Analysis as at 31 December 2022

	Aa3	A1	A2	A3	Baa3	<Ba2	Total
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents				38.8			38.8

## Analysis as at 31 December 2021

	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	-	-	-	1.0	-	-	1.0

## 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 2022 and 2021 year-end positions, the Group's material reinsurance counterparties have a credit rating at Moody's of Aa3 (2021:Aa3). The Group does not believe that on a best estimate basis the credit risk exposure is sufficient enough to justify holding a reserve.

## 25.3 Liquidity risk

Liquidity risk is the risk that the Group or Company, though solvent, do 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 through the regular preparation of forecasts to predict required liquidity levels over both the short- and medium-term.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****25.3 Liquidity risk (continued)**

The Group and Company's exposure to liquidity risk is considered to be low since they maintain a high level of liquid assets to meet its liabilities.

There is no significant difference between the value of the Group and Company'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 only shareholder liability with a contractual maturity greater than 1 year is the lease liability (note 16). The lease liability on an undiscounted basis is £20.4m (2021: £13.0m).

**25.4 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 quoted market prices in active markets.

**Level 3** financial instruments include interests in private company shares, policyholder loans and other investment 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

## 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 25.4 Fair value estimation (continued)

Analysis as at 31 December 2022:

	Total	Level 1	Level 2	Level 3
Consolidated	£m	£m	£m	£m
Financial assets at fair value to cover linked liabilities	28,510.2	25,538.9	757.2	2,214.1
Policyholder loans	165.2	-	165.2	-
Other investments	12.2	0.5	11.5	0.2
Money market funds	202.8	202.8	-	-
	<b>28,890.4</b>	<b>25,742.2</b>	<b>933.9</b>	<b>2,214.3</b>
Assets not at fair value	1,011.9			
<b>Total assets</b>	<b>29,902.3</b>			
Investment contract liabilities	<b>26,978.2</b>			

Analysis as at 31 December 2021:

	Total	Level 1	Level 2	Level 3
Consolidated	£m	£m	£m	£m
Financial assets at fair value to cover linked liabilities	31,862.8	29,178.5	1,143.2	1,541.1
Policyholder loans	171.5	-	171.5	-
Other investments	12.7	0.6	11.9	0.2
Money market funds	169.7	169.7	-	-
	<b>32,216.7</b>	<b>29,348.8</b>	<b>1,326.6</b>	<b>1,541.3</b>
Assets not at fair value	931.6			
<b>Total assets</b>	<b>33,148.3</b>			
Investment contract liabilities *	<b>30,283.4</b>			

Investments are transferred from Level 1 to Level 2 and vice versa when dealing/pricing frequencies change. Transfers into Level 3 occur when an equity or collective investment scheme is suspended or enters liquidation, as notified by its fund administrator or investment manager. Transfers out of Level 3 occur when such suspension is lifted, as notified by the fund administrator or investment manager.

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 level 3 assets shown below are primarily unit linked assets backing policyholder liabilities, and as such there is minimal exposure of the Group to changes in the valuation of these assets.

\* 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**25. FINANCIAL RISK MANAGEMENT (continued)****25.4 Fair value estimation (continued)**

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

	Financial assets held at fair value through profit or loss
Consolidated	£m
Balance at 1 January 2021	28.1
Transfers into Level 3	41.9
Transfers out of Level 3	(40.5)
Total gains or losses:	
Additions on acquisition of subsidiary	1,520.7
- In profit or loss	(5.9)
- In policyholder liabilities	-
Disposals	(3.2)
Foreign exchange movements	-
Balance at 31 December 2021	<b>1,541.3</b>
Transfers into Level 3	792.1
Transfers out of Level 3	(36.9)
Total gains or losses:	-
- In profit or loss	(61.4)
- In policyholder liabilities	-
Disposals	(20.9)
Foreign exchange movements	-
Balance at 31 December 2022	<b>2,214.2</b>

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.

Investment contract liabilities are matched by policyholder financial assets. As a result of this the level 3 analysis will correspond to the values in policyholder financial assets and has therefore not been reiterated.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****25.5 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.

**25.5.1 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 business relies on persistency of policies to generate future revenues. The risk of increased surrenders is partially mitigated on some product lines through the existence of exit charges.

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.

Expense levels are monitored through budgets and forecasts. An activity based costing process is used to allocate costs relating to processes and activities to individual product lines. Some product structures include maintenance charges. These charges are reviewed annually in light of changes in maintenance expense levels. This review may result in changes in charge levels.

