UTMOST INTERNATIONAL
GROUP HOLDINGS LTD
ANNUAL REPORT
2018

REASSURINGLY DIFFERENT

utmost™
INTERNATIONAL

CONTENTS

Utmost International uses APMs as key financial indicators to assess the underlying performance of the Group. Management considers the APMs used to provide an accurate and helpful reflection of business performance.

For further information, please see page 94.

This document contains, and Utmost International may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the current plans, goals and expectations relating to future financial conditions, or the performance, results, strategy and/or objectives of Utmost International.

For further information, please see page 98.

utmost™
INTERNATIONAL

We are dedicated to making a positive difference, building a brighter future for our clients and better serving all stakeholders.

We are driven by a desire to be the leader in our markets.

Our strong reputation has been developed through our honesty, integrity and staying true to our word.

When you make a commitment, you build hope. When you keep it, you build trust.

REASSURINGLY DIFFERENT

UTMOST INTERNATIONAL STRIVES TO BE THE LEADING PROVIDER OF INSURANCE SOLUTIONS TO WEALTHY INDIVIDUALS IN COUNTRIES WHERE INSURANCE OFFERS A PLANNING ADVANTAGE

Utmost International is a leading life assurance group which provides solutions to help preserve our clients' wealth and safeguard it for future generations.

Our vision is to become the leading provider of insurance products to wealthy individuals in countries where insurance offers a planning advantage.

Utmost International reached new heights in 2018 and continues on its growth trajectory. Our global footprint and strong market position mean the business is well positioned to capture upside from the structural growth in the markets we operate in. Our significant financial strength, disciplined approach to business development and culture of excellence enable us to take advantage of opportunities arising in the future. Our long-term vision and entrepreneurial mindset enable us to achieve our value creation potential.

WHAT WE DO

utmost™ INTERNATIONAL

Utmost International serves two attractive global markets through its principal businesses, Utmost Wealth Solutions ("UWS") and Utmost Corporate Solutions ("UCS").

Utmost International has been assembled through a number of acquisitions. By bringing these businesses together under a common strategy and brand, Utmost International has created a financially and operationally robust insurance group which is strongly positioned to support our clients.

utmost™ WEALTH SOLUTIONS

Utmost Wealth Solutions is a leading provider of wealth solutions through the use of unit-linked life assurance products, and Capital Redemption Bonds in relevant markets. Our clients are affluent, High-Net Worth ("HNW") and Ultra-High Net Worth ("UHNW") individuals who are based in a wide range of jurisdictions globally. Our products help our clients to preserve their wealth and safeguard it for future generations.

This is a specialist market, which demands focus and rewards scale and technical expertise – in particular the agility to react to the changing environments in our markets.

utmost™ CORPORATE SOLUTIONS

Utmost Corporate Solutions provides employee benefits including life, disability and critical illness cover to the employees of its clients (mainly Multi National Corporates ("MNCs")) as well as pensions and savings products for the employees themselves.

UCS offers a unique proposition for clients with staff situated across multiple global jurisdictions.

WHO WE ARE

Our values help our businesses and our employees to deliver outcomes which reward our clients and stakeholders. We are here to make a difference. We are:

Inspiring
We have a clear vision and direction, with the confidence and experience to try new ideas in order to enact meaningful change where required.

Motivated
Our positive attitude and energetic approach serve us in realising our potential. We are ambitious thinkers and strive to become leaders in our chosen markets.

Personable
We care deeply about making a difference to our stakeholders. Our approach is one of empathy and respect and we bring a personal touch to the innovative solutions we deliver.

Adaptable
We use our experience to adapt to any changes in circumstances or requirements. We are mindful of broader industry trends in our decision-making.

Collaborative
We work productively with our stakeholders to ensure our choices make a positive difference. Our approach encourages communication, teamwork and mutual respect.

Trustworthy
Our honesty, reliability and professionalism have helped us achieve high standing amongst our partners and industry peers. We stay true to our word, true to our stakeholders' interests and are here for the long haul.

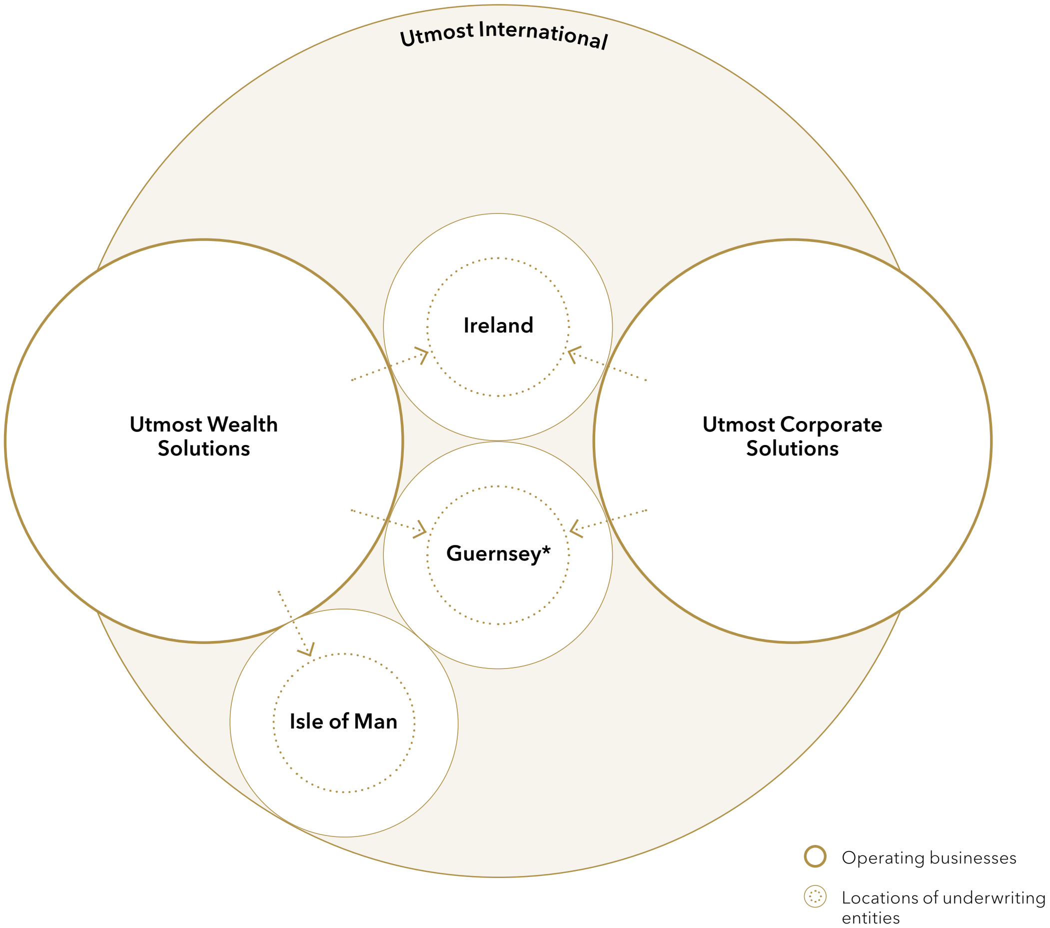
REASSURINGLY DIFFERENT

HOW WE OPERATE

Utmost International group functions operate from the London office where the Group CEO and CFO are based. Group functions include strategy and corporate development, investor relations and corporate communications, finance, actuarial, tax, internal audit and the Company Secretary.

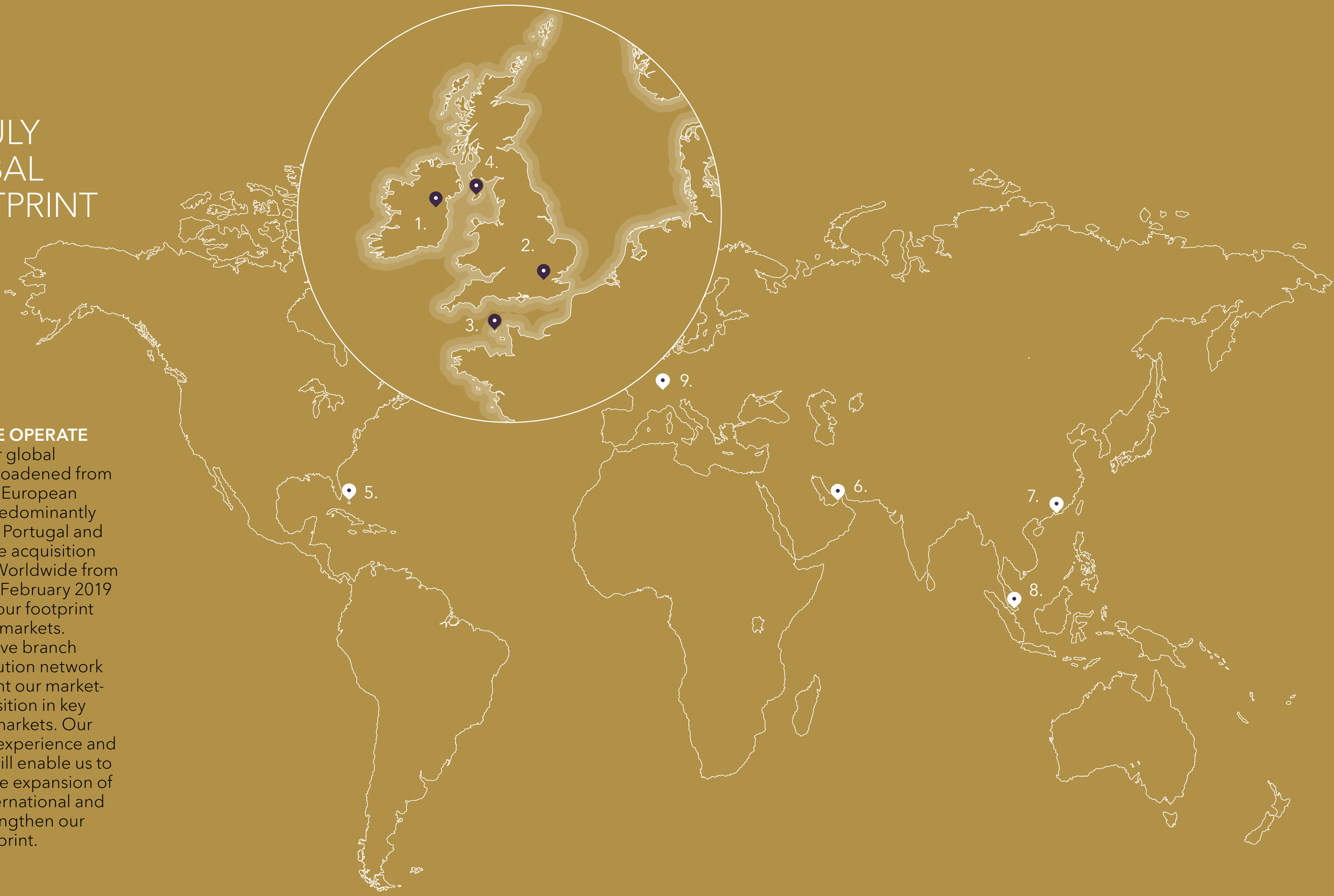
The Utmost Wealth Solutions and Utmost Corporate Solutions businesses are operated through offices based in Ireland and the Isle of Man, and with the acquisition of Utmost Worldwide Limited from February 2019, also in Guernsey. The life insurance businesses are serviced by specialist life insurance service companies, Utmost Services Limited and Utmost Services Ireland Limited. Each of the wealth and corporate solutions businesses have teams in and across the jurisdictions which perform the following functions:

- Customer services
- Sales and marketing
- Product and proposition development
- Operations, technology and security
- Finance, actuarial, tax
- Legal, risk, governance and compliance
- Human resources.



* From February 2019.

A TRULY GLOBAL FOOTPRINT



WHERE WE OPERATE
In 2018, our global footprint broadened from the UK into European markets, predominantly Italy, Spain, Portugal and Finland. The acquisition of Utmost Worldwide from Generali in February 2019 expanded our footprint into global markets. The extensive branch and distribution network complement our market-leading position in key European markets. Our combined experience and expertise will enable us to continue the expansion of Utmost International and further strengthen our global footprint.

Key Corporate Centres
1. Ireland
2. UK
3. Guernsey
4. Isle of Man

Branch Offices
5. Bahamas
6. Dubai
7. Hong Kong
8. Singapore
9. Switzerland

Holding companies

Operating entities

Read more about our governance
structure on page 34.

A STRONG TRAJECTORY BUILT ON SOLID FOUNDATIONS

2013

The Utmost Group of Companies (formerly LCCG) is founded by Paul Thompson (Group CEO) and Ian Maidens (Group CFO) with backing from Oaktree Capital Group

2015

Through the year, Utmost International purchases the closed Irish insurance business IBRC Assurance Company Limited and Scottish Mutual International Limited

2016

JULY
Utmost International purchases Aviva Life International. The business has £1.2bn of Assets under Administration

OCTOBER
Utmost International purchases AXA Isle of Man, which is one of the largest providers of offshore bonds to the UK market across the Isle of Man and Ireland

NOVEMBER
Utmost International purchases Augura Life Ireland and Altraplan Bermuda, followed a few months later by Union Heritage Life Assurance

2017

JUNE
Utmost International acquires the investment bond business of AXA Life Europe

2018

JUNE
Utmost International acquires Generali PanEurope and continues with its intention to create a market-leading, specialist wealth manager with a global footprint

DECEMBER
Utmost International acquires Athora Ireland's (formerly Aegon Ireland) International investment bond business

2019

FEBRUARY
Utmost International purchases Generali Worldwide Insurance Company Limited

FEBRUARY
Rebranding of the Group to Utmost is complete

2019 IN NUMBERS[1]

A
Insurer Financial Strength Rating assigned to the four operating entities[2]

825
Employees

142,000
Customers

157%
Net Solvency Coverage Ratio

£28BN
Total Assets managed by Utmost International

1. 2018 numbers on a pro-forma basis allowing for the completion of the Generali Worldwide acquisition.
2. Utmost PanEurope DAC, Utmost Ireland DAC, Utmost Limited, Utmost Worldwide Limited.

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STRATEGIC REPORT

2018 HAS BEEN AN OUTSTANDING YEAR FOR UTMOST INTERNATIONAL WHICH IS TESTAMENT TO OUR BUSINESS MODEL AND OUR APPROACH TO VALUE CREATION

Paul Thompson
Group Chief Executive Officer

2018 marked five years since Ian and I founded Utmost International and set out to build a leading insurance business with the backing of our strategic investor, Oaktree Capital Group, LLC ("Oaktree"). 2018 was the year that we truly achieved scale in our key markets. The growth of our business has been accelerated by a period of acquisitions, through which we have diversified our product range and geographical footprint. Our mission is to build a brighter future for our clients and better serve all stakeholders. Utmost International remains keenly focused on our strategic goals to develop our business through organic growth and the realisation of synergies from our businesses.

Our growth has been in three phases. The first phase was our expansion in the UK. The acquisitions of AXA Isle of Man and Aviva Life International in 2016 gave us a strong UK market position. The second phase was our expansion into Europe with the UPE acquisition and the third was our expansion into global markets with the acquisition of Generali Worldwide ("GW").

CORPORATE ACTIVITY

At the start of 2018, Utmost International was predominantly a UK-focused wealth solutions business through our Isle of Man business, Utmost Limited. Two acquisitions in 2018 – Generali PanEurope ("GPE") and the Athora Ireland international bond portfolio – have taken the business forward by expanding into Europe and diversifying our business and geographical footprint.

The acquisition of GPE expanded the footprint of Utmost International into Europe, where we now have strong positions in the Italian and Spanish markets. GPE was considered a non-core business of Generali. As a part of Utmost International, GPE will receive ongoing investment and focus in order to support its long-term success. GPE was rebranded to Utmost PanEurope ("UPE") following the acquisition.

The acquisition of UPE also marked our entry into the corporate solutions market. UPE has a sizeable corporate solutions business in Ireland and in Europe with a unique proposition for multinationals operating across the EU. The proposition provides employee benefits to employees of multinationals based in multiple countries under a single policy. This provides corporate clients with ease of administration and cost efficiency.

The year closed on a strong note. On 31 December 2018, the acquisition of the international bond portfolio of Athora Ireland completed. Under Utmost International's ownership the portfolio has since re-opened to increments demonstrating our commitment to providing good client outcomes.

Utmost International growth – expanding our distribution footprint

£152M

APE

2018

A strong Annual Premium Equivalent reflects our clients' confidence in the business.

The intention to acquire GW, a Guernsey-based insurance company providing wealth solutions to global clients, was announced in July 2018. The acquisition was completed in February 2019. The deal broadens both our wealth and corporate solutions offerings. The combination of Utmost International's strength in the UK and Europe and GW's global network provides the opportunity to deliver this broad-based offering to clients and advisors around the world. GW was rebranded to Utmost Worldwide ("UW") following the acquisition.

PROMOTING ORGANIC GROWTH

Utmost International places a priority on the organic growth of our businesses. It is imperative we write profitable new business. Our focus is value-add solutions in the HNW/UHNW markets. The recent creation of a group-wide sales and marketing function will support organic growth. In 2018 our Annual Premium Equivalent ("APE") was £152m in spite of some challenging market conditions and 2019 sales are off to a strong start. Our success is only possible through the support of our distribution partners and clients and the dedicated work of our talented employees.

The markets we operate in are subject to ongoing change and products in the international life assurance market can require some degree of customisation. Utmost International continually invests in our products and propositions to meet client demand. Our technical team supports distribution partners to address the complex tax and legal client questions which arise.

INSPIRATIONAL BRAND

We recently carried out an extensive rebranding exercise across our businesses to embed the Utmost brand. Each acquired business has been rebranded, adopting the Utmost brand. Utmost now presents a common face to our clients and stakeholders globally. The rebrand is a significant step in our evolution, bringing all of our businesses under a single, strong brand name.

The team has worked hard to develop a brand which represents our core values including our commitment to improving client outcomes and better serving all our stakeholders. Our businesses are focused on developing the most appropriate products and services for new and existing clients, and the new brand provides an ideal platform through which to support our clients.

Read more about our values on page 2.

RECOGNITION

We have a strong reputation for good client service. This is a key differentiating factor in the international life assurance market. A range of accolades from service ratings to product awards is testament to our commitment to excellence.

Utmost Wealth Solutions

International Investment
International Fund and Product Awards 2018
Best International Trust and Estate Planning Product – Estate Planning Bond

Professional Paraplanner Awards 2018
Best Offshore Product Provider

Professional Paraplanner Awards 2019
Best Offshore Product Provider

Defaqto Investment Bond Service Rating 2019
Gold Rating*

Utmost Corporate Solutions

International Adviser Award 2018
Best EB provider

* Defaqto Gold Service Rating applies to Utmost Limited and Utmost Ireland Investment Bonds.

825

Employees

We are creating a diverse and vibrant environment where our employees can thrive.

CREATION OF SYNERGIES

Successful integration is key to Utmost International's consolidation strategy. It enables us to deliver deeper synergies and we view it as one of our core competencies; essential to enhancing our financial and operational performance.

Utmost International has a Target Operating Model ("TOM") which is regularly reviewed to ensure it remains optimal. When businesses are acquired, or portfolio transfers are undertaken, a period of integration immediately follows, guided by our proven integration methodology. The integration of new acquisitions is carried out consistently with our TOM, which itself may be refreshed as and when new acquisitions are completed.

Following every new acquisition, our integration methodology gives the highest priority to ensuring that all core governance, risk management and control structures are established before any synergy-driven integration commences. Only once these have been implemented and we have addressed any outstanding risks identified during the due diligence phase of the acquisition, will our attention turn to the operational and financial synergies that were identified prior to the purchase.

Key to delivering our integration agenda is ensuring the aggregate demand for project delivery does not exceed the capacity of the Group to deliver change. To this end our change management framework has all the necessary controls to ensure our integration objectives are delivered as safely and predictably as possible whilst maintaining customer activities.

The TOM provides guiding "tramlines" to enable the right synergies to be extracted, without compromising our core governance and risk management frameworks. Our strategic client servicing and investment admin IT platforms continue to demonstrate their fitness for purpose and cost-effectiveness.

In 2018, our integration agenda was dominated by the acquisitions of UPE and the Athora Ireland international bond portfolio and the consolidation of legal entities within the Irish business. In March 2018 Utmost International merged four of its smaller Irish life assurance companies into one. Such projects are strategically important for Utmost International and their timely delivery is important to the future success of the business. As such, progress is kept under regular review by the Board and management teams of each of the operating entities.

Our business has already undergone rapid change and this rate of change is not expected to diminish. It is therefore imperative that the Executive Team continues to balance the need to deliver synergies with the need to protect all core business-as-usual activities and the interests of our policyholders. There are further improvements and simplifications we plan to deliver to our business and these form a significant part of our current project agenda. During this year and beyond, we will continue to identify and deliver these types of initiatives to improve outcomes for clients and other stakeholders.

CLIENT OUTCOMES

Good client outcomes remain front and centre of our strategy. We aim to build a brighter future for our clients and better serve all stakeholders. Life assurance is a long-term commitment and our clients need a long-term business partner. As such, we must pursue a long-term vision.

Client confidence in our business is recognised through our strong sales figures and our high retention rates. Utmost International has worked with more fund managers, custodians and distribution partners in 2018 than ever before to provide our clients with choice and control over their assets. We focus on supporting our distribution partners by providing technical support and developing a suite of products which meets their clients' needs.

Utmost International has created a group-wide product proposition team to continue to develop our product offering based on clients' needs and to deliver the best outcomes, solutions and value.

Our largest team is our client service team. To increase effectiveness and enhance customer and distribution partners' experience, we continually invest in client service delivery. We plan to enhance our online servicing centre to ensure clients and distribution partners have instant access to their policy information. Our servicing and marketing teams create product and marketing literature that clearly describes our product features and the benefits for our clients. Timely communication of corporate, regulatory and product updates along with any potential impact on our policyholders is provided through a mix of channels including direct mailings, company website updates and social media pages.

142,000

Customers

In the coming year we will continue to enhance our product proposition to continue to meet clients' evolving needs and ensure our clients receive good outcomes and value-for-money. A core pillar of our client strategy is high-quality service delivery. We will continue to build our online service centre for clients and advisers to work with us digitally and deliver straight through processing for clients. We will also introduce regular surveys to ensure our clients' and distribution partners' satisfaction on a group-wide basis.

The businesses that we have acquired have long histories and identities. Each has acquired many thousands of clients since its inception. Throughout each acquisition process we worked hard to communicate changes to our clients and distribution partners, and to reassure all our stakeholders that their best interests are important to the business.

TALENT DEVELOPMENT

Following its recent acquisitions, Utmost International has over 800 employees. A key pillar of our success is the dedication and skill of our employees. It is important we create a diverse and vibrant environment where our employees can thrive. Our employees are proud to work for Utmost International and one of our priorities is to sustain an environment where we can continue to attract and retain the best talent. An important focus is embedding our distinct culture and values across the business and helping our talented employees to reach their potential. The continual development of our proposition and platform provides an exciting and attractive base for recruiting and retaining talented employees.

EXPANDING LOCATIONS

Following the acquisition of UPE, our team moved into a new location in Dublin with the benefit of locating our Dublin employees in a single office. We now have two offices in Ireland, one in Navan and one in Dublin. Our Group Head Office team moved into new offices in London, providing a modern location to accommodate our growing team. We have additional offices in Douglas, Isle of Man, and following the UW acquisition, St Peter Port, Guernsey and branch offices in Singapore, Switzerland, Hong Kong, Dubai and the Bahamas.

MARKET BACKDROP

Market conditions were challenging in 2018, particularly the final quarter, as many markets declined. Investors had to contend with rising US central bank interest rates, weaker Chinese growth and rising geopolitical concerns including Brexit, the Italian political environment and the ongoing trade conflict between the US and China. Political and economic uncertainty remains and our clients may face a period of potentially lower returns and higher volatility. Our platform offers clients a wide range of investment managers and investment solutions, giving them choice and control over their assets.

With regards to Brexit, the implications for financial services of the UK's exit from the EU are not finalised. Our team has contingency plans in place. Given our geographical diversity and jurisdictional mix, Utmost International is well positioned to deal with the potential outcomes.

POSITIONED FOR FUTURE GROWTH

Our business reached new heights in 2018 and continues on its growth trajectory. Our global footprint and leading position mean we are well positioned to capture upside from the structural growth in our markets. Our robust financial position, disciplined approached to business development and culture of excellence enable us to take advantage of opportunities arising in the future. We endeavour to create long-term value. Our vision and entrepreneurial mindset enable us to achieve our value creation potential.

Paul Thompson
Group Chief Executive Officer

A DYNAMIC MARKET BUOYED BY STRUCTURAL GROWTH

Utmost International is driven to be the leader in our chosen markets. Our business model balances agility with responsibility. We strive to use our bespoke knowledge to benefit our clients today and for the future.

Wealth Creation

31%

Global millionaire[1] population is projected to grow more than 30% over the next five years.

Source: Credit Suisse Global Wealth Report 2018

Overview
- Global wealth continues to rise with further growth expected over the short to medium term
- The number of millionaires in Utmost International's major markets grew last year
- Forecasts show expected growth in the millionaire population to increase by more than 30% over the next five years

Global aggregate wealth is on the rise, with further increases expected over the next five years. A report on global wealth[2] states that global wealth "will primarily be driven by growth in the middle segment, but the number of millionaires will also grow markedly over the next five years to reach a new all-time high".

The growth in the millionaire population is global, with millionaire populations in the UK, Europe and Asia expanding during 2018. The size of growth varied significantly per country, highlighting the benefits of a global operation.

Utmost International is well placed to assist these individuals with a variety of wealth solutions, tailored to each market by local experts.

1. Millionaire is measured in US$ wealth.
2. Credit Suisse Global Wealth Report 2018.

Demographics

51%

Only around half of families are expected to have a robust succession plan in place to pass their wealth to the next generation.

Source: Knight Frank Attitudes Survey, Knight Frank Wealth Report 2019

Overview
- Inter-generational transfers are expected to increase
- Life assurance can be an efficient tool in preserving wealth
- Customers are expecting more comprehensive online capability

With an ageing global population which is becoming more affluent, opportunities to help our clients manage inter-generational transfers are expected to increase. Life assurance is a robust and proven solution to assist in financial planning in the HNW and UHNW markets.

Customer expectations are changing, resulting in an increasing demand for online product management. Utmost International has the scale to invest in developing this accessibility and is planning to enhance its online servicing centre to provide clients and distribution partners instant access to their policy information.

Global Trends

72%

72% of global executives believe the need for globally mobile employees will increase.

Source: Harvard Business Review Analytic Services

Overview
– Global mobility is expected to rise
– Traditional markets are evolving
– Regulatory requirements are increasing

According to a Harvard Business Review Analytic Services Survey 72% of executives believe the need for globally mobile employees will increase. Utmost International is well placed to provide employee benefits to these companies with its unique offering which covers multiple jurisdictions under one policy.

