UTMOST HOLDINGS ISLE OF MAN LIMITED

Annual Report and Consolidated Financial Statements
For the year ended 31 December 2023

CONTENTS **Page**

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2023. 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 profit/loss for the year, after taxation, amounted to £22.5m (2022 restated: loss £13.7m) which has been transferred to retained earnings. During the year dividends of £102.0m (2022: £80.0m) were paid.

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

Non-executive Directors

A Alexander
N A Duggan (Chairman. Resigned 31 March 2023)
P J D Quirk (Chairman. Appointed 31 March 2023)
A V Lodge
I G Maidens
A P Thompson

COMPANY SECRETARY

N S Aitken

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

12 March 2024
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 IFRS Accounting Standards 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 accounting estimates that are reasonable and prudent;
- stating whether applicable IFRS Accounting Standards 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

12 March 2024

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 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting 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 2023;
- 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, comprising material accounting policy information 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 Independence 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 IFRS Accounting 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 22 September 2023 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
12 March 2024

CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Consolidated 2023 £m	Company 2023 £m	Consolidated Restated* 2022 £m	Company 2022 £m
Insurance revenue	4	2.9	-	2.7	-
Insurance service expenses	4	(0.5)	-	(1.1)	-
Net expenses from reinsurance contracts held	4	(0.2)	-	(0.1)	-
Insurance service result		**2.2**	-	**1.5**	-
Fees and charges receivable	6	**178.1**	-	**192.9**	-
Investment return on policyholder investments	8	1,978.1	-	(2,853.8)	-
Finance (expenses)/income from insurance contracts issued	5	(126.1)	-	18.8	-
Finance income/(expenses) from reinsurance contracts held	5	12.9	-	(20.6)	-
Movement in investment contract liabilities	28	(1,866.4)	-	2,863.6	-
Net financial result	5	**(1.5)**	-	**8.0**	-
Other income	7	44.4	75.9	7.3	75.0
Other operating expenses	9	(111.6)	-	(116.3)	-
Amortisation of acquired value of in-force business and reversal of impairment	11	(90.3)	-	(103.7)	-
Impairment loss on investment in subsidiaries	3	-	-	-	(2.9)
Finance costs	15	(0.4)	-	(0.6)	-
Profit/(loss) for the year before tax		**20.9**	**75.9**	**(10.9)**	**72.1**
Tax credit/(charge)	10	1.6	-	(2.8)	-
Profit/(loss) for the year after tax		**22.5**	**75.9**	**(13.7)**	**72.1**
Other comprehensive income – items that may be reclassified subsequently to profit and loss					
Foreign currency translation movements in the year		(0.3)	-	0.3	-
Other comprehensive income – items that will not be reclassified subsequently to profit and loss					
Revaluation of owner occupied land and buildings		0.3	-	-	-
Total comprehensive income/(loss) for the year		**22.5**	**75.9**	**(13.4)**	**72.1**

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 11 to 86 form an integral part of these financial statements.

* See note 1.25 for details of the restatement of comparative information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	Share Capital	Retained Earnings	Other Reserves	Total
	£m	£m	£m	£m
Balance at 31 December 2021 (as originally stated)	614.6	272.6	-	887.2
Impact of the initial application of IFRS 17	-	1.7	-	1.7
Balance at 1 January 2022 (restated)**	**614.6**	**274.3**	**-**	**888.9**
Loss for the year	-	(13.7)	-	(13.7)
Other comprehensive income:				
Foreign currency translation movements in the year	-	-	0.3	0.3
Transactions with owners in their capacity as owners:				
Dividends paid *	-	(80.0)	-	(80.0)
Balance at 31 December 2022 (restated)**	**614.6**	**180.6**	**0.3**	**795.5**
Balance at 31 December 2022 (as originally stated)	614.6	176.6	0.3	791.5
Impact of the initial application of IFRS 17	-	4.0	-	4.0
Balance at 1 January 2023 (restated)**	614.6	180.6	0.3	795.5
Profit for the year	-	22.5	-	22.5
Other comprehensive income:				
Foreign currency translation movements in the year	-	-	(0.3)	(0.3)
Revaluation of owner occupied land and buildings	-	-	0.3	0.3
Transactions with owners in their capacity as owners:				
Dividends paid *	-	(102.0)	-	(102.0)
Balance at 31 December 2023	**614.6**	**101.1**	**0.3**	**716.0**

* The dividend per share paid by the Group and Company during the financial year was 16.6 pence (2022: 13.0 pence).

** See note 1.25 for details of the restatement of comparative information.

The notes on pages 11 to 86 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

Company	Share Capital	Retained Earnings	Translation Reserve	Total
	£m	£m	£m	£m
Balance at 1 January 2022	**614.6**	**(25.2)**	**-**	**589.4**
Profit and total comprehensive income for the year	-	72.1	-	72.1
Transactions with owners in their capacity as owners:				
Dividends paid *	-	(80.0)	-	(80.0)
Balance at 31 December 2022	**614.6**	**(33.1)**	-	**581.5**
Balance at 1 January 2023	614.6	(33.1)	-	581.5
Profit and total comprehensive income for the year	-	75.9	-	75.9
Transactions with owners in their capacity as owners:				
Dividends paid *	-	(102.0)	-	(102.0)
Balance at 31 December 2023	**614.6**	**(59.2)**	**-**	**555.4**

* The dividend per share paid by the Group and Company during the financial year was 16.6 pence (2022: 13.0 pence).

The notes on pages 11 to 86 form an integral part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Notes	Consolidated	Company	Consolidated Restated*	Company	Consolidated Restated*
		31 December 2023	31 December 2023	31 December 2022	31 December 2022	1 January 2022
		£m	£m	£m	£m	£m
Acquired value of in-force business	11	478.1	-	568.4	-	672.1
Deferred acquisition costs	13	29.4	-	19.1	-	5.5
Other intangible assets	12	0.2	-	0.4	-	0.6
Investments in subsidiaries	3	-	602.4	-	603.9	-
Property, plant and equipment	14	12.3	-	16.3	-	12.4
Investment property	14	5.7	-	-	-	-
Reinsurance contract assets	30	206.6	-	203.9	-	227.2
Policyholder loans	26	150.9	-	165.2	-	171.5
Financial assets at fair value held to cover linked liabilities	27	29,339.0	-	28,510.2	-	31,691.3
Other investments	16	13.9	-	12.2	-	12.7
Long-term loans	17	20.0	-	20.9	-	20.8
Other receivables	18	64.2	1.7	56.4	-	54.3
Deposits		0.4	-	32.1	-	39.1
Cash and cash equivalents	19	291.8	1.2	273.3	38.8	213.5
TOTAL ASSETS		**30,612.5**	**605.3**	**29,878.4**	**642.7**	**33,121.0**
Investment contract liabilities	28	27,761.8	-	27,055.5	-	30,289.3
Insurance contract liabilities	29	1,942.8	-	1,759.1	-	1,809.4
Reinsurance contract liabilities	30	1.1	-	1.0	-	1.1
Deferred tax liabilities	23	4.4	-	4.9	-	5.5
Deferred front-end fees	20	22.6	-	17.2	-	10.8
Other payables	21	158.7	49.9	242.0	61.2	113.2
Provisions	22	5.1	-	3.2	-	2.8
TOTAL LIABILITIES		**29,896.5**	**49.9**	**29,082.9**	**61.2**	**32,232.1**
Called-up share capital	31	614.6	614.6	614.6	614.6	614.6
Retained earnings		101.1	(59.2)	180.6	(33.1)	274.3
Other reserves		0.3	-	0.3	-	-
TOTAL EQUITY		**716.0**	**555.4**	**795.5**	**581.5**	**888.9**
TOTAL EQUITY AND LIABILITIES		**30,612.5**	**605.3**	**29,878.4**	**642.7**	**33,121.0**

* See note 1.25 for details of the restatement of comparative information.

These financial statements on pages 6 to 86 were approved and authorised for issue by the Board of Directors on 12 March 2024 and were signed on its behalf by:

Director Joby Hemmings

Director

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Consolidated 2023 £m	Company 2023 £m	Consolidated Restated* 2022 £m	Company 2022 £m
Net cash flows from operating activities	32	**136.9**	**(1.1)**	**146.8**	**44.5**
Tax credit/(charge)		1.6	-	(3.4)	-
		138.5	**(1.1)**	**143.4**	**44.5**
Cash flows from investing activities					
Investment in subsidiaries (net of £0.2m cash acquired)		(16.5)	-	-	(1.7)
Proceeds from disposal of subsidiary		-	1.5	-	-
Acquisition of property, plant and equipment		(1.6)	-	(1.6)	-
Dividends received		-	64.0	-	75.0
Net cash flows from investing activities		**(18.1)**	**65.5**	**(1.6)**	**73.3**
Cash flows from financing activities					
Payment of lease liabilities		-	-	(1.2)	-
Dividends paid		(102.0)	(102.0)	(80.0)	(80.0)
Interest paid on lease liabilities		(0.4)	-	(0.6)	-
Net cash flows from financing activities		**(102.4)**	**(102.0)**	**(81.8)**	**(80.0)**
Net movement in cash and cash equivalents		**18.0**	**(37.6)**	**60.0**	**37.8**
Cash and cash equivalents at the beginning of the financial year		**273.3**	**38.8**	**213.5**	**1.0**
Net foreign exchange gains on cash and cash equivalents		0.5	-	(0.2)	-
Cash and cash equivalents at the end of the financial year		**291.8**	**1.2**	**273.3**	**38.8**

* See note 32 for details of the restatement of comparative information.

The notes on pages 11 to 86 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

General Information

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

Utmost Holdings Isle of Man Limited is a limited company incorporated under the Companies Act 2006 and domiciled in the Isle of Man. The address of its registered office is 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 IFRS Accounting Standards as adopted by the European Union as applicable at 31 December 2023.

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 material accounting policies that the Group and Company applied in preparing its financial statements for the financial year ended 31 December 2023 are set out below.

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.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

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 "Investment return on policyholder 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.

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.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Financial assets and financial liabilities (continued)

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

The Group's 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 "Investment return on policyholder investments" in the Statement of Comprehensive Income. Certain other payables and receivables (note 1.3.6) also form part of 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 a 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 the Statement of Financial Position date using the latest valuation from the discretionary fund manager which is available to the Group on that date. Due to the unit- linked nature of the portfolios any adjustment to the relevant financial investments values would be offset by a matching adjustment in the financial liabilities under investment contracts balance.

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 1.6.

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 1.5 below.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Financial assets and financial liabilities (continued)

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

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.

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 the 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.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

1.5 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 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.

1.6 Investment return

All gains and losses arising from changes in the fair value of policyholder financial investments, realised or unrealised, are recognised within "Investment return on policyholder 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 are due or payable simultaneously with the underlying contracts reassured which are recognised at the same point as for the Group's contract.

1.7 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.

1. ACCOUNTING POLICIES (CONTINUED)

1.7 Product classification (continued)

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

1.8 Financial liabilities under investment contracts

Contracts issued by the Group which are unit-linked and do not contain any significant insurance risk are all classified as investment contracts. Investment contracts consist of unit linked contracts written by the Group. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset value of the underlying assets at the Statement of Financial Position date, and included within "Investment contract liabilities" in the Consolidated Statement of Financial Position. The decision by the Group to designate its unit-linked liabilities at fair value through profit or loss reflects the fact that the liabilities are calculated with reference to the value of the underlying assets.

Liabilities under unit linked contracts are recognised as and when units are created and are dependent on the value of the underlying financial assets. On existing business, a liability is recognised at the point the premium falls due.