Expense risk is made up of two components, maintenance expense risk and expense inflation risk. Maintenance expense risk is the risk of unexpected increases in maintenance expenses. Expense inflation risk is the risk of unexpected increases in expense inflation due to adverse changes in factors relating specifically to the insurance sector in particular.



## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****25.5.1 Objectives and policies for mitigating insurance risk (continued)**

This risk would include the risk that the Group is unable to manage the per policy cost within the planned inflation rates for the remaining life of the policies.

**25.5.2 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.

**25.6 Operational and compliance risk**

Operational risk is the risk that failure of people, processes, systems or external events results in financial loss, damage to the brand/reputation of the Group, adverse regulatory intervention or government or regulatory fine.

Operational risk includes all risks resulting from operational activities, excluding risks already described above and excluding strategic risks and risks resulting from being part of a wider group of companies. Operational risk includes the effects of failure of the administration processes, underwriting process, IT maintenance and development processes, investment processes (including settlements with fund managers, fund pricing and matching and dealing), product development and management processes, legal risks (e.g. inadequate legal contracts with third parties), risks relating to the relationship with third party suppliers and the consequences of financial crime and business interruption events.

Regulatory compliance risk primarily arises from a failure or inability to comply fully with the laws, regulations, standards or codes applicable to the business activities, and territories, of the Group. Any non-compliance may result in the Group being subject to regulatory sanctions, material financial loss or damage reputation. Changes in legislation or regulatory interpretation applying to the life assurance industry may adversely affect the relevant capital requirements and, consequently, reported results and financing requirements.

The Group's management have primary responsibility for the identification, management and monitoring of risks, and escalation and reporting on issues to executive management and group management. Group executive management have responsibility for implementing risk management methodologies and framework as adopted by the Group and the development and implementation of action plans to manage risk levels within acceptable tolerances and resolve issues.

**26. 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 International Isle of Man Limited (formerly Quilter International Isle of Man Limited) is required to maintain a certain margin of solvency by the Isle of Man Financial Services Authority

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**26. CAPITAL MANAGEMENT (CONTINUED)**

(the "FSA"). This requirement also applied to Utmost Limited, until the date of its business transfer on 30 November 2022. 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 2022 Utmost International Isle of Man Limited's Solvency Coverage Ratio was 182% (2021: Utmost Limited 153% and Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited) 193%.)

Utmost Trustee Solutions Limited and Utmost International Trustee Solutions Limited (formerly 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 (2021: £25,000) and the minimum net tangible asset requirement is £25,000 (2021: £25,000). The minimum liquid capital requirement for Utmost Trustee Solutions Limited was £128,960 (2021: £185,759) and for Utmost International Trustee Solutions Limited (formerly Quilter International Trust Company Limited) was £69,106 (2021: £86,831). Both companies have complied with and exceeded these requirements.

Quilter International Middle East Limited was regulated by the Dubai Financial Services Authority (DFSA) and had a requirement to actively monitor its capital adequacy to ensure compliance with the minimum capital resources requirement for a category 4 licenced firm. The DFSA required the company to maintain a minimum capital base as well as liquid assets of US\$ 360,000. The company complied with this requirement until its de-authorisation. Quilter International Middle East Limited was de-authorised and the company liquidated on 10 October 2022.

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 2022, 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 of the Group, 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 17), the long-term loan note (note 18), cash and cash equivalents and deposits with credit institutions.

**27. POLICYHOLDER LOANS**

	2022	2021
Consolidated	£m	£m
Policyholder Loans	165.2	171.5

Policyholder loans are amounts deducted 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 have no specified repayment schedule and can be repaid at any time at the option of the policyholder or offset against the surrender of the policy. 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.

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**28. FINANCIAL ASSETS AT FAIR VALUE HELD TO COVER LINKED LIABILITIES**

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

	2022	2021
<b>Consolidated</b>	<b>£m</b>	<b>£m</b>
Deposits	294.7	996.2
Ordinary shares and funds	12,966.8	14,814.2
Discretionary managed portfolios	12,919.0	14,092.7
Other investments	381.4	343.0
Modified coinsurance account	366.0	409.0
Policyholder cash	1,582.3	1,036.2
	<b>28,510.2</b>	<b>31,691.3</b>

**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 internal funds and private company shares to be unconsolidated structured entities, which are recognised within Financial assets held to cover linked liabilities and Other investments on the Statement of Financial Position.

The Group's maximum exposure to unconsolidated structured entities at 31 December 2022 is £3,779.0m (2021: £3,661.8m).