There has been significant disruption in the pensions and savings markets in recent years which historically have been dominated by traditional life insurers. The advent of platforms along with major regulatory changes has disrupted the value chain and enabled new entrants. Investment platforms offer access to a wide range of assets which can suit consumers who demand increased control over their wealth.

Increasing regulatory requirements including Solvency II and IFRS 17 are barriers to entry for new entrants to the life assurance space. Continual changes to regulation and a focus on increasing capital requirements have led to an increase in business as usual operating costs across the industry. Utmost International has a target operating model which focuses on simplification to enable agility in this fast-changing environment. Furthermore, due to the scale achieved from acquisitions over the last year, Utmost International is well placed to spread these costs.

Market Uncertainty

58%

Most UHNW wealth advisors agreed that the political and economic environment last year made it more difficult to create and protect wealth globally.

Source: Knight Frank Attitudes Survey, Knight Frank Wealth Report 2019

Overview
– Rising US central bank interest rates
– Weaker Chinese growth
– Rising geopolitical concerns

Several global uncertainties are impacting markets, including the unknown implications of the UK's exit from the EU, the appointment of a new UK prime minister and the US and China trade war. Most UHNW advisors believed it was more difficult to create and protect wealth globally last year compared to 2017, due to the political and economic environment. Market uncertainty is expected to continue, with the majority of UHNW advisors believing that these difficulties will remain over 2019.

This uncertainty can impact how individuals decide to invest. Utmost International offers a range of bonds and flexible investment options which we believe is an attractive proposition for our clients in this environment.

With regards to Brexit, our team has contingency plans in place. Given our geographical diversity and jurisdictional mix, Utmost International is well positioned to deal with the potential outcomes.


WEALTH
UTIONS

UTMOST INTERNATIONAL STRIVES TO BE THE LEADING PROVIDER OF INSURANCE SOLUTIONS TO WEALTHY INDIVIDUALS IN COUNTRIES WHERE INSURANCE OFFERS A PLANNING ADVANTAGE

With a growing population of wealthy individuals looking to preserve and manage their finances, Utmost Wealth Solutions is positioned to benefit from the intrinsic growth drivers in its market. Life assurance is a robust and proven solution to assist in financial planning in the HNW/UHNW markets. Our solutions are adaptable and flexible, offering clients choice and control over their assets. They can also be used alongside other wealth management solutions.

The pace of change in legal, fiscal and regulatory frameworks is rapid. Utmost International is well placed to respond to this changing environment due to the large team of technical specialists who support the identification and implementation of appropriate solutions.

The employee benefit market is projected to grow as employers increasingly view benefits as a way to deliver on their strategic vision to create healthier, happier and more engaged employees. Corporate organisations can use benefit structures to support their changing business objectives and cultures. Additionally, employees increasingly expect higher levels of engagement with their employer and flexibility in their working lives. With its distinct market position, Utmost Corporate Solutions has an opportunity to increase its share of a growing market.

Our strategy will enable us to:

- Become the leading provider of international life assurance;
- Create synergies in our business to support our ongoing growth prospects and generate efficiencies;
- Deliver decisions which enhance our financial and operational performance;
- Provide better outcomes to all stakeholders, as part of an active and growing business.

OUR STRATEGY

Utmost International is focused on the delivery of its four strategic goals:

1. Growth in Wealth Solutions

Our priority is organic growth. We are looking to enhance our product range, add new features and expand our presence to additional locations. We support our distribution partners through product development and the provision of excellent technical support. Further acquisitions may be undertaken, but will be subject to strict criteria. These may serve to further strengthen our wealth footprint.

2. Growth in Corporate Solutions

Our focus is to develop further strategic partnerships and extend our proposition to additional territories.

3. Creation of Synergies

The successful integration of our acquired businesses enhances our financial and operational performance. Our Target Operating Model ("TOM") delivers efficiencies, reduces expenses and embeds our risk management processes.

4. Good Client Outcomes

Delivering good client outcomes is front and centre of our strategy. Our mission is to build a brighter future for our clients through preserving their wealth.

Strategic Goal 1:

Growth in Wealth Solutions

Our priority is placed on organic growth. The growth strategy focuses on enhancing the existing product range through adding new features and the introduction of new products. UWS will look to enhance client choice and flexibility.

We work closely with our distribution partners on technical support and developing innovative new products which meet their clients' needs.

KPIs

The following key performance indicators provide a measurement for growth in the wealth solutions business.

- Annual Premium Equivalent ("APE")
- Assets under Administration ("AUA")
- Value of New Business ("VNB")
- Operating Profit
- Solvency II Economic Value ("SII EV")

Strategic Goal 2:

Growth in Corporate Solutions

UCS' focus is organic growth. Our target is to extend our European footprint and expand globally. UCS is targeting new channels and the development of strategic partnerships.

KPIs

The following key performance indicators provide a measurement for growth in the corporate solutions business.

- Annual Premium Equivalent
- Value of New Business
- Operating Profit

Strategic Goal 3:

Creation of Synergies

Utmost International has a proven Target Operating Model and strategic platforms in place. Once businesses are acquired, or portfolio transfers are undertaken, projects are set up to transition these businesses towards our Target Operating Model and strategic platforms.

Our strategic platforms for client servicing and investment administration require no third-party involvement in their ongoing development and are wholly supported in-house. Our in-house development and support capability ensures minimal reliance on third parties.

KPIs

The following key performance indicators provide an indication of the progress made towards the creation of synergies.

- Solvency II Economic Value
- Operating Profit

Strategic Goal 4:

Good Client Outcomes

Our business was founded on the belief that all stakeholders are better served as part of an active and growing business. Good client outcomes remain front and centre of our strategy. Our overall purpose is to build a brighter future for our clients and better serve all stakeholders. Utmost International focuses on helping our clients preserve their wealth and safeguard it for future generations.

Client confidence in our business is recognised through our strong APE figures and our high retention rates. Our organic growth has been resilient in the face of recent corporate activity and challenging market conditions.

KPIs

The success of our strategy to deliver good client outcomes can be demonstrated by our APE and AUA results.

Annual Premium Equivalent

Assets under Administration

Case study:

Utmost Technical Academy

Utmost Technical Academies are run twice a year around the UK for financial advisers and paraplanners. They provide a platform for UWS to provide input on technical subject matters. The events are an opportunity to educate and inform our partners around ongoing changes in the international bond market and are CPD accredited.

For further information: https://utmostwealth.com/utech

THE DEVELOPMENT OF THE GROUP IN 2018 HAS RESULTED IN STRONG PERFORMANCE IN RESPECT OF EACH OF OUR KPIs

£24BN

ASSETS UNDER ADMINISTRATION ("AUA")
Assets administered by the Group on behalf of clients. AUA provides a measure of the scale of the Group and a measure of our potential earnings capability.

The AUA is included in the IFRS statements on page 53 and a reconciliation is provided on page 94.

Measure
AUA grew from £10.5bn to £24.3bn in 2018 demonstrating a strong growth in our business. Both organic growth and acquisitions contributed to the growth in AUA in spite of challenging market conditions.

LINK TO STRATEGIC GOALS

£152M

ANNUAL PREMIUM EQUIVALENT ("APE")
A measure of our sales calculated as the value of regular premiums plus 10% of any new single premiums written in the year.

Measure
In 2018, APE was £152m compared to £42m in 2017. Acquisition activity and strong sales activity supported growth in APE. 2019 has seen a strong start with the Utmost brand presenting a common face to our clients globally.

LINK TO STRATEGIC GOALS

£15M

VALUE OF NEW BUSINESS ("VNB")
A measure of the economic value of the profits expected to emerge from new business. VNB is a measure of the profitability of our new business.

It is calculated as the present value of future income arising from new business written in the year, less costs associated with writing the business.

Measure
VNB in 2018 was £15m compared to £3m in 2017 and our strategy is to double VNB over a five-year period. The strong VNB in 2018 demonstrates the resilience of our business. Our focus is on writing profitable business by providing high-quality service and customer solutions, rather than focusing on high-volume, low-margin business.

LINK TO STRATEGIC GOALS

£31M

OPERATING PROFIT

This measures the profit emerging from the key operations of the business.

A measure of IFRS earnings before interest, taxation, depreciation and amortisation ("EBITDA"). Operating profit excludes any non-core and one-off items which are not expected to recur.

Measure
Our Operating Profit in 2018 was £31m compared to £15m in 2017, reflecting the increased size of the business after a successful period of acquisitions.

LINK TO STRATEGIC GOALS

£614M

SOLVENCY II ECONOMIC VALUE ("SII EV")

The Group view of the aggregate value of the business. Calculated by adding the Solvency II economic value of its insurance companies and the IFRS net asset value of its non-insurance companies, adjusted to reflect an internal view of economic capital.

Please see a more detailed description of the SII EV methodology in the Chief Financial Officer's review.

Measure
SII EV increased from £271m to £614m over 2018 driven by the acquisition of UPE. In addition, the merger of some legal entities drove value creation through financial and operational benefits.

LINK TO STRATEGIC GOALS

OUR STRATEGIC GOALS

1. Growth in Wealth Solutions

Our priority is on organic growth. We look to enhance our product range, add new features and expand our presence in additional locations.

2. Growth in Corporate Solutions

Our focus is to develop further strategic partnerships and extend our proposition to additional territories.

3. Creation of Synergies

The successful integration of our acquired businesses enhances our financial and operational performance. Our Target Operating Model ("TOM") delivers efficiencies, reduces expenses and embeds our risk management processes.

4. Good Client Outcomes

Delivering good client outcomes is front and centre of our strategy. Our mission is to build a brighter future for our clients through preserving their wealth.

For more information about our strategy, see pages 19 to 21.

UWS PROVIDES INTERNATIONAL LIFE ASSURANCE TO AFFLUENT, HIGH-NET WORTH AND ULTRA-HIGH NET WORTH INDIVIDUALS IN THE UK, EUROPE AND SELECT GLOBAL LOCATIONS

UTMOST INTERNATIONAL

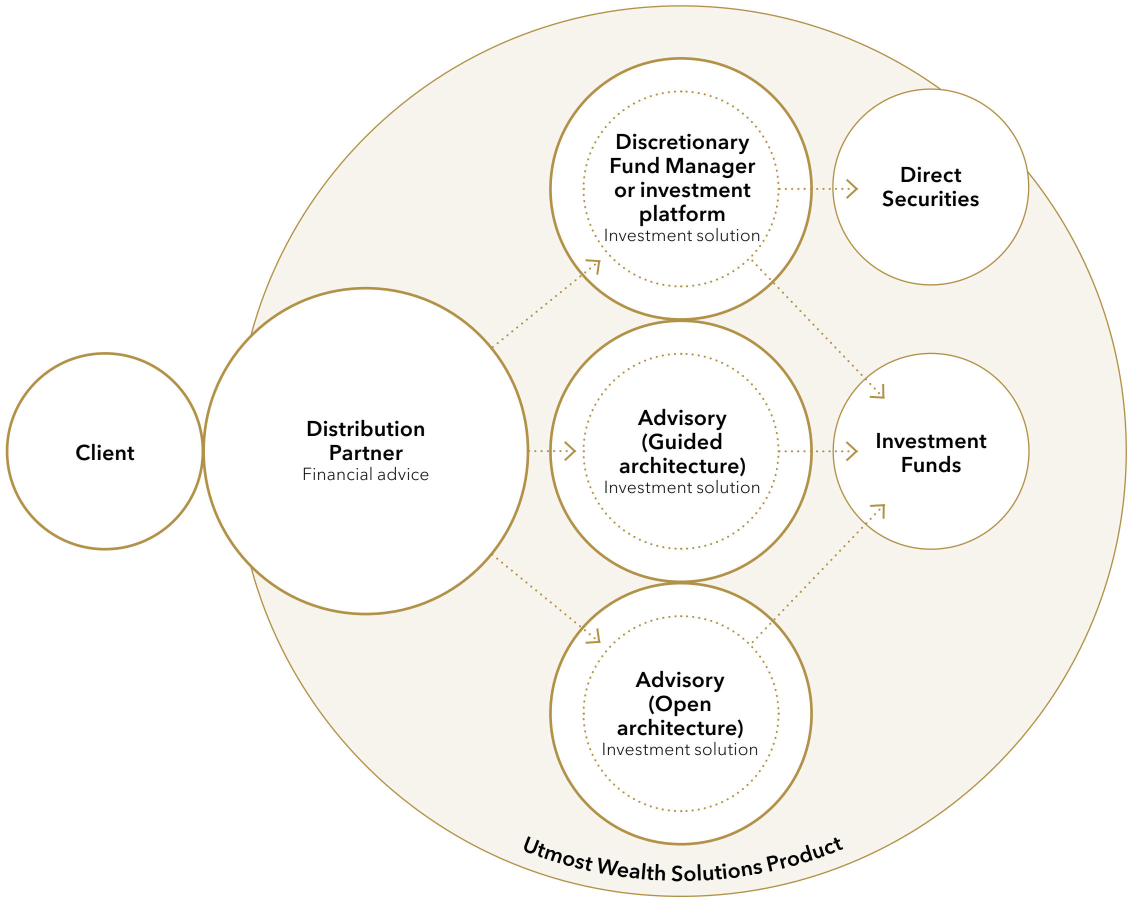
Utmost International has been assembled through acquisitions, often of insurers that – while financially robust – were previously owned by major insurance groups which did not regard them as "core". By bringing these companies together under a common strategy and rationalising to achieve significant cost synergies, Utmost International has created a financially and operationally robust insurance group which is strongly positioned to win new business.

Further acquisitions may be undertaken, but will be subject to strict criteria. Utmost International has both qualitative and quantitative targets with regards to M&A opportunities. Our focus is on M&A deals within the international unit-linked space which fit our M&A framework. Our approach is prudent and conservative and full due diligence is undertaken ahead of every new acquisition.

Utmost International has demonstrable expertise in combining businesses and operations to support ongoing growth prospects and generate efficiencies. The Utmost International management team has a long and successful track record of acquisitions in the insurance space.

Utmost International is comprised of the Utmost Wealth Solutions and Utmost Corporate Solutions businesses. Utmost Wealth Solutions provides predominantly unit-linked solutions to high-net worth and ultra-high net worth individuals. Utmost Corporate Solutions provides employee benefit solutions to corporate clients.

Utmost Wealth Solutions Business Model



£141M

UWS Annual Premium Equivalent

UCS PROVIDES EMPLOYEE BENEFIT SOLUTIONS TO CORPORATE CLIENTS INCLUDING LIFE, DISABILITY AND CRITICAL ILLNESS COVER

£11M

UCS Annual Premium Equivalent

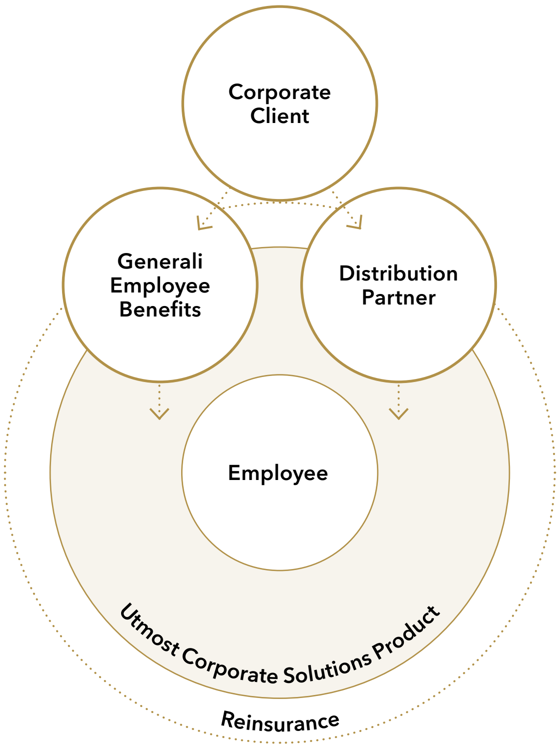
UTMOST WEALTH SOLUTIONS

UWS provides unit-linked life insurance products and, in relevant markets, a capital redemption bond option, to assist our clients in preserving their wealth and safeguarding it for future generations. Life assurance is a robust and proven solution to assist in financial planning in the HNW/UHNW space. UWS products are sold on an advised basis and fees are earned either via an initial or an ongoing charge basis. Clients are directed to UWS through our distribution partners, which include private banks, financial advisers and family offices. Life assurance and capital redemption bonds are long-term planning vehicles which require commitment from a long-term partner.

Our model provides clients with a range of flexible solutions. Through our distribution partners, our clients have access to a wide range of investment solutions. Options include a guided range or the client can access full open architecture. Alternatively, the distribution partner can select an external manager or custodian such as a discretionary fund manager or an external investment platform to provide the investment solution for the client. UWS partner with a wide range of external custodians, offering our clients choice and flexibility.

A core pillar of our strategy is to deliver good client outcomes, encapsulating industry-leading client service. Our scale enables continual investment into our products and propositions. Our employees are incentivised to provide the highest level of client service and build close, long-term relationships with our distribution partners. This model is supportive of long-term client relationships and the sustainable growth of our business.

Utmost Corporate Solutions Business Model



UTMOST CORPORATE SOLUTIONS

UCS provides employee benefit solutions to its corporate clients which include group life, disability and critical illness cover. UCS' offering is unique as it can cover multiple jurisdictions under a single product, offering ease of administration and cost efficiency. UCS sources business directly from corporates, from brokers and from its business partner Generali Employee Benefits ("GEB").

UCS is the sole Generali Employee Benefits ("GEB") network partner for Ireland, PanEuropean and global expatriate solutions. GEB is the largest network of group risk providers in the world with over 130 partners in 100 countries and 1,500 clients. The core function of GEB is to direct employee benefits business from corporates in GEB's network to its local insurance partners, such as UCS.

UCS receives annual insurance premiums for the insurance cover which it provides. The products are short term in nature and often subject to annual renewals. Most of the business written by UCS is reinsured.

2018 HAS CEMENTED UTMOST INTERNATIONAL'S POSITION AS A GLOBAL LEADER. THE GROUP HAS DEVELOPED ITS BUSINESS AND GEOGRAPHIC FOOTPRINT SUBSTANTIALLY, WITH THIS GROWTH UNDERPINNED BY OUR FINANCIAL STRENGTH. WE MADE SIGNIFICANT STRIDES TOWARDS ACHIEVING OUR LONG-TERM VISION

Ian Maidens
Group Chief Financial Officer

During 2018 the Irish and Isle of Man operations of Utmost International came together under the common ownership of Utmost International Group Holdings Ltd.

In addition to this combination, Utmost International completed two substantial acquisitions in 2018 with a further major acquisition, that of Generali Worldwide Insurance Company Limited ("GW"), being announced in July 2018. This latter transaction completed in February 2019, when GW was renamed Utmost Worldwide Limited ("UW"). In addition, a further £45m (€50m) of capital was injected into the Utmost International business in February 2019 in connection with the Athora Ireland transaction.

These transactions have transformed the financial position of the Group adding significant scale to both our in-force business and our new business capabilities.

As noted above, Utmost International acquired the original Irish business during 2018 and the 2017 financial statements only included the Isle of Man business. It is nonetheless helpful to consider the overall improvement in performance of the combined business over the last year.

Similarly, whilst the acquisition of UW was only completed in February 2019 and the additional capital in relation to the Athora Ireland acquisition was only raised in February 2019, it is helpful to consider what the KPIs would have shown had all of these acquisitions (including the original Irish business) been included for the full year. This provides a better indication of the current scale and performance of the Group.

In addition to showing the actual 2018 results, the table below therefore also shows the KPIs on a pro-forma basis allowing for the acquisitions and for 2017 shows the performance of the Irish business as well as the Isle of Man business.

ASSETS UNDER ADMINISTRATION

Whilst the performance of investment markets was weak in 2018, AUA grew significantly during the year as a result of the acquisitions undertaken. UPE significantly bolstered the Irish operations with its £9.4bn AUA at 31 December 2018, whilst the acquisition of the Athora Ireland international bond portfolio added a further £2.8bn AUA. The Utmost International YE 2018 total AUA of £24.3bn was further increased in February 2019 by the acquisition of UW, which had £3.7bn of AUA at YE 2018.

	2017			2018				
	Isle of Man £m	Ireland £m	Total £m	Actual £m	Adjustment to full year on Irish business £m	UW pro-forma £m	Additional funding capital pro-forma £m	Total pro-forma £m
AUA	10,500	2,500	13,000	24,300	–	3,700	–	28,000
APE	42	5	47	152	–	28	–	180
VNB	3	1	4	15	–	5	–	20
Operating Profit	15	1	16	31	11	33	–	75
SII EV	271	106	377	614	–	258	45	917

Of the £24.3bn of AUA at YE 2018, approximately 97% was held in respect of unit-linked policies. The remaining 3% was held in with-profit policies, the vast majority of which is reassured to Aviva Life & Pensions UK Limited ("ALAP") on a basis under which all the with-profits related risks are borne by ALAP.

Looking at the YE 2018 pro-forma position approximately half of the total AUA are held in respect of clients based in the UK, with assets held in respect of Italian clients representing our second largest market.

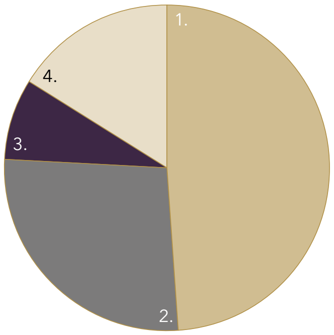
NEW BUSINESS ANNUAL PREMIUM EQUIVALENT

Utmost International continued to implement its new business growth strategy in 2018, enabling it to achieve strong sales results. Utmost Wealth Solutions APE grew from £47m in 2017 to £141m in 2018. Prior to the UPE acquisition, the APE was generated entirely from sales into the UK. The acquisition of UPE brought with it an established European distribution operation, which has continued to perform well despite the loss of the Generali brand.

The subsequent acquisition of UW has expanded Utmost International's distribution footprint outside of Europe, such that sales to UK-based clients represented only around one-third of APE in 2018 on a pro-forma basis.

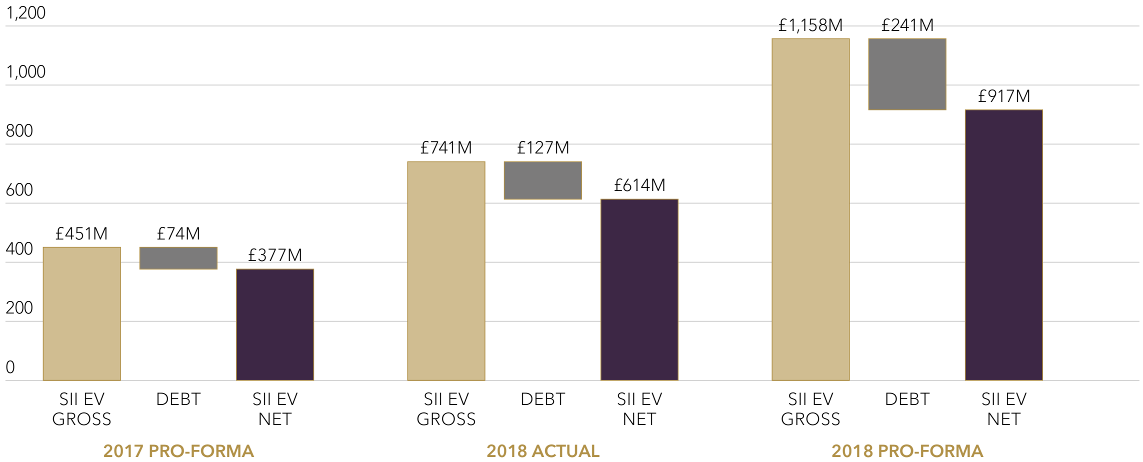
Utmost Corporate Solutions products are subject to annual renewals. APE was £11m in 2018 and retention rates were above 95%. The corporate activity in 2018 did not impact UCS' client focus or ability to retain clients and the continuing distribution relationship with Generali Employee Benefits now covers both UPE and UW. New business premium figures in 2019 year to date are strong.

AUA split by region (in £m)



1. UK	49%	£13,718M
2. ITALY	27%	£7,460M
3. REST OF EUROPE	8%	£2,290M
4. REST OF WORLD	16%	£4,539M

Utmost International Group Solvency II Embedded Value (in £m)



VALUE OF NEW BUSINESS

Utmost International's focus is on writing profitable new business. VNB, the value of new business written calculated on a basis consistent with that used to determine the Solvency II balance sheet, is a measure of the profitability of our new business after allowing for the costs of administering it. Our VNB increased from £4m in 2017 to £15m in 2018. In addition, UW wrote new business with VNB of £5m in 2018. We expect our VNB to continue to grow in future years as a result of both increased new business sales and reductions in administration costs as we deliver efficiency gains across the business.

OPERATING PROFIT

Operating profit increased from £15m (which included only the Isle of Man business) in 2017 to £31m in 2018. In accordance with accounting policies, Utmost International's operating profit only incorporates the profits of acquired businesses from the date of acquisition. These accounts therefore only include the operating profit of UPE from 19 June 2018 and include no operating profits in respect of the Athora Ireland portfolio that was acquired via a business transfer scheme on 31 December 2018.

The key factor underlying the increase in the operating profit was the inclusion of the profits of the Irish business from 13 June 2018 and of the UPE business from 18 June 2018. The Utmost Isle of Man business saw operating profits reduce from £19m in 2017 to £18m in 2018, principally reflecting a reduction in rebate fee income.

The full year operating profits of UPE and UW, as included in their own financial statements, were £6m and £12m respectively.

SOLVENCY II ECONOMIC VALUE

SII EV is Utmost International's preferred measure of the economic value of the business.

- For the operating life companies, it is largely derived from components of the Solvency II balance sheet and the calculation methodology results in an outcome which is broadly equivalent to an old style "market consistent embedded value" before allowance for the cost of non-hedgeable risks.
- For all other entities, the SII EV is the IFRS net asset value including allowance for bank debt.

The Utmost International SII EV increased from £271m at YE 2017 to £614m at YE 2018. Allowing for the acquisition of UW and the capital injection in connection with the Athora Ireland transaction on a pro-forma basis, the YE 2018 would have increased to £917m.

The gross SII EV at the end of 2018, before deducting the bank debt, was £741m at the end of 2018 as shown above.

Whilst acquisitions have been the most significant contributor to the rapid growth in SII EV since the end of 2017, the day-to-day operational performance of the businesses (in particular the value of new business written and the ongoing consolidation activity to deliver synergies and reduce maintenance expenses) have also contributed materially.

EXPENSES

Expenses increased from £33.8m in 2017 to £88.9m in 2018. This increase reflects the high level of acquisition activity during the year. A breakdown of the total expenses is as follows:

	2017 £m	2018 £m
Operating expenses	19.4	40.2
M&A activity-related expenses	–	21.4
Write-off of intangible assets	–	9.7
Commission paid	14.4	17.6
Total	33.8	**88.9**

The increase in operating expenses from £19.4m in 2017 to £40.2m in 2018 reflects the inclusion of UPE's operating expenses from 19 June 2018.