Investment contract premiums are not included in the Statement of Comprehensive Income but are recognised as deposits to investment contracts and are included in financial liabilities in the Statement of Financial Position. Withdrawals from investment contracts and other benefits paid are not included in the Statement of Comprehensive Income but are deducted from financial liabilities under investment contracts in the Statement of Financial Position. Benefits are deducted from financial liabilities and transferred to amounts due to investment contract holders based on notifications received, when the benefit falls due for payment or, on the earlier of the date when paid or when the contract ceases to be included within those liabilities.

The Group earns revenue on investment management services provided to holders of investment contracts, as detailed in note 1.13. Revenue is recognised as the services are performed.

1.9 Liabilities under insurance contracts

1.9.1 Scope

When identifying contracts in the scope of IFRS 17 the Group has 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.

Contracts that have a legal form of insurance but do not transfer significant insurance risk and expose the Group to financial risk are classified as investment contracts and follow financial instruments accounting under IFRS 9. Some investment contracts without discretionary participation features issued by the Group fall under this category.

All references to insurance contracts in these consolidated financial statements apply to insurance contracts issued or acquired and reinsurance contracts held, unless specifically stated otherwise.

1. ACCOUNTING POLICIES (CONTINUED)

1.9 Liabilities under insurance contracts (continued)

1.9.2 Measurement models

The Group issues unit linked insurance contracts that are substantially investment-related service contracts where the return on the underlying items is shared with policyholders. Underlying items comprise specified portfolios of investment assets that determine amounts payable to policyholders. The Group's policy is to hold such investment assets.

The Group's unit linked insurance contracts are insurance contracts with direct participation features, which are defined by the Group as insurance contracts which, at inception, meet the following criteria:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

These criteria are assessed at the individual contract level based on the Group's expectations at the contract's inception, and they are not reassessed in subsequent periods, unless the contract is modified. The variability in the cash flows is assessed over the expected duration of a contract. The duration of a contract takes into account all cash flows within the contract boundary (see note 1.9.4).

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 ("FCF")
- Risk adjustment ("RA")
- Contractual service margin ("CSM")

The Group's reinsurance contracts are accounted for using the GMM.

The Group's unit linked insurance contracts with direct participation features 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 the Group's insurance contracts with direct participation features 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.

1.9.3 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, currency and reinsurance arrangements 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.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.4 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 and reinsurance 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.

1.9.5 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.

1.9.6 Recognition and derecognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period; or
- the date when the first payment from the policyholder is due or actually received, if there is no due date; or
- where a group of contracts is onerous, from when the group becomes onerous.

A group of reinsurance contracts held that covers the losses of separate insurance contracts on a proportionate basis (proportionate or quota share reinsurance) is recognised at the later of:

- the beginning of the coverage period of the group; or
- the initial recognition of any underlying insurance contract.

Only contracts that meet the recognition criteria by the end of the reporting period are included in the groups of insurance contracts and measured under IFRS 17. The start and end periods of each insurance group are selected to coincide with the Group's reporting periods. Composition of the insurance groups is not reassessed in subsequent periods.

1.9.7 Accounting for contract modification and derecognition

An insurance contract is derecognised when it is:

- extinguished (when the obligation specified in the insurance contract expires or is discharged or cancelled); or
- the contract is modified and certain additional criteria are met.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.7 Accounting for contract modification and derecognition (continued)

When an insurance contract is modified by the Group as a result of an agreement with the counterparty or due to a change in regulations, the Group treats changes in cash flows caused by the modification as changes in estimates of the FCF, unless the conditions for the derecognition of the original contract, as set out in the IFRS17 standard, are met. The Group derecognises the original contract and recognises the modified contract as a new contract if the modified terms had been included at contract inception and the Group would have concluded that the modified contract:

- (i) is not in scope of IFRS 17; or
- (ii) results in different separable components; or
- (iii) results in a different contract boundary; or
- (iv) belongs to a different group of contracts;

When an insurance contract is derecognised from within a group of insurance contracts, the Group adjusts the FCF to eliminate the present value of future cash flows and risk adjustment for non-financial risk relating to the rights and obligations removed from the group and adjusts the CSM (unless the decrease in the FCF is allocated to the loss component of the Liability for Remaining Coverage ("LRC ") of the group), depending on the reason for the derecognition.

1.9.8 Measurement

Fulfilment cash flows

The FCF are an explicit, unbiased and probability-weighted estimate (i.e. 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.

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 relevant 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.

The assumptions used to calculate the FCF on reinsurance contract assets are generally consistent with those used to calculate the FCF of the Insurance Contracts underlying the Reinsurance Contracts Held. Differences in assumptions relate to items that differ between the underlying Insurance Contracts and reinsurance contract assets, for example reinsurer default risk, reinsurance servicing expenses and liquidity risk. The reinsurance contract assets are modified for the risk of non-performance by the reinsurer. The impact is applied by adjusting the FCF discount rates.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.8 Measurement (continued)

Fulfilment cash flows

An investment component is the amount that an insurance contract requires the Group to repay to a policyholder even if an insured event does not occur. The Group has not separated any investment components from insurance contracts as the investment components are not considered to be distinct from the underlying contracts. Non-distinct investment components include the unit fund on unit-linked products and with-profit funds for with-profit products. Movements in investment components are not included in insurance revenue and insurance service expenses.

Risk Adjustment

An explicit risk adjustment for non-financial risk is estimated separately from the other estimates and is included in fulfilment cashflows. The risk adjustment is determined as the difference between the fulfilment cashflows under a single, insurance portfolio specific, stress scenario and the base scenario. The risk adjustment is calculated without consideration for any reinsurance in place and represents the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the Group fulfils insurance contracts.

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. Risk of the Group's non-performance is not included in the measurement of groups of insurance contracts issued.

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 insurance 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;

(b) cash flows arising from the contracts in the group at that date; and

(c) the derecognition 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.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.8 Measurement (continued)

Contractual service margin (continued)

For a group of insurance contracts issued where the CSM would be negative, this means the group of insurance contracts issued is onerous and groups of onerous contracts are recognised when the group becomes 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 profit or loss. 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 and are allocated to different groups depending upon this assessment. 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 £nil the contract is classified as onerous. All other contracts are classified as having the potential to become onerous.

1.9.9 Subsequent measurement

The carrying amount at the end of each reporting period of a group of insurance contracts issued is the sum of:

(a) the LRC, comprising:

- (i) the FCF related to future service allocated to the group at that date; and
- (ii) the CSM of the group at that date; and

(b) the liability for incurred claims ("LIC"), comprising the FCF related to past service allocated to the group at the reporting date.

The carrying amount at the end of each reporting period of a group of reinsurance contracts held is the sum of:

(a) the remaining coverage, comprising:

- (i) the FCF related to future service allocated to the group at that date; and
- (ii) the CSM of the group at that date; and

(b) the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.10 Changes in fulfilment cash flows

The FCF are updated by the Group for current assumptions at the end of every reporting period, using the current estimates of the amount, timing and uncertainty of future cash flows and of discount rates.

The way in which the changes in estimates of the FCF are treated depends on which estimate is being updated:

(a) changes that relate to current or past service are recognised in profit or loss; and

(b) changes that relate to future service are recognised by adjusting the CSM or the loss component within the LRC as per the policy below.

For insurance contracts under the GMM, the following adjustments relate to future service and thus adjust the CSM:

(a) experience adjustments arising from premiums received in the period that relate to future service and related cash flows such as insurance acquisition cash flows and premium-based taxes;

(b) changes in estimates of the present value of future cash flows in the LRC, except those described in the following paragraph;

(c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period; and

(d) changes in the risk adjustment for non-financial risk that relate to future service.

Adjustments a, b and d are measured using the locked-in discount rates as described in the section on interest accretion on the CSM below.

For insurance contracts under the GMM, the following adjustments do not relate to future service and thus do not adjust the CSM:

(a) changes in the FCF for the effect of the time value of money and the effect of financial risk and changes thereon;

(b) changes in the FCF relating to the LIC; and

(c) experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows).

For insurance contracts measured under the VFA, where the value of the variable fee is material (see simplifications and judgements below), the following adjustments relate to future service and thus adjust the CSM:

(a) changes in the Group's share of the fair value of the underlying items; and

(b) changes in the FCF that do not vary based on the returns of underlying items:

   (i) changes in the effect of the time value of money and financial risks including the effect of financial guarantees;
   (ii) experience adjustments arising from premiums received in the period that relate to future service and related cash flows such as insurance acquisition cash flows and premium-based taxes;
   (iii) changes in estimates of the present value of future cash flows in the LRC, except those described in the following paragraph;
   (iv) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period; and
   (v) changes in the risk adjustment for non-financial risk that relate to future service.

Adjustments ii-v are measured using the current discount rates.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.10 Changes in fulfilment cash flows (continued)

For insurance contracts measured under the VFA, the following adjustments do not relate to future service and thus do not adjust the CSM:

(a) changes in the obligation to pay the policyholder the amount equal to the fair value of the underlying items;

(b) changes in the FCF that do not vary based on the returns of underlying items:

  (i) changes in the FCF relating to the LIC; and
  (ii) experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows.

1.9.11 Changes to the contractual service margin

For insurance contracts issued, at the end of each annual 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, the excess is recognised in insurance service expenses and a loss component is recognised within the LRC. When the CSM is zero, 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 reinstates the 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 in the same manner as a group of underlying insurance contracts issued, except that when 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.

1.9.12 Interest accretion on the CSM

Under the GMM, interest is accreted on the CSM using discount rates determined at initial recognition that are applied to nominal cash flows that do not vary based on the returns of underlying items (locked-in discount rates).

1.9.13 Adjusting the CSM for changes on the FCF relating to future service

The CSM is adjusted for changes in the FCF measured applying the discount rates as specified above in the Changes in fulfilment cash flows section.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.14 Release of CSM to profit or loss

The amount of the CSM recognised in profit or loss 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) Coverage units in the period, divided by

(b) The sum of:

- (i) Coverage units in the period, 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.

1.9.15 Onerous contracts – loss components

When adjustments to the CSM exceed the amount of the CSM, the group of contracts becomes onerous and the Group recognises the excess in insurance service expenses and records it as a loss component of the LRC.

When a loss component exists, the Group allocates the following between the loss component and the remaining component of the LRC for the respective group of contracts, based on amortising the loss component in line with the amortisation of the CSM (i.e. based on coverage units remaining).

The Group allocates the amortisation of the loss component to insurance revenue with an equivalent offset in insurance service expenses

Decreases in the FCF in subsequent periods reduce the remaining loss component and reinstate the CSM after the loss component is reduced to zero. Increases in the FCF in subsequent periods increase the loss component.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.16 Amounts recognised in comprehensive income

Insurance revenue

As the Group provides services under the group of insurance contracts, it reduces the LRC 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.

Insurance revenue comprises the following:

Amounts relating to the changes in the LRC:

(a) insurance claims and expenses incurred in the period measured at the amounts expected at the beginning of the period, excluding:

  (i) amounts related to the loss component;
  (ii) repayments of investment components; and
  (iii) amounts of transaction-based taxes collected in a fiduciary capacity.

(b) changes in the risk adjustment for non-financial risk, excluding:

  (i) changes included in insurance finance income or expenses;
  (ii) changes that relate to future coverage (which adjust the CSM); and
  (iii) amounts allocated to the loss component; and

(c) amounts of the CSM recognised in profit or loss for the services provided in the period.

Insurance acquisition cash flows recovery is determined by allocating the portion of premiums related to the recovery of those cash flows on the basis of the passage of time over the expected coverage of a group of contracts.

Insurance service expenses

Insurance service expenses include the following:

(a) incurred claims excluding investment components;

(b) other incurred directly attributable insurance service expenses;

(c) changes that relate to past service (i.e. changes in the FCF relating to the LIC); and

(d) changes that relate to future service (i.e. losses/reversals on onerous groups of contracts from changes in the loss components).