The Group has not sponsored any structured entities in either 2022 or 2021.

The Company has determined that it does not have control over these investment vehicles to the extent that it would require consolidation as a structured entity.

As at 31 December 2022 and 31 December 2021, all unconsolidated structured entities are policyholder assets that would be offset through liability movements..

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**28. 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.

Similar to the above arrangement, the Company also became party to a modified coinsurance arrangement with AXA Life Singapore Limited (ALS), as a result of the transfer of the life assurance business of 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 the Company retains the mortality risk on the ALS policies. AXA Life Singapore Limited changed its name to AXA Insurance Pte Limited in January 2017.

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

The movement and closing balance on the modified coinsurance account at 31 December comprises:

	<b>2022</b>	<b>2021</b>
<b>Consolidated</b>	<b>£m</b>	<b>£m</b>
Opening balance brought forward	409.0	402.1
Deposits to investment contracts	0.6	4.0
Withdrawals from investment contracts	(17.9)	(118.2)
Attributable investment income	3.2	1.5
Change in investment contract liabilities	(27.1)	121.9
Policy charges	(1.8)	(2.3)
<b>Closing balance carried forward</b>	<b>366.0</b>	<b>409.0</b>

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 29. INVESTMENT CONTRACT LIABILITIES

	2022	2021
<b>Consolidated</b>	<b>£m</b>	<b>£m</b>
Deposits to investment contracts	1,623.6	791.2
Withdrawals from investment contracts	(1,757.2)	(754.3)
Fees and charges deducted including third party charges	(248.4)	(69.5)
Third party compensation applied	-	0.1
Commissions and rebates receivable	0.4	0.5
Change in investment contract liabilities	(2,925.0)	1,232.1
Additions on acquisition of subsidiaries	-	18,750.7
Policyholder mismatch position	1.4	(1.2)
Movement in the year	(3,305.2)	19,949.6
Balance at 1 January	30,283.4	10,333.8
	<b>26,978.2</b>	<b>30,283.4</b>

Any policy can be surrendered at any time and therefore investment contract liabilities may be immediately available for liquidation. In practice, immediate surrender of investment contract liabilities is extremely unlikely, given that these products are long-term investment contracts. Furthermore, the timing of settlement of investment contract liabilities will be informed by the time required to liquidate any assets to which the policies are linked.

For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. The benefits offered under unit-linked investment contracts are based on the risk appetite of the policyholders and the return on their selected investments and collective fund investments, whose underlying investments include equities, debt securities, property and derivatives. The maturity value of these financial liabilities is determined by the fair value of the linked assets at the date of surrender or maturity so there would be no difference between the carrying amount and the amount contractually required to pay on surrender or maturity. The impact of credit risk on fair value is not considered material.

## 30. INSURANCE CONTRACT LIABILITIES

	Gross liabilities	Reinsurers' share	Gross liabilities	Reinsurers' share
	2022	2022	2021	2021
<b>Consolidated</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 January	1,845.4	226.1	218.3	218.3
Additions on acquisition of subsidiaries	-	-	1,627.8	-
Policyholder premiums	83.5	-	14.2	0.2
Policyholder claims	(102.2)	(2.6)	(6.6)	(4.7)
Other changes in liabilities	38.6	(19.4)	(8.3)	12.3
<b>At 31 December</b>	<b>1,865.3</b>	<b>204.1</b>	<b>1,845.4</b>	<b>226.1</b>

The movement in insurance liabilities net of reinsurance is £41.9m (2021: £8.6m).

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**31. CALLED-UP SHARE CAPITAL**

<b>Consolidated and Company</b>	<b>2022</b>	<b>2021</b>
<b>Alotted, issued and fully paid</b>		
Ordinary shares of £1 each		
Number	<u>614,580,002</u>	<u>614,580,002</u>
Value (£m)	<u>614.6</u>	<u>614.6</u>