The M&A activity-related expenses include legal and other professional fees, stamp duty, fees paid by UPE in relation to the reassurance of its variable annuity business and other M&A-related project costs.

The £9.7m write-off of intangible assets in 2018 reflects the movement of UPE onto Utmost International's accounting policies under which internal IT development costs are not capitalised.

Cost control is a key pillar of our Target Operating Model. This will create operational savings and drive synergies throughout the business in the coming years.

BUSINESS TRANSFERS

Utmost International's objective is to have a single life company in each jurisdiction in which it operates. This will maximise capital efficiencies, simplify interactions with regulators and deliver operational efficiencies through lower maintenance and governance costs.

We implemented a merger of four of our Irish life companies via a business transfer scheme during 2018. The entire life assurance business of Harcourt Life Assurance Company DAC ("HLA"), Augura Life Ireland DAC ("ALI") and Union Heritage Life Assurance Company DAC ("UHL") was transferred into Harcourt Life Ireland DAC ("HLI", formerly Scottish Mutual International DAC) on 31 March 2018. The Central Bank of Ireland deauthorised HLA, ALI and UHL in late 2018, and ALI and UHL have subsequently been dissolved by merger into HLA.

As of 31 December 2018, Utmost International therefore had three operating life companies in Ireland, being UPE, Utmost Ireland DAC ("UI") and HLI. We are working on a further business transfer scheme to transfer the business of UI and HLI into UPE before the end of 2019.

ACQUISITION ACTIVITY

Utmost International completed two major external acquisitions in 2018. In addition, it acquired the existing Utmost Ireland business via the acquisition of UIG Holdings (No 2) Ltd. from a sister company.

The fair value of the acquired businesses was in each case in excess of the fair value of the consideration paid, resulting in a "Gain arising from bargain purchase". The aggregate gain across the three acquisitions was £102.2m, split as follows:

	£m
Utmost PanEurope DAC	72.0
Athora Ireland investment bond business	11.0
Utmost Irish business	19.2
Total	**102.2**

As a result of the first two acquisitions, the acquired value of in-force business ("AVIF") on the balance sheet increased by £187.6m. After allowing for amortisation of the AVIF during the year, the AVIF on the statement of financial position increased from £156.7m at the end of 2017 to £317m at the end of 2018.

Full details of the calculation of the figures referred to above are set out in notes 4 and 10 of the accounts respectively.

On 28 February 2019, the UW acquisition was completed. On the same day, Utmost International also acquired Generali Link Limited. This company is an outsourced service provider to both UPE and UW. Generali Link Limited was renamed Utmost Link Limited, and then dissolved via merger with Utmost Services Ireland Limited ("USIL"), simplifying our approach to servicing and administration across the Utmost International Irish and Guernsey operations.

BORROWINGS

Utmost International has two external debt facilities, a "Euro facility" and a "Sterling facility".

The Euro facility comprises a €100m five-year term loan that was drawn down in June 2018 to help fund the acquisition of UPE. The final repayment is due in June 2023.

The Sterling facility was initially entered into by Utmost International in 2016 to help fund the acquisition of Utmost Limited (formerly AXA Isle of Man Limited). £80m was initially drawn down in October 2016. In July 2018 Utmost International reached an agreement with its lending banks that the facility be increased in connection with the acquisition of UW. Additional funds were drawn down on 28 February 2019 when the acquisition of UW completed, increasing the principal outstanding to £150m. The final repayment is due in October 2023.

Utmost International maintains a prudent capital structure and aims to target a leverage ratio between 20%–30% of SII EV, gross of debt. As at 31 December 2018, the leverage ratio was approximately 17%; allowing for the acquisition of UW on a pro-forma basis it increased to approximately 21%.

CAPITAL STRENGTH AND SOLVENCY POSITION

The Group applies a disciplined approach to capital management. The Group aims to maintain a strong capital position and has prudent capital policies in place. Each of its life companies is subject to local solvency regulation.

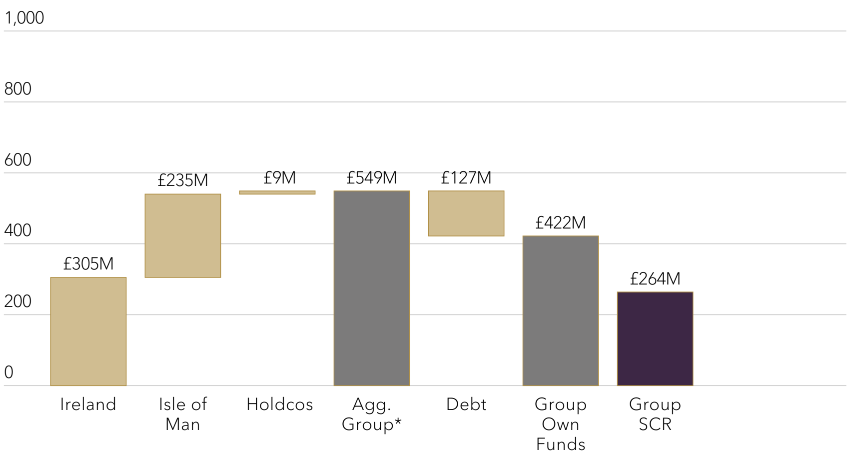
Ireland – The Irish companies are subject to the requirements of Solvency II.

Isle of Man – The solvency regime introduced by the Isle of Man with effect from 1 July 2018 is broadly similar to the Solvency II regime and, in addition to complying with the Isle of Man solvency regime, the Isle of Man business also calculates its solvency coverage in accordance with the full Solvency II requirements.

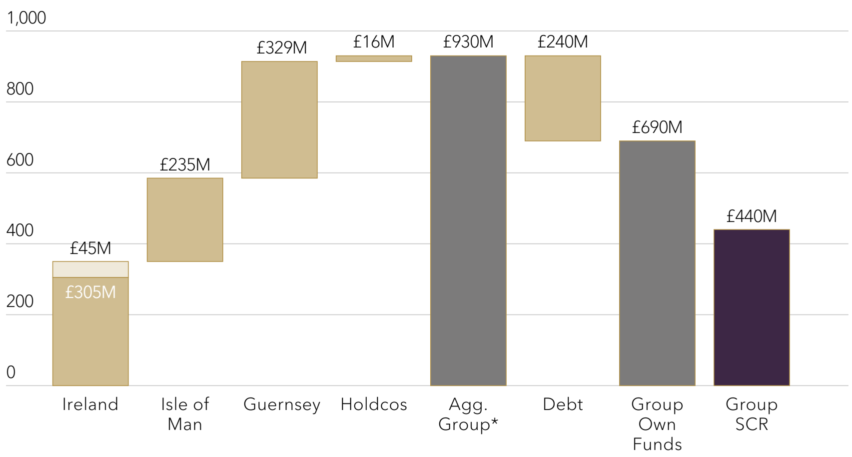
Guernsey – UW has agreed with the Guernsey Financial Services Commission ("GFSC") that its capital position should be calculated in accordance with the full Solvency II requirements. There are additional solvency requirements imposed on its branches.

The nature of the business written by Utmost International is such that it is appropriate for all of our life companies to determine their Solvency II balance sheets using the "Standard Formula" approach. The Utmost International Group does not have an internal model.

Utmost International Group Solvency Position – 2018 actual (in £m)



Utmost International Group Solvency Position – 2018 pro-forma (in £m)



Utmost International's life companies seek to maintain a strong solvency position. The capital policy for the Irish and Isle of Man life companies is to maintain a Solvency Coverage Ratio of at least 135% at all times and to ensure that the Solvency Coverage Ratio is at least 150% immediately after the payment of a dividend.

Following the acquisition of UW, Utmost International has agreed with the Guernsey Financial Services Commission that for an initial period it will adopt a capital policy of seeking to maintain a Solvency Coverage Ratio of at least 155% at all times and of ensuring that the Solvency Coverage Ratio is at least 170% immediately after the payment of a dividend. UW is also required to ensure that it meets the regulatory capital standards in respect of each of its branches. In the case of most of these branches, the branch solvency reporting applies to the relevant branch business only. However, UW has to satisfy Hong Kong capital standards on a whole company basis.

Utmost International is not currently subject to Group-level solvency regulation; however a view of Group solvency* (equivalent to a Solvency II basis) is calculated and monitored by the Utmost International Board. This Group view of solvency compares the total Own Funds of Utmost International with the aggregate of the SCRs for the life operating entities with no allowance made for diversification between the life operating entities.

Utmost International's approach to managing capital at Group level mirrors the approach at life company level, i.e. to maintain a Group Solvency Coverage Ratio of at least 135% at all times and a Group Solvency Coverage Ratio of at least 150% immediately after payment of a dividend.

As at 31 December 2018 the Group Solvency Coverage Ratio was 160%. Allowing for the acquisition of UW on a pro-forma basis, it decreased slightly to 157%, reflecting the additional debt raised as part-financing of the UW acquisition.

OPERATING COMPANY LIQUIDITY

Utmost International's liquidity management processes and policies are designed to ensure that both policyholder liabilities and non-policyholder liabilities can be paid on a timely basis.

Policyholder-related liquidity requirements are low as the vast majority of our in-force business is unit-linked in nature and policyholder claims will only be paid once the value of the unit-linked assets backing the policy concerned has been realised.

The main liquidity requirements in our operating companies are therefore in respect of expenses and policyholder claims on non-linked business. Utmost International does not have any material requirements in respect of collateral requirements held against derivative contracts.

Each of Utmost International's life companies maintains a liquidity buffer of at least 10% of SCR at all times.

HOLDING COMPANY CASH

Cash is held at the holding company level to cover Group Head Office costs and an interest reserve account is maintained for each debt facility holding sufficient cash to pay the interest due on the facility concerned over the following 12 months.

Excess cash not required to cover Group Head Office costs or to meet commitments under the debt facilities is available to be reinvested in the business, to fund future acquisitions, or to be returned to Utmost International's shareholders. Cash being returned to shareholders would be used to buy back some, or all, of Utmost International's preference shares at their accumulated value in the first instance.

CREDIT RATING

In June 2019, Utmost International Group Holdings Ltd ("UIGH Ltd") and its principal operating subsidiaries were assigned inaugural credit ratings by Fitch. UIGH Ltd's principal insurance subsidiaries, Utmost Ireland DAC, Utmost PanEurope DAC, Utmost Worldwide Limited and Utmost Limited were assigned an Insurer Financial Strength rating of A. UIGH Ltd was assigned an Issuer Default Rating of BBB+. All ratings have a stable outlook. These ratings reflect Utmost International's strong capitalisation and leverage, its strong business profile and expectation of good financial performance.

SUMMARY

I am pleased with the progress the Group has made in 2018. Our balance sheet is strong and resilient, enabling us to provide a high level of security for our clients and providing us with the financial strength to invest in the continued development of our business through both organic growth and future acquisitions. The acquisitions completed in 2018 and to date in 2019 have confirmed our position as a major player in the international life insurance market. I am delighted to see the strength of our businesses recognised in the inaugural Fitch credit ratings referred to above.

Ian Maidens
Group Chief Financial Officer

* Group solvency position is calculated as aggregate Own Funds divided by aggregate SCR.

2 GOVERNANCE

THE BOARD MAINTAINS A HIGH STANDARD OF CORPORATE GOVERNANCE ACROSS THE UTMOST INTERNATIONAL GROUP AND UPHOLDS A SOUND STRUCTURE FOR SETTING ITS STRATEGY AND OBJECTIVES

Utmost International Group Holdings Ltd. is a Guernsey incorporated company into which the results of the Utmost Wealth Solutions and Utmost Corporate Solutions businesses are consolidated. The operating subsidiaries through which business is conducted include Utmost Ireland DAC, Harcourt Life Ireland DAC and Utmost PanEurope DAC, incorporated in Ireland, Utmost Limited, incorporated in the Isle of Man and, from February 2019, Utmost Worldwide Limited, incorporated in Guernsey.

OWNERSHIP

The immediate parent company of Utmost International Group Holdings Ltd. is Life Company Consolidation Group (No 2) Limited ("LCCG2"). The controlling party, which holds 86% of LCCG2 and therefore maintains a controlling interest in the Group, is OCM LCCG2 Holdings Limited ("OLHL"). The remaining 14% of LCCG2 is held by Paul Thompson and Ian Maidens, the Founders of the business ("Founders").

OLHL is owned by a number of funds managed by subsidiaries of Oaktree Capital Group LLC ("Oaktree"), whose principal business is to make investments. The ultimate beneficial owners of OLHL are the investors in the funds. For further information on the Group's ownership, please see note 36.

GOVERNANCE OVERVIEW

The Boards of Utmost International Group Holdings Ltd. (the "Company") and LCCG2 are each comprised of two representatives of Oaktree and the Founders. LCCG2 has certain matters reserved to it in accordance with the Shareholder Agreement between Oaktree, the Founders, and the principal holding companies including the Company. LCCG2 has delegated these matters to the Board of the Company ("the Board"). A summary of these matters is provided overleaf.

The operating companies within Utmost International are governed by their constitutional documents, local law and regulation, and the Shareholder Agreement. As such, each operating company has its own governance structures, all of which are broadly aligned across Utmost International.

The Board sets the strategic goals for Utmost International. It ensures that each of the operating businesses has adequate resources to ensure delivery of the strategy of Utmost International, reviews the operating and financial performance of Utmost International, and oversees the execution of the strategy of each operating business. The Board aims to maintain a high standard of corporate governance across Utmost International and upholds a sound structure for setting its strategy and objectives.

BOARD AND COMMITTEES OF OPERATING BUSINESSES

Boards of each of the operating businesses ("subsidiary boards") are comprised of an Independent Chairman and a majority of non-executive directors, including the Founders, who are, as representatives of the Utmost Group of Companies and in accordance with the relevant Corporate Governance guidelines, not considered independent. Non-executive directors of each subsidiary board work collectively to fully understand the business and market conditions and provide constructive challenge to executive management. The executive directors are the CEO and CFO of each business.

The subsidiary boards each have mandates and duties which are drafted to align with the requirements of Shareholder Agreement and local law and regulation. These are summarised overleaf.

STRATEGY AND PERFORMANCE

The subsidiary boards each develop their business plans to enable the achievement of the strategic goals of Utmost International, whilst ensuring that the companies operate within each of their risk appetites and frameworks. The subsidiary boards also monitor business performance and the ability of each business to execute the agreed strategies. Whilst the Independent Chairman of each business provides leadership of the Board, day-to-day management is delegated to the Chief Executive and the senior management teams of each business.

Each of the subsidiary boards delegates certain responsibilities to their board committees. Both the subsidiary boards and the committees have a rolling annual schedule of decisions and items for discussion, reflecting the annual calendar and corporate activity at the business level. The terms of reference of each of the board committees across the operating businesses within the Utmost International Group are also aligned. A summary of the key terms of reference of board committees is provided overleaf.

COMPLIANCE WITH LAW AND REGULATION

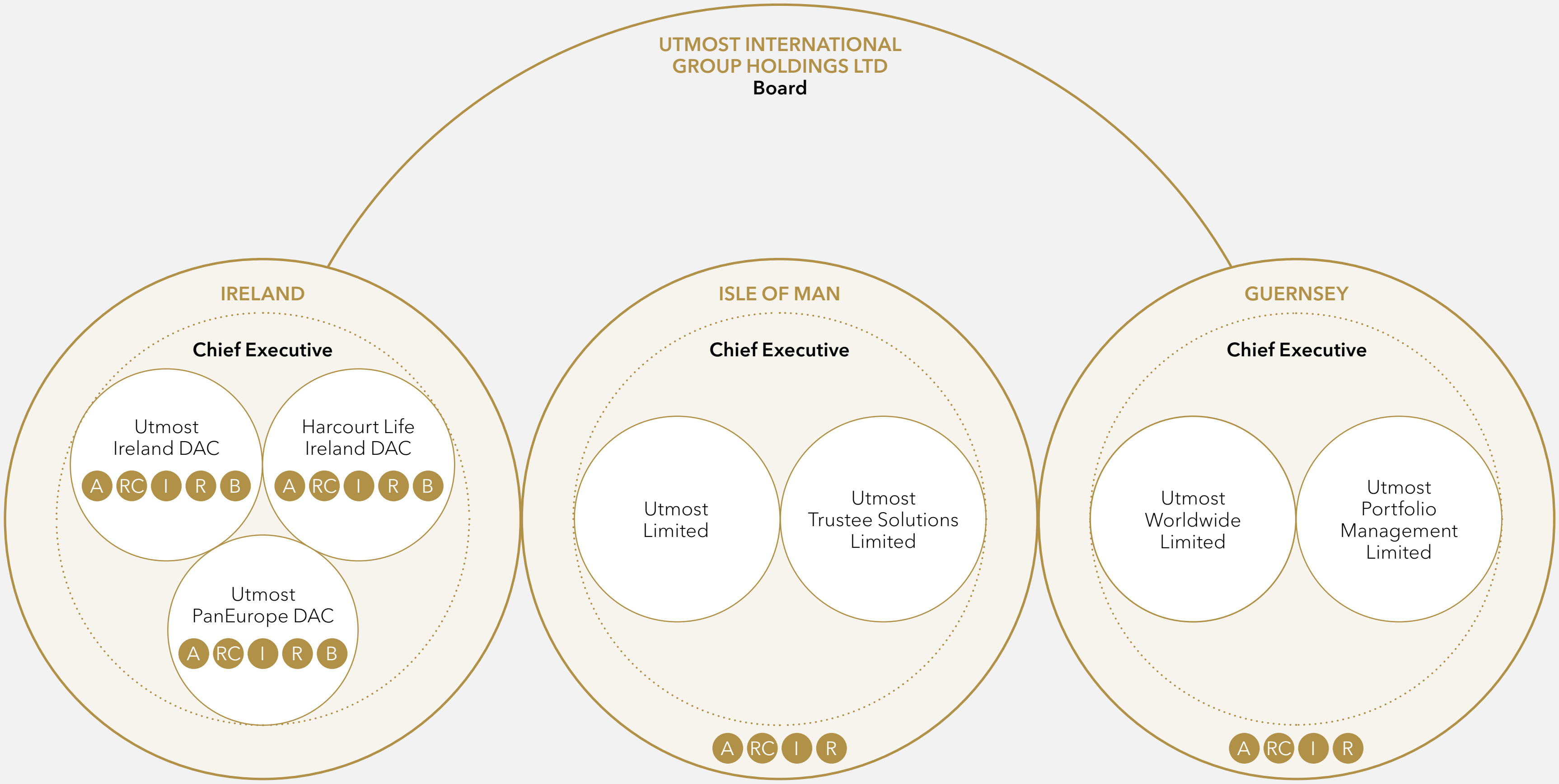
The operating subsidiary companies comply with local laws and regulations and report to the regulator as required by Codes and Requirements including:

- The Isle of Man Financial Services Authority's Corporate Governance Code for Commercial Insurers;
- The Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings; and from March 2019
- The Guernsey Financial Service Commission's Finance Sector Code of Corporate Governance.

CONFLICTS OF INTERESTS

Each of the operating companies has established procedures in place, dictated by the constitutional documents of each entity, to comply with Isle of Man, Irish and Guernsey law as applicable. The articles allow for interested directors to vote provided they have made the required disclosure to the companies. Directors are permitted to recuse themselves from decisions when they are concerned about a conflict or potential conflict, even though the legal framework allows them to vote on a topic.

GOVERNANCE STRUCTURE



Board of Utmost International Group Holdings Ltd

The Board sets the strategic goals for Utmost International, ensuring that each of the operating businesses has adequate resources to deliver the Group's strategy.

The Board is comprised of the Group CEO, Group CFO (the Founders) and two representatives of Oaktree Capital Group (the Investors).

Board and Committees of regulated entities

Each subsidiary board is made up of an independent non-executive Chairman, the Chief Executive and Chief Financial Officer of the business and a majority of non-executive directors.

Executive Management

The Chief Executives of each business put in place their own executive management structure and arrangements.

Key matters reserved for the Board
Examples of matters for which consent of the Board of the Company is required include:

- The adoption, amendment or alteration of an annual budget or business plan or the performing of any action inconsistent with the approved annual business plans or budgets;
- Acquisitions, disposals, reorganisations and capital commitments outside of the ordinary course of business or the relevant business plan;
- Financial and capital commitments outside of the relevant business plan;
- Amendments to the constitutional documents of each subsidiary company, including variation of the rights attaching to shares and increasing, reducing or making any other alteration to the share capital of any Utmost International company;
- The appointment, removal or variation to the terms of appointment for directors of any regulated undertaking;
- The declaration of dividends outside of the relevant business plan; and
- Any material changes in nature or scope of any Utmost International company's business.

Mandate of the boards of the operating businesses
The duties of the boards of the operating businesses include:

- Developing the high-level strategy for their respective businesses;
- Periodically reviewing the business plans and performance, ensuring that their regulatory responsibilities are discharged efficiently;
- Ensuring that the principles of Treating Customers Fairly are embedded into the culture of each business;
- Ensuring that each business meets the interests of policyholders, customers and shareholders;
- Approving the risk appetite of each business, monitoring the risk governance framework and ensuring that risk management systems and controls are fit for purpose; and
- Determining the appropriate investment parameters for each business.

PURPOSE OF THE COMMITTEES

A

Audit Committee
Each subsidiary board has delegated certain responsibilities to its Audit Committee. These include:

- Ensuring that there is a framework for accountability;
- Examining and reviewing all systems and methods of financial control;
- Ensuring that each company is complying with its Articles of Association;
- Ensuring compliance with all applicable legal and regulatory requirements; and
- Overseeing all matters relating to the relationship between the business, its subsidiaries, and the External Auditors.

RC

Risk and Compliance Committee
The Risk and Compliance Committees established by the businesses oversee the risk and compliance management arrangements of each business. They ensure that risk appetite is appropriate and adhered to; that relevant regulatory requirements have been identified and adequate arrangements are in place to ensure regulatory compliance; and that key risks are identified and managed.

I

Investment Committee
The Investment Committees are established to identify, monitor and control the investment activities of each business, ensuring that investment performance is reported to the relevant boards of directors as required. A key responsibility of the Investment Committees is to recommend the overall strategic investment policy for the business to which it relates, and ensure that procedures and controls are in place in respect of matters including:

- The overall asset allocation and balance of the shareholder and internal funds;
- Determination of sector, currency, geographical, fund manager or specific stock risk;
- The selection and choice of the internal funds and internal fund managers;
- Funds' liquidity; and
- Operational issues concerning the management and administration of the assets of the entity to which the Committee relates.

R

Remuneration Committee
The duties of the Remuneration Committees of each business include:

- Setting the Remuneration Policy and overseeing any major changes in employee benefits structures throughout each business;
- Recommendation and monitoring of the level and structure of remuneration for directors and senior management, having regard to pay and employment conditions across the operating jurisdiction or company;
- Within the agreed Policy, recommending the design of and targets for performance-related pay schemes operated by each business to their respective boards, and approving the total annual payments made under such schemes;
- Reviewing any contractual terms on termination and ensuring that any payments made are within the terms of the Remuneration Policy; and
- Review of the overall remuneration budget and structure for each business, and provide accompanying recommendations to the Board where required.

B

Banking Committee
The Banking Committees established by the Irish businesses ensure that regular administrative matters can be dealt with by the directors without recourse to the Board.

THE GROUP'S RISK MANAGEMENT FRAMEWORK

The Risk Management Framework at Utmost International embeds proactive and effective risk management across the businesses. It seeks to ensure that all risks are identified and managed effectively and that Utmost International is appropriately rewarded for the risks it takes.

RISK CULTURE

A core objective of the Risk Management Function is to embed a positive and open risk management culture within Utmost International. In support of this objective risk management and compliance training is provided to all staff. The risk culture is embedded through the following:

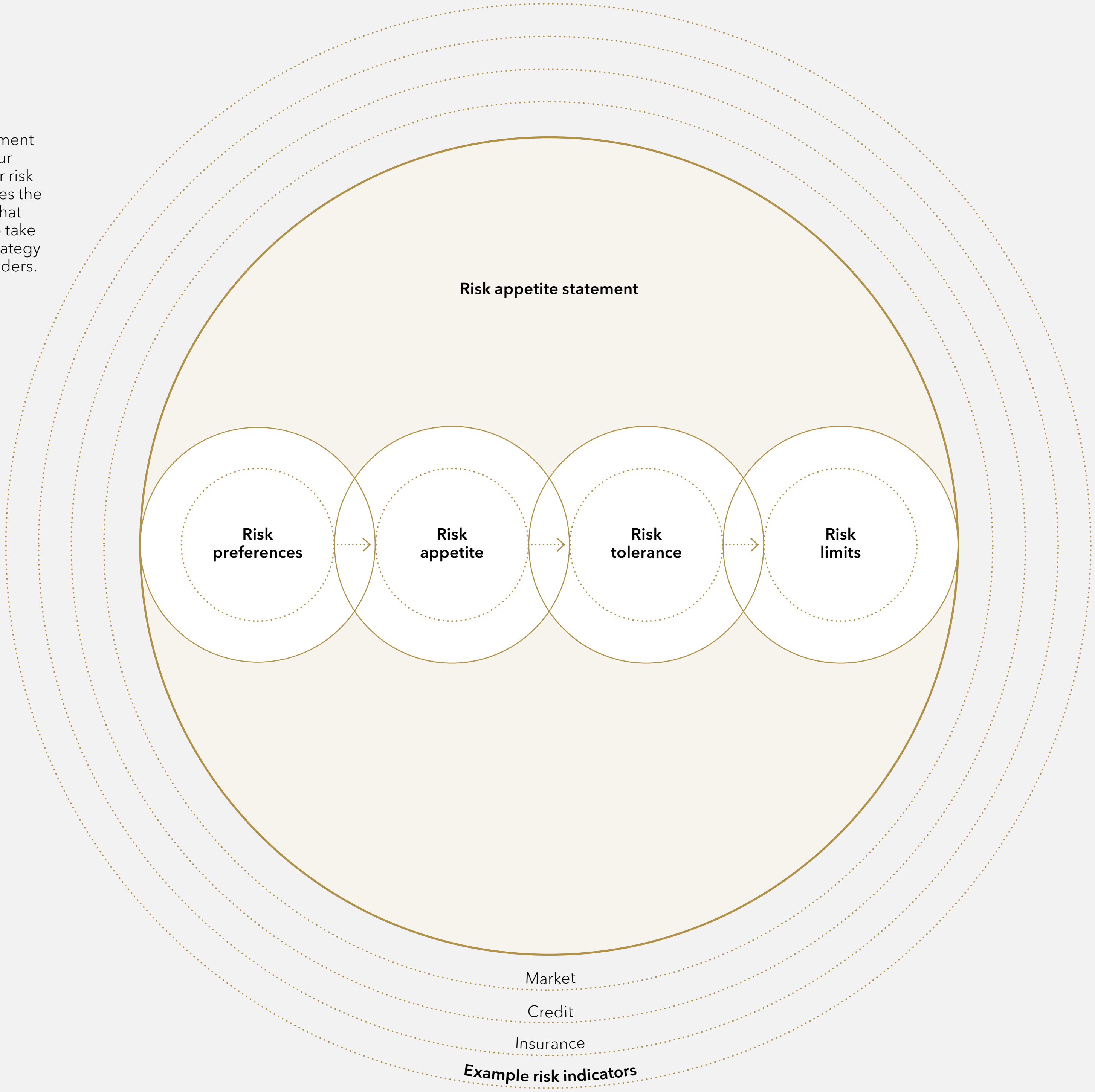
- The Chief Risk Officer of each operating business is a member of senior management and in the execution of their role integrates risk management thinking into the decision-making process.
- The strategic planning process and the ORSA process in each operating business must be aligned in order to include a risk-based forward-looking view in the development of the strategic plan.
- The Risk Management Function in each operating business is involved in material initiatives which may impact on the risk profile of that operating business or Utmost International as a whole. The role of each Risk Management Function is to integrate the risk management assessment methodologies into the decision-making process by supporting the business in identifying, assessing and managing the risks associated with these initiatives.
- All Risk Management Functions work closely with the business units providing advisory services.