Amortisation of insurance acquisition cash flows is reflected in insurance service expenses in the same amount as insurance acquisition cash flows recovery reflected within insurance revenue, as described above.

Expenses that do not relate to contracts in the scope of IFRS 17 are presented in other financial statement line items under the relevant accounting standard.

1. ACCOUNTING POLICIES (CONTINUED)

1.9.16 Amounts recognised in comprehensive income (continued)

Insurance service result from reinsurance contracts held

The Group presents the financial performance of groups of reinsurance contracts held on a net basis in net income (expenses) from reinsurance contracts held, comprising the following amounts:

(a) reinsurance expenses;

(b) incurred claims recovery;

(c) other incurred directly attributable insurance service expenses;

(d) effect of changes in risk of reinsurer non-performance;

(e) changes that relate to future service (i.e. changes in the FCF that do not adjust the CSM for the group of underlying insurance contracts); and

(f) changes relating to past service (i.e. adjustments to incurred claims).

Reinsurance expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received services at an amount that reflects the portion of ceding premiums the Group expects to pay in exchange for those services.

Reinsurance expenses comprise the following amounts relating to changes in the remaining coverage:

(a) insurance claims and other expenses recovery in the period measured at the amounts expected to be incurred at the beginning of the period, excluding repayments of investment components;

(b) changes in the risk adjustment for non-financial risk, excluding:

  (i) changes included in finance income (expenses) from reinsurance contracts held; and

  (ii) changes that relate to future coverage (which adjust the CSM); and

(c) amounts of the CSM recognised in profit or loss for the services received in the period.

Ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of reinsurance expenses.

Insurance finance income or expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

(a) the effect of the time value of money and changes in the time value of money; and

(b) the effect of financial risk and changes in financial risk.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

1.9.16 Amounts recognised in comprehensive income (continued)

Insurance finance income or expenses (continued)

For contracts measured under the GMM, the main amounts within insurance finance income or expenses are:

(a) interest accreted on the FCF and the CSM;

(b) the effect of changes in interest rates and other financial assumptions; and

(c) foreign exchange differences arising from contracts denominated in a foreign currency.

For contracts measured under the VFA, the main amounts within insurance finance income or expenses are :

(a) changes in the fair value of underlying items, excluding the shareholders' share of underlying items; and

(b) foreign exchange differences arising from contracts denominated in a foreign currency.

For the contracts measured under the GMM and the VFA, the Group includes all insurance finance income or expenses for the period in profit or loss.

1.9.17 Transition

The transition balance sheet has been 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.

Under the Fair Value Approach, the CSM or loss component at the transition date was calculated as the difference between the fair value of a group of contracts at that date and the FCF at that date. The Group measured the fair value of a group of contracts as the Solvency II best estimate liability of cashflows within the IFRS 17 Contract Boundary, calibrated using a market value adjustment to give a fair value calculated as 90% of:

(i) Solvency II best estimate liability of cashflows within the IFRS 17 Contract Boundary; plus

(ii) a 50% share of the insurance company's Solvency II Risk Margin. The Solvency II Risk Margin is allocated to groups of insurance contracts (the level of aggregation of contracts at which CSMs are determined) based on the relative contribution of those cohorts to the aggregated results.

In applying IFRS 17 the Group has used both the GMM and the VFA. The VFA is used for the Group's insurance contracts with direct participation features (excluding reinsurance contracts).

1. ACCOUNTING POLICIES (CONTINUED)

1.10 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.

1.11 Property, plant and equipment and investment property

Land and buildings are recognised at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for owner-occupied buildings. Any revaluation surplus on owner-occupied land and buildings is credited to "Other reserves" in equity.

All other categories of 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%
Owner-occupied buildings	1% - 5%

The right-of-use assets over the leasehold properties are 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 "Other operating expenses" in the Statement of Comprehensive Income.

The non-owner occupied proportion of the property is classified as investment property and carried at fair value. Changes in fair values are presented in profit or loss as part of "Other income".

1.12 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)

1.12 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.

1.13 Fees and charges and deferred front-end fees

Fees are charged to the contract holders of investment contracts for contract administration services, investment management services, payment of benefits and other services related to the administration of 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 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.

1.14 Renewal commission and advisor fees

Renewal commission charges are charged to the contract holders of investment contracts for services related to administration and investment services. These fees form part of the ongoing fees paid to intermediaries and advisors. The fees charged to the investment contracts and the fees payable to the intermediaries are recognised as revenue and expenses respectively as the services are provided and the fees fall due for payment.

Advisor and investment advisor charges are charged to holders of investment 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.

1.15 Fees for trust services

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

1. ACCOUNTING POLICIES (CONTINUED)

1.15 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.

1.16 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 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 "Other operating expenses" line.

Formal reviews to assess the recoverability of deferred acquisition costs on investment 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.

1.17 Commissions receivable

Commissions receivable arising from investments, 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.

1.18 Expenses

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

1. ACCOUNTING POLICIES (CONTINUED)

1.19 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 "Investment return on policyholder investments" in the Statement of Comprehensive Income.

1.20 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 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 ('AVIF') 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.

1.21 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)

1.21 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.

1.22 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.

1.23 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.

Lease income from operating leases where the Group is a lessor is recognised within 'Other income' in the Statement of Comprehensive Income on a straight-line basis over the lease term.

1.24 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)

1.25 Changes in accounting policy and disclosure

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 has been applied retrospectively, subject to the transitional options provided for in the standard. The Group's accounting policies in respect of IFRS 17 are set out in note 1.9.

On adoption of IFRS 17 the Group has restated the comparative information as presented in these financial statements. The Group has recognised insurance contract liabilities, reinsurance contract assets and reinsurance contract liabilities measured in accordance with the accounting policies set out in note 1.9, replacing the previously recognised insurance contract liabilities (£1,845.4m at the beginning of the prior year and £1,865.3m at the end of the prior year) and reinsurer's share of insurance contract liabilities (£226.1m at the beginning of the prior year and £204.1m at the end of the prior year) that were measured in accordance with the Group's accounting policies under IFRS 4. Under the requirements of IFRS 4 the Group had also previously recognised for insurance contracts an asset for the Acquired Value of In-Force policies ("AVIF"), 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 (£28.0m at the beginning of the prior year and £23.7m at the end of the prior year) 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 led to a corresponding change in shareholders' equity. The AVIF for investment contracts continues to be recognised.

The Group has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item. The net effects of adopting IFRS 17 on the financial statements at 1 January 2022 are presented in the consolidated statement of changes in equity.

In addition, as part of the IFRS 17 transition process, the Group identified a number of historic errors in the classification of insurance contracts and investment contracts. This resulted in a net reclassification of £5.9m from 'Insurance contract liabilities' to 'Investment contract liabilities' at the beginning of the prior year and £77.3m from 'Insurance contract liabilities' to 'Investment contract liabilities' at the end of the prior year. A corresponding adjustment has been made to decrease the comparative figure for 'Movement in investment contract liabilities' by £61.4m, along with minor adjustments to 'Fees and charges receivable on investment business' and 'Other operating expenses'. In addition, reclassifications have been made between 'Investment return on policyholder investments' and 'Other income' representing return on shareholder investments, including foreign exchange gains/(losses) of £11.3m. The net impact of these reclassifications had no material impact on prior year profit or equity at the start or end of the prior year.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS Accounting Standards as adopted by the European Union 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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.1 Critical accounting judgements (continued)

IFRS 17 fair value on transition

As explained in note 1.9.17, the transition balance sheet has been 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.

The Group measured the fair value of a group of contracts as set out in note 1.9.17. The determination of the fair value on transition is a judgmental area and unobservable inputs have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the groups of insurance contracts at the transition date. Unobservable inputs reflect the assumptions that management consider market participants would use in pricing the group of insurance contracts.

As detailed in note 1.9.17 the fair value on transition was calculated using a valuation multiple of 90%. The impact to the fair value on transition of a 10% change in this multiple is approximately £3.0m.

IFRS 17 measurement model

As set out in note 1.9.2, the Group's unit linked insurance contracts are insurance contracts with direct participation features, which are defined by the Group as insurance contracts which, at inception, meet the following criteria:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

The Group's unit linked 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 VFA is used for the Group's insurance contracts with direct participation features (excluding reinsurance contracts).

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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Critical accounting estimates

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 and persistency 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 initial commission payable and an element of sales incentives on new investment contract policies and 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 investment 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.

Valuation of insurance contract liabilities

The FCF of insurance contracts are an explicit, unbiased and probability-weighted estimate (i.e. 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 most significant estimates used to calculate the FCF are persistency rates. Further detail is set out in note 24.5.

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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

2.2 Critical accounting estimates (continued)

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.

Valuation of properties

On 31 January 2023, the Group acquired the freehold title to King Edward Bay House, comprising £5.4m of investment property and £11.1m of owner-occupied land and buildings. This property was revalued at £16.5m by an independent valuer with an effective date of 31 December 2023. See note 14 for the fair value gains and carrying amounts.

3. SUBSIDIARIES

Company	**2023**	**2022**
	£m	**£m**
Balance at 1 January	603.9	605.1
Additions	-	1.7
Disposals on liquidation (see below)	(1.5)	-
Impairment loss (see below)	-	(2.9)
Balance at 31 December	**602.4**	**603.9**

During the course of 2023 Quilter International Middle East Limited and Utmost Partnership Limited were liquidated.

In 2022 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.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

3. SUBSIDIARIES (CONTINUED)

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	Applied to be de-authorised in the Isle of Man and United Kingdom 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	Dissolved on 18 December 2023
Utmost International Holdings Limited **	Isle of Man	Holding company
Utmost International Isle of Man Limited **	Isle of Man+	Writing long-term assurance business
Utmost International Business Service Limited **	Isle of Man	Third-party administration services
Utmost International Trustee Solutions Limited **	Isle of Man	Provision of trustee services
Douglas Bay Property Limited***	Isle of Man	Property holding
Quilter International Middle East Limited **	Dubai	Placed into liquidation on 27 September 2022, de-authorised on 10 October 2022 and subsequently dissolved on 20 October 2023. The business of QIME has been transferred to a fellow subsidiary of Utmost Group plc ++
AAM Advisory Pte Limited **	Singapore	The Monetary Authority of Singapore (MAS) approved AAM's Financial Advisory licence cancellation effective 27 September 2023 and AAM is expected to be placed into liquidation during 2024 ++

* 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.

*** Date of acquisition: 31 January 2023. Registered office address: King Edward Bay House, King Edward Road, Onchan, Isle of Man, IM99 1NU. The Company holds this subsidiary indirectly via Utmost International Isle of Man Limited. The assets and liabilities recognised as a result of this acquisition were property of £16.5m and cash and cash equivalents of £0.2m. The purchase consideration paid in cash was £16.7m. No goodwill was recognised from this business combination. The acquired business contributed revenues of £0.6m and net profit of £0.4m, which would have been the same had the acquisition occurred on 1 January 2023.

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

++ 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 (2022: £ nil) and AAM contributed a loss of £(1.1)m (2022: loss £1.1m). The net assets of QIME at the point of liquidation were £1.8m(2022: £1.8m). The net assets of AAM at year end were £1.9m (2022: £1.9m).