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

**32. NET CASH FLOWS FROM OPERATING ACTIVITIES****Cash generated from operations:**

<b>Consolidated</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
<b>Profit before taxation</b>	<u><b>(13.2)</b></u>	<u><b>292.9</b></u>
<b>Adjustments for:</b>		
Gain arising on bargain purchase	-	(286.2)
Amortisation of acquired in-force business	108.4	19.3
Amortisation of intangible fixed asset	0.2	0.2
Depreciation of property, plant and equipment	2.7	0.8
Shareholder bank, deposit and loan interest income	(18.6)	(2.5)
Finance cost	0.6	0.1
Change in deferred acquisition costs	(13.6)	(1.8)
Change in deferred front-end fees	6.4	3.3
Change in Policyholder loans	6.3	-
Net disposal/ (acquisition) of financial investments	77.8	(26.0)
Net fair values gains on financial investments	3,103.3	(1,186.5)
Change in investment contract liabilities	(3,305.2)	1,198.9
Change in insurance contract liabilities	19.9	(8.6)
Change in reinsurers share of contract liabilities	22.0	-
Change in operating receivables	(2.1)	29.4
Change in deposits	7.0	(3.5)
Change in operating payables	123.8	(35.2)
Change in long-term loans	(0.1)	-
Change in provisions	0.4	0.5
Adjustments for other non-cash items in P&L	2.2	-
<b>Net cash flows from operating activities</b>	<u><b>128.2</b></u>	<u><b>(4.9)</b></u>

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 32. NET CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

Company	2022	2021
	£m	Restated* £m
Profit/ (loss) before taxation	72.1	(1.1)
Dividend received	(75.0)	(438.9)
Impairment loss on investment in subsidiaries	2.9	440.0
Change in operating payables	44.5	0.5
<b>Net cash flows from operating activities</b>	<b>44.5</b>	<b>0.5</b>

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

Total dividends received in 2021 of £438.9m were made-up of £418.9m that was received in specie and was used to reduce a balance payable to QIHL and £20.0m that was received in cash.

## 33. IMMEDIATE PARENT, ULTIMATE CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS

**Immediate parent and ultimate controlling party**

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](http://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 2022, 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 £0.9m (2021: £0.5m), Non-Executive Directors' fees of £0.3m (2021: £0.1m) and post-employment benefits of £0.1m (2021: £0.1m).

## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**33. IMMEDIATE PARENT, ULTIMATE CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)****Related parties (continued)**Transactions and balances with related parties (note 22)

<b>Consolidated</b>	<b>Amounts owed from/(to) related parties</b>		<b>Revenue/(expenses) with related parties</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Fellow subsidiaries of Utmost Group plc	3.3 (6.0)	23.5 (3.4)	11.3 -	6.8 (0.1)
Direct parent, Utmost International Group Holdings Limited	(0.2)	(0.1)	(0.3)	(0.1)
<b>Company</b>				
Fellow subsidiaries of Utmost Group plc	(61.2)	(16.7)		

Included within the amount receivable from fellow subsidiaries of Utmost Group plc at the 2021 year end was an amount of financial reinsurance due Athlumney Kappa (Ireland) dac (formerly Quilter International Ireland dac). The interest under the agreement was charged at a commercial rate that had been agreed on an arm's length basis. The arrangement was brought to an end with the settlement of the outstanding balance of £17.0m during November 2022. The outstanding balance as at 31 December 2021 was £18.9m and had a fair value of £19.1m

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 10). The balance is interest free and there is no set repayment date.

Unit-linked liabilities also include £6.2m (2021: £7.0m) due to Utmost PanEurope dac ("UPE") as a reinsurance policyholder, relating to life assurance business of Quilter International Ireland dac ("QIID") that was transferred to UPE on 30 September 2022, pursuant to an Insurance Portfolio Transfer that was approved by the Irish Courts. UPE reinsures 100% of the assets for a specified group of legacy products into the Company, therefore the assets are held in the statement of financial position of the Company, with a corresponding liability due to UPE under the reinsurance agreement.



## NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

**34. DIRECTORS' AND SECRETARIES INTERESTS**

As at 31 December 2022 and 31 December 2021 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:

<b>31 December 2022</b>	<b>AP Thompson</b>	<b>IG Maidens</b>
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	20,595,324	20,595,324
<b>31 December 2021</b>		
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

**35. CONTINGENT LIABILITY**

Utmost International Isle of Man Limited is a member of the Isle of Man Policyholders' Compensation Scheme governed by the Life Assurance (Compensation of Policyholders) Regulations 1991. The objective of the Scheme is to provide a compensation scheme for policyholders should an authorised insurer be unable to satisfy its liabilities. In the event of a levy being charged on Scheme members the 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.

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 23.

**36. POST BALANCE SHEET EVENTS**

On the 31 January 2023, Utmost International Isle of Man Limited (formerly Quilter International Isle of Man Limited, a member of the Group, indirectly purchased the freehold title in King Edward Bay House (see note 16), through the acquisition of Douglas Bay Property Company Limited.

On 7 February 2023, a dividend of £38.0m was paid.