Risk Management Operating Model

1	**Risk strategy and appetite**	Risk management objectives are clearly defined with supporting policies. The risk strategy is formalised by a set of quantitative and qualitative statements that outlined the operating businesses' appetite for risk, including risk preferences, risk appetite, risk tolerances, risk limits and risk indicators.
2	**Risk governance**	The functions involved operate according to the "Three Lines of Defence" approach. The operating businesses have established separate and independent Risk Management Functions. The Audit Committees and the Risk and Compliance Committees oversee the Risk Framework and monitor the risk profile through Operational Risk Incident Reporting, Risk Profile Reporting, Emerging Risk Reporting, Outsourced Oversight and Risk Limit Reporting.
3	**Risk management control and limits**	The operating businesses have defined a series of risk limits, tolerances and indicators which are articulated in their risk appetite statements. Various control processes are put in place by the risk management function, including ongoing monitoring of the risk profile and compliance with the agreed risk limits. The risk limits, methodologies and processes are cascaded through management and the Risk Management Function of each business.
4	**Risk measurement and models**	The Group has adopted a number of risk-based models and methodologies. A number of risk mitigation/reduction techniques have been implemented across the Utmost International businesses, including the use of Reinsurance.
5	**Embedding in business processes**	Risk factors are taken into consideration in the following decision-making processes: Strategic Planning Process; Capital Allocation and Management; Asset Liability Matching and Investments; Solvency, Liquidity and Funding; Product Pricing, Development and Monitoring; Management Information and Performance Management.

Defining our risk appetite

The Risk Appetite Statement defines the following four concepts as the basis for risk strategy. It also articulates the level and nature of risk that the business is willing to take in order to pursue its strategy on behalf of its shareholders.



Principal risks

Risk	Description	Mitigants
A **UK Macroeconomic**	The implications for financial services of the UK's exit from the EU are not finalised. Utmost Ireland and Utmost PanEurope distribute into the UK on an EU Freedom of Services basis; it is possible that in the event of a "Hard Brexit" this would no longer be possible.	In these circumstances, Utmost International can continue to distribute business into the UK from Ireland as an Appointed Representative of Utmost Limited, our Isle of Man business. Another alternative would be to redirect all UK business to Utmost Limited, which distributes a similar product range into the UK market. This structure gives Utmost International greater flexibility in the event of a "Hard Brexit" than some competitors who only have an Irish underwriting entity.
B **Operational Risk**	Management are keenly focused on operational risk mitigation. For example, Utmost International operates a number of branch offices which introduce certain operational risks.	Utmost International has a proactive approach to risk management, focusing on a global, coherent, risk management strategy embedded into operations via the risk culture. There are strict controls around operational activities with regards to the branches covering distributor oversight, anti-money laundering ("AML"), new business, commission calculations and client risk assessment. Utmost International ensures AML Compliance through Board Approved AML Policies and Procedures including partner due diligence, customer on-boarding due diligence, ongoing monitoring, tight controls and monitoring of overseas offices.
C **Integration Risk**	Integration is core to Utmost International's strategy as it enables us to reduce expenses, secure efficiency and synergies in our servicing functions and embed our prudent management approach and tight control measures into the operating businesses. For example, there is a risk of project overruns and projects running over budget.	The Utmost International team has a proven in-house capability to deliver the integration of acquired businesses and portfolio transfers. Our specialist operations team, with many years of combined migration expertise, is about to complete its fourth migration – each of which has addressed an acquired book of business, where the original administration system was retained by the seller and not passed to Utmost International. Our projects have periodic reviews to ensure visibility of any impact to costs and overruns which would then need to be approved.
D **Key Man Risks**	Utmost International is part-owned by its founders, who act as Group CEO and Group CFO.	An executive committee comprised of the Group CEO, Group CFO and the operating business senior management sets overall strategy for Utmost International. In the event of a founder leaving his role or becoming incapacitated, Oaktree has the global network to identify and recruit suitable replacements. Group Head Office employs a small number of professionals across disciplines to support the Group CEO and the Group CFO; however the majority of staff are employed by the operating businesses in order to ensure key skills are maintained at that level.
E **Equity Risk**	Utmost International has a second order exposure to market movements on policyholder assets because the AMC charges are based on the underlying portfolio valuation.	The majority of the risk in a fall of equity markets is directly borne by the unit-linked policyholders, who bear investment risk. Policyholder funds are invested across a diverse range of investment classes. Investment Committees sit on a quarterly basis to monitor and review investment performance to ensure it aligns with both policyholder and shareholder target returns. Our products pay a mixture of fixed fee and AMCs, reducing Utmost International's exposure to equity risk via our fee structure. Utmost International has a second order exposure to market movements on policyholder assets because the AMC charges are based on the underlying portfolio valuation.

Risk	Description	Mitigants
F **Tax Law Risk**	Our products are designed primarily for wealth succession, tax mitigation and inheritance tax planning purposes. Tax rules are constantly evolving.	There are ongoing changes in the legal/tax/regulatory systems in the markets where Utmost International operates. These jurisdictions tend to be uncorrelated, so the changes tend to be independent between regions. Our scale allows us to respond quickly to changes in the legal/tax/regulatory systems, and where one product is less effective one can be developed that works in the new environment.
G **Lapse Risk – Wealth Solutions**	Utmost Wealth Solutions is exposed to lapse risk in its savings products.	Policies are established for succession planning and IHT mitigation; benefits can be lost if the policy is encashed in the lifetime of the life assured. Policy gains are taxable in most countries including Italy and the UK, providing an effective deterrent to early surrender. In the event that policy values are below the original premium, surrender would be unlikely. Regular premium savings products are structured to pay bonuses if premiums are maintained over a long period, e.g. 10 years, and this construction encourages longevity of premiums.
H **Distribution Risk – Wealth Solutions**	Distribution partners introduce new business. There is the risk that the partners either remove Utmost International from their panel of preferred providers, or simply do not support us.	Utmost Wealth Solutions has an extensive and diverse list of partners across the EU and the world. There is a broad list of distribution partners and channels. Communication campaigns following M&A activity are designed to inform our distribution partners about ongoing activity.
I **Lapse Risk – Corporate Solutions**	Utmost Corporate Solutions is exposed to lapse of a policy at any time as there is no minimum notice period to terminate.	Premium rates are guaranteed for a minimum period which gives certainty to clients. As a result, mid-cycle lapsing is very limited. Extension of rate guarantees is also common if the experience is trending as expected. Utmost Corporate Solutions is the network partner of Generali Employee Benefits ("GEB") for Pension & Savings and Ireland/Pan-Europe/Global solutions. The relationship provides a reliable stream of business.
J **Distribution Risk – Corporate Solutions**	Utmost Corporate Solution partners with large and international brokers in each market. A risk exists that Utmost Corporate Solutions is not included in the broker panel for quotation or recommendation to their clients due to service or product T&Cs quality.	Although there is a small universe of providers, Utmost Corporate Solutions is the second largest Group Risk provider in Ireland, insuring one-eighth of Ireland's population. Utmost Corporate Solutions is continually working on service to ensure market-leading delivery to clients, brokers and claimants. Communication campaigns following M&A activity ensure that our partners remain aware of all relevant information.
K **Generali Employee Benefits Network**	Corporate Solutions has a strong pipeline from the GEB network with large multinationals looking for local and global solutions. GEB is a key partner which provides an ongoing source of business. There is a risk that this source of business may end if GEB were to change its strategy.	Utmost Corporate Solutions is the GEB network partner for Ireland, PanEurope and Global solutions. This relationship has continued post the sale of Generali PanEurope and Generali Worldwide to Utmost International. The relationship is contractual with no specified end date, supported by a number of reinsurance treaties relating to each business line/target market and SLAs for both parties. Client retention rate of GEB-related business post change in ownership remains high. Corporate Solutions is exclusive to GEB in our key target markets. In Ireland, Corporate Solution's competitors have partnered with GEB's competitor networks. In PanEurope and Global markets Corporate Solutions products are unique in terms of coverage and scale. GEB has limited options for replacing Corporate Solutions in those markets.

OWN RISK AND SOLVENCY ASSESSMENT ("ORSA")

The ORSA process is a key component of the risk management system which is aimed at assessing the adequacy of the solvency position and the risk profile of each business on a current and forward-looking basis.

The ORSA process documents and assesses the main risks to which each operating business is exposed, or might be exposed on the basis of its strategic plan. It includes the assessment of the risks in scope of the Solvency Capital Requirement ("SCR") calculation, but also the other risks not included in the SCR calculation. In terms of risk assessment techniques, stress test and sensitivity analysis are also performed with the purpose of assessing the resilience of the risk profile to changed market conditions or specific risk factors.

ORSA reports are produced on an annual basis. In addition to the annual ORSA reports, a non-regular ORSA report will be produced if the risk profile of an operating business changes significantly.

All results are documented in the ORSA reports, which are reviewed by the relevant Risk and Compliance Committees and Boards. After discussion and approval, the ORSA reports are submitted to the regulator. The information included in the ORSA reports is sufficiently detailed to ensure that the relevant results can be used in the decision-making process and business planning process.

The risk profile of each operating business, including ORSA triggers which would prompt the undertaking of a non-regular ORSA report, is monitored on an ongoing basis and reported to the Risk and Compliance Committee of the relevant business quarterly.

The Head of Actuarial Function in each business provides an actuarial opinion on the ORSA. The opinion addresses the following areas:

- The range of risks and the adequacy of stress scenarios considered as part of the ORSA process.
- The appropriateness of the financial projections included within the ORSA process.
- Whether the undertaking is continuously complying with the requirements regarding the calculation of Technical Provisions and potential risks arising from the uncertainties connected to this calculation.

An ad-hoc ORSA report is produced when there is a material change to the risk profile of the business concerned. It is the responsibility of the Chief Risk Officer to identify when an ad-hoc ORSA report should be produced.

RISK STRATEGY

The risk strategy at Utmost International provides an overarching view of how risk management is incorporated consistently across all levels of the business, from decision-making to strategy implementation.

It assists the business to achieve its strategic objectives by supporting a more stable, well managed business with improved client and shareholder outcomes. This is achieved not by risk avoidance, but through the identification and management of an acceptable level of risk (its "risk appetite") and by ensuring that Utmost International is appropriately rewarded for the risks it takes.

To ensure that all risks are managed effectively, Utmost International is committed to:

- Embedding a risk aware culture;
- Maintaining a strong system of internal controls;
- Enhancing and protecting client and shareholder value by continuous and proactive risk management;
- Maintaining an efficient capital structure; and
- Ensuring that risk management is embedded into day-to-day management and decision-making processes.

RISK APPETITE

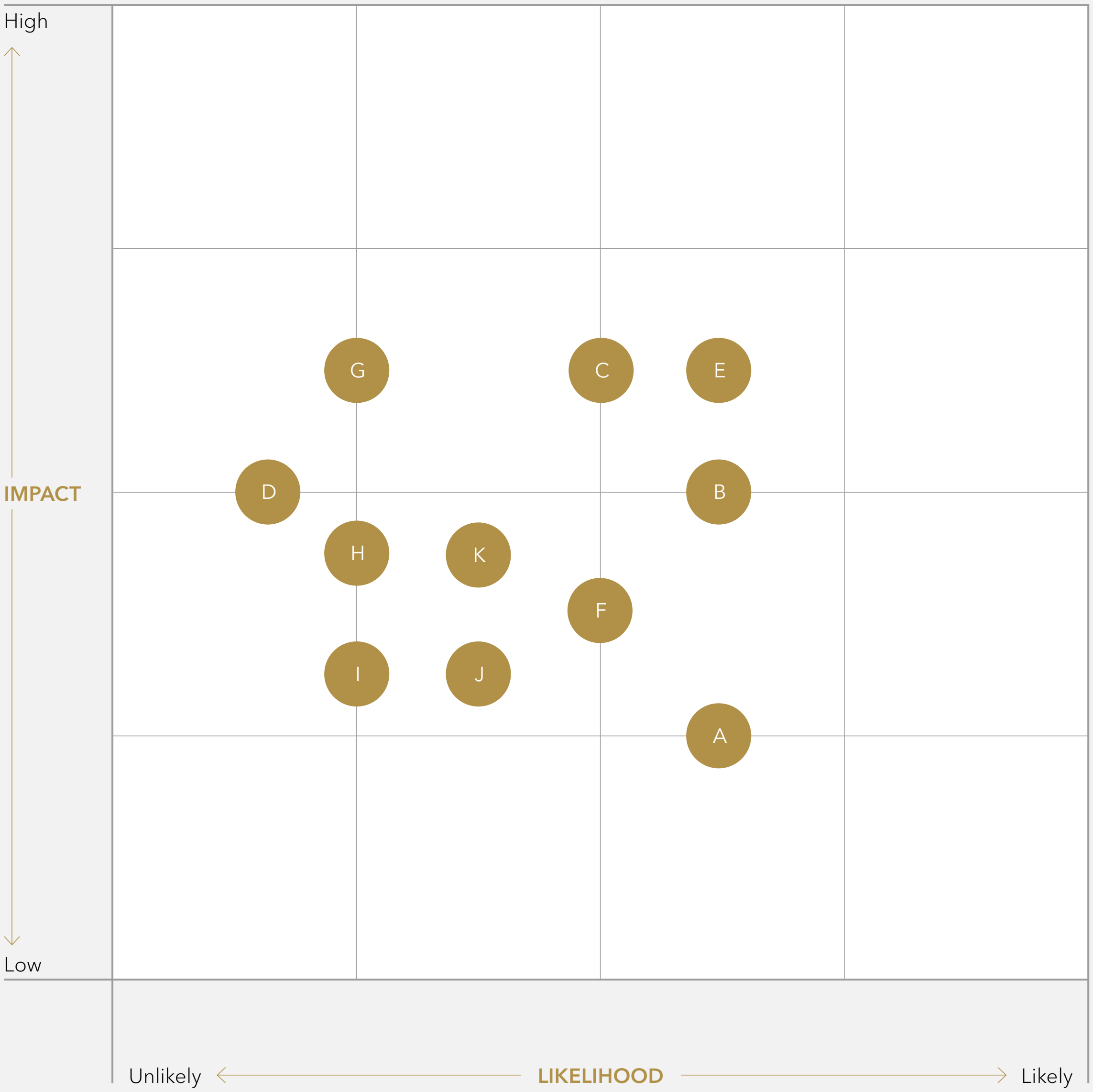
The risk appetite is the level of risk that Utmost International is willing to accept in pursuit of its strategic objectives. Risk preferences are outlined and documented within the Risk Appetite Statement of each operating business.

A set of comprehensive risk metrics have been developed to support the above risk preferences and translate statements and preferences into quantitative and measurable risk limits and indicators, and to embed them into the operating processes in order to ensure proper monitoring and steering of business activity.

Utmost International embeds its risk appetite into the key decision-making processes looking at four main dimensions, namely capital, liquidity, earnings and expenses, and has defined consistent risk metrics to ensure that its risk profile is managed within the stated appetite and regulatory requirements, triggering actions whenever tolerance levels are breached.

RISK UNIVERSE
A key element of effective risk management is ensuring that the businesses have a complete understanding of the risks faced. These risks are defined in the Utmost International risk map, shown here.

- A **UK Macroeconomic**
- B **Operational risk**
- C **Integration risk**
- D **Key Man risk**
- E **Equity risk**
- F **Tax Law risk**
- G **Lapse risk – Wealth Solutions**
- H **Distribution risk – Wealth Solutions**
- I **Lapse risk – Corporate Solutions**
- J **Distribution risk – Corporate Solutions**
- K **GEB network – Corporate Solutions**



EXTERNAL COMMUNICATION AND STAKEHOLDER MANAGEMENT

Utmost International has a number of internal and external stakeholders, each of whom has an active interest in our performance, including how risks are managed. Significant effort is made to ensure that our stakeholders have appropriate, timely and accurate information to support them in forming views of Utmost International.

GOVERNANCE, ORGANISATION AND POLICIES

In accordance with local laws and Solvency II requirements, Utmost International has established a risk management system. This is defined as a set of strategies, guidelines, processes and procedures aimed at identifying, measuring, monitoring and reporting on a continuous basis the risks to which the businesses are exposed.

Risk governance is aimed at establishing an effective organisational structure based on a clear definition of risk roles and responsibilities, and on a set of policies, guidelines and operating procedures.

As part of its governance structure, Utmost International has established a series of Board Committees in each of its businesses with specific delegated authorities. Further detail on the Board structure and activities of the Committees is set out in the Governance report on pages 34 to 35.

THREE LINES OF DEFENCE

The internal control and risk management system is put in place across the Utmost International businesses through an ongoing process which involves the subsidiary boards and senior management of each operating business and the overall organisational structure. The functions involved in the risk management process operate according to the three lines of defence approach:

First line of defence

– The risk owners are the first line of defence. The risk owners are ultimately responsible for risks concerning their area and to define and update the actions needed to make their risk management processes effective and efficient.
– Risk owners control the activity of the risk takers, who deal directly with the market and the internal and external parties and who define activities and programmes from which risks may arise.
– The risk management initiatives defined by the risk owners address the way risk takers undertake risks. In addition, there are a number of support units (e.g. Actuarial) and oversight committees responsible for constantly monitoring specific risk categories, in order to measure and analyse them and to identify risk mitigation actions to the risk owners.

Second line of defence

– The risk management, legal, governance & compliance and elements of the actuarial functions represent the second line of defence. The risk management function oversees the whole risk management system ensuring its effectiveness. It supports the subsidiary boards and senior management in defining the risk strategy and in the development of the methodologies to identify, take, assess, monitor and report risks. It also supports the operating units implementing and adopting the relevant policies and guidelines. The Head of Outsourcing (who reports directly to the Chief Risk Officer) is responsible for the overall execution of the outsourcing lifecycle; from the risk assessment to the final management of the agreement and subsequent monitoring activities. The legal, governance & compliance functions are in charge of evaluating whether the internal processes are adequate to mitigate compliance risk. The actuarial functions, through the Heads of Actuarial Function, challenge the content and assumptions of the ORSA and provide an assessment on the appropriateness of the ORSAs of each business.

Third line of defence

– Internal Audit is the third line of defence. Internal Audit is responsible for independently evaluating the effectiveness of the internal control and risk management system and for confirming the operational effectiveness of the controls.

POLICIES AND CHARTERS

There are policies and charters in place which set out the roles and responsibilities of the Head of Outsourcing and each of the control functions (risk management, legal, governance & compliance, actuarial and Internal Audit) and how they interact with the organisation in the execution of that responsibility is set out in their respective charters.

The risk management, legal, governance & compliance and internal audit functions operate within the framework of specific policies that are subject to periodic updates and approval by the Boards. Specific regulations stemming from these policies govern in some detail the activities to be performed as part of the specific mission assigned, as well as the powers and responsibilities allocated by the Boards.

Legal, governance & compliance and risk management functions are involved where material new processes are drawn up and where changes are made to the organisational structure of the business. In particular, the legal, governance & compliance functions must always be involved in the drafting of processes where the issue of compliance is relevant.

POLICY FRAMEWORK

The policy frameworks across the Utmost International businesses each comprise a set of policies that support the delivery of the strategy by establishing operating principles and expectations for managing the key risks to the businesses. The policy sets contain the minimum control standards to which each business must adhere and against which they report compliance. The policies define:

– The individual risks the policy is intended to manage;
– The degree of risk that Utmost International is willing to accept, which is set out in the policy risk appetite statements;
– The minimum controls required in order to manage the risk to an acceptable level; and
– The frequency of the control's operation.

Each policy is the responsibility of a member of senior management who is charged with overseeing compliance across Utmost International.

BUSINESS PERFORMANCE AND CAPITAL MANAGEMENT

The annual operating plan for each operating business is assessed to ensure that Utmost International operates within its stated risk appetite.

Business performance is routinely monitored with consolidated reporting against performance targets.

Utmost International operates Capital Management Policies in each business, whereby capital is allocated across risks and held as a mitigant where appropriate. The amount of risk capital required is reviewed regularly.

RISK AND CAPITAL ASSESSMENT

Utmost International operates a standardised assessment framework for the identification and assessment of the risks to which it may be exposed and how much capital should be held in relation to those exposures. This framework is applicable across all of the Utmost International businesses and establishes a basis, not only for the approach to risk assessment, management and reporting but also for determining and embedding the capital management policies across the business. Risk assessment activity is a continuous process and is performed on the basis of identifying and managing the significant risks to the achievement of the objectives of Utmost International.

Stress and scenario tests are used extensively in each business to support the assessment of risk and provide analysis of their financial impact. Independent reviews conducted by the risk functions provide further assurance to management and the Boards that individual risk exposures and changes to our risk profile are being effectively managed.

MANAGEMENT INFORMATION

Overall monitoring and reporting against the risk universe takes place in business unit management committees and is then reported to senior management and the operating business Boards via regular risk reporting.

The Risk and Compliance Committees receive a consolidated risk report on a quarterly basis, detailing the risks facing the relevant business and the overall position against risk appetite limits. The Risk and Compliance Committees are also provided with regular reports on the activities of the risk functions.

PEOPLE AND REWARD

Effective risk management is central to the culture and values of the Utmost International businesses. Processes are operated that seek to measure both individual and collective performance and discourage incentive mechanisms which could lead to undue risk taking. Training and development programmes are in place to support employees in their understanding of the risk management framework.

TECHNOLOGY AND INFRASTRUCTURE

Risk systems are employed across Utmost International to support the assessment and reporting of the risks faced. This enables management to document key risks and controls and evidence the assessment of them at a frequency appropriate to the operation of the control.

RISK MANAGEMENT EFFECTIVENESS

Corporate governance requirements in each jurisdiction require an annual review of the effectiveness of risk management systems. This assessment provides assurance to management and the subsidiary boards that the risk management framework has been implemented consistently and is operating effectively across the businesses.

OPERATIONAL RISK

Operational Risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Losses from events such as fraud, litigation, damages to premises, cyber-attacks and failure to comply with regulations are therefore covered in the definition. It also includes financial reporting risk but excludes strategic and reputational risks.

In line with industry practices, Utmost International adopts the following operational risk classification categories:

- Internal fraud – defined as the losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Company policy;
- External fraud – defined as the losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party;
- Employment practices and workplace safety – defined as the losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events;
- Clients, products and business practices – defined as the losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product;
- Damage to physical assets – defined as the losses arising from loss or damage to physical assets from natural disaster or other events;
- Business disruption and system failures – defined as the losses arising from disruption of business or system failures; and
- Execution, delivery and process management – defined as the losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Following best industry practices, the Utmost International framework for operational risk management includes as main activities the risk incident reporting and loss data collection process, risk assessment and scenario analysis.

The risk incident reporting and loss data collection process involves the collection of losses incurred as a result of the occurrence of operational risk events and provides a backward-looking view of the historical losses incurred due to operational risk events.

The risk assessment and scenario analysis processes provide a forward-looking view on the operational risks the Group is exposed to.

EMERGING RISKS

Emerging risks are difficult to perceive and quantify. These include risks arising from changes to the internal or external environment, social trends, regulatory developments and technological achievements. The Risk and Compliance Committees of each business review the Emerging Risk Registers and report to the subsidiary boards.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

Utmost International Group Holdings Ltd. (the "Company") is a private company incorporated in Guernsey (registered no. 61518) within the meaning of section 2(1)(a) of The Companies (Guernsey) Law, 2008. The Company was incorporated on 13 January 2016. The principal activity of the Company is to act as a holding company for the life assurance businesses operated by its principal subsidiaries, Utmost PanEurope DAC ("UPE"), Utmost Ireland DAC ("UI"), Harcourt Life Ireland DAC ("HLI") (all registered in Ireland), Utmost Limited (registered in the Isle of Man), and Utmost Worldwide Limited ("UW" registered in Guernsey), the latter of which was acquired subsequent to the year-end, on 28 February 2019.

The Company and its subsidiaries as detailed in note 4 to the financial statements are together referred to as "Utmost International". On 13 June 2018 Utmost International acquired UIG Holdings (No 2) Ltd. (formerly LCCG Holdings (No. 2) Limited) and its subsidiaries which included Utmost Holdings Ireland Limited and its subsidiaries as detailed in note 4 to the financial statements.

DIRECTORS AND SECRETARY

The directors and secretary who held office during the year and to date are set out below:

- Paul Thompson
- Ian Maidens
- Chris Boehringer
- Harry Smith
- C.L. Secretaries Limited (Company Secretary)

The Company Secretary had no beneficial interests in the shares of any group company. Two directors, Paul Thompson and Ian Maidens, have an equity interest in certain entities within the Utmost International group. Details of these interests are disclosed in note 38 to the financial statements.

INDEPENDENT AUDITOR

PricewaterhouseCoopers LLC has indicated its willingness to continue in office.

GOING CONCERN

The directors of the Company have determined that it will continue in operational existence for the immediate future and therefore the financial statements have been prepared on a going concern basis. In making this assessment the directors considered the nature and quantum of its assets and liabilities and also considered the basis on which the financial statements were prepared. In making the going concern assessment, the directors considered the principal risks faced by the Company and its direct and indirect subsidiaries, its existing financial and operational resources and its overall solvency position.

RESULTS AND DIVIDEND

The result for the year is shown in the statement of comprehensive income on page 52. The directors do not recommend the payment of a dividend (2017: £nil).

EVENTS SUBSEQUENT TO THE YEAR-END

Detail on events which took place subsequent to the year-end is provided in note 39. Below is a summary of the key events.

Change in name

The Company changed its name from LCCG Holdings (No 4) Limited to Utmost International Group Holdings Ltd on 30 January 2019, as part of a wider exercise across the Utmost Group of Companies to provide consistent branding using the Utmost name.