4. INSURANCE SERVICE RESULT

	2023	2022
	£m	£m
INSURANCE REVENUE		
Amounts relating to the changes in the LRC		
Expected incurred claims and other expenses after loss component allocation	1.1	1.1
Changes in the risk adjustment for non-financial risk for the risk expired after loss component allocation	0.4	0.4
CSM recognised in profit or loss for the services provided	1.2	1.1
Insurance acquisition cash flows recovery	0.2	0.1
Total insurance revenue	**2.9**	**2.7**
INSURANCE SERVICE EXPENSES		
Incurred claims and other directly attributable expenses	(0.3)	(0.6)
Losses on onerous contracts and reversal of the losses	-	(0.4)
Insurance acquisition cash flows amortisation	(0.2)	(0.1)
Total insurance service expenses	**(0.5)**	**(1.1)**
NET EXPENSES FROM REINSURANCE CONTRACTS HELD		
Reinsurance expenses		
Amounts relating to changes in the remaining coverage - CSM recognised for the services received	(0.2)	(0.1)
	(0.2)	**(0.1)**
Other incurred directly attributable expenses	-	-
Total net expenses from reinsurance contracts held	**(0.2)**	**(0.1)**
Total insurance service result	**2.2**	**1.5**

All of the Group's insurance service result is considered to be derived from international unit linked insurance contracts and has therefore not been disaggregated.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

5. NET FINANCIAL RESULT

	2023	2022
	£m	£m
Net investment income/(expenses)		
Investment return on policyholder investments (note 8)	1,978.1	(2,853.8)
Net change in investment contract liabilities	(1,866.4)	2,863.6
Total net investment income/(expenses) – underlying assets of insurance contract liabilities	**111.7**	**(9.8)**
Finance (expenses)/income from insurance contracts issued		
Change in fair value of underlying assets of contracts measured under the VFA and foreign exchange differences	(126.1)	18.8
Finance (expenses)/income from insurance contracts issued	**(126.1)**	**18.8**
Finance income/(expenses) from reinsurance contracts held		
Interest accreted	-	-
Change in fair value of underlying with-profit assets within reinsurance contracts measured under the GMM	12.9	(20.6)
Effect of changes in FCF at current rates when CSM is unlocked at locked-in rates	-	-
Finance income/(expenses) from reinsurance contracts held	**12.9**	**(20.6)**
Net insurance finance expenses	**(113.2)**	**-**
Summary of the amounts recognised in profit or loss		
Net investment return on policyholder investments	1,978.1	(2,853.8)
Net change in investment contract liabilities	(1,866.4)	2,863.6
Net insurance finance expenses	(113.2)	(1.8)
	(1.5)	**(8.0)**

6. FEES AND CHARGES RECEIVABLE

Included within fees and charges are:

Consolidated	**2023**	**2022**
	£m	**£m**
Fees and charges receivable on investment business		
Premium based fees	7.0	9.2
Fund based fees	99.4	111.8
Fixed fees	36.6	36.0
Exit fees	4.7	5.9
Transactional dealing fees	5.5	4.8
Net movement in deferred front-end fees (note 20)	(5.4)	(6.4)
Other fee income – including commission and rebate income	23.1	20.6
Total fees and charges receivable on investment business	170.9	181.9
Fees and charges receivable on services provided to group companies	7.2	11.0
	178.1	192.9

7. OTHER INCOME

Included within other income attributable to the shareholder are:

Consolidated	**2023**	**Restated 2022**
	£m	**£m**
Bank and deposit interest income	36.4	13.3
Loan interest (note 17)	1.1	1.4
Rental income	0.6	1.0
Return on shareholder investments, including foreign exchange gains/(losses)	4.5	(11.3)
Other – including interest charged to policyholders	1.8	2.9
	44.4	7.3

Company	**2023**	**2022**
	£m	**£m**
Bank and deposit interest income	0.2	-
Dividend income	64.0	75.0
Other – including inter-company loan write down (note 33)	11.7	-
	75.9	75.0

8. INVESTMENT RETURN

Included within investment return is:

Consolidated	2023	Restated 2022
	£m	£m
Interest income on policyholder investments	31.6	9.6
Dividend income on policyholder investments	186.8	228.3
Net gains on realisation of policyholder investments	367.3	195.9
Change in fair value of financial assets	1,392.4	(3,287.6)
	1,978.1	(2,853.8)

9. OTHER OPERATING EXPENSES

Consolidated	2023	2022
	£m	£m
Commission and other acquisition costs		
Ongoing renewal commission payable	20.0	26.2
Initial commission payable	10.7	16.6
Deferral of acquisition costs (note 13)	(11.9)	(15.5)
Amortisation of deferred acquisition costs (note 13)	1.6	1.9
	20.4	29.2
Staff costs	42.4	38.3
Depreciation of property, plant and equipment	1.8	3.0
Loss on disposal of property, plant and equipment	1.3	-
Net gain on termination of lease and right-of-use asset	(2.1)	-
Amortisation of intangible assets – software	0.2	0.2
Audit fees – statutory audit	1.5	1.2
Professional fees	1.3	1.8
Directors' fees	0.2	0.1
Other administrative costs	44.6	42.5
Total other operating expenses	111.6	116.3

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

10. TAXATION

Consolidated	2023	2022
	£m	£m
Current taxation (credit)/charge	(1.1)	3.3
Deferred tax on amortisation of AVIF (note 23)	(0.5)	(0.5)
Tax (credit)/charge for the year	**(1.6)**	**2.8**

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% (2022: 0%). This rate is not expected to change during 2024.

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 £251k (2022: £83k). 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% (2022: 12.5%). During 2023, the Group received a charge of £1.7k (2022: £4k)

HONG KONG TAXATION

One subsidiary, Utmost International Isle of Man Limited, operates a branch in Hong Kong. Tax is payable on the profits of that branch at 16.5% (2022: 16.5%) of assessable profits. During 2023, the Group received a refund in respect of Hong Kong assessable profits of £1.0m (2022: £2.9m).

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 £0.5m (2022: £0.5m).

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 at 17% (2022: 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	2023	Restated* 2022
	£m	£m
Cost		
At 1 January	752.4	752.4
Value of in-force policies acquired	-	-
At 31 December	**752.4**	**752.4**
Accumulated amortisation		
At 1 January	184.0	80.3
Charge for the year	90.3	103.7
At 31 December	**274.3**	**184.0**
Net book value at 31 December	**478.1**	**568.4**
Current (within 12 months)	75.4	90.3
Non-current (after 12 month)	402.7	478.1
	478.1	**568.4**

*See Note 1.25 for details of the restatement of comparative information.

12. OTHER INTANGIBLE ASSETS

Consolidated	Computer Software £m
Year ended 31 December 2022	
Opening net book amount	0.6
Additions	-
Amortisation charge	(0.2)
Closing net book value	**0.4**
At 31 December 2022	
Cost	3.8
Accumulated amortisation	(3.4)
Net Book Amount	**0.4**
Year ended 31 December 2023	
Opening net book amount	**0.4**
Additions	-
Amortisation charge	(0.2)
Closing net book value	**0.2**
At 31 December 2023	
Cost	3.8
Accumulated amortisation	(3.6)
Net Book Amount	**0.2**

13. DEFERRED ACQUISITION COSTS

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

Consolidated	2023 £m	2022 £m
At 1 January	19.1	5.5
Deferred during the year	11.9	15.5
Amortised during the year	(1.6)	(1.9)
	29.4	**19.1**
Current (within 12 months)	1.2	0.8
Non-current (after 12 months)	28.2	18.3
	29.4	**19.1**

14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Consolidated	Computer and office equipment £m	Motor vehicles £m	Right-of-use assets £m	Leasehold improvements £m	Total £m
Year ended 31 December 2022					
Opening net book amount	0.3	0.1	12.0	-	12.4
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)
Closing net book value	**0.2**	**-**	**14.9**	**1.2**	**16.3**
At 31 December 2022					
Cost	1.6	0.1	18.5	1.5	21.7
Accumulated depreciation	(1.4)	(0.1)	(3.6)	(0.3)	(5.4)
Net Book Amount	**0.2**	**-**	**14.9**	**1.2**	**16.3**

14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (CONTINUED)

	Computer and office equipment	Motor vehicles	Right-of-use assets	Leasehold improve-ments	Investment property	Owner occupied land and buildings	Total
	£m	£m	£m	£m	£m	£m	£m
Year ended 31 December 2023							
Opening net book amount/fair value	0.2	-	14.9	1.2	-	-	16.3
Additions on acquisition of subsidiaries****	-	-	-	-	5.7	10.8	16.5
Foreign exchanges movement	-	-	(0.1)	-	-	-	(0.1)
Additions	0.8	-	0.7	0.1	-	-	1.6
Disposals	-	-	(13.9)	(1.3)	-	-	(15.2)
Reversal of impairment	-	-	0.4	-	-	-	0.4
Net gain/(loss) from fair value adjustment****	-	-	-	-	-	0.3	0.3
Depreciation charge	(0.3)	-	(1.2)	-	-	(0.3)	(1.8)
Closing net book value/fair value	**0.7**	**-**	**0.8**	**-**	**5.7**	**10.8**	**18.0**
At 31 December 2023							
Cost/fair value	2.4	-	4.4	-	5.7	10.8	23.3
Accumulated depreciation	(1.7)	-	(4.0)	-	-	(0.3)	(6.0)
Revaluation/Impairment	-	-	0.4	-	-	0.3	0.7
Net Book Amount/fair value	**0.7**	**-**	**0.8**	**-**	**5.7**	**10.8**	**18.0**

14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (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 15) and are inclusive of a sub-let investment property proportion £nil (2022: £nil).

* The Group extended its lease on the Isle of Man 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 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 prior 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 the Statement of Comprehensive Income. In 2023 the property was sub-let and a proportion of the impairment was reversed. The recoverable amount was estimated to reflect current estimates, based on economic utilisation and the physical condition of the asset. See notes 14 and 15 for the carrying amount of the asset. In addition, the right-of-use asset arising on the office premises known as 6th Floor, 138 Market Street, Singapore was 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.

**** On 31 January 2023, the Group acquired the freehold title to King Edward Bay House, comprising £5.7m of investment property and £10.8m of owner-occupied land and buildings. This property was revalued at £16.5m by an independent valuer with an effective date of 31 December 2023, resulting in a fair value gain on investment property of £nil and a revaluation surplus on owner-occupied land and buildings of £0.3m. The valuation applied the market approach, with no individually significant unobservable inputs. This is considered to be a Level 3 valuation in the Fair Value Hierarchy. The difference to carrying amount under the cost model is not material.

14.1 Investment property

The investment property is leased to a tenant under an operating lease with rentals payable monthly.

Minimum lease payments receivable on leases of investment properties (including the sub-let proportion of leasehold office properties within right-of-use assets) are as follows:

	2023	2022
	£m	£m
Within 1 year	0.7	0.5
Between 1 and 2 years	1.0	1.1
Between 2 and 3 years	-	0.5
Between 3 and 4 years	-	-
Between 4 and 5 years	-	-
Later than 5 years	-	-
	1.7	2.1

Rental income from operating leases was £0.6m (2022: £1.0m)

15. LEASES

15.1 Amounts recognised in the Consolidated Statement of Financial Position

Consolidated	2023	2022
	£m	£m
Right-of-use assets		
Buildings (note 14)	0.8	14.9
Lease liabilities		
At 1 January	17.0	12.2
Additions	0.7	-
Movement generated by modification of leases *	-	7.4
Terminations	(16.1)	(2.1)
FX movement	-	0.7
Interest charge in the year	0.4	0.6
Lease payments made in the year (exclusive of VAT)	(0.5)	(1.8)
At 31 December	1.5	17.0
Current (within 12 months)	0.8	0.3
Non-current (after 12 months)	0.7	16.7
	1.5	17.0

* 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 14.

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, 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 (note 14), the guarantee has continued, but is now an entirely intergroup arrangement, concerning amounts paid by Utmost International Isle of Man Limited to Douglas Bay Property Limited, both being subsidiaries of the Company. Since the termination of the lease on 17 July 2023, Utmost International Isle of Man Limited continues to occupy the property but there are no lease payments to guarantee.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

15. LEASES (CONTINUED)

15.2 Amounts recognised in the Consolidated Statement of Comprehensive Income

	2023	2022
	£m	£m
Other operating expenses		
Depreciation charge on right-of-use assets	1.2	2.2
(Reversal of impairment)/Impairment of right-of-use assets	(0.4)	2.0
Net gain on termination of lease and right-of-use asset	(2.1)	-
Finance costs		
Finance cost of lease payments	0.4	0.6

The total cash outflow for leases in the year ended 31 December 2023 was £0.5m (2022: £1.8m), exclusive of VAT.