Acquisitions subsequent to the year-end

On 19 July 2018, Utmost International announced the proposed acquisition of Generali Worldwide Insurance Company Limited ("Generali Worldwide"). Following receipt of the required regulatory approvals, UIG Holdings (No 6) Ltd. completed the acquisition of Generali Worldwide on 28 February 2019. Generali Link Limited, the service company, was acquired as part of the transaction. Subsequently both companies were renamed, to Utmost Worldwide Limited and Utmost Link Limited respectively.

Share issuance
On 27 February 2019 the Company issued 55,000,000 preference shares for £1.00 each (total consideration £55m) and, on the same day, made a capital contribution to its direct subsidiary UIG Holdings (No 5) Ltd. ("UIG5") in relation to the acquisition of Utmost Worldwide Limited.

On 27 February 2019 the Company issued 50,000,000 preference shares for €1.00 each (total consideration €50m, or £45m) and, on the same date, made a €50m capital contribution to its direct subsidiary UIG Holdings (No 2) Ltd. ("UIG2") in relation to the acquisition of the Athora Ireland international bond business. On 29 March 2019 Utmost Holdings Ireland Limited ("UHIL") subscribed for €30m (£27m) of shares in UPE, its direct subsidiary.

Consolidation of Irish entities
Augura Ireland DAC ("Augura") and Union Heritage DAC ("UHL") each underwent re-registration from designated activity companies to companies limited by shares on 27 February 2019. On the same day, share capital reductions for each of these companies and Harcourt Life Corporation ("HLC") were effected. On 14 May 2019, in accordance with section 463 of the Companies Act 2014 (the prevailing legislation in Ireland), a special resolution was passed to give effect to the merger by absorption of Augura and UHL into HLC. On the same day, U-Link, acquired as part of the Generali Worldwide transaction, was merged by absorption into Utmost Services Ireland Limited, in accordance with the same legislative process.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The directors are responsible for the preparation of financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and International Financial Reporting Standards as adopted by the European Union, of the state of affairs of the Company and the Utmost International group of companies, and of the profit or loss of the Company and the Utmost International group of companies for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Utmost International group of companies and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and the Utmost International group of companies and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DISCLOSURE OF INFORMATION TO AUDITOR
The directors who held office at the date of approval of this Director's report confirm that, so far as each is aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Strategic Report comprising pages 1 to 30 of this Annual Report, and the Governance Report comprising pages 32 to 47, were approved by the Board of directors and signed on its behalf by:

Ian Maidens
Group Chief Financial Officer
2 July 2019

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FINANCIAL STATEMENTS

OUR OPINION

In our opinion:

- Utmost International Group Holdings Ltd's consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union;
- Utmost International Group Holdings Ltd's company financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2018 and its profit and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of The Companies (Guernsey) Law 2008.

WHAT WE HAVE AUDITED

Utmost International Group Holdings Ltd's consolidated and company financial statements (the "financial statements") comprise:

- the consolidated and company statements of financial position as at 31 December 2018;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

OTHER INFORMATION

The other information comprises all of the information in the Annual Report 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of The Companies (Guernsey) Law, 2008 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's 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.

The directors are responsible for overseeing the Group's and Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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 members as a body in accordance with the Section 262 of The Companies (Guernsey) Law 2008 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.

OTHER REQUIRED REPORTING

Companies (Guernsey) Law 2008 exception reporting

Under The Companies (Guernsey) Law 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
8 July 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue			
Net premiums earned	22	**1,187**	–
Fees and charges receivable	5	**63,217**	46,634
Other operating income		**1,787**	1,552
		66,191	48,186
Investment return	6	**(817,809)**	805,436
Net policyholder claims and benefits incurred			
Policyholder claims		**(17,049)**	–
Transfer to unallocated surplus	23	**4,159**	–
Changes in insurance contract liabilities		**19,537**	–
Changes in investment contract liabilities		**833,159**	(805,251)
		839,806	(805,251)
Expenses			
Administrative expenses	7	**(88,867)**	(33,383)
Amortisation of acquired value of in-force business	10	**(30,512)**	(18,243)
		(119,379)	(51,626)
Gains arising on bargain purchases	4	**83,068**	–
Gain on acquisition of related party	4	**19,248**	–
Profit/(loss) for the year before interest and tax		**71,125**	(3,255)
Finance costs	8	**(5,179)**	(3,553)
Profit/(loss) for the year before tax		**65,946**	(6,808)
Tax credit/(charge)	9	**1,072**	–
Profit/(loss) for the year after tax		**67,018**	(6,808)
Other comprehensive income			
Other items of comprehensive income	29	**5,443**	–
Total comprehensive income/(loss) for the year		**72,461**	(6,808)

Income and expenses for the year derive wholly from continuing operations.

The notes on pages 56 to 86 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Intangible assets			
Acquired value of in-force business	10	**317,269**	156,650
Deferred acquisition costs	11	**10,285**	3,044
Other intangible assets	12	**2,061**	81
Tangible assets			
Property, plant and equipment	13	**2,234**	353
Investment property	14	**4,274**	–
Financial assets			
Assets held to cover linked liabilities	15	**23,325,005**	9,705,040
Modified coinsurance account	17	**571,949**	777,232
Other investments	16	**32,244**	10,181
Deposits		**17,000**	46,383
Cash and cash equivalents	20	**151,231**	61,211
Insurance assets			
Reinsurers' share of insurance contract liabilities	22	**446,504**	–
Insurance contract receivables		**8**	–
Deferred tax asset	26	**7,387**	–
Withholding tax asset	18	**140,100**	–
Other receivables	19	**77,575**	14,356
TOTAL ASSETS		**25,105,126**	10,774,531
Liabilities			
Technical provisions for investment contract liabilities	21	**23,725,076**	10,491,800
Liabilities under insurance contracts	22	**618,948**	–
Unallocated surplus	23	**23,183**	–
Reinsurance payables		**37,714**	–
Payables related to direct insurance contracts		**26,751**	–
Deferred front-end fees	24	**17,982**	1,607
Borrowings from banks	25	**123,718**	73,152
Current and deferred tax liabilities	26	**17,215**	–
Other payables	27	**95,454**	26,567
Total liabilities		**24,686,041**	10,593,126
Capital and reserves			
Called up share capital presented as equity	28	**95**	95
Share premium	28	**285,498**	118,900
Retained earnings		**128,049**	62,410
Foreign currency translation reserve	29	**5,443**	–
Total equity		**419,085**	181,405
TOTAL EQUITY AND LIABILITIES		**25,105,126**	10,774,531

The notes on pages 56 to 86 form an integral part of these financial statements.

The financial statements on pages 52 to 86 were approved and authorised for issue by the Board of directors on 2 July 2019 and signed on its behalf by:

Paul Thompson
Director
2 July 2019

Ian Maidens
Director
2 July 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Notes	Called up share capital presented as equity £'000	Share premium £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Total £'000
Balance as at 1 January 2017		95	112,900	69,218	–	182,213
Loss for the year		–	–	(6,808)	–	(6,808)
Shares issued during the year	28	–	6,000	–	–	6,000
Balance as at 31 December 2017		**95**	**118,900**	**62,410**	**–**	**181,405**
Cumulative impact of the initial application of IFRS 15 at 1 January 2018	40	**–**	**–**	**(1,379)**	**–**	**(1,379)**
Profit for the year		**–**	**–**	**67,018**	**–**	**67,018**
Other comprehensive income for the year	29	**–**	**–**	**–**	**5,443**	**5,443**
Shares issued during the year	28	**–**	**166,598**	**–**	**–**	**166,598**
Balance as at 31 December 2018		**95**	**285,498**	**128,049**	**5,443**	**419,085**

The notes on pages 56 to 86 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Net cash flows from operating activities	30	**62,891**	13,696
Cash flows from investing activities			
Acquisition of subsidiaries – net of cash acquired		**(109,873)**	–
Acquisition of property, plant and equipment		**(1,578)**	(111)
Acquisition of intangible assets – software		**(38)**	(16)
Proceeds on disposals of property, plant and equipment		**31**	93
Acquisition of investments		**–**	(10,361)
Net cash used in investing activities		**(111,458)**	(10,395)
Cash flows from financing activities			
Issue of shares		**95,211**	6,000
Borrowings from banks		**85,493**	–
Repayment of bank borrowings		**(37,000)**	(6,000)
Loan interest paid		**(4,490)**	–
Net cash flows from financing activities		**139,214**	–
Net increase in cash and cash equivalents		**90,647**	3,301
Cash and cash equivalents at the beginning of the year		**61,211**	57,910
Exchange differences on cash and cash equivalents		**(627)**	–
Cash and cash equivalents at the end of the year		**151,231**	61,211

The notes on pages 56 to 86 form an integral part of these financial statements.

1 GENERAL INFORMATION

The principal activity of Utmost International Group Holdings Ltd (the "Company") is investment holding, and of its subsidiaries (together, the "Group") is the writing of long-term assurance business through the Utmost Wealth Solutions brand, the majority of which is classified as investment contracts because of the absence of significant insurance risk associated with underlying policies. These contracts are primarily written into the UK, Ireland, Italy and other European countries, and into Hong Kong and Singapore through the modified coinsurance agreement detailed in note 17. The Group also writes employee benefits insurance business through the Utmost Corporate Solutions brand, following the acquisition of Utmost PanEurope DAC ("UPE") during the year.

The Company is a private company incorporated in Guernsey within the meaning of section 2(1)(a) of The Companies (Guernsey) Law, 2008 and was incorporated on 13 January 2016. The address of the Company's registered office is 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee to the extent they have been endorsed by the European Union and with applicable requirements of The Companies (Guernsey) Law, 2008. The directors have prepared consolidated and separate Company financial statements.

The financial statements have been prepared under the historical 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 consolidated Group and Company financial statements are presented in Pounds Sterling, rounded to the nearest thousand.

2.1.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings detailed in note 4. 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated primary statements.

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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 Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred. 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 (and book value in relation to the 'business combination under common control' in respect of the acquisition of UIG2 as detailed in note 4 below).

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity 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 business acquired, the difference is recognised directly in the Statement of Comprehensive Income as "gain on bargain purchase".

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the Statement of Comprehensive Income.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.1.2 Going concern

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

In making the going concern, assessment for the foreseeable future the directors considered the principal risks the Group faces, in particular the existing financial resources and the overall solvency position of the regulated entities including the impact of Solvency II. The Directors' report summarises the Group's activities, financial performance and principal risks facing the Group.

On the basis of the above, the directors have determined that it is reasonable to conclude that the Group will continue in operational existence for the foreseeable future and therefore that it is appropriate to prepare the financial statements on a going concern basis.

2.2 Foreign currency translation

2.2.1 Functional and presentation currency

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

2.2.2 Foreign currency transactions and balances

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Comprehensive Income.

Translation differences on monetary financial assets measured at fair value and designated as held at fair value through the profit or loss are included in foreign exchange gains and losses in the Statement of Comprehensive Income. Translation differences on non-monetary items, which are designated as fair value, are reported as part of the fair value gain or loss.

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

2.3 Goodwill, Intangible assets and acquired value of in-force policies ("AVIF")
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, and is recognised as a "gain on bargain purchase" in the Statement of Comprehensive Income.

Positive goodwill is recognised as an intangible asset in the Statement of Financial Position.

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 IAS 38 (in accordance with IFRS 3) to be its fair value on the date of acquisition. The fact that a price can be established for an intangible asset which is acquired in a business combination is accepted as evidence that future economic benefits are expected to accrue to the entity.

The present value of future profits on a portfolio of long-term insurance and investment contracts, representing the value of in-force policies ("VIF"), acquired directly or through the purchase of a subsidiary, is recognised as an acquired value of in-force business ("AVIF") intangible asset on acquisition. AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic 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.

AVIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Significant estimates include forecast cash flows and discount rates.

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

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

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

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

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

Computer and office equipment	20%–50%
Leasehold improvements, fixtures and fittings	20%–33%
Motor vehicles	15%–35%

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 in the Statement of Comprehensive Income.

2.6 Financial assets and financial liabilities
The Company and Group have adopted IFRS 9 "Financial Instruments" on 1 January 2018. The adoption of IFRS 9 resulted in no reclassification or remeasurement in respect of the Group's or Company's assets.

2.6.1 Classification
From 1 January 2018 the Company and Group classifies its financial assets in the following categories: measured subsequently at fair value, or measured at amortised cost. The classification is determined by the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses are recognised in the Statement of Comprehensive Income. The Company and Group has not elected to account for any equity investments at fair value through Other Comprehensive Income.

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. Financial liabilities, are initially recognised at fair value, being their issue proceeds net of transaction costs incurred. All liabilities, other than those designated at fair value through profit or loss, are subsequently carried at amortised cost. The Group's financial liabilities include amounts due to investment and insurance contract holders, payables in respect of investment and insurance contract liabilities, borrowings from banks, tax liabilities and other payables in the Statement of Financial Position.

2.6.2 Recognition and derecognition
Purchases and sales of financial assets are recognised on the trade date, the date on which the Company and Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company and the Group has transferred substantially all the risks and rewards of ownership.

2.6.3 Financial assets and financial liabilities at fair value through profit or loss
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 the Statement of Comprehensive Income.

Fixed interest securities, ordinary shares and funds, which principally comprise collective investment schemes, are valued at their fair value at the period end. Investments in collective investment schemes and certain other unquoted securities are valued at the latest available net asset valuation provided by the administrators or managers of the funds or companies, unless the directors are aware of good reasons why such valuations would not be the most appropriate or indicative of fair value. The assets which are invested in the with-profits funds managed by Aviva Group are held at fair value, being the valuation provided by Aviva of the Group's share of assets in the with-profit funds at the year-end.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fair value of quoted investments in an active market is the bid price, for investments in unit trusts and other pooled funds it is the bid price quoted on the last day of the accounting period on which the investments in such funds could be redeemed. If the market for a financial investment is not active, the fair value is determined by using valuation techniques. For these investments, the fair value is established by using quotations from independent third parties, such as brokers or pricing services or by using internally developed pricing models. Priority is given to publicly available prices, when available, but overall the source of pricing and valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. Valuation techniques used include the use of recent arm's length transactions and reference to the current fair value of other instruments that are substantially the same.

Discretionary portfolios are carried at the period end using the latest valuation from the discretionary fund manager that is available to the Group. Due to the unit-linked nature of the portfolios any adjustment to the relevant financial investments values would be offset by a matching adjustment in the financial liabilities under investment contracts balance. The Group has used the same valuation as that for the statements prepared for clients as this represents fair value and the consistent practice of the Group in valuing and is considered most appropriate.

2.6.4 Financial liabilities at amortised cost

Financial liabilities, including borrowings from banks, are initially recognised at fair value, being their issue proceeds net of transaction costs incurred. All liabilities, other than those designated at fair value through profit or loss, are subsequently carried at amortised cost. 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.

2.6.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by an IFRS or interpretation, as specifically disclosed in the accounting policies of the Company or Group.

2.7 Investment in subsidiary undertakings

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

Subsidiaries are entities controlled by 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.

2.8 Impairments

For financial assets the Group assesses on a forward-looking basis the expected credit losses associated with its debtors and other receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For debtors and other receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Impairment losses are recognised within operating profit in the Statement of Comprehensive Income. Subsequent recoveries of amounts previously written off are credited against the same line item. Management have considered the expected credit losses and deem that there is no significant 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. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

2.9 Investment return

All gains and losses arising from changes in the fair value of financial investments, realised or unrealised, are recognised within "Investment return" 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 period.

Income generated from financial investments, including investment income from bank deposits and fixed or floating interest bearing bonds and stocks, is recognised within "Investment return" in the Statement of Comprehensive Income using the effective interest method.

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.

2.10 Reinsurance

The Group cedes reinsurance in the normal course of business, with limits varying by line of business. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. There are reinsurance arrangements in place for UPE, Harcourt Life Ireland DAC ("HLI"), Utmost Ireland DAC ("UI") and UL. All reinsurance is in line with the underlying entity reinsurance policy. There is no accounting treatment difference across the entities and reinsurance recoverability is in line with actual experience.

Reinsurance assets represent balances due from reinsurance companies. Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the Statement of Comprehensive Income.

Gains or losses on purchasing reinsurance are recognised in the Statement of Comprehensive Income at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

2.11 Product classification
Contracts under which the Group accepts significant insurance risk are classified as insurance contracts.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a discretionary participation feature ("DPF"). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

2.12 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 primarily 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, with the respective assets and liabilities classified as "Assets held to cover linked liabilities" and "Technical provisions for linked liabilities" respectively 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. The Group classifies liabilities in respect of non-unitised with-profits business written prior to being acquired by the Group in UL as investment contract liabilities. This business is 100% reinsured to Aviva Life and Pensions UK Limited.

Premiums received and withdrawals from investment contracts are accounted for directly in the Statement of Financial Position as adjustments to the investment contract liability. Investment income and changes in fair value arising from the investment contract assets are included on a net basis in "Investment return" in the Statement of Comprehensive Income. Benefits are deducted from financial liabilities and transferred to amounts due to investment contract holders on the basis of notifications received, when the benefit falls due for payment or, on the earlier of the date when paid or when the contract ceases to be included within those liabilities.

The Group earns revenue on investment management services provided to holders of investment contracts, as detailed in note 2.18. Revenue is recognised as the services are performed.

2.13 Liabilities under insurance contracts and investment contracts with discretionary participation features ("DPF")
The Group's with-profits business held in HLI is classified as insurance business. In considering the level of insurance risk, HLI has recognised the significance of the insurance guarantees attaching to the with-profits business and in particular that no market value adjustment ("MVA") is applied in the case of the death of policyholders. This compares to policy surrenders where an MVA is applied to the value of policy at exit. The IFRS cash reserve for Insurance business is calculated as the present value of all projected future outgoings and income. The calculation is carried out using best estimate assumptions and a floor of zero is applied to policies which are estimated to have negative non-unit reserves, with reference to non-unit reserves. The Group also classifies liabilities in respect of with-profits business written prior to being acquired by the Group in UI as insurance contract liabilities. This business is 100% reinsured to Aviva Life and Pensions UK Limited.

The majority of the life assurance contracts issued by the Group are long-term life assurance contracts. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. The entities who have insurance contracts at 31 December 2018 include UPE, HLI and UI.

The significant accounting policies applied in relation to insurance contracts and investment contracts with DPF are:

Insurance liabilities are determined by the directors on the advice of the Group's Reporting Actuary and similarly to the valuation of liabilities under investment contracts they are aligned to a modified Irish GAAP basis, which is also in line with the requirements of IFRS 4 "Insurance contracts". The liability was computed separately for each life assurance contract, using surrender, expense and mortality assumptions that reflect the Group's expected experience with appropriate allowance for margins of prudence.

Insurance liabilities are calculated in accordance with the actuarial principles laid down in Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009.

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

Liabilities – insurance and investment contracts with DPF are calculated as follows:

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premium is recognised. The liabilities of the Group's unitised with-profit business are calculated as the lower of the current unit value and surrender value of each policy.

Assumptions are made in respect of all material factors affecting future cash flows, including future interest rates, mortality and costs. The unitised with-profit liabilities and unit linked liabilities of HLI are partially reassured to Phoenix Life Limited ("PLL").

Liability adequacy test
At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged as an expense to the Statement of Comprehensive Income.

The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 "Insurance Contracts", as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised as income or an expense in the Statement of Comprehensive Income.

Unallocated surplus
The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the unitised with-profit business. For the Group's unitised with-profit business, the amount included in the Statement of Financial Position line item "unallocated surplus" represents amounts which have yet to be allocated to policyholders. The unitised with-profit business is closed to new business and as permitted by IFRS 4, the whole of the unallocated surplus has been classified as a liability.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.14 Investment property

Investment property comprises freehold and leasehold properties held to earn rentals or for capital appreciation or both.

Investment property held in respect of liabilities to policyholders under investment contracts is included in the Statement of Financial Position at fair value. Fair values are based on valuations provided by independent third-party valuers using, where relevant, accepted Royal Institution of Chartered Surveyors guidelines or equivalent local guidelines appropriate to the location of the property. Fair values are reviewed and agreed by management.

2.15 Cash and cash equivalents

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

2.16 Deposits

Fixed deposits held with banks with original maturities in excess of three months are included in deposits. These are valued at their carrying value or estimated using discounted cash flow techniques using the market rate for similar instruments.

2.17 Net premiums earned

In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Group are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Outward reinsurance premiums are accounted for on a payable basis.

2.18 Fees and charges and deferred front-end fees

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. These fees consist of recurring fees and "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract). The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance.

The recurring fees consist of contractual fees and percentage fees related to investment management services and are recognised as revenue over time, as performance obligations are satisfied. 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 obligation is fulfilled.

Initial and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment contracts. Front-end fees that relate to the provision of investment management services are deferred and recognised over the expected term of the policy on a straight line basis.

Commissions receivable arising from with-profit bond investments and commissions from investments in funds are recognised as revenue over time, as performance obligations are satisfied. 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.

2.19 Renewal commission and advisor fees

Advisor fees and 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.

2.20 Gross policyholder claims and benefits incurred

Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

2.21 Reinsurance claims

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

2.22 Acquisition costs and deferred acquisition costs

Acquisition costs include commissions, intermediary incentives, sales and marketing allowance payable to fellow Group companies and incentives payable to the Group's sales force. 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 on a straight basis based 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 "Administrative expenses" line.

Reviews to assess the recoverability of deferred acquisition costs on investment contracts and insurance contracts are carried out at each period end 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.

2.23 Modified Coinsurance Account

Under the modified coinsurance arrangement (detail provided in note 17), the statutory reserve on the ceded business is the obligation of, and held by, the ceding company. The Group remains at risk of loss from lapse and surrenders.

The amounts contractually withheld and legally owned by the cedant in the form of assets equal to the reserve are reflected in the Modified Coinsurance Account. Premiums, claims arising and policy charges under this arrangement are included within the "Changes in provisions for investment contract liabilities" in the Statement of Comprehensive Income and within the "Modified Coinsurance Account" in the Statement of Financial Position. The investment return attributable to the assets held under the Modified Coinsurance arrangement is included within "Investment return" in the Statement of Comprehensive Income.

2.24 Finance costs

Interest payable is recognised in the Statement of Comprehensive Income as it accrues and is calculated by using the effective interest method. Finance arrangement fees are capitalised and amortised over the term of the loan.

2.25 Other expenses

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

2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classed as operating leases and lease costs are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

2.27 Pension obligations
A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group 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 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.

2.28 Taxation (current and deferred)
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. Deferred tax is provided using the Statement of Financial Position method on temporary differences arising between the tax bases of assets and liabilities for taxation purposes and their carrying amounts in the financial statements. Current and deferred taxes are determined using tax rates based on legislation enacted or substantively enacted at the year-end date and expected to apply when the related tax asset is realised or the related tax liability is settled.

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 difference 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.

2.29 Provisions and contingent liabilities
Provisions are recognised in respect of present legal or constructive obligations arising from past events where it is probable that outflows of economic resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from the failure to fulfil it.

2.30 Share Capital and Share Premium
Ordinary share capital and preference share capital are classified as equity. The issued preference shares are non-voting, redeemable preference shares and as at 31 December 2018 the Company has both Sterling and Euro-denominated preference shares in issue. No preference share dividends have been paid to date. On issuance of new share capital, the excess of consideration received over the nominal value of the shares is recognised as share premium.

2.31 Changes in accounting standards and accounting policies
The following new accounting standards became effective for the financial year beginning 1 January 2018 and have been adopted for the first time in these financial statements.

IFRS 9 "Financial Instruments": the adoption of IFRS 9 has resulted in different criteria by which to assess the classification of financial assets, as well as the introduction of an expected credit loss model instead of the previous incurred loss model for impairments of assets held at amortised cost. However no changes have arisen in the recognition or measurement of the Group's consolidated financial assets or financial liabilities.

IFRS 15 "Revenue from Contracts with Customers": the adoption of IFRS 15 has resulted in a change in the amortisation method applied for both deferred front-end fees and deferred acquisition costs. The amortisation basis is now on a straight line basis whereas prior to 1 January 2018 it was amortised in line with the projected payment of fees. In the case of trustee fees, establishment and termination fees (and related costs), these are now required to be capitalised and amortised over the expected duration of the trusts.

On adoption of the standard, the Group has applied the practical expedient available in the standard to Group transactions by year of business and product on open policies at the date of transition. Using the provisions for first time adoption available in the standard, the cumulative impact of this adjustment amounting to £1,379k has been recognised in the Statement of Changes in Equity at 1 January 2018, with no restatement of the comparative amounts required. The impact of the change in amortisation to the Group's Statement of Comprehensive Income for the year ended 31 December 2018 is a decrease in profit of £1,109k. The cumulative adjustment as at 31 December 2018 is £2,488k (see note 40).

2.32 Proposed prospective changes to accounting standards
The Group continues to monitors developments in IFRSs, including new standards issued in addition to exposure drafts, amendments and annual improvements, as issued by the International Accounting Standards Board ("IASB"). The main prospective changes that are likely to impact the Group include the following:

IFRS 17 "Insurance Contracts": In November 2018 the IASB recommended an amendment to IFRS 17 to defer the effective date to 1 January 2022. The new standard is expected to change the methodology under which (re) insurance contract liabilities are measured, in addition to revising the presentation of the primary statements and disclosures in relation of insurance companies. The Group continues to monitor developments and is currently undertaking an assessment of the impact of IFRS 17. The Group primarily writes investment contract business; however the proposed changes will impact the insurance business written by the Group.

IFRS 16 "Leases": This standard is effective for the financial year ending 31 December 2019. The new standard eliminates the distinction between operating and finance leases and requires lessees to recognise all leases with a lease term of greater than 12 months in the Statement of Financial Position. The Group has adopted this standard with an effective date of 1 January 2019. IFRS 16 will be adopted on a modified retrospective basis in relation to the Group's leases on Royalty House, Walpole Avenue, Douglas, Isle of Man ("Royalty House"), Saddlers House, Gutter Lane, London ("Saddlers House") and Ashford House, Tara Street, Dublin ("Ashford House"). The Group also has a sub-lease on Utmost House in Navan (Ireland) for its UPE offices ("Utmost House"). It is expected that adoption of IFRS 16 will result in a new "right to use" asset and a new lease liability being established for each lease, resulting in a Group impact of £9,000k and £9,100k respectively on the Statement of Financial Position at 1 January 2019, with an increase in expenses of circa £100k per annum for each lease respectively. The Group extended the lease on Royalty House in February 2019, resulting in an increase in the right to use asset and lease liability from £0.9m to £4.1m.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

The judgements and estimates involved in the Company's and Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition and that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Company and Group could affect its reported results.

Critical accounting estimates

3.1 Insurance contract liabilities

The calculation of insurance contract liabilities is a critical estimate, based on the fact that although the process for the establishment of insurance liabilities follows specified rules and guidelines, the provisions that result from the process are the subject of estimations. As a consequence, the eventual value of claims could vary from the amounts provided to cover future claims. The Group seeks to provide appropriate levels of contract liabilities taking known facts and experiences into account but, nevertheless, such liabilities remain uncertain. The calculation methodology is discussed further in accounting policy 2.13, and sensitivity analysis in respect of the Group's insurance business is provided in note 31.14.

3.2 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. For the Group this includes assets under the Modified Coinsurance Account which are measured at fair value, and based on the value of the underlying unit linked assets. 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 2 and Level 3 financial instruments therefore involve the use of estimates.

3.3 Recoverability of acquired value of in-force business

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.

Critical judgements

3.4 Functional currency

As noted in 2.2.1, management consider the Group's functional currency to be Pounds Sterling, based on various considerations including the economic environments in which the Company and its subsidiaries operate, the primary currency in which transactions for the Group are transacted and funds from financing are generated. Given the Group has significant operations in Ireland denominated in Euro, the selection of functional currency is a critical judgement for the Group and accordingly management will continue to assess the functional currency in future periods to ensure it continues to reflect the underlying transactions, events and conditions that are relevant to the Group as a whole. Analysis to show the sensitivity of the Group's equity to currency movements is shown in note 31.11.

3.5 Classification of financial investments

The Group has elected to treat all financial investments backing its investment contracts as being at fair value through profit and loss although some of the assets may in fact be held to maturity depending on the decisions and requirements of individual policyholders.

3.6 Product classification

The Group's classification between which products are insurance contracts and which are investment contracts is detailed in notes 2.11 to 2.13. This is a critical judgement for the Group given the classification dictates the relevant presentation and measurement that is applied to each type of contract in the financial statements.

4 SUBSIDIARIES

The consolidated financial statements include the following subsidiaries:

Subsidiary	Date of acquisition	Registered address/ business address	Nature of business	Shares held
UIG Holdings (No 2) Ltd.	13 Jun 18	1st and 2nd Floors Elizabeth House Les Ruettes Brayes St Peter Port, Guernsey	Investment holding	100% of issued share capital
UIG Holdings (No 3) Ltd.	13 Jun 18	1st and 2nd Floors Elizabeth House Les Ruettes Brayes St Peter Port, Guernsey	Investment holding	100% of issued share capital
UIG Holdings (No 5) Ltd.	15 Jan 16 (incorporation date)	1st and 2nd Floors Elizabeth House Les Ruettes Brayes St Peter Port, Guernsey	Investment holding	100% of issued share capital
UIG Holdings (No 6) Ltd.	13 Jan 16 (incorporation date)	1st and 2nd Floors Elizabeth House Les Ruettes Brayes St Peter Port, Guernsey	Investment holding	100% of issued share capital
UIG Holdings (No 1) Ltd	13 Jun 18	5th Floor Saddlers House 44 Gutter Lane London	Investment holding	100% of issued share capital
UIG Holdings (No 4) Ltd	15 Jan 16 (incorporation date)	5th Floor Saddlers House 44 Gutter Lane London	Investment holding	100% of issued share capital
Utmost Holdings Isle of Man Limited	13 Apr 16 (incorporation date)	Royalty House Walpole Avenue Douglas, Isle of Man	Investment holding	100% of issued share capital
Utmost Limited	21 Oct 16	Royalty House Walpole Avenue Douglas, Isle of Man	Writing long-term assurance business	100% of issued share capital
Utmost Services Limited	21 Oct 16	Royalty House Walpole Avenue Douglas, Isle of Man	Management and administration services	100% of issued share capital
Utmost Trustee Solutions Limited	21 Oct 16	Royalty House Walpole Avenue Douglas, Isle of Man	Provision of trustee services	100% of issued share capital
Utmost Administration Limited	21 Oct 16	Royalty House Walpole Avenue Douglas, Isle of Man	Administration services	100% of issued share capital
Utmost Partnerships Limited	21 Oct 16	Royalty House Walpole Avenue Douglas, Isle of Man	Dormant company	100% of issued share capital
Utmost Holdings Ireland Limited	13 Jun 18	Ashford House Tara Street Dublin 2	Investment holding	100% of issued share capital
Utmost PanEurope DAC	19 Jun 18	Navan Business Park, Athlumney, Navan, Co. Meath Ireland	Writing long-term assurance business	100% of issued share capital
Harcourt Life Ireland DAC	13 Jun 18	Ashford House Tara Street Dublin 2	Writing long-term assurance business	100% of issued share capital
Utmost Ireland DAC	13 Jun 18	Ashford House Tara Street Dublin 2	Writing long-term assurance business	100% of issued share capital
Utmost Services Ireland Limited	13 Jun 18	Ashford House Tara Street Dublin 2	Management and administration services	100% of issued share capital

4 SUBSIDIARIES CONTINUED

Subsidiary	Date of acquisition	Registered address/ business address	Nature of business	Shares held
Augura Ireland Limited	13 Jun 18	Ashford House Tara Street Dublin 2	Former life assurance provider	100% of issued share capital
Harcourt Life Corporation DAC	13 Jun 18	Ashford House Tara Street Dublin 2	Former life assurance provider	100% of issued share capital
Union Heritage Limited	13 Jun 18	Ashford House Tara Street Dublin 2	Former life assurance provider	100% of issued share capital
Utmost Bermuda Limited	13 Jun 18	Clarendon House 2 Church Street, Hamilton Bermuda	Writing long-term assurance business	100% of issued share capital
Salado Enterprises Limited	13 Jun 18	Jubilee Buildings Victoria Street, Douglas Isle of Man	Property holding	100% of issued share capital
Kernesk Limited	13 Jun 18	Jubilee Buildings Victoria Street, Douglas Isle of Man	Property holding	100% of issued share capital
Zeus Investments 1 SPRL Zeus Investments 2 SPRL	13 Jun 18	Avenue Louise 65, Box 12 1050 Brussels Belgium	Property holding	100% of issued share capital

On 13 June 2018, the Group acquired 100% of the share capital of UIG Holdings (No 2) Ltd., a related holding company for a consideration of £71,387k, resulting in a gain on bargain purchase of £19,248k which has been recognised in the Statement of Comprehensive Income in the year ended 31 December 2018. This restructuring effectively brings the Irish business and its subsidiaries (which was not consolidated in the Group as at 31 December 2017) into the Group, to align the Utmost Wealth Solutions and Utmost Corporate Solutions brands and bring together the international businesses within one group. The gain arises as the book value of net assets transferred exceeds the consideration paid. The corresponding loss is recognised in the financial statements of Utmost UK Group Holdings Ltd (a company analogous to UIGH). Management consider both companies to be under common control, with Oaktree Capital Group LLC the ultimate controlling party of each, and accordingly the inter-group transfer has been accounted for as a business combination under common control. It is noted that the consideration of £71,387k was not actually transferred in cash by the Company; this amount represents a "non-cash transaction" as it was netted off other cashflows and paid directly to UHIL in order to fund the acquisition of UPE noted below.

In 2018, the Group Statement of Comprehensive Income includes £17,877k of revenue and £57,083k of profit relating to post-acquisition transactions of the Irish business, including a £83,068k gain on bargain purchase in respect of the acquisition of UPE and international bond book from Athora Ireland plc ("Athora Ireland"). If the acquisitions above had been effected on 1 January 2018, circa £42m of revenue and circa £11m of profit would have been recognised in the Group Statement of Comprehensive Income.

On 19 June 2018, the Group acquired 100% of the share capital of Utmost PanEurope DAC (previously known as Generali PanEurope DAC), a cross-border life insurance company. The Group has agreed to pay the sellers additional consideration of up to £9,023k (€10,000k) one year post-sale if certain financial targets are met. The Group estimates that half of this amount will become payable and included £4,512k (€5,000k) in contingent consideration in the consideration figure below.

On 31 December 2018, an indirect subsidiary of the Company, UI, acquired an International investment bond business from Athora Ireland via a Section 13 Portfolio Transfer.

These business combinations resulted in bargain purchases as the fair value of the assets acquired and liabilities assumed exceeded the total of the fair value of consideration paid. This was driven by the fact that Assicurazioni Generali A.G. and Athora Ireland considered the businesses non-core and wished to exit the unit-linked market in Ireland.

The fair value/book value of the assets and liabilities acquired during the year are as follows:

	UIG Holdings (No 2) Ltd. (related party) Book value £'000	Utmost PanEurope DAC Fair value £'000	Athora Ireland International Bond Business Fair value £'000
Assets			
Financial assets at fair value through profit or loss	2,082,210	9,586,187	2,833,378
Reinsurance share of technical provisions	369,182	83,932	–
Italian withholding tax asset	–	112,902	–
Cash and cash equivalents	91,865	26,348	–
Other assets	37,678	48,939	5,681
Total assets	**2,580,935**	**9,858,308**	**2,839,059**
Liabilities			
Liabilities to customers under insurance contracts	466,252	95,305	–
Liabilities to customers under investment contracts	1,983,074	9,551,417	2,833,378
Other liabilities	40,974	62,576	4,146
Total liabilities	**2,490,300**	**9,709,298**	**2,837,524**
Consideration paid	(71,387)	(209,623)	(28,606)
Net assets at date of acquisition	90,635	149,011	1,535
AVIF at date of acquisition	–	149,248	38,427
Deferred tax liability	–	(16,787)	–
Exchange differences	–	126	(263)
Gains arising from bargain purchases/related party transaction	**19,248**	**71,975**	**11,093**

5 FEES AND CHARGES RECEIVABLE

	2018 £'000	2017 £'000
Fee income from investment contracts	**62,517**	40,804
Net movement in deferred front-end fees	**(5,347)**	(946)
Other fee income – including commission and rebate income	**6,047**	6,776
Total fee income	**63,217**	46,634

6 INVESTMENT RETURN

	2018 £'000	2017 £'000
Interest income on policyholder investments	**1,776**	2,162
Dividend income	**43,647**	43,751
Net gains on realisation of investments	**460,090**	284,928
Change in fair value of financial assets	**(1,341,101)**	473,041
Net foreign exchange gains	**17,779**	1,554
	(817,809)	805,436

7 ADMINISTRATIVE EXPENSES

	2018 £'000	2017 £'000
Staff costs		
Wages and salaries	**21,384**	7,935
Social insurance costs	**3,390**	1,032
Pension costs – defined contributions	**1,639**	1,001
Termination costs	**259**	684
Other staff costs	**233**	1,190
	26,905	11,842
Depreciation of property, plant and equipment	**373**	167
Amortisation of intangible assets – software	**58**	57
Auditor's fees	**588**	144
Auditor's fees – non-audit services	**290**	–
Ongoing commission and advisor fee payable	**17,602**	14,449
Operating lease costs	**1,119**	94
Intangibles write-off	**9,681**	–
Other administrative costs	**32,251***	6,630
	88,867	33,383

* "Other administrative costs" in 2018 primarily includes professional fees and outsourcing costs associated with the Irish business.

Utmost Services Limited and Utmost Services Ireland Limited provide management and administration services to the other Utmost companies in the Group and are recovered through a service charge levied on those other Utmost subsidiaries. The administrative expenses for the Group head office and its employees are borne by UIG Holdings (No 4) Ltd and UIG Holdings (No 1) Ltd.

Remuneration for the Group's directors (including directors of the operating entities) comprised:

	Directors' salaries & short-term benefits £'000	Post employment benefits £'000	Total £'000
2018	**2,618**	**105**	**2,723**
2017	1,745	46	1,791

The average number of persons (including directors) employed by the Group during the year was 350 (2017: 197).

8 FINANCE COSTS

	2018 £'000	2017 £'000
Bank loan interest	**4,312**	3,188
Bank loan arrangement fee amortisation	**867**	365
	5,179	3,553

The finance costs arise on financial liabilities measured at amortised cost using the effective interest rate method. The bank loan is detailed in note 25. There are no other gains or losses on these liabilities.

9 TAXATION

	2018 £'000	2017 £'000
Current taxation – credit	1,072	–

The subsidiary companies as detailed in note 4 pay tax at the standard tax rate of each jurisdiction.

Guernsey taxation
The Company and Guernsey subsidiaries pay Guernsey income tax at the standard rate of 0% (2017: 0%).

Isle of Man taxation
The Isle of Man subsidiaries are subject to tax at 0% (2017: 0%). This rate is not expected to change in the foreseeable future.

Ireland taxation
The Ireland subsidiaries are subject to tax at 12.5% (2017: 12.5%).

UK taxation
The Group can make full use of tax losses available in UIG Holdings (No 1) Ltd and UIG Holdings (No 4) Ltd. There are sufficient losses available to reduce the current taxation liability to nil in respect of UK corporation tax.

The tax charge per the Statement of Comprehensive Income can be reconciled to the taxation on profits at the standard Guernsey income tax rate as follows:

	31 Dec 18 £'000	31 Dec 17 £'000
Profit/(loss) on ordinary activities before taxation	65,946	(6,808)
Tax at the Guernsey rate of 0%	–	–
Over-provision in respect of profits taxable at the Irish rate (12.5%)	(1,147)	–
Other	2	–
Withholding tax suffered	73	–
Tax (credit)/charge for the financial year	(1,072)	–

10 ACQUIRED VALUE OF IN-FORCE BUSINESS

	2018 £'000	2017 £'000
At 1 January	178,891	178,891
Value of in-force policies acquired during the year	187,675	–
Foreign exchange movement	3,811	–
At 31 December	370,377	178,891
Accumulated amortisation		
At start of the year	22,241	3,998
Charge for the year	30,512	18,243
Foreign exchange movement	355	–
At 31 December	53,108	22,241
Net book value at 31 December	317,269	156,650
Current (within 12 months)	35,485	15,534
Non-current (after 12 months)	281,784	141,116
	317,269	156,650

11 DEFERRED ACQUISITION COSTS

	2018 £'000	2017 £'000
Acquisition costs at 1 January	3,044	1,058
Cumulative impact of IFRS 15 as at 1 January 2018	(243)	–
On acquisition of subsidiary	6,605	–
Acquisition costs capitalised during the year	1,269	2,109
Acquisition costs amortised during the year	(882)	(123)
Foreign exchange movement	492	–
Acquisition costs at 31 December	10,285	3,044
Current (within 12 months)	1,416	264
Non-current (after 12 months)	8,869	2,780
	10,285	3,044

12 OTHER INTANGIBLE ASSETS

	Goodwill £'000	Software £'000	Total £'000
Opening net book amount	–	81	81
Acquired on acquisition of subsidiary	1,954	9,681	11,635
Additions	–	38	38
Amortisation charge	–	(58)	(58)
Write-off of intangibles on acquisition	–	(9,681)	(9,681)
Foreign exchange movement	46	–	46
Closing net book value	2,000	61	2,061
Net book value at 31 December 2018			
Cost	2,000	2,815	4,815
Accumulated amortisation	–	(2,754)	(2,754)
At 31 December	2,000	61	2,061

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements, computer and office equipment £'000	Motor vehicles £'000	Total £'000
Year ended 31 December 2017			
Opening net book amount	265	235	500
Additions	41	70	111
Disposals	–	(91)	(91)
Depreciation charge	(116)	(51)	(167)
Closing net book value	190	163	353
At 31 December 2017			
Cost or valuation	324	223	547
Accumulated depreciation	(134)	(60)	(194)
Net book amount	190	163	353

	Leasehold improvements, computer and office equipment £'000	Motor vehicles £'000	Total £'000
Year ended 31 December 2018			
Opening net book amount	190	163	353
Additions on acquisitions of subsidiaries	390	–	390
Additions in the year	1,928	–	1,928
Disposals	(12)	(64)	(76)
Depreciation charge	(365)	(8)	(373)
Impairment loss in year	(17)	–	(17)
Foreign exchange movement	29	–	29
Closing net book value	2,143	91	2,234
At 31 December 2018			
Cost or valuation	6,205	159	6,364
Accumulated depreciation	(4,045)	(68)	(4,113)
Impairment loss in year	(17)	–	(17)
Net book amount	2,143	91	2,234

14 INVESTMENT PROPERTY

	2018 £'000	2017 £'000
At 1 January	–	–
Additions on acquisition of subsidiary	21,225	–
Disposals	(8,583)	–
Fair value movement	(8,864)	–
Foreign exchange movement	496	–
At 31 December	4,274	–

15 ASSETS HELD TO COVER LINKED LIABILITIES

The following financial investments, cash and cash equivalents, other assets and liabilities are held to cover financial liabilities under investment contracts.

	2018 £'000	2017 £'000
Deposits and loans	1,939,198	406,829
Ordinary shares and funds	12,009,204	3,412,464
Discretionary managed portfolios	5,409,858	5,572,181
Other investments	2,287,154	277,530
Cash and cash equivalents	1,679,591	36,036
	23,325,005	9,705,040

Included in the analysis above are investments of £204,718k (2017: £13,224k) which are Level 3 assets in the Fair Value Hierarchy. The nature of these assets means there may be limited liquidity through suspensions, liquidations or by the nature of assets the fund invests into. The discretionary managed portfolios figure above reflects the year-end values for the Isle of Man business. The discretionary managed portfolio assets in respect of the Irish business have been allocated between the relevant asset classes above based on the additional information available.

15.1 Interest in structured entities

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

The Group considers its investments in collective investment schemes to be investments in unconsolidated structured entities, which are recognised within "Assets held to cover linked liabilities" on the Statement of Financial Position. These investments largely represent assets held to back policyholder linked liabilities, and as such any market movements (recognised within "Investment return" in the Statement of Comprehensive Income) is matched by a change in investment contract liabilities in the Statement of Comprehensive Income. The Group's maximum exposure to interests in unconsolidated structured entities is £18,324,527k (2017: £9,261,824k). The Group has not sponsored any structured entities in 2018 or 2017.

The Group does not determine it has any interests in consolidated structured entities as at 31 December 2018 (2017: £nil).

16 OTHER INVESTMENTS

	2018 £'000	2017 £'000
OEICS – fair value through profit and loss valuation	32,244	10,181

Other investments comprise the Group's holdings in the Oaktree European Senior Loan Fund, domiciled in Luxembourg. This fund has monthly valuation and liquidity. This investment falls into the Level 2 fair value hierarchy. The Group's holdings are in both Euro and GBP share classes, of £21,965k and £10,279k respectively at 31 December 2018 (2017: £10,181k in GBP only).

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 but is not considered significant as at 31 December 2018 and 31 December 2017.

17 MODIFIED COINSURANCE ACCOUNT

In 2013 Utmost Limited entered into an agreement with AXA Hong Kong (AXA China Region Insurance (Bermuda) Limited) – ("CRIB")). Under this agreement the AXA Hong Kong ("ACR") book of business migrated from traditional reinsurance to a modified coinsurance ("ModCo") arrangement. The main effect of the ModCo arrangement is that the statutory reserve on the ceded business is the obligation of, and held by the ceding company (CRIB) rather than the reinsurer (Utmost Limited). Utmost Limited remains at risk of loss from lapse and surrenders.

On migration the underlying unit linked assets relating to the ACR book of business equal to the reserve were provided to and became the property of CRIB as the ceding insurance company.

In the event of the cedant's insolvency the liability of the reinsurer (Utmost Limited) is limited as the company has the right to offset any claims arising under the arrangement against the assets held by the ceding company.

A modified coinsurance arrangement similar to the one above was entered into by AXA Life Singapore Limited ("ALS") and Utmost Limited in 2015. The terms and conditions under this modified coinsurance arrangement are similar to the agreement with AXA China Region. 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.

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:

	2018 £'000	2017 £'000
Balance at start of year	777,232	796,863
Deposits to investment contracts	9,142	88,835
Withdrawals from investment contracts	(192,144)	(68,491)
Attributable investment income	29,504	29,197
Attributable net loss on investments	(47,231)	(63,103)
Policy charges	(4,493)	(5,955)
Attributable expenses and charges	(61)	(114)
Closing balance carried forward	**571,949**	777,232

18 ITALIAN WITHHOLDING TAX PREPAYMENT AND ACCRUAL

	2018 £'000	2017 £'000
Asset		
Additions on acquisition of subsidiary	112,902	–
Payable in respect of 2018	32,204	–
Recovered from policyholders during the year	(8,273)	–
Foreign exchange movement	3,267	–
Balance at 31 December	140,100	–
Liability		
Additions on acquisition of subsidiary	32,660	–
Payable in respect of 2018	32,204	–
Paid during the year	(33,494)	–
Foreign exchange movement	834	–
Balance at 31 December	32,204	–
Maturity analysis of tax expected to be recovered		
In one financial year or less	–	–
In more than one financial year, but not more than five financial years	107,896	–
In more than five financial years, but not more than 20 financial years	32,204	–
Total	140,100	–

The Italian withholding tax asset represents a "tax prepayment" asset relating to prepaid withholding tax in relation to unit-linked business sold by UPE to Italian policyholders on a "Freedom of Services" basis. The amount prepaid to the tax authority is based on a percentage of total mathematical reserves ("MR") for the Italian business (currently 0.45%) and is paid each June. The tax prepayment is recovered over time via several methods, including reclaiming tax directly from policyholders who elect to surrender their policy, or alternatively reducing the amount paid to the Italian tax authority in future periods, using specific rules which allow the prepayment to be reduced based on amounts paid five years beforehand.

19 OTHER RECEIVABLES

	2018 £'000	2017 £'000
Debtors arising out of investment and insurance contracts	36,124	1,460
Investment dealing debtors	10,814	9,439
Other receivables and prepayments	30,637	3,457
	77,575	14,356
Current (within 12 months)	77,575	14,277
Non-current (after 12 months)	–	79
	77,575	14,356

20 CASH AND CASH EQUIVALENTS

	2018 £'000	2017 £'000
Deposits with credit institutions	615	15,699
Cash and cash equivalents	150,616	45,512
	151,231	61,211

21 TECHNICAL PROVISIONS FOR INVESTMENT CONTRACT LIABILITIES

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

	2018 £'000	2017 £'000
Balance at start of year	10,491,800	10,097,167
Acquired on acquisition of subsidiaries	14,292,199	–
Deposits to investment contracts	910,601	389,759
Withdrawals from investment contracts	(1,331,351)	(762,642)
Fees and charges deducted including third-party charges	(60,553)	(43,177)
Third-party compensation applied	57	196
Commissions and rebates receivable	4,362	5,246
Change in provisions for investment contract liabilities	(833,159)	805,251
Foreign exchange movement	251,120	–
Movement in the year	13,233,276	394,633
Closing balance carried forward	23,725,076	10,491,800

22 LIABILITIES UNDER INSURANCE CONTRACTS

	Gross liabilities 2018 £'000	Reinsurers' share 2018 £'000	Gross liabilities 2017 £'000	Reinsurers' share 2017 £'000
Life assurance business:				
Insurance contracts	574,592	446,504	–	–
Investment contracts with discretionary participating features ("DPF")	44,356	–	–	–
As at 31 December	618,948	446,504	–	–
As at 1 January	–	–	–	–
Additions on acquisition of subsidiaries	561,557	453,114	–	–
Policyholder premiums	15,743	14,556	–	–
Policyholder claims	(59,137)	(42,088)	–	–
Other changes in liabilities	86,444	9,351	–	–
Foreign exchange movement	14,341	11,571	–	–
As at 31 December	618,948	446,504	–	–

23 UNALLOCATED SURPLUS

	2018 £'000	2017 £'000
At 1 January	–	–
Additions on acquisition of subsidiaries	27,240	–
Transfer from Statement of Comprehensive Income	(4,159)	–
Foreign exchange adjustments	102	–
At 31 December	23,183	–

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the unitised with-profit business.

24 DEFERRED FRONT-END FEES

	2018 £'000	2017 £'000
At start of year	**1,607**	661
Cumulative impact of IFRS 15 at 1 January 2018	**1,136**	–
On acquisition of subsidiary	**13,998**	–
Fees received and deferred during the year	**1,821**	1,048
Recognised in contract fees during the year	**(580)**	(102)
	17,982	1,607
Current (within 12 months)	**2,011**	266
Non-current (after 12 months)	**15,971**	1,341
	17,982	1,607

25 BORROWINGS FROM BANKS

	2018 £'000	2017 £'000
Bank loan principal	**127,236**	74,000
Bank loan accrued interest	**513**	551
Loan arrangement fee unamortised	**(4,031)**	(1,399)
	123,718	73,152
Current (within 12 months)	**25,013**	12,186
Non-current (after 12 months)	**98,705**	60,966
	123,718	73,152

On 27 April 2016 UIG Holdings (No 6) Ltd. entered in to a loan facility agreement with Lloyds Bank plc and The Royal Bank of Scotland plc to borrow £80,000k to facilitate the acquisition of the AXA Isle of Man group of companies, which was utilised and drawn down on 20 October 2016. The loan is repayable in stages with termination and the final repayment date being five years from initial utilisation and drawdown. The first repayment of £6,000k was due and paid on 20 October 2017 and then a further £6,000k is due and being paid at six monthly intervals with the full and final repayment on the termination date of 20 October 2021. Interest on the loan is charged at Sterling LIBOR for the interest period, normally six months, plus a variable margin based on the ratio of consolidated total net debt to embedded value. The margin at the year-end was 3% (2017: 3.5%) per annum. An initial arrangement fee of £1,825k was charged which is being amortised over the five year loan term.

As part of the borrowings detailed above, £4,278k (2017: £4,262k) is held by UIG Holdings (No 6) Ltd. in segregated bank accounts at Lloyds Bank International Limited as security for the loan interest payable. Furthermore UIG Holdings (No 5) Ltd., as 100% owner of UIG Holdings (No 6) Ltd., has under the terms of a Security Interest Agreement, assigned all its rights, title and interest in its shareholding in UIG Holdings (No 6) Ltd. to Lloyds Bank plc as security for the loan.

UIG Holdings (No 6) Ltd. repaid £6,000k on 19 April 2018 and a further £6,000k on 16 October 2018. UIG Holdings (No 6) Ltd. also paid down a further £25,000k of the loan on 16 October 2018.

During the year UIG Holdings (No 6) Ltd. entered into an "Amendment and Restatement Agreement" with Lloyds Bank plc, National Westminster Bank plc, ING Bank N.V., London Branch and ABN AMRO Bank N.V. This agreement did not become effective until after the year-end, as detailed in note 39.

On 15 December 2017 UIG Holdings (No 3) Ltd. entered into a loan facility agreement with Lloyds Bank plc, National Westminster Bank plc, ING Bank N.V., London Branch and ABN AMRO Bank N.V. to borrow £127,416k (€145,000k) to facilitate the loan facility to UIG Holdings (No 1) Ltd on 15 June 2018. €100,000k of this facility was utilised. The loan is repayable in stages with the final repayment date being five years after the date of completion for the acquisition of Generali PanEurope DAC, which was on 19 June 2018 ("the completion date"). The first repayment of £8,787k (€10,000k) was paid on 19 June 2019. Interest on the loan is charged at EURIBOR for the interest period plus a margin (based on a loan-to-value ratio, calculated in accordance with the Senior Facilities Agreement "SFA"). The total interest rate applied in the first six months following drawdown is set at 3.75% under the SFA. The initial arrangement fee is being amortised over the five year loan term.