16. OTHER INVESTMENTS

Consolidated	2023	2022
	£m	£m
Investment in Oaktree Fund	13.1	11.3
Sundry other investments	0.8	0.9
	13.9	12.2

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 24.4. Dividends are made quarterly and reinvested in additional units in the fund.

The investment return on the investment is attributable in full to the Group. The security is held subject to prices in the future which are uncertain. The price risk falls to the Group. Sundry other investments include shareholder holdings in OEICs, debt instruments, equities and exchange traded funds.

17. LONG-TERM LOANS

	2023	2022
Consolidated	£m	£m
Loan note to UPE	20.0	20.1
Broker loan (note 18)	-	0.8
	20.0	20.9

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.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

18. OTHER RECEIVABLES

	2023	2022
Consolidated	**£m**	**£m**
Investment dealing receivables	22.5	26.1
Accrued investment income and commission	15.4	11.1
Other receivables and prepayments	22.9	15.9
Due from related parties (note 33)	2.8	3.3
Broker loan	0.6	-
	64.2	56.4
Current (within 12 months)	64.1	56.4
Non-current (after 12 months)	0.1	-
	64.2	56.4
Company		
Due from related parties (note 33)	1.1	-
Broker loan	0.6	-
	1.7	-
Current (within 12 months)	1.6	-
Non-current (after 12 months)	0.1	-
	1.7	-

The broker loan is on standard commercial terms charging interest at 6% per annum. The loan was assigned to the Company from Utmost International Holdings Limited, under a deed of assignment dated 10 March 2023. In a deed of variation signed in February 2024 it was agreed to vary the repayment terms, with annual prepayments of £250,000 due on 1 December 2023 and 2024 with the balance due on the final repayment date of 1 December 2025.

19. CASH AND CASH EQUIVALENTS

	2023	2022
Consolidated	**£m**	**£m**
Cash at bank and with credit institutions	20.4	70.5
Money market funds	271.4	202.8
	291.8	273.3
Company		
Cash at bank and with credit institutions	1.2	38.8

All cash and cash equivalents are current and available for use by the Group, other than £3.2m (2022: £3.2m) of cash and cash equivalents in a subsidiary of the Company that are ring fenced for regulatory purposes.

20. DEFERRED FRONT-END FEES

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

	2023	2022
Consolidated	**£m**	**£m**
At 1 January	17.2	10.8
Fees received and deferred during the year	7.7	7.8
Amortised during the year	(2.3)	(1.4)
	22.6	17.2
Current (within 12 months)	1.8	1.4
Non-current (after 12 months)	20.8	15.8
	22.6	17.2

21. OTHER PAYABLES

	2023	2022
Consolidated	**£m**	**£m**
Due to investment contract holders	83.3	148.6
Premiums received in advance of policy issue	12.0	25.0
Investment dealing creditors	11.6	6.2
Commission payable	5.8	5.9
Other creditors and accruals	38.0	33.1
Due to related parties (note 33)	6.5	6.2
Lease liability – due within one year (note 15)	0.8	0.3
Lease liability – due after more than one year (note 15)	0.7	16.7
	158.7	242.0
Company		
Due to related parties (note 33)	49.9	61.2

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.

22. PROVISIONS

	2023	2022
Consolidated	**£m**	**£m**
Opening balance	3.2	2.8
Provisions arising from acquisition of subsidiary	-	-
Provisions made during the year	2.7	0.5
Provisions utilised during the year	-	-
Provisions released during the year	(0.8)	(0.1)
	5.1	3.2

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. Further detail is shown in note 35.

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.

22. PROVISIONS (CONTINUED)

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

	2023	2022
	£m	£m
Litigation	1.6	0.4
Policy amendments	0.6	0.4
Policy tax reporting	1.5	1.5
Under payment of VAT	0.5	0.6
Other	0.9	0.3
	5.1	3.2

23. DEFERRED TAX

	2023	2022
Consolidated	£m	£m
Deferred tax liability	4.4	4.9

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. 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.

24. RISK MANAGEMENT

Risk management objectives and risk policies

The Group's objective in the management of risk is to minimise, where practicable, its exposure to such risk, except when necessary to support other objectives. For each category of risk, the Group determines its risk appetite and sets its associated policies accordingly.

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 Group seeks to manage financial 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. The more significant financial risks to which the Group and Company are exposed are set out in note 24.1 to 24.3 below.

24.1 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.

24. RISK MANAGEMENT (CONTINUED)

24.1 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 price risk
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 and insurance contract liabilities. Other than the impact of changes in fair value of the underlying items of unit-linked insurance contracts, other impacts of changes in market prices on the valuation of insurance contract liabilities are not material. 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 £9.8m (2022: £11.5m). 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 18). If the price of this investment fell permanently by 10% the impact on net assets and profit would be a decrease of £1.3m (2022: £1.1m).

(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 and insurance contract liabilities. Other than the impact on the underlying items of unit-linked insurance contracts, other impacts of changes in interest rates on the valuation of insurance contract liabilities are not material.

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 7) and equity will fluctuate because of changes in market interest rates.

	2023	2022
Consolidated	**£m**	**£m**
Increase of 100 bps (2022: 100bps) in interest rates	8.0	8.8
Decrease of 100 bps (2022: 100bps) in interest rates	(8.0)	(8.6)

The Company has no exposure to interest rate risk.

24. RISK MANAGEMENT (CONTINUED)

24.1 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.

The following table details the impact to the Group if a 20% increase in foreign exchange rates were to occur:

	Investment assets £m	Net insurance/ investment contract liabilities £m	Profit before tax £m	Equity £m
2023	273.1	272.7	0.5	0.5
2022	271.5	271.0	0.5	0.5

The following table details the impact to the Group if a 20% decrease in foreign exchange rates were to occur:

	Investment assets £m	Net insurance/ investment contract liabilities £m	Profit before tax £m	Equity £m
2023	(273.1)	(272.5)	(0.6)	(0.6)
2022	(271.5)	(270.2)	(1.4)	(1.4)

The impacts on profit before tax of a 20% increase or decrease in foreign exchange rates shown in the tables above are the net of the impact on FCF of insurance contract liabilities and the impact absorbed by the available CSM. The impact on CSM would be £6.5m (2022: £6.3m), leaving CSM of £8.0m (2022: £2.3m) remaining after the possible change.

24.2 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 17). Management monitors this risk primarily through monitoring the solvency coverage ratio of the counterparty.

24. RISK MANAGEMENT (CONTINUED)

24.2 Credit risk (continued)

The maximum exposure to credit risk before any credit enhancements at 31 December 2023 and 31 December 2022 is the carrying amount of the financial assets detailed below:

Consolidated

Analysis as at 31 December 2023	Aa3	A1	A2	A3	Baa3	<Ba2	Total
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	271.8	0.4	0.1	19.0	-	0.5	**291.8**
Deposits	-	-	0.1	0.3	-	-	**0.4**
Other investments	-	-	-	-	0.8	13.1	**13.9**
Long-term loan	-	-	20.0	-	-	-	**20.0**
Other receivables	-	-	-	-	-	64.2	**64.2**
Total	**271.8**	**0.4**	**20.2**	**19.3**	**0.8**	**77.8**	**390.3**

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	-	-	0.9	**20.9**
Other receivables	-	-	-	-	-	56.4	**56.4**
Total	**216.7**	**2.7**	**42.6**	**63.4**	**-**	**69.5**	**394.9**

Company

Analysis as at 31 December 2023	Aa3	A1	A2	A3	Baa3	<Ba2	Total
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	-	-	-	**0.7**	-	**0.5**	**1.2**

Analysis as at 31 December 2022							
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	-	-	-	**38.8**	-	-	**38.8**

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 2023 and 2022 year-end positions, the Group's material reinsurance counterparties have a credit rating at Moody's of Aa3 (2022: Aa3).

24.3 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.

24. RISK MANAGEMENT (CONTINUED)

24.3 Liquidity risk (continued)

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

Although the Company's payables exceed its liquid assets, its exposure to liquidity risk is considered to be low because the payables (note 21) are due to its controlled subsidiaries and are not expected to be called for repayment.

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 or insurance 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 15). The lease liability on an undiscounted basis is £0.7m (2022: £20.4m).

The maturity analyses of estimated cash flows arising from insurance contract liabilities below are presented on a present value cashflow basis:

31 December 2023

	Total £m	1 £m	2 £m	3 £m	4 £m	5 £m	>5 £m
Insurance contract liabilities	1,924.7	195.4	193.2	215.1	190.7	156.0	974.3
Net reinsurance contract assets	205.2	18.9	17.2	15.9	14.6	13.3	125.3

31 December 2022

	Total £m	1 £m	2 £m	3 £m	4 £m	5 £m	>5 £m
Insurance contract liabilities	1,746.1	208.4	199.0	182.3	196.3	165.2	794.9
Net reinsurance contract assets	202.8	19.4	18.1	16.7	15.4	14.3	118.9

The majority of the Group's insurance contract liabilities are unit-linked insurance contracts and these contracts may be surrendered or transferred on demand and therefore have a minimum contractual maturity of 0-1 years.

24.4 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.

24. RISK MANAGEMENT (CONTINUED)

24.4 Fair value estimation (continued)

Level 2 financial instruments are mainly listed corporate bonds; medium term notes (MTNs), structured products in inactive markets and collective investment schemes, external life funds, managed portfolios with other than daily dealing frequencies and policyholder loans. 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 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 financial assets and liabilities measured at fair value across the three levels of the fair value hierarchy.

Analysis as at 31 December 2023:	**Total**	**Level 1**	**Level 2**	**Level 3**
Consolidated	**£m**	**£m**	**£m**	**£m**
Financial assets at fair value to cover linked liabilities	29,339.0	26,652.8	667.8	2,018.4
Policyholder loans	150.9	-	150.9	-
Other investments	13.9	0.7	13.0	0.2
Money market funds	271.4	271.4	-	-
	29,775.2	**26,924.9**	**831.7**	**2,018.6**
Investment property (note 14)	5.7			
Assets not at fair value	831.6			
Total assets	**30,612.5**			
Investment contract liabilities *	**27,761.8**			

Analysis as at 31 December 2022:	**Total (restated)**	**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	-	-
	28,890.4	**25,742.2**	**933.9**	**2,214.3**
Assets not at fair value	988.0			
Total assets	**29,878.4**			
Investment contract liabilities *	**27,055.5**			

24. RISK MANAGEMENT (CONTINUED)

24.4 Fair value estimation (continued)

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.

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:

Consolidated	**Financial assets held at fair value through profit or loss £m**
Balance at 1 January 2022	1,541.3
Transfers into Level 3	792.1
Transfers out of Level 3	(36.9)
Total gains or losses	(61.4)
Disposals	(20.8)
Balance at 31 December 2022	**2,214.3**
Transfers into Level 3	61.3
Transfers out of Level 3	(284.8)
Total gains or losses	175.0
Purchases	61.2
Disposals	(208.4)
Balance at 31 December 2023	**2,018.6**

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.

24. RISK MANAGEMENT (CONTINUED)

24.5 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.

24.5.1 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

Mortality risk is the risk that death claims are higher than expected within the Group's pricing assumptions.

Mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, group experience and forecast changes in future mortality.

Sensitivity to mortality risk has been calculated and is not material and any mortality benefits are reinsured.

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.