As part of the borrowings detailed above, £3,610k (2017: £nil) is held by UIG Holdings (No 3) Ltd. in segregated bank accounts at Lloyds Bank International Limited as security for the loan interest payable. Furthermore UIG Holdings (No 2) Ltd., as 100% owner of UIG Holdings (No 3) Ltd., has under the terms of a Security Interest Agreement, assigned all its rights, title and interest in its shareholding in UIG Holdings (No 3) Ltd. to Lloyds Bank plc as security for the loan.

26 CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

	2018 £'000	2017 £'000
Deferred tax assets	**7,387**	–

The deferred tax assets relate to the Irish business; £2m relates to losses carried forward in UI and £5m relates to deferred tax in respect of an IFRS 15 transitional adjustment in UPE (prior to acquisition by the Group).

Deferred tax liability recognised on acquisition of subsidiary	**16,787**	–
Exchange difference	**428**	–
Total deferred tax liability as at 31 December 2018	**17,215**	–

The deferred tax liability arose on acquisition of UPE on 19 June 2018, representing the associated tax impact of recognising the AVIF asset detailed in note 12. It is expected that the tax liability will be paid as future profits emerge from the in-force business.

27 OTHER PAYABLES

	2018 £'000	2017 £'000
Tax payable/provision – policyholders	**34,416**	–
Premiums received in advance of policy issue	**8,639**	5,230
Amounts due to investment contract holders	**13,106**	12,558
Investment dealing creditors	**7,621**	4,922
Other creditors and accruals	**31,672**	3,857
	95,454	26,567

All creditors are due for settlement within one year.

28 CALLED UP SHARE CAPITAL PRESENTED AS EQUITY/SHARE PREMIUM

	Consolidated and Company	
	2018 Number	2017 Number
Allotted, called up and fully paid		
Ordinary shares of £1 each	**95,000**	95,000
S Ordinary shares of £1 each	**100**	100
Preference shares of €0.000001 each	**185,400,000**	–
Preference shares of £0.000001 each	**122,000,000**	118,900,000

	£'000	£'000
Ordinary shares of £1 each	**95**	95
S Ordinary shares of £1 each	**–**	–
Preference shares of €0.000001 each	**163,498**	–
Preference shares of £0.000001 each	**122,000**	118,900
	285,593	118,995

The movements in the year were as follows:

	Consolidated and Company			
	Ordinary No. of shares 2018	S Ordinary No. of shares 2018	€ Preference No. of shares 2018	£ Preference No. of shares 2018
At beginning of the year	95,000	100	–	118,900,000
Issued during the year	–	–	185,400,000	3,100,000
At end of financial year	95,000	100	185,400,000	122,000,000

Share capital

	Ordinary 2018 £'000	S Ordinary 2018 £'000	€ Preference 2018 £'000	£ Preference 2018 £'000	Total 2018 £'000
At beginning of the financial year	95	–	–	–	95
Issued during the year	–	–	–	–	–
Cancelled during the year	–	–	–	–	–
At end of year	95	–	–	–	95

Share premium

	Consolidated and Company				
	Ordinary 2018 £'000	S Ordinary 2018 £'000	€ Preference 2018 £'000	£ Preference 2018 £'000	Total 2018 £'000
At beginning of the year	–	–	–	118,900	118,900
Issued during the year	–	–	163,498	3,100	166,598
At end of year	–	–	163,498	122,000	285,498

The Company has in issue 122,000,000 (2017: 118,900,000) Sterling preference shares of £0.000001 each, issued at a price of £1.00 per share, and 185,400,000 (2017: nil) Euro preference shares of €0.000001 each, issued at a price of €1.00 per share. As detailed in note 2.30, the preference shares are classified as equity, given they are non-voting, redeemable preference shares and to date no preference share dividends have been paid. In 2017 the Company issued 6,000,000 Sterling preference shares of £0.000001 each, issued at a price of £1.00 per share. The Company also has 100 (2017: 100) S ordinary shares of £1 each issued. The resultant share capital and the share premium on the preference shares are shown in the table above. The S ordinary shares and preference shares are redeemable at the option of the Company and do not carry any voting rights or guaranteed dividends. However the preference shareholders are entitled to a return equivalent to 8% per annum in priority to ordinary shareholders. Payment of the Company's reserves can only be made in accordance with the Company's distribution terms as set out in the Company's Articles of Association. On winding up, the preference shares have priority over S ordinary shares which in turn have priority over the ordinary shares.

29 FOREIGN CURRENCY TRANSLATION RESERVE

	2018 £'000	2017 £'000
At beginning of the year	–	–
Foreign currency translation movements in the year	5,443	–
At end of year	5,443	–

The foreign currency translation reserve ("FCTR") represents the cumulative foreign currency impact arising from the translation of the results and financial position of subsidiaries where the functional currency differs from the Group's presentation currency of Pounds Sterling. The exchange differences referred to result from translating income and expenses at the exchange rates at the dates of transactions and assets and liabilities at the closing rate, and from translating the opening net assets at a closing rate that differs from the previous closing rate.

30 CASH FLOW STATEMENT

	2018 £'000	2017 £'000
Profit/(loss) before taxation	65,946	(6,808)
Non-cash movements		
Amortisation of acquired VIF	30,512	18,243
Amortisation of intangible assets – software	58	57
Gains arising on bargain purchases	(83,068)	–
Depreciation/write-off of intangibles on acquisition	10,054	165
Gain on acquisition of related party	(19,248)	–
Change in working capital		
Increase in investment contract and insurance contract liabilities, net of policyholder claims	835,647	394,633
Net movement in financial assets	(817,809)	(401,764)
Change in other working capital items	40,799	9,170
Net cash flows generated from/(used) in operating activities	62,891	13,696

31 RISK MANAGEMENT

The identification, measurement and management of risk is a priority for the Group. Consequently the Board of Directors has established a comprehensive framework covering accountability, oversight, measurement and reporting to ensure maintenance of sound systems of internal control and risk management to ensure the Group operates within its risk appetite.

Risk appetite is a measure of the amount and type of risks the Group is willing to accept in pursuit of its objectives. It seeks to encourage a measured and appropriate approach to risk to ensure risks are understood and aligned to the business strategy and objectives. The primary objective is the protection of the solvency ratio to ensure it has and will have sufficient capital to discharge all liabilities as and when they become due.

31.1 Governance structure

The Group's governance structure comprises of the appropriate Board and sub-committee structures in each of the subsidiary operating companies. The sub-committees are the Audit Committee, Risk and Compliance Committee, Remuneration Committee, Investment Committee and, in Ireland, the Banking Committees of each of UPE, UI and HLI.

The Board is responsible for identifying and articulating the risk appetite of the Group which is expressed and managed through the Risk Appetite Statement. The Risk Appetite Statement is reviewed annually following recommendation from the Risk and Compliance Committee.

The Audit Committee is responsible for reviewing the appropriateness and completeness of the systems of internal control. The Audit Committee also reviews the annual financial statements, considers the significant financial reporting issues and judgements which they contain and makes recommendations to the Board concerning their content and approval.

The Risk and Compliance Committee is responsible for the review and oversight of the risk and compliance profile of the Group within the context of the determined risk appetite and in the context of external events and the business plans of the Group.

The Remuneration Committee is responsible for overseeing the appointment of new directors to the board, and formal, fair and impartial determination of remuneration of executive directors to ensure the long-term success of the operating business within the Group.

The Investment Committee is responsible for the Group's overall asset management strategy and policies and for identifying, monitoring, reporting, and controlling the risks connected with investment activities and approving changes to specific investments and changes to appetite or tolerances.

The Banking Committee is responsible for the opening and closure of all master Custodian and Corporate bank accounts. The Committee is responsible for the review and approval of appointments to the authorised signatory list and their levels of authorisation.

The principal risks faced by the Group are operational risk (including amongst others litigation risk, limited recourse risk, outsource risk), taxation risk, market risk, governance, regulatory and compliance risk, and strategic risk, including risks related to the acquisition and integration of other businesses. Being mindful of the CBI PRISM (Central Bank of Ireland's risk-based framework for the supervision of regulated firms) categories for the regulated entities, other risks faced by the Group include credit risk, market risk, liquidity risk and funding risk.

Existing or potential future risk exposures are investigated in a structured way, using internal and external resources and actions to mitigate, contain or remove these risks are taken.

31.2 Operational risk
Operational risk represents the risk that failed or inadequate processes, people or systems, or exposure to external events, could result in unexpected losses. The risk is associated with human error, systems failure and inadequate controls and procedures.

The Group recognises the importance of retaining key resources in order to operate effectively.

The Group operates such measures of risk identification, assessment, monitoring and management as are necessary to ensure that operational 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 shareholders and policyholders.

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. A disaster recovery plan is in place for workspace recovery and retrieval of data and IT systems. These procedures would enable the Group to move operations to alternative facilities.

The risk management framework includes the responsibilities of senior management, the requirement for reporting of operational risk incidents and the role of internal and external control functions of the Group in providing independent assurance. Recognising that operational risk cannot be entirely eliminated, the Group implements risk mitigation controls including fraud prevention, contingency planning and incident management and reporting.

31.3 Litigation risk
The Group's business is subject to the risk of litigation by counterparties, policyholders or other third parties through private actions, class actions, regulatory actions, criminal proceedings or other forms of litigation. The outcome of any such litigation, proceedings or actions is difficult to assess or quantify. The cost of defending such litigation, proceedings or actions may be significant. As a result, such litigation, proceedings or actions may adversely affect the Group's business, financial condition, results, operations or reputation. The Group continues to rigorously defend any legal action that has been taken against it and has engaged the necessary legal resources as required.

31.4 Outsourcing risk
As at 31 December 2018 the Group has three outsourcing arrangements in place, which are existing arrangements in place at the time of acquisition. Current outsourcing arrangements are with DST/SMI (providing policy administration and management services following the acquisition of the Scottish Mutual International business by HLI in 2015), Capita following the acquisition of the Aviva Life International book by UI in 2016, and most recently Athora Ireland Services following the acquisition of the offshore bond book from Athora on 31 December 2018. To mitigate the risk that the outsourcer does not provide the service standards expected or becomes unable to provide the services contracted and underwritten by the Group, or poses a potential counterparty credit risk, service level agreements are in place with all outsourcers as part of a wider outsourcing policy, and it is expected that certain outsourcing arrangements will be handed over during 2019.

31.5 Strategic risk
Strategic risk covers the inherent risk present in the strategy of the entity. The particular strategic risks faced by the Group at this time surround the dual challenges of managing the existing business whilst seeking to execute transactions to acquire, integrate and manage new acquired life funds.

As part of the strategy to grow through acquisition, the Group is exposed to the risk that it does not complete effective due diligence and is then exposed to the financial risks in completing the transaction and managing the business. All acquisitions are subject to detailed due diligence supported by independent professional subject matter experts and are then subject to scrutiny and approved by the Board.

In addition the Group is exposed to the risk of failing to integrate and successfully restructure the businesses it has acquired. The process of integration, restructuring and managing the combined businesses, particularly in a small organisation with limited staff numbers, poses particular challenges and is subject to focus at the highest level involving the entire management team.

31.6 Taxation risk
Taxation risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risk effectively could lead to additional tax charges. It could also lead to financial penalties for failure to comply with required tax procedures or other aspects of tax law. The Group is subject to the application and interpretation of tax laws in all countries in which it operates and/or it has invested into. Providing sufficient cash flows are available tax liabilities arising from unit-linked investments are, in general, met through a reduction in the related liability to policyholders under investment contracts. The Group has internal tax resources and external tax advisors. Notwithstanding the use of both internal and external taxation advice, tax authorities could take a contrasting view on the interpretation of certain aspects of tax law to that of the Group and its advisors. If the costs associated with the resolution of tax matters are greater than anticipated, it could negatively impact the financial position of the Group.

31.7 Governance & regulatory compliance risk
Governance covers the overall oversight and control mechanisms which a firm has in place to ensure it is soundly and prudently managed. Regulatory compliance risk primarily arises from a failure or inability to comply fully with the laws, regulations, standards or codes applicable specifically to regulated entities in the financial services industry. Any non-compliance may result in the Group being subject to regulatory sanctions, material financial loss and/or loss of reputation. Changes in legislation or regulatory interpretation applying to the life assurance industry may adversely affect the Group's capital requirements and, consequently, reported results and financing requirements.

31.8 Market risk
Market risk is the risk that the value of an investment or portfolio decreases as a result of changes in, inter alia, equity prices, foreign exchange rates, interest rates and/or commodity prices.

The extent of the exposure to market risk is managed by the respective investment committees in the subsidiary operating companies and via compliance with the respective investment policies incorporating defined limits and guidelines. Both the operational compliance and the risk appetite are actively managed through the Investment Committees.

Concentration risk is one factor considered to ensure there is no loss arising from overdependence on a single asset class or category of business (see Credit Risk note).

31.9 Unit-Linked funds
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 investment contract liabilities. The Group's exposure to market risk on unit linked funds is limited to the extent that income arising from asset management charges in certain funds, and its ability to collect that income, is based on the cash flows arising and the value of the assets in the fund, and to changes in the value of any units in funds the Group may hold. In many funds the asset management charge is based on the higher of premiums paid or fund value, further limiting this risk. The Group's assessment concludes that if markets were to suffer a permanent fall of 10%, the impact on Group fee income would be circa £4m (2017: £0.5m). The impact to the Group's profit would be lower than this due to certain expenses also being variable in nature.

31 RISK MANAGEMENT CONTINUED

31.10 Interest rate risk

Interest rate risk is the risk that the Group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets arising from changes in underlying interest rates.

The Group is primarily exposed to interest rate risk on the balances that it holds with, and borrowings from credit institutions. Shareholders' funds are invested in either cash or fixed interest deposits to provide a low level of interest rate risk, and in other investments such as detailed in note 16.

A change in interest rates will impact the Group's annual investment income and equity. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of deposits held with credit institutions will fluctuate because of changes in market interest rates.

	2018 £'000	2017 £'000
Increase of 100 bps (2017: 100 bps) in interest rate yields	2,152	2,598
Decrease of 76 bps (2017: 45 bps) in interest rate yields	(1,478)	(1,154)

The downward shift of 100bps would decrease rates below 0.0% and hence the impact has been floored at 76 bps (2017: 45bps) being the average effective interest rates for deposits with credit institutions.

A change in interest rates will also impact the Group's annual finance costs. The sensitivity analysis for interest rate risk below illustrates how changes in annual finance costs will fluctuate because of changes in market interest rates.

	2018 £'000	2017 £'000
Movement of 100 bps (2017: 100 bps) in borrowing interest rates	1,272	740

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.

For unitised with-profit business, some element of investment mismatching is permitted where it is consistent with the principles of treating customers fairly. In practice, the Group maintains an appropriate mix of fixed and variable rate income securities according to the underlying insurance or investment contracts and review this at regular intervals to ensure that overall exposure is kept within the agreed risk profile. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

31.11 Currency risk

Currency risk is the risk that the Group is exposed to higher or lower returns as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying exchange rates.

The Group operates primarily in Ireland and the Isle of Man and is exposed to currency risk between the functional currency of Euro of the Irish business and the presentation currency of Pounds Sterling.

As at 31 December 2018, the IFRS equity of the Group's Irish business is circa £250m, and if the GBP:EUR exchange rate were to increase/decrease by 10%, the estimated change to Group IFRS equity (based on translating the assets and liabilities of the Irish business at the revised exchange rate) would be in the region of £20m (2017: £nil, as the Irish business transferred into the Group during 2018).

The Group is also exposed to currency risk on the foreign currency denominated bank balances, contract fees receivable and other liquid assets that it holds to the extent that they do not match liabilities in those currencies. The impact of currency risk is minimised by frequent repatriation of excess foreign currency funds to Sterling. The Group does not currently hedge foreign currency cash flows, and is expected to undertake a project during 2019 to further analyse the Group's currency exposure.

Certain fees and commissions are earned in currencies other than Sterling, based on the value of financial investments held in those currencies from time to time.

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

31.12 Liquidity risk

Liquidity risk is the risk that the Group, though solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost.

The Group's principal exposure to liquidity risk arises in relation to the sale of illiquid assets required to meet liabilities in the event of the death of a policyholder. The Group may be obliged to purchase illiquid assets from a unit-linked fund in order to provide cash benefits to a policyholder's estate. With the exception of certain pension business, the Group has reserved the right to defer payment of death benefits from closed funds until there is sufficient liquidity in the fund to allow for an orderly realisation of cash.

The Group is required to pay certain taxes and levies to the Revenue Commissioners in Ireland and the Italian Agency of Revenue on behalf of policyholders; the latter arises primarily from the Italian withholding tax asset detailed in note 18. Where policyholder investments are held in property structures with insufficient liquidity then the Group may be required to meet these various tax obligations out of its own resources with the Group acquiring investment units in exchange or until such time as there is sufficient cash available from the related policyholder investments to refund the Group. The Group manages liquidity risk through ensuring a minimum percentage of assets are liquid at any time as monitored by the Investment Committee, and through the preparation of cash flow forecasts on a monthly basis in order to ensure sufficient assets are in place to meet existing and future obligations.

31.13 Maturity analysis

Set out below is a summary of the undiscounted contractual maturity profile of the Group's and Company's assets and liabilities. Assets held to cover linked liabilities are largely invested in assets that have no specific maturity date as shown below, however they are deemed to have a maturity of up to one year since the corresponding unit linked liabilities are repayable and transferable on demand. In certain circumstances the contractual maturities of a portion of the assets may be longer than one year, but the majority of assets held within the unit linked funds are highly liquid. The Group actively monitors its fund liquidity. The main liquidity requirements of the Group relate to repayment of borrowings from banks and other payables, which are funded through cash and cash equivalents (included within the assets with no contractual maturity balance below) remitted to the Group centre from the operating businesses.

	2018 £'000	2017 £'000
Assets		
Within one year	94,684	121,794
Two to five years	127,556	79
After five years	32,204	–
Total assets with a maturity profile	254,444	121,873
Total assets with no contractual maturity profile	24,403,213	10,492,529
Non-financial assets	447,469	160,129
Total assets	25,105,126	10,774,531
Liabilities		
Within one year	136,099	39,019
Two to five years	106,953	62,307
After five years	–	–
Total liabilities with a maturity profile	243,052	101,326
Total liabilities with no contractual maturity profile	24,442,989	10,491,800
Total liabilities, excluding equity	24,686,041	10,593,126

31.14 Insurance risk

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Group's contracts include the following sources of insurance risk:

- Mortality – Higher than expected death claims on assurance products;
- Expenses – Policies cost more to administer than expected;
- Lapses – An adverse movement in ether surrender rates or persistency rates on policies with guaranteed benefits leading to losses. This includes the risk of greater than expected policyholder option exercise rates giving rise to increased claims costs.

31.14.1 Objectives and policies for mitigating insurance risk

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing. In addition to this, mortality, longevity and morbidity risks are in certain circumstances mitigated by the use of reinsurance.

The profitability of the run-off of the Group's closed long-term insurance businesses depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Board to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

31 RISK MANAGEMENT CONTINUED

31.14.2 Valuation of insurance contracts

Non-linked, non-profit term assurances are valued using the gross premium method. For unitised with-profit contracts, the number of units allocated to the contract is multiplied by the bid price and then reduced by Market Value Adjustment factors, where appropriate and permissible under policy conditions, in order to give a liability which represents a fair assessment of the surrender value according to the Board's interpretation of policyholder reasonable expectations. Linked contracts are valued individually, with the number of units allocated to the contract being multiplied by the valuation price for the corresponding internal linked fund.

Cash flow calculations have been made individually for each linked contract. Positive reserves have been set up, where appropriate, to cover future mortality and/or expense strain. Additional unit reserves exist to cover the cost of future loyalty bonuses on certain products. The overall unit and reserve for each contract is always at least equal to the surrender value, subject to a minimum of zero.

Demographic assumptions are derived by adding a prudent margin to best estimate assumptions. They are determined after considering the Group's recent experience and/or relevant industry data. Economic assumptions are prudent estimates of the returns expected to be achieved on the assets backing the liabilities.

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

31.14.3 Valuation interest rate

The method used to determine valuation interest rates generally follows the regulations set out in Annex IV of the European Communities (Life Assurance) Framework Regulations, 1994.

Assets are firstly hypothecated to classes of business being valued. The valuation interest rates for each block of business are based on the expected returns of the hypothecated assets. The yield is then adjusted to make allowance for credit risk, liquidity risk, investment risk and investment management expenses.

31.14.4 Mortality and longevity rates

Mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, Company experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

31.14.5 Lapse rates

The assumed rates for surrender and voluntary premium discontinuance in the participating business depend primarily on the length of time a policy has been in force. Withdrawal rates used in the valuation of unitised with-profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with-profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

31.14.6 Policyholder options and guarantees

Some of the Group's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These products are described below.

Most unitised with-profit contracts give a guaranteed minimum payment on death. Some with-profit bonds pay a guaranteed minimum surrender value, expressed as a percentage of the original premium, on a specified anniversary or anniversaries of commencement. Annual bonuses, when added to unitised with-profit contracts, usually increase the guaranteed amount.

31.14.7 Discretionary participating bonus rate

The regular bonus rates are determined by the operating entity boards in accordance with established procedures. Final bonuses are declared by these boards with the aim that payments at maturity or on surrender will equal the value of asset shares subject to smoothing.

Unitised with-profit deferred annuities participate in profits only up to the date of retirement.

Sensitivities for the regulated entities are listed below. 2017 comparatives are nil as this business was acquired during the year.

HLI

A decrease of 10% in lapse rates, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year and a decrease in equity of £731k (2017: £nil).

An increase of 10% in lapse rates, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year and an increase in equity of £568k (2017: £nil).

An increase of 10% in expense assumptions, with all other variables held constant, would result in a increase in the profit after tax in respect of a full year and a decrease in equity of £1,398k (2017: £nil).

An decrease of 1% in interest rates, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year and a decrease in equity of £1,080k (2017: £nil).

An increase of 1% in interest rates, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year and an increase in equity of £938k (2017: £nil).

UPE

A 1% decrease in interest rates on debt securities, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year of £902k (2017: £nil).

A 1% increase in interest rates on debt securities, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year of £902k (2017: £nil).

The impact on Employee Benefit Claims reserves (reported but not settled reserves) being sensitised down by 0.5% would result in an increase in profit of £2.6m (2017: £nil).

Sensitivities for UL, Utmost Bermuda and UI are not included as there is no insurance risk within these businesses except for UI. The insurance risk within UI is fully reinsured and accordingly sensitivities are not conducted as the insurance risk is deemed to be mitigated by the reinsurance agreement. 2017 comparatives are nil as this business was acquired during the year.

31.14.8 Managing product risk

The following sections give an assessment of the risks associated with the Group's main life assurance products and the ways in which these risks are managed.

With-profit business (Unitised)

The Group operates a number of unitised with-profits funds in which the unitised with-profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus.

The investment strategy of each unitised fund differs, but is broadly to invest in a mixture of fixed and variable rate income securities and equities in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. The shareholders are entitled to receive a percentage of the cost of bonuses declared.

Unitised with-profit policies purchase notional units in a unitised with-profit fund. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with-profit fund price is guaranteed not to fall and increases in line with any discretionary annual bonus payments over the course of one year.

Protection
These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

31.15 Credit risk
Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Group has low tolerance for any credit risk exposure and maintains its assets in institutions and instruments with strong credit ratings.

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Investment guidelines are subject to approval by the Investment Committee and Board of Directors.

There are two principal sources of credit risk for the Group:

- Credit risk which results from direct investment activities, including investments in fixed and variable rate income securities, derivatives, collective investment schemes, hedge funds and the placing of cash deposits; and
- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, and the lending of securities.

Credit risk is managed by the monitoring of Group exposures to individual counterparties and by appropriate credit risk diversification. The Group manages the level of credit risk it accepts through credit risk tolerances. In certain cases, protection against exposure to particular credit risk types may be achieved through use of derivatives. The credit risk borne by the owners on unitised with-profit policies is dependent on the extent to which the underlying insurance fund is relying on owners' support.

31.15.1 Credit risk concentrations
Concentration of credit risk might exist where the Group has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

Within the responsibilities of the Investment Committee for each business within the Group, an Investment Policy is set to formalise risk limits around counterparty exposure and the types of investments that the business can invest in, to prevent undue concentration or credit risk. In the Isle of Man business a minimum of five deposit takers must be used at any one point in time and no single deposit can exceed £10 million. Moreover, the minimum acceptable credit rating for all counterparties as set out in the Investment Policy is Standard & Poor's BBB or Moody's Baa. In Ireland, all bonds must be investment grade, and no more than 5% of each rating can be invested in non-government bonds. All risk limits are monitored through the respective Investment Committees to ensure adherence with those limits.

The Group is also exposed to concentration risk with outsourced service providers. This is due to the nature of the outsourced services market. The Group operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees and measured through stress and scenario testing.

31.15.2 Reinsurance
The Group is exposed to credit risk as a result of insurance risk transfer 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 2018 and 2017 year-end positions, the Group's material reinsurance counterparties have a credit rating of either AA- or A-.

32 FAIR VALUE DISCLOSURES
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 orderly transaction between market participants at the measurement date.

In accordance with IFRS 13, the Group has applied the fair value hierarchy classification to all assets and liabilities measured at fair value. This requires the Group to classify such assets and liabilities according to a hierarchy based on the significance of the inputs used to arrive at the overall fair value of these instruments:

- Level 1: Fair value measurements derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset of liability, either directly or indirectly.
- Level 3: Includes valuations for assets that are not based on observable market data (unobservable inputs) or where only stale prices are available.

The application of the three tier analysis of invested assets has not been applied to discretionary managed portfolios in the Isle of Man, because management do not consider that there is a risk to shareholders of any movements in the quoted price for these assets in the unit linked funds. At 2018 year-end this represents £5,409,858k (2017: £5,572,181k) of assets. Tiering analysis in respect of discretionary managed portfolios has been provided for Ireland at 2018 year-end given the information is available. For the purposes of consistency at the Group level, management will look to align the approaches for subsequent reporting periods.

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

A proportion of the assets are valued at a fair value derived using unobservable Level 3 inputs. The majority of these are valued using valuations obtained from external parties which are reviewed internally to ensure they are appropriate. The Group has limited access to the key assumptions and data underlying these valuations and most of these investments are in hedge funds, collective investment schemes, suspended funds or funds in liquidation; therefore no sensitivity analysis has been presented.

The external valuations for investment properties were prepared by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the location and category of the respective property. A number of properties were not valued at the end of the financial year due to market sensitivity surrounding pending sale or other regarding the properties. All other properties are valued at least once every three years.