The following table details the impact to the Group if a 20% mass lapse were to occur:

	Insurance contract liabilities £m	Net reinsurance contract assets £m	Net insurance and reinsurance contract liabilities £m	Profit before tax £m	Equity £m
2023	1,761.3	(1,780.3)	(355.5)	(0.6)	(0.6)
2022	1,738.9	(1,766.7)	(351.8)	(1.4)	(1.4)

The impact on profit before tax of a 20% mass lapse shown in the tables above are the net of the impact on FCF and the impact absorbed by the available CSM. The impact on CSM would be £6.3m (2022: £6.1m), leaving CSM of £8.2m (2022: £3.1m) remaining after the possible change. The above excludes impacts on investment contract liabilities.

24. RISK MANAGEMENT (CONTINUED)

24.5.1 Objectives and policies for mitigating insurance risk (continued)

Expense risk

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

Expenses are reviewed annually in light of experience.

Sensitivity to expense risk has been calculated and is not material.

Risk Adjustment

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled. The Group estimates an adjustment for non-financial risk separately from all other estimates. The risk adjustment was calculated at the issuing entity level and then allocated down to each group of contracts in accordance with their risk profiles. The provision for adverse deviation method was used to derive the overall risk adjustment for non-financial risk where a simultaneous stress is applied to non-financial risks and the risk adjustment is equal to the resulting change in the present value of future cashflows. The resulting amount of the calculated risk adjustment corresponds to the confidence level of 76% (2022: 79%).

24.5.2 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.

24.6 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.

The Group has taken steps to minimise the impact of external physical events which would interrupt normal business, for example an inability to access or trade from the premises. Business recovery plans are in place for workspace recovery and retrieval of data and IT systems. These procedures would enable the Group's operating businesses to move operations to alternative facilities.

The Group mitigates cyber risk through ongoing internal reviews of internal systems and access controls and ongoing monitoring of regulatory changes including those related to General Data Protection Regulation.

24. RISK MANAGEMENT (CONTINUED)

24.6 Operational and compliance risk (continued)

The Group has implemented an Outsourcing Policy which requires appropriate organisational safeguards to be implemented to monitor the performance of outsourcers and management of risks associated with critical and important outsourced activities. A Group Third Party Supplier Management (non-outsourcers) policy is being implemented to manage risks associated with key third parties, particularly where the operating businesses are reliant upon Third Parties to deliver or support important business services.

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 operates such measures of risk identification, assessment, monitoring and management as are necessary to ensure that operational and compliance risk management is consistent with the approach, aims and strategic goals of the Group and is designed to safeguard the Group's assets while allowing the Group to earn a satisfactory return for the shareholder and policyholders.

25. 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 is required to maintain a certain margin of solvency by the Isle of Man Financial Services Authority (the "FSA").

The FSA's risk-based solvency regime requires Utmost International Isle of Man Limited to set a Minimum Capital Requirement and a Solvency Capital Requirement. This requirement also applied to Utmost Limited, until the date of its business transfer on 30 November 2022. 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 2023 Utmost International Isle of Man Limited's Solvency Coverage Ratio was 185% (2022: Utmost Limited 182% and Utmost International Isle of Man Limited 193%.)

25. CAPITAL MANAGEMENT (CONTINUED)

Utmost Trustee Solutions Limited and Utmost International Trustee Solutions 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 (2022: £25,000) and the minimum net tangible asset requirement is £25,000 (2022: £25,000). The minimum liquid capital requirement for Utmost Trustee Solutions Limited was £143,352 (2022: £128,960) and for Utmost International Trustee Solutions Limited was £86,518 (2022: £69,106). 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 2023 and 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 16), the long-term loan note (note 17), cash and cash equivalents and deposits with credit institutions.

26. POLICYHOLDER LOANS

	2023	2022
Consolidated	**£m**	**£m**
Policyholder Loans	150.9	165.2

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.

27. FINANCIAL ASSETS AT FAIR VALUE HELD TO COVER LINKED LIABILITIES

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

	2023	2022
Consolidated	**£m**	**£m**
Deposits	328.6	294.7
Ordinary shares and funds	13,678.3	12,966.8
Discretionary managed portfolios	13,616.5	12,919.0
Other investments	79.1	381.4
Modified coinsurance account	235.2	366.0
Policyholder cash	1,401.3	1,582.3
	29,339.0	**28,510.2**

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 at fair value held to cover linked liabilities on the Statement of Financial Position.

The Group's maximum exposure to unconsolidated structured entities at 31 December 2023 is £3,648.0m (2022: £3,779.0).

The Group has not sponsored any structured entities in either 2023 or 2022.

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 2023 and 31 December 2022, all unconsolidated structured entities are policyholder assets that would be offset through liability movements.

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

Modified coinsurance account

In 2013 the Group 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. The Group 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 International Isle of Man Limited) is limited as the Group 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 Group 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 Group retains the mortality risk on the ALS policies. AXA Life Singapore Limited changed its name to AXA Insurance Pte Limited in January 2017. This arrangement was terminated during 2023.

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:

	2023	2022
Consolidated	**£m**	**£m**
Opening balance brought forward	366.0	409.0
Deposits to investment contracts	0.6	0.6
Withdrawals from investment contracts	(102.1)	(17.9)
Attributable investment income	0.7	3.2
Change in investment contract liabilities	(31.3)	(27.1)
Policy charges	1.3	(1.8)
Closing balance carried forward	**235.2**	**366.0**

28. INVESTMENT CONTRACT LIABILITIES

	2023	Restated 2022
Consolidated	**£m**	**£m**
Deposits to investment contracts	1,081.3	1,623.6
Withdrawals from investment contracts	(2,010.6)	(1,751.2)
Fees and charges deducted including third party charges	(230.3)	(243.9)
Change in investment contract liabilities	1,866.4	(2,863.6)
Other movements	(0.5)	1.3
Movement in the year	706.3	(3,233.8)
Balance at 1 January	27,055.5	30,289.3
	27,761.8	**27,055.5**

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.

29. INSURANCE CONTRACT LIABILITIES

All of the Group's insurance contract liabilities, reinsurance contract assets and reinsurance contract liabilities relate to unit linked insurance contracts with participation features and have therefore not been disaggregated.

29.1 Composition of the balance sheet

	Current portion	Non-current portion	Total
2023	**£m**	**£m**	**£m**
Insurance contract liabilities	195.4	1,747.4	1,942.8
Net Reinsurance contract assets	18.9	186.6	205.5
2022			
Insurance contract liabilities	208.4	1,550.7	1,759.1
Net Reinsurance contract assets	19.4	183.5	202.9

29.2 Amounts determined on transition to IFRS17

	2023	2022
	£m	**£m**
Insurance contracts issued		
Insurance revenue		
New contracts	0.5	0.2
Contracts measured under the fair value approach at transition	2.5	2.5
	3.0	2.7
CSM		
New contracts	5.3	1.2
Contracts measured under the fair value approach at transition	9.2	8.0
	14.5	9.2
Reinsurance contracts held		
CSM		
New contracts	-	-
Contracts measured under the fair value approach at transition	-	(0.1)
	-	(0.1)

29. INSURANCE CONTRACT LIABILITIES (CONTINUED)

29.3 Expected recognition of the contractual service margin

An analysis of the expected recognition of the CSM remaining at the end of the reporting period in profit or loss is provided in the following table:

	2023		2022	
Number of years until expected to be recognised	**CSM for insurance contracts issued**	**CSM for reinsurance contracts held**	**CSM for insurance contracts issued**	**CSM for reinsurance contracts held**
	£m	**£m**	**£m**	**£m**
1	1.6	-	1.1	-
2	1.5	-	1.0	-
3	1.4	-	0.9	-
4	1.2	-	0.8	-
5	1.1	-	0.7	-
6-10	3.9	-	2.4	-
>10	3.8	-	2.3	(0.1)
Total	14.5	-	9.2	(0.1)

The tables below set out the yield curves used to discount the cash flows of insurance contracts for major currencies:

2023

	1 Year	5 Years	10 Years	15 Years	20 Years
GBP	4.74%	3.36%	3.28%	3.40%	3.43%
EUR	3.36%	2.32%	2.39%	2.47%	2.41%
USD	4.76%	3.50%	3.45%	3.49%	3.46%

2022

	1 Year	5 Years	10 Years	15 Years	20 Years
GBP	4.46%	4.06%	3.71%	3.62%	3.54%
EUR	3.18%	3.13%	3.09%	3.02%	2.77%
USD	5.07%	3.95%	3.75%	3.71%	3.63%

29. INSURANCE CONTRACT LIABILITIES (CONTINUED)

29.4 Reconciliation of the liability for remaining coverage and the liability for incurred claims

	LRC			
	Excluding loss component	Loss component	LIC	Total
Year end 31 December 2023	**£m**	**£m**	**£m**	**£m**
Opening insurance contract liabilities	1,758.7	0.4	-	1,759.1
Insurance revenue	**(2.9)**	**-**	**-**	**(2.9)**
Insurance service expenses:				
Incurred claims and other directly attributable expenses	-	-	0.3	0.3
Losses on onerous contracts and reversal of those losses	-	-	-	-
Insurance acquisition cash flows amortisation	0.2	-	-	0.2
Insurance service expenses	**0.2**	**-**	**0.3**	**0.5**
Insurance service result	**(2.7)**	**-**	**0.3**	**(2.4)**
Finance expenses from insurance contracts issued	126.1	-	-	126.1
Total amounts recognised in profit or loss	**123.4**	**-**	**0.3**	**123.7**
Investment components	(231.3)	-	231.3	-
Cashflows				
Premiums received	292.6	-	-	292.6
Claims and other directly attributable expenses paid	-	-	(231.6)	(231.6)
Insurance acquisition cash flows	(1.0)	-	-	(1.0)
Total cash flows	**291.6**	**-**	**(231.6)**	**60.0**
Net balance at 31 December	**1,942.4**	**0.4**	**-**	**1,942.8**
Closing insurance contract liabilities	**1,942.4**	**0.4**	**-**	**1,942.8**

29. INSURANCE CONTRACT LIABILITIES (CONTINUED)

29.4 Reconciliation of the liability for remaining coverage and the liability for incurred claims (continued)

	LRC			
	Excluding loss component	Loss component	LIC	Total
Year end 31 December 2022	**£m**	**£m**	**£m**	**£m**
Opening Insurance contract liabilities	1,809.4	-	-	1,809.4
Insurance revenue	(2.7)	-	-	(2.7)
Insurance service expenses:				
Incurred claims and other directly attributable expenses	-	(0.1)	0.6	0.5
Losses on onerous contracts and reversal of those losses	-	0.5	-	0.5
Insurance acquisition cash flows amortisation	0.1	-	-	0.1
Insurance service expenses	**0.1**	**0.4**	**0.6**	**1.1**
Insurance service result	**(2.6)**	**0.4**	**0.6**	**(1.6)**
Finance expenses from insurance contracts issued	(18.8)	-	-	(18.8)
Total amounts recognised in profit or loss	**(21.4)**	**0.4**	**0.6**	**(20.4)**
Investment components	(110.7)	-	110.7	-
Cashflows				
Premiums received	83.8	-	-	83.8
Claims and other directly attributable expenses paid	-		(111.3)	(111.3)
Insurance acquisition cash flows	(2.4)	-	-	(2.4)
Total cash flows	**81.4**	**-**	**(111.3)**	**(29.9)**
Net balance at 31 December	**1,758.7**	**0.4**	**-**	**1,759.1**
Closing insurance contract liabilities	**1,758.7**	**0.4**	**-**	**1,759.1**

29. INSURANCE CONTRACT LIABILITIES (CONTINUED)

29.5 Reconciliation of the measurement components of insurance contract balances

	Present value of future cash flows	Risk adjustment for non-financial risk	CSM	Total
Year end 31 December 2023	**£m**	**£m**	**£m**	**£m**
Opening Insurance contract liabilities	1,746.1	3.8	9.2	1,759.1
Changes that relate to current service				
CSM recognised in profit or loss for the services provided	-	-	(1.1)	(1.1)
Change in the risk adjustment for non-financial risk for the risk expired	-	(0.5)	-	(0.5)
Experience adjustment	(1.2)	-	-	(1.2)
	(1.2)	(0.5)	(1.1)	(2.8)
Changes that relate to future service				
Changes in estimates that adjust the CSM	-	(0.2)	0.2	-
Changes in estimates that result in onerous contract losses or reversal of losses	0.4	-	-	0.4
Contracts initially recognised in the year	(5.2)	0.4	4.8	-
	(4.8)	0.2	5.0	0.4
Insurance service result	(6.0)	(0.3)	3.9	(2.4)
Finance (income)/expense from insurance contracts issued	124.6	0.1	1.4	126.1
Total amounts recognised in profit or loss	118.6	(0.2)	5.3	123.7
Cashflows				
Premiums received	292.6	-	-	292.6
Claims and other directly attributable expenses paid	(231.6)	-	-	(231.6)
Insurance acquisition cash flows	(1.0)	-	-	(1.0)
Total cash flows	60.0	-	-	60.0
Net balance at 31 December	**1,924.7**	**3.6**	**14.5**	**1,942.8**
Closing insurance contract liabilities	**1,924.7**	**3.6**	**14.5**	**1,942.8**

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

29. INSURANCE CONTRACT LIABILITIES (CONTINUED)

29.5 Reconciliation of the measurement components of insurance contract balances (continued)

	Present value of future cash flows	Risk adjustment for non-financial risk	CSM	Total
Year end 31 December 2022	**£m**	**£m**	**£m**	**£m**
Opening Insurance contract liabilities	1,803.2	3.4	2.8	1,809.4
Changes that relate to current service				
CSM recognised in profit or loss for the services provided	-	-	(1.1)	(1.1)
Change in the risk adjustment for non-financial risk for the risk expired	-	(0.4)	-	(0.4)
Experience adjustment	(0.6)	-	-	(0.6)
	(0.6)	**(0.4)**	**(1.1)**	**(2.1)**
Changes that relate to future service				
Changes in estimates that adjust the CSM	(6.8)	0.4	6.4	-
Changes in estimates that result in onerous contract losses or reversal of losses	0.5	-	-	0.5
Contracts initially recognised in the year	(1.5)	0.1	1.4	-
	(7.8)	**0.5**	**7.8**	**0.5**
Insurance service result	**(8.4)**	**0.1**	**6.7**	**(1.6)**
Finance (income)/expense from insurance contracts issued	(18.8)	0.3	(0.3)	(18.8)
Total amounts recognised in profit or loss	**(27.2)**	**0.4**	**6.4**	**(20.4)**
Cashflows				
Premiums received	83.8	-	-	83.8
Claims and other directly attributable expenses paid	(111.3)	-	-	(111.3)
Insurance acquisition cash flows	(2.4)	-	-	(2.4)
Total cash flows	**(29.9)**	**-**	**-**	**(29.9)**
Net balance at 31 December	**1,746.1**	**3.8**	**9.2**	**1,759.1**
Closing insurance contract liabilities	**1,746.1**	**3.8**	**9.2**	**1,759.1**

29. INSURANCE CONTRACT LIABILITIES (CONTINUED)

29.6 Impact of contracts recognised in the year

	Non-onerous contracts originated	
Insurance contracts issued	**2023**	**2022**
	£m	**£m**
Estimates of present value of future cash outflows		
- Insurance acquisition cash flows	(1.0)	(2.2)
- Claims and other directly attributable expenses	(6.4)	(1.0)
Estimates of present value of future cash outflows	(7.4)	(3.2)
Estimates of present value of future cash inflows	12.6	4.7
Risk adjustment for non-financial risk	(0.4)	(0.1)
CSM	(4.8)	(1.4)
Increase in insurance contract liabilities from contracts recognised in the year	-	-

29.7 Amounts determined on transition to IFRS 17

Year end 31 December 2023	**New contracts**	**Contracts measured under the fair value approach at transition**	**Total**
	£m	**£m**	**£m**
Insurance revenue	(0.5)	(2.5)	(3.0)
CSM as at 1 January	**1.0**	**8.2**	**9.2**
Changes that relate to current service			
CSM recognised in the profit or loss for the services provided	(0.1)	(1.0)	(1.1)
Changes that relate to future service			
Changes in estimates that adjust the CSM	-	0.2	0.2
Contracts initially recognised in the year	4.8	-	4.8
	4.8	**0.2**	**5.0**
Finance expenses from insurance contracts issued	0.4	1.0	1.4
Total amounts recognised in profit or loss	5.1	0.2	5.3
CSM as at 31 December	6.1	8.4	14.5

29. INSURANCE CONTRACT LIABILITIES (CONTINUED)

29.7 Amounts determined on transition to IFRS 17 (continued)

Year end 31 December 2022	New contracts	Contracts measured under the fair value approach at transition	Total
	£m	£m	£m
Insurance revenue	0.2	2.5	2.7
CSM as at 1 January	-	2.8	2.8
Changes that relate to current service			
CSM recognised in the profit or loss for the services provided	(0.1)	(1.0)	(1.1)
Changes that relate to future service			
Changes in estimates that adjust the CSM	(0.3)	6.7	6.4
Contracts initially recognised in the year	1.4	-	1.4
	1.1	**6.7**	**7.8**
Finance expenses from insurance contracts issued	-	(0.3)	(0.3)
Total amounts recognised in profit or loss	**1.0**	**5.4**	**6.4**
CSM as at 31 December	**1.0**	**8.2**	**9.2**

30. REINSURANCE CONTRACTS HELD

30.1 Reinsurance contracts held

	Remaining coverage	Incurred claims	Total
Year end 31 December 2023	**£m**	**£m**	**£m**
Opening reinsurance contract assets	203.9	-	203.9
Opening reinsurance contract liabilities	(1.0)	-	(1.0)
Net balance as at 1 January	**202.9**	**-**	**202.9**
Net income/(expenses) from reinsurance contracts held			
Reinsurance expenses	(0.2)	-	(0.2)
Other incurred directly attributable expenses	-	-	-
Net income (expenses) from reinsurance contracts held	(0.2)	-	(0.2)
Finance income from reinsurance contracts held	12.9	-	12.9
Total amounts recognised in profit or loss	12.7	-	12.7
Investment components	(10.2)	10.2	-
Cashflows			
Premiums paid net of ceding commissions and other directly attributable expenses paid	0.1	-	0.1
Recoveries from reinsurance	-	(10.2)	(10.2)
Total cash flows	**0.1**	**(10.2)**	**(10.1)**
Net balance at 31 December	**205.5**	**-**	**205.5**
Closing reinsurance contract assets	206.6	-	206.6
Closing reinsurance contract liabilities	(1.1)	-	(1.1)
Net balance as at 31 December	**205.5**	**-**	**205.5**

30. REINSURANCE CONTRACTS HELD (CONTINUED)

30.1 Reinsurance contracts held (continued)

	Remaining coverage	Incurred claims	Total
Year end 31 December 2022	**£m**	**£m**	**£m**
Opening reinsurance contract assets	227.3	-	227.3
Opening reinsurance contract liabilities	(1.2)	-	(1.2)
Net balance as at 1 January	**226.1**	**-**	**226.1**
Net income/(expenses) from reinsurance contracts held			
Reinsurance expenses	(0.1)	-	(0.1)
Other incurred directly attributable expenses	-	-	-
Net income (expenses) from reinsurance contracts held	**(0.1)**	**-**	**(0.1)**
Finance income from reinsurance contracts held	(20.6)	-	(20.6)
Total amounts recognised in profit or loss	**(20.7)**	**-**	**(20.7)**
Investment components	(2.5)	-	(2.5)
Cashflows			
Premiums paid net of ceding commissions and other directly attributable expenses paid	-	-	-
Recoveries from reinsurance	-	-	-
Total cash flows	**-**	**-**	**-**
Net balance at 31 December	**202.9**	**-**	**202.9**
Closing reinsurance contract assets	203.9	-	203.9
Closing reinsurance contract liabilities	(1.0)	-	(1.0)
Net balance as at 31 December	**202.9**	**-**	**202.9**

30. REINSURANCE CONTRACTS HELD (CONTINUED)

30.2 Reconciliation of the measurement components of reinsurance contract balances

	Present value of future cash flows	Risk adjustment for non-financial risk	CSM	Total
Year end 31 December 2023	**£m**	**£m**	**£m**	**£m**
Opening reinsurance contract assets	204.1	-	(0.2)	203.9
Opening reinsurance contract liabilities	(1.3)	0.2	0.1	(1.0)
Net balance as at 1 January	**202.8**	**0.2**	**(0.1)**	**202.9**
Changes that relate to current service				
CSM recognised in profit or loss for the services provided	-	-	-	-
Change in the risk adjustment for non-financial risk for the risk expired	-	-	-	-
Experience adjustment	(0.2)	-	-	(0.2)
	(0.2)	-	-	(0.2)
Changes that relate to future service				
Changes in estimates that adjust the CSM	(0.1)	-	-	(0.1)
Contracts initially recognised in the year	(0.1)	0.1	0.1	0.1
	(0.2)	0.1	0.1	-
Insurance service result	(0.4)	0.1	0.1	(0.2)
Finance (income)/expense from insurance contracts issued	12.9	-	-	12.9
Total amounts recognised in profit or loss	12.5	0.1	0.1	12.7
Investment components	-	-	-	-
Cashflows				
Premiums paid net of ceding commissions and other directly attributable expenses paid	0.1	-	-	0.1
Recoveries from reinsurance	(10.2)	-	-	(10.2)
Total cash flows	(10.1)	-	-	(10.1)
Net balance at 31 December	**205.2**	**0.3**	**-**	**205.5**
Closing reinsurance contract assets	206.8	-	(0.2)	206.6
Closing reinsurance contract liabilities	(1.6)	0.3	0.2	(1.1)
Net balance as at 31 December	**205.2**	**0.3**	**-**	**205.5**

30. REINSURANCE CONTRACTS HELD (CONTINUED)

30.2 Reconciliation of the measurement components of reinsurance contract balances (continued)

	Present value of future cash flows	Risk adjustment for non-financial risk	CSM	Total
Year end 31 December 2022	**£m**	**£m**	**£m**	**£m**
Opening reinsurance contract assets	227.4	(0.1)	-	227.3
Opening reinsurance contract liabilities	(1.4)	0.2	-	(1.2)
Net balance as at 1 January	**226.0**	**0.1**	**-**	**226.1**
Changes that relate to current service				
CSM recognised in profit or loss for the services provided	-	-	-	-
Change in the risk adjustment for non-financial risk for the risk expired	-	-	-	-
Experience adjustment	(0.1)	-	-	(0.1)
	(0.1)	**-**	**-**	**(0.1)**
Changes that relate to future service				
Changes in estimates that adjust the CSM	-	0.1	(0.1)	-
Contracts initially recognised in the year	-	-	-	-
	-	**0.1**	**(0.1)**	**-**
Insurance service result	**(0.1)**	**0.1**	**(0.1)**	**(0.1)**
Finance (income)/expense from insurance contracts issued	(20.6)	-	-	(20.6)
Total amounts recognised in profit or loss	**(20.7)**	**0.1**	**(0.1)**	**(20.7)**
Investment components	(2.5)	-	-	(2.5)
Cashflows				
Premiums paid net of ceding commissions and other directly attributable expenses paid	-	-	-	-
Recoveries from reinsurance	-	-	-	-
Total cash flows	-	-	-	-
Net balance at 31 December	**202.8**	**0.2**	**(0.1)**	**202.9**
Closing reinsurance contract assets	204.1	-	(0.2)	203.9
Closing reinsurance contract liabilities	(1.3)	0.2	0.1	(1.0)
Net balance as at 31 December	**202.8**	**0.2**	**(0.1)**	**202.9**

30. REINSURANCE CONTRACTS HELD (CONTINUED)

30.3 Impact of contracts recognised in the year

Reinsurance contracts held	Contracts originated not in a net gain	
	2023	2022
	£m	£m
Estimates of present value of future cash outflows	0.7	-
Estimates of present value of future cash inflows	(0.6)	-
Risk adjustment for non-financial risk	-	-
CSM	(0.1)	(0.1)

30.4 Amounts determined on transition to IFRS 17

Year end 31 December 2023	New contracts	Contracts measured under the fair value approach at transition	Total
	£m	£m	£m
CSM as at 1 January	-	(0.1)	(0.1)
Changes that relate to current service			
CSM recognised in profit or loss for the services provided	-	-	-
Changes that relate to future service			
Changes in estimates that adjust the CSM	-	-	-
Contracts initially recognised in the year	0.1	-	0.1
	0.1	**-**	**0.1**
Finance income from reinsurance contracts held	-	-	-
Total amounts recognised in profit or loss	0.1	-	0.1
CSM as at 31 December	0.1	(0.1)	-

30. REINSURANCE CONTRACTS HELD (CONTINUED)

30.4 Amounts determined on transition to IFRS 17 (continued)

Year end 31 December 2022	New contracts	Contracts measured under the fair value approach at transition	Total
	£m	£m	£m
CSM as at 1 January	-	-	-
Changes that relate to current service			
CSM recognised in profit or loss for the services provided	-	-	-
Changes that relate to future service			
Changes in estimates that adjust the CSM	-	(0.1)	(0.1)
Contracts initially recognised in the year	-	-	-
	-	**(0.1)**	**(0.1)**
Finance income from reinsurance contracts held	-	-	-
Total amounts recognised in profit or loss	**-**	**(0.1)**	**(0.1)**
CSM as at 31 December	**-**	**(0.1)**	**(0.1)**

31. CALLED-UP SHARE CAPITAL

Consolidated and Company	2023	2022
	£m	£m
Allotted, issued and fully paid		
Ordinary shares of £1 each		
Number	614,580,002	614,580,002
Value (£m)	614.6	614.6

32. NET CASH FLOWS FROM OPERATING ACTIVITIES

Cash generated from operations:

Consolidated	2023	2022 Restated*
	£m	£m
Profit/(loss) before taxation	**20.9**	**(10.9)**
Adjustments for:		
Amortisation of acquired in-force business	90.3	103.7
Amortisation of intangible fixed asset	0.2	0.2
Gain on termination of lease	(2.1)	-
Loss on disposal of property, plant and equipment	1.3	-
Depreciation of property, plant and equipment	1.8	2.7
Finance cost	0.4	0.6
Change in deferred acquisition costs	(10.3)	(13.6)
Change in deferred front-end fees	5.4	6.4
Change in Policyholder loans	14.3	6.3
Net disposal of financial investments	1,149.3	89.4
Net fair values (gains)/losses on financial investments	(1,978.1)	3,091.7
Change in investment contract liabilities	706.3	(3,233.8)
Change in insurance contract liabilities	183.7	(50.3)
Change in net reinsurance contract assets	(2.7)	23.2
Change in operating receivables	(10.0)	(2.1)
Change in deposits	31.7	7.0
Change in operating payables	(68.3)	123.8
Change in long-term loans	0.9	(0.1)
Change in provisions	1.9	0.4
Adjustments for other non-cash items in P&L	-	2.2
Net cash flows from operating activities	**136.9**	**146.8**

* In addition to IFRS 17 reclassifications, Shareholder interest of £18.6m cashflows from investing activities have been reclassified to net cashflows from operating activities.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

32. NET CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

Company	2023 £m	2022 £m
Profit/ (loss) before taxation	75.9	72.1
Dividend received	(64.0)	(75.0)
Impairment loss on investment in subsidiaries	-	2.9
Change in operating payables	(11.3)	44.5
Change in operating receivables	(1.7)	-
Net cash flows from operating activities	**(1.1)**	**44.5**

*See note 1.25 for details of restatement of comparative information.

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.

Related parties

Transactions with key management personnel

Key management personnel comprise persons who, at any time during the financial period ended 31 December 2023, 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 £0.7m (2022: £0.9m), Non-Executive Directors' fees of £0.3m (2022: £0.3m) and post-employment benefits of £0.1m (2022: £0.1m).

33. IMMEDIATE PARENT, ULTIMATE CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties (continued)

Transactions and balances with related parties

	Amounts owed from/(to) related parties		Revenue/(expenses) with related parties	
Consolidated	**2023**	**2022**	**2023**	**2022**
	£m	**£m**	**£m**	**£m**
Fellow subsidiaries of Utmost Group plc	2.8	3.3	8.0	11.3
	(5.7)	(6.0)	-	-
Direct parent, Utmost International Group Holdings Limited	(0.8)	(0.2)	(0.8)	(0.3)
Company				
Fellow subsidiaries of Utmost Group plc	1.1	-	75.8	75.0
	(49.9)	(61.2)	-	-

Consolidated

Prior to the repayment of the balance on 10 November 2022, within the amount receivable from fellow subsidiaries of Utmost Group plc at the 2022 year end was an amount of financial reinsurance due to be repaid from Athlumney Kappa (Ireland) dac per the terms of an agreement. The interest under the agreement was charged at a commercial rate that had been agreed on an arm's length basis.

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 investment contract liabilities also include £5.4m (2022: £6.2m) due to Utmost PanEurope dac ("UPE") as a reinsurance policyholder per the legal form of the contract, relating to unit-linked investment contract business of Athlumney Kappa (Ireland) dac 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 investment contract products into the Company, therefore the assets are held in the statement of financial position of the Company, with a corresponding investment contract liability due to UPE under the reinsurance agreement.

The Group also has a £20.0m (2022: £20.0m) loan note to Utmost PanEurope dac ("UPE") a fellow subsidiary of Utmost Group plc, see further details in note 17.

Company

The payable balance of £49.9m (2022: £49.9m) is due to Utmost International Isle of Man Limited. Included within revenue from related parties is £64m dividend income from Utmost International Isle of Man Limited, a surplus on the liquidation of Quilter International Middle East Limited of £0.3m and following the liquidation of Utmost International Holdings Limited the write-down of an inter-company creditor of £10.6m, included in 2022 payables, and the assignment of a broker loan of £0.9m(note 18).

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

34. DIRECTORS' AND SECRETARIES INTERESTS

As at 31 December 2023 and 31 December 2022 the Secretary had no beneficial interest in the shares of any company in the Group or any related parties. The directors' interests in the Company's parent company held directly, through personal investment vehicles and family trusts are detailed below:

31 December 2023	**AP Thompson**	**IG Maidens**
Utmost Topco Limited - C ordinary shares of £1 each	2,530	2,530
Utmost Topco Limited - D ordinary shares of £1 each	5,000	5,000
Utmost Topco Limited - Non-voting S ordinary shares of £1 each	50	50
Utmost Topco Limited - Non-voting GBP preference shares of £1 each	16,081,049	16,081,049
31 December 2022		
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

35. CONTINGENT LIABILITIES

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 Utmost International Isle of Man Limited 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 Utmost International Isle of Man Limited include a clause permitting Utmost International Isle of Man Limited 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 not offer investment advice to its policyholders. All investment decisions are made either by the policyholders directly or by advisers appointed by the policyholders, and all of the investment performance risk lies with policyholders. The Group does from time to time receive complaints, claims and have commercial disputes with service providers, in the normal course of business. In addition, occasionally policyholders may seek to take action against the Group when the investments selected by either themselves or their advisers do not perform to their expectations, or if such claims were made and substantiated, it is possible that an adverse resolution could have a material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

35. CONTINGENT LIABILITIES (CONTINUED)

The Group is involved in defending two legal cases on which further disclosure is considered appropriate.

The first of these was served in the Isle of Man Court in July 2020 under which a number of claimants are seeking to recover investment losses relating to a limited number of specified funds which they had requested their insurance policies to be linked to. The claims have been jointly issued against another insurer. The claims are broadly based on allegations that: (a) the Group made a series of implied representations about the level of investment risk to which the claimants were exposed; and (b) the Group had a duty of care to perform due diligence in respect of the investments in question. The proceedings concern claims being brought by over 400 individuals and corporate entities. The total value of the claims pursued is understood to be approximately £65m including interest. Four test claims are listed for a preliminary trial starting in April 2024 which is scheduled for around 8 weeks. The remainder of the claims against the Group are stayed pending the outcome of the trial. Depending on the outcome of the preliminary trial a further trial hearing could be required before the outcome of the test cases is settled. A provision for legal costs expected to be incurred by the Group in order to defend these test claims through to the conclusion of the preliminary trial only has been included in the financial statements and this is detailed in the provisions note 22. As the Group believes that the claims are without merit and that it has strong prospects of success in defending them, no provision for the value of the claims has been included in the financial statements. The Group does have the benefit of professional indemnity insurance and continue to keep its insurers up to date with development in the claims.

The second legal case being defended along with fellow group company Utmost PanEurope dac and another insurer was served in the Isle of Man Courts in May 2023. The claimants are seeking to recover investment losses in respect of insurance policies issued by each defendant. The claims are at an early stage and have not been particularised fully. It is therefore difficult to identify the timeline over which the claims may progress. Under this claim as issued, there are a total of 314 claimants who appear to be claiming £82m against the Group (although the claim form acknowledges that this figure does not take account of the actual retained value of the investments which are linked to the claimants' policies, the value of which will vary). The majority of these claims relate to policies held by professional corporate trustee companies. The costs of this case are being expensed as incurred and no provision for any future spend is in included in these financial statements. Based on the highly limited information received to date the Group believes that these claims are without merit and it has strong prospects of success to defend the claims against it and therefore no provision for the value of the claims has been included in the financial statements. The Group does have the benefit of professional indemnity insurance and continue to keep its insurers up to date with developments in the claim.

35. CONTINGENT LIABILITIES (CONTINUED)

Fairfield

Pursuant to the Isle of Man insurance business transfer scheme between Utmost Limited and Utmost International Isle of Man Limited, effective 30 November 2022, ("the Scheme", see note 3), all liabilities in respect of Utmost Limited's previous long-term business, whether actual or contingent, were transferred to Utmost International Isle of Man Limited. Utmost Limited also agreed to indemnify Utmost International Isle of Man Limited against any charges, costs and claims arising in respect of this business that may arise that were not capable of being transferred under the Insurance Portfolio Transfer.

Utmost International Isle of Man Limited is a defendant in litigation known as the Fairfield claim, relating to the liquidator of a failed fund seeking to recover historic redemption payments made. Utmost International Isle of Man Limited has prevailed in all court proceedings to date however the case continues to appeal. Utmost Limited benefits from an indemnity from Sun Life SMC Limited ("SLSL") granted when Utmost Limited was sold on 21 October 2016, via its parent Utmost Holdings Isle of Man Limited. Utmost Holdings Isle of Man Limited has been indemnified by SLSL in respect of all losses incurred in Utmost Limited arising out of or in connection with the Fairfield claim.

Pursuant to the Scheme, effective 30 November 2022 Utmost International Isle of Man Limited became the successor in interest to the Fairfield claim. In order to ensure neither the Company or Utmost Limited's financial position was adversely affected following the scheme, Utmost Limited under deed, undertook to indemnify Utmost International Isle of Man Limited in respect of any losses relating to the Fairfield claim.

The costs including legal costs, of these issues as they arise can be significant and where appropriate, provisions have been made under IAS 37, see note 22.

36. POST BALANCE SHEET EVENTS

There are no post balance sheet events.