Increases in the estimated rental values and passing rents and decreases in vacancy rates would result in an increase of the fair values of the properties. An increase in the yields would results in a fair value decrease. Investment properties are valued on a highest and best use basis.

32 FAIR VALUE DISCLOSURES CONTINUED

The following table sets out the carrying amount and fair value of assets measured at fair value across the three levels of the hierarchy as at 31 December 2018 and 31 December 2017.

Consolidated Assets at Fair Value as at 31 December 2018

	Carrying amounts Total £'000	Fair value hierarchy Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets				
Investment property				
– Residential	4,274	–	–	4,274
Financial assets at fair value through profit or loss				
– Equities and investment funds	73,452	30,165	43,287	–
– Unit linked and collective investment funds	17,153,133	7,401,924	9,546,663	204,546
– External life funds	247,460	–	247,460	–
– Managed portfolios	9,839	–	9,839	–
– Structured products and MTN's	18,110	3,548	14,562	–
– Debt securities	48,894	48,894	–	–
– Other including private equities	12,382	12,209	1	172
Total Assets At Fair Value	17,567,544	7,496,740	9,861,812	208,992
DMPs and Modified Coinsurance assets not in tier analysis	5,981,807			
Total Assets not at Fair Value	1,555,775			
Total Assets per Statement of Financial Position	25,105,126			

Consolidated Assets at Fair Value as at 31 December 2017

	Carrying amounts Total £'000	Fair value hierarchy Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets				
Financial assets at fair value through profit or loss				
– Equities and investment funds	35,018	34,517	501	–
– Collective investment structures	3,324,788	3,255,337	57,431	12,020
– External life funds	277,530	–	277,530	–
– Managed portfolios	31,247	–	31,247	–
– Structured products and MTNs	20,204	–	20,204	–
– Other including private equities	1,207	–	3	1,204
Total Assets At Fair Value	3,689,994	3,289,854	386,916	13,224
DMPs and Modified Coinsurance assets not in tier analysis	6,349,413			
Total Assets not at Fair Value	735,124			
Total Assets per Statement of Financial Position	10,774,531			

There were no significant transfers between Level 1, 2 and 3 of the fair value hierarchy during 2018 or 2017.

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

	Financial assets held at fair value through profit and loss £'000	Investment property £'000	Total £'000
Balance at 1 January 2018	13,224	–	13,224
Additions on subsidiary acquisition	245,583	21,225	266,808
Disposals	–	(8,583)	(8,583)
Total gains or losses:			
– in liabilities to policyholders	(54,089)	(8,368)	(62,457)
Balance at 31 December 2018	204,718	4,274	208,992

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. Restrictions and criteria are in place in Ireland to limit exposure to Level 3 assets, and in the Isle of Man has a general policy of no further investment into Level 3 assets. Any movements in Level 3 investments during 2017 were due to realisations of Level 3 assets.

33 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 resources and 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.

The Group's policy for each of Utmost Limited, Utmost PanEurope DAC, Utmost Ireland DAC and Harcourt Life Ireland DAC is to maintain a Solvency Coverage Ratio (representing the ratio of Own Funds/Solvency Capital Requirement) of at least 135% at all times, and at least 150% immediately after the payment of a dividend. The Group monitors capital on a Solvency II basis, and in accordance with local regulatory requirements. The Group as a whole is not currently subject to overall group regulation by a single regulator.

Entities within the Group which are regulated as at 31 December 2018 are as follows:

– Utmost Limited, Utmost Trustees Solutions Limited and Utmost Administration Limited are regulated by the Isle of Man Financial Services Authority.
– Utmost PanEurope DAC, Utmost Ireland DAC and Harcourt Life Ireland DAC are regulated by the Central Bank of Ireland.
– Utmost Bermuda Limited is regulated by the Bermudian Monetary Authority.

There has been no material change in the Group's management of capital during the year and the Group has capital in excess of the minimum solvency requirement at the Statement of Financial Position date. As at 31 December 2018 HLI had a solvency coverage ratio of 64%, and in accordance with the Group capital management policy a further €10m capital injection was made from HLI's parent company, UPE, in order to adhere to ongoing solvency requirements. No other exceptions to the Group's capital policy for any of its regulated entities were noted in the year.

34 CONTINGENT LIABILITY
A subsidiary, Utmost Limited, is a member of the Isle of Man Policyholders' Compensation Scheme governed by the Life Assurance (Compensation of Policyholders) Regulations 1991. The objective of the Scheme is to provide a compensation scheme for policyholders should an authorised insurer be unable to satisfy its liabilities. In the event of a levy being charged on Scheme members the Group would be obliged to satisfy the liability arising at that time. The maximum levy payable under the Scheme in respect of the insolvency of any insurer is 2% of the long-term business liabilities. The majority of the products issued by the Group include a clause permitting the Group to recover any monies paid out under the Scheme from policyholders.

The Group does not offer investment advice to its policyholders. All investment decisions are made either by the policyholders directly or by advisors appointed by the policyholders, and all of the investment performance risk lies with policyholders. Nevertheless, 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. At both 31 December 2018 and 2017 there are no outstanding claims against the Group; however it is possible that future claims could be made against past investment performance. 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.

The Group continually undertakes reviews of its tax and regulatory activities across the various jurisdictions in which it has invested into. These reviews are ongoing and it is not possible at this stage to give an indication as to whether they will result in any additional liabilities.

35 FINANCIAL COMMITMENTS

The Group has the following property leases in place at 31 December 2018:

- a 21-year lease expiring 13 September 2020. This lease covers office space at Royalty House, Walpole Avenue, Douglas. The total lease expenditure charged during the year is £605,000 (2017: £605,000).
- a 10-year lease expiring 1 June 2028. This lease covers office space at Ashford House, Tara Street, Dublin 2, Ireland. The total lease expenditure charged during the year was £408k of which £379k is included in these financial statements (2017: £nil).
- a 10-year lease expiring 27 September 2028, with an optional break clause on 27 September 2023. The lease covers office space in Saddlers House in London, where the Group's head office is based. The lease has a rent-free period of nine months, and as such will start paying rent with effect from 27 June 2019. The total expenditure in respect of this lease charged during the year was £58k relating to amortisation of the rent-free period. (2017: £nil).
- a 20-year lease expiring 23 August 2031. This lease covers office space at Utmost House, Navan Business Park, Navan, Ireland. The total lease expenditure charged during the year was £106k of which £58k is included in these financial statements (2017: £nil). This office is currently sub-leased to USIL by Utmost Worldwide Limited.

The future minimum lease payments under non-cancellable operating leases are as follows:

	2018 £'000	2017 £'000
Not later than one year	1,623	663
Later than one year and no later than five years	6,815	906
Later than five years	8,006	–
	16,444	1,569

36 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

The immediate parent Company is Life Company Consolidation Group (No 2) Limited, a company incorporated in Guernsey.

The ultimate parent company which maintains a majority controlling interest in the Group is recognised by the directors as OCM LCCG2 Holdings Ltd, a Cayman Island incorporated entity. OCM LCCG2 Holdings Ltd 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 financial statements of Utmost International Group Holdings Ltd are available from www.utmostgroup.co.uk.

37 RELATED PARTY TRANSACTIONS

Transactions with Group companies

The Group undertakes transactions with related parties in the normal course of business. Most related parties represent entities within the scope of the Group and as such the transactions eliminate on consolidation. The transactions below describe related party transactions that took place during the financial year that do not eliminate on consolidation.

During the year the Company received capital contributions of £166,598k, and paid capital contributions of £99,211k (€111,369k) to its direct subsidiary UIG Holdings (No 2) Ltd. in relation to the acquisition of UPE on 19 June 2018. Consideration of £71,387k was "paid" in respect of the acquisition of UIG2 on 13 June 2018 and resulted in a gain on acquisition of the related party of £19,248k recognised in the Statement of Comprehensive Income. The consideration was partly funded by a dividend received from its direct subsidiary of £4,000k; however it should be noted that, as reflected in the Company Statement of Cash Flows, the cash flows shown represent the actual cash transfers received and paid by the Company in 2018, as required by paragraph 43 of IAS 7 "Statement of Cash Flows"; the other transactions noted above were non-cash transactions for the Company, by virtue of being paid directly to UHIL, the acquiring entity of UPE, in order to fund the acquisition.

Transactions with key management personnel

The following disclosures are in accordance with the provisions of IAS 24 Related Party Disclosures, in respect of the compensation of Key Management Personnel. Under IAS 24, Key Management Personnel are defined as comprising executive and non-executive directors together with senior executive officers.

	2018 £'000	2017 £'000
Short-term employee benefits	2,618	1,211
Post employment benefits	105	46
Termination benefits	279	–
	3,002	1,257

38 DIRECTORS' AND SECRETARY'S INTERESTS

At 31 December 2018 and 31 December 2017 the Secretary had no beneficial interests in the shares of any Group company. The directors' interests in the Company and its parent company are detailed below:

31 December 2018

			Paul Thompson	Ian Maidens
Life Company Consolidation Group (No 2) Limited		A ordinary shares	**639**	**639**
Life Company Consolidation Group (No 2) Limited		B ordinary shares	**7,500**	**7,500**
Utmost International Group Holdings Ltd	Non-voting	GBP preference shares	**742,561**	**742,561**
Utmost International Group Holdings Ltd	Non-voting	EUR preference shares	**1,128,450**	**1,128,450**
Utmost International Group Holdings Ltd	Non-voting	S shares	**50**	**50**

31 December 2017

			Paul Thompson	Ian Maidens
Life Company Consolidation Group (No 2) Limited		A ordinary shares	527	527
Life Company Consolidation Group (No 2) Limited		B ordinary shares	6,875	6,875
Utmost International Group Holdings Ltd	Non-voting	GBP preference shares	651,222	651,222
Utmost International Group Holdings Ltd	Non-voting	S shares	50	50

39 EVENTS AFTER THE YEAR-END DATE

Change in name

The Company changed its name from LCCG Holdings (No 4) Limited to Utmost International Group Holdings Ltd on 30 January 2019, as part of a wider exercise across the Group to provide a consistent branding to the Utmost name.

Acquisitions subsequent to the year-end

On 19 July 2018, the Group announced the proposed acquisition of Generali Worldwide Insurance Company Limited ("Generali Worldwide"), a highly complementary business to the existing Utmost Wealth Solutions businesses. Following regulatory approvals LCCG Holdings (No 6) Limited completed the acquisition of Generali Worldwide on 28 February 2019, in addition to service company Generali Link Limited, and subsequently renamed them Utmost Worldwide Limited and Utmost Link Limited respectively. The acquisitions continue the expansion of the Utmost Wealth Solutions business and further strengthens its global footprint. Total cash consideration of €406,000k (£348,000k converted on date of transaction) (which includes a contingent consideration of €4,810k (£4,219k converted on date of transaction) based on an aggregate of target solvency capital ratio and solvency buffer) was paid in exchange for 100% of equity interests in each business. A gain on bargain purchase is expected to be recognised in the financial statements for the year ending 31 December 2019, however due to completion accounting still being finalised at the date of signing these financial statements the figure is not available yet.

In order to finance the acquisition detailed above, the Group entered into an "Amendment and Restatement Agreement" with Lloyds Bank plc, National Westminster Bank plc, ING Bank N.V., London Branch and ABN AMRO Bank N.V. to increase the original facility of £37,000k ("Facility A1") by a further £113,000k ("Facility A2"), together consolidated into the Facility A loan, and a short-term bridging facility of €225,000k ("Facility B") with effect from 28 February 2019. The Facility A loan is repayable in stages with termination and the final repayment date being 31 October 2023. The first repayment of £9,000k fell due on 30 April 2019 followed by a further £9,000k due at six monthly intervals. The Facility B loan was repaid on 1 March 2019, following the receipt of a €230,000k distribution.

Other events subsequent to the year-end

On 27 February 2019 the Company issued 55,000,000 £ preference shares for £1 each (total consideration of £55,000k), and on the same date made a capital contribution to its direct subsidiary UIG5 in relation to the acquisition of Utmost Worldwide Limited.

On 27 February 2019 the Company issued 50,000,000 € preference shares for €1 each (total consideration of £45,118k, (€50,000k)), and on the same date made a capital contribution to its direct subsidiary UIG2 of £45,118k (€50,000k) in relation to the acquisition of the Athora Ireland international bond business. On 29 March 2019 UHIL made a €30,000k (£27,000k) share subscription in its subsidiary UPE.

A share capital reduction for Harcourt Life Corporation DAC ("HLC"), Augura Ireland Limited ("Augura") and Union Heritage Limited ("UHL") and re-registrations from Designated Activity Companies to Private Limited Companies for Augura and UHL was effected on 27 February 2019. On 14 May 2019, a special resolution was passed to give effect to the merger by absorption of Augura and UHL into HLC in accordance with Section 463 of the Companies Act 2014. On the same day, U-Link, acquired as part of the Generali Worldwide transaction, was merged by absorption into Utmost Services Ireland Limited, in accordance with the same legislative process.

40 RESTATEMENT OF PRIOR YEAR BALANCES

The impact of the adoption of IFRS 15 "Revenue from Contracts with Customers" on the reported Statement of Comprehensive Income and Statement of Financial Position for the year ended 31 December 2018 is shown in the table below. The adjustments are due to the change in amortisation methods for deferred fees and acquisition costs to a straight line basis, based on the expected duration of the contracts.

Statement of Comprehensive Income

	As reported £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
Fees and charges receivable	63,217	896	62,321
Acquisition costs	(387)	213	(600)
Profit before and after taxation	63,604	1,109	62,921

The figures in the table above and below do not include any impact in respect of the acquisitions in 2018, given there was no IFRS 15 impact from these acquisitions.

Statement of Financial Position

	As reported £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
Deferred front-end fees	(17,982)	(2,032)	(15,950)
Deferred acquisition costs	10,285	(456)	10,741
	(7,697)	(2,488)	(5,209)

41 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings from banks	
	2018 £'000	2017 £'000
At 1 January	73,152	78,917
Cash flows – borrowings drawn down in the year, net of arrangement fee	85,493	(6,000)
– repayments made in the year	(37,000)	–
Change in amortisation	867	365
Change in interest accrual	(385)	(130)
Foreign exchange adjustments	1,591	–
	123,718	73,152

COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 £'000	Restated 2017 £'000
Revenue			
Change in fair value of subsidiaries	3	**130,632**	48,592
Dividends received	4	**4,000**	–
		134,632	48,592
Expenses			
Administrative expenses	5	**(4)**	(1,300)
Profit/(loss) for the year before interest and tax		**134,628**	47,292
Tax credit/(charge)	6	**–**	–
Profit/(loss) for the year after interest and tax		**134,628**	47,292

The notes on pages 91 to 93 form an integral part of these financial statements.

Income and expenses for the year derive wholly from continuing operations.

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 56 to 61. The notes identified on pages 91 to 93 are an integral part of these separate financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 £'000	Restated 2017 £'000	Restated 2016 £'000
Assets				
Investment in subsidiaries	3	**541,436**	240,206	186,614
Cash and cash equivalents		**26**	76	376
Other assets	7	**50**	–	–
TOTAL ASSETS		**541,512**	240,282	186,990
Liabilities				
Other payables		**4**	–	–
Total liabilities		**4**	–	–
Capital and reserves				
Called up share capital presented as equity	8	**95**	95	95
Share premium	8	**285,498**	118,900	112,900
Retained earnings		**255,915**	121,287	73,995
Total equity		**541,508**	240,282	186,990
TOTAL EQUITY AND LIABILITIES		**541,512**	240,282	186,990

The notes on pages 91 to 93 form an integral part of these financial statements.

The financial statements of the Company were approved and authorised for issue by the Board of directors on 2 July 2019 and signed on its behalf by:

Paul Thompson
Director
2 July 2019

Ian Maidens
Director
2 July 2019

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Notes	Called up share capital presented as equity £'000	Share premium £'000	Retained earnings/ (deficit) £'000	Total £'000
Balance at 1 January 2017 as originally stated		95	112,900	(1,609)	111,386
Prior year adjustment	13	–	–	75,604	75,604
Balance as at 1 January 2017 – restated		95	112,900	73,995	186,990
Profit and total comprehensive income for the year restated		–	–	47,292	47,292
Shares issued during the year		–	6,000	–	6,000
Balance as at 31 December 2017		**95**	**118,900**	**121,287**	**240,282**
Profit and total comprehensive income for the year		–	–	**134,628**	**134,628**
Shares issued during the year		–	**166,598**	–	**166,598**
Balance as at 31 December 2018		**95**	**285,498**	**255,915**	**541,508**

The notes on pages 91 to 93 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Net cash flows from/(used) in operating activities	9	–	(1,300)
Cash flows from investing activities			
Capital contributions to subsidiaries		(3,100)	(5,000)
Loan to related party		(50)	–
Net cash used in investing activities		(3,150)	(5,000)
Cash flows from financing activities			
Issue of shares		3,100	6,000
Net cash flows from financing activities		3,100	6,000
Net decrease in cash and cash equivalents		(50)	(300)
Cash and cash equivalents at the beginning of the year		76	376
Exchange differences on cash and cash equivalents		–	–
Cash and cash equivalents at the end of the year		26	76

The notes on pages 91 to 93 form an integral part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 56 to 61. The notes identified on pages 91 to 93 are an integral part of these separate financial statements.

1.1 Changes in accounting standards and accounting policies

During the year the Company changed its accounting policy for the measurement of its investment in subsidiaries to better reflect the underlying value of the subsidiaries. Prior to 1 January 2018 the Company's investment in subsidiaries were measured at cost. After 1 January 2018 investment in subsidiaries have been measured at fair value through profit and loss in accordance with IFRS 9, with retrospective adoption resulting in the comparative amounts restated. The restatement has required an adjustment to opening retained earnings of £75,604k, as shown in note 13 below.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates

2.1 Investment in subsidiary undertakings

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

Critical judgements

2.2 Functional currency

As noted in note 2.2.1 in the notes to the consolidated financial statements, management consider the Company's functional currency to be Pounds Sterling. This is based on various considerations including the economic environments in which the Company and its subsidiaries operate, the primary currency in which transactions for the Company are transacted and funds from financing are generated. Given the Company's subsidiaries have significant operations in Ireland denominated in Euro, the selection of functional currency is a critical judgement for the Company and accordingly management will continue to assess the functional currency in future periods to ensure it continues to reflect the underlying transactions, events and conditions that are relevant to the Company.

3 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2018 £'000	Restated 2017 £'000
Cost		
At 1 January	**116,010**	111,010
Acquisitions and capital contributions during the financial year	**170,598**	5,000
At 31 December	**286,608**	116,010
Revaluation		
At 1 January	**124,196**	75,604
Movement in fair value	**130,632**	48,592
At 31 December	**254,828**	124,196
Fair value at 31 December	**541,436**	240,206

The fair value approach applied by the Company is to measure the "economic value" of the underlying subsidiaries based on a Solvency II assessment of the value of the business, adjusted for other components where management view that Solvency II doesn't reflect the commercial value of the business. One such component is to adjust the "risk margin" (an amount required under Solvency II rules to represent the potential cost of transferring insurance obligations to a third party should an insurer fail), calculated using a cost of capital set to 6% under regulatory rules. For determining fair value in accordance with IFRS, management have applied a 3% cost of capital (2017: 3%) in calculating the risk margin, to more appropriately reflect management's view of economic value. The impact on the fair value of investment in subsidiaries of a 1% change in the cost of capital would be £25,971k (2017: £11,700k).

Fair value gains of £130,632k are recognised in the Statement of Comprehensive Income in the year ended 31 December 2018 (2017: gains £48,592k) in respect of remeasuring the Company's investment in subsidiaries at fair value. There were no transfers between Levels 1, 2 and 3 in 2018 and 2017.

The additions in the year relate to the acquisition of UIG Holdings (No 2) Ltd., UPE and Athora Ireland as detailed in note 4 in the notes to the consolidated primary statements.

4 DIVIDENDS RECEIVED

During the year the Company received a dividend of £4,000k from its immediate subsidiary, UIG Holdings (No 5) Ltd. (2017: £nil). Cash was paid directly to UHIL to fund the acquisition of UPE, and accordingly this is recognised as a "non-cash transaction" under IAS 7 "Statement of Cash Flows" and not shown on the Company's Statement of Cash Flows.

5 ADMINISTRATIVE EXPENSES

Administrative expenses of the Company of £4k relate to audit fees (2017: £1,300k, relating to professional fees; audit fees were borne by UIG Holdings (No 6) Ltd. in 2017).

6 TAXATION

	2018 £'000	2017 £'000
Current taxation	–	–

The tax charge per the Statement of Comprehensive Income can be reconciled to the taxation on profits at the standard Guernsey income tax rate as follows:

	2018 £'000	2017 £'000
Profit/(loss) on ordinary activities before taxation	134,628	47,292
Tax at the Guernsey rate of 0%	–	–
Tax (credit)/charge for the financial year	–	–

7 OTHER ASSETS

Other assets includes a £50k loan receivable due from a related party, UIG Holdings (No 3) Ltd. (2017: £nil).

8 CALLED UP SHARE CAPITAL PRESENTED AS EQUITY/SHARE PREMIUM

The share capital and share premium of the Company are the same as those of the Group in note 28 in the notes to the consolidated primary statements.

9 CASH FLOW STATEMENT

	2018 £'000	2017 £'000
Profit before taxation	134,628	47,292
Non-cash movements		
Dividend income	(4,000)	–
Change in working capital		
Net change in fair value of subsidiaries	(130,632)	(48,592)
Change in other working capital items	4	–
Net cash flows used in operating activities	–	(1,300)

It is noted that in respect of the acquisition of UIG Holdings (No 2) Ltd. on 13 June 2018, the consideration of £71,387k was not actually transferred in cash by the Company; this amount represents a "non-cash transaction" as it was netted off other cash flows and paid directly to UHIL in order to fund the acquisition of UPE, and in accordance with IAS 7 "Statement of Cash Flows" is not presented on the Statement of Cash Flows.

10 RISK MANAGEMENT

Risk management in the context of the Group is considered in the Group consolidated financial statements, note 31. The business of the Company is managing its investments in subsidiaries and joint venture operations. Its risks are considered to be the same as those in the operations themselves, and full details of the major risks and the Group's approach to managing these are given in the Group consolidated financial statements, note 31.

There are no material assets or liabilities other than investment in subsidiaries which require further risk management by the Company specifically.

11 RELATED PARTY TRANSACTIONS

Transactions with Group companies

As noted above, Other assets includes a £50k loan receivable due from a related party, UIG Holdings (No 3) Ltd. (2017: £nil). The loan was unsecured, and subsequently repaid on 28 February 2019.

Key management personnel

The Directors and key management of the Company are considered to be the same as for the Group. Information on both the Company and Group key management compensation can be found in notes 37 and 38 in the notes to the consolidated primary statements.

12 EVENTS AFTER THE YEAR-END DATE

The events after the year-end date of the Company are the same as those of the Group in note 39 in the notes to the consolidated primary statements.

13 RESTATEMENT OF PRIOR YEAR BALANCES

During the year the Company amended its accounting policy in relation to investment in subsidiaries. In previous years such investments held by the Company have been valued at cost less any impairment, whereas similar investments within the Group have been held at fair value. In order to improve the consistency, and therefore the relevance of these values, between the Company and the Group, it was decided that Company's investments in subsidiaries should now be held at fair value given this provides a better indication for users of the value of the underlying subsidiaries on a fair value basis as reported to the individual regulators. The impact of this change is detailed below.

Impact on Statement of Comprehensive Income (increase/(decrease) in profit)

	As reported (2018) £'000	Adjustments £'000	At cost £'000
2018 impact:			
Fair value gains on investment in subsidiaries	**130,632**	**130,632**	**–**
2017 impact:			
Fair value gains on investment in subsidiaries	48,592	48,592	–
2016 impact			
Fair value gains on investment in subsidiaries	75,604	75,604	–

Impact on Statement of Financial Position

	As reported (2018) £'000	Adjustments £'000	At cost £'000
2018 impact:			
Investment in subsidiaries	**541,436**	**254,828**	**286,608**
2017 impact:			
Investment in subsidiaries	240,206	124,196	116,010
2016 impact:			
Investment in subsidiaries	186,614	75,604	111,010

Within the annual report various alternative performance measures ("APMs") are used in order to analyse the performance of the Group over the reporting period. APMs represent performance indicators/metrics which are not directly shown in the financial statements prepared in accordance with the applicable financial reporting framework (International Financial Reporting Standards as adopted by the EU – "IFRSs" –for the Group for the year ended 31 December 2018), but are derived from the financial statements usually by including or excluding certain items. APMs are considered to provide a more relevant and informative measure for stakeholders in assessing the performance of the Group. The APMs presented in these financial statements may change over time as management deem necessary in order to appropriately monitor and report the Group's performance.

The following section includes a definition of each APM and additional information to enable the stakeholders to understand how the APM differs from, and where possible reconciles to, information presented in the IFRS Financial Statements.

ASSETS UNDER ADMINISTRATION ("AUA")

The Group's definition of AUA includes assets administered by the Group on behalf of clients. AUA provides a measure of the scale of the Group, and a sense of the Group's potential earnings capability through the annual management charges ("AMCs") which are partly calculated as a percentage of the value of assets under administration. The Group's AUA primarily includes assets held to cover linked liabilities, in addition to reinsurance assets held to back policyholder liabilities; the latter includes assets held under the Modified Coinsurance Account (as detailed in note 17 to the financial statements), and assets backing with-profits business in UI and UL which is fully reinsured with Aviva Life and Pensions UK Limited. A reconciliation of the Group's AUA metric to the consolidated IFRS Statement of Financial Position is as follows:

	2018 £'m	2017 £'m
AUA	24,343	10,482
Assets held to cover linked liabilities	23,325	9,705
Modified coinsurance account	572	777
Reinsurers' share of insurance contract liabilities	446	–
Total (as per Statement of Financial Position)	24,343	10,482

OPERATING PROFIT

The Group's internal definition of operating profit is considered by management to provide a better view of the Group's underlying quality of earnings compared to the IFRS profit before interest and tax ("PBIT") figure. The items excluded from operating profit, but included in IFRS PBIT, are generally related to merger and acquisition ("M+A") activity and considered to be more strategic in nature than representing the underlying operating performance of the businesses. These items include the following:

Gains on bargain purchases/related party acquisition:
A gain on bargain purchase is recognised when the fair value of the acquired assets and liabilities exceeds the consideration paid in the business combination, representing "negative goodwill" which is credited directly to the Statement of Comprehensive Income. These gains represent one-off benefits to IFRS PBIT, and as such the Group looks to exclude these from operating profit to provide a better view of underlying performance. In 2018 the Group also recognised a gain on related party acquisition, arising from the transfer of the Irish business into the Group, which is removed from the Group's view of operating profit.

Amortisation, depreciation and impairments/write-offs:
Operating profit also excludes the amortisation charge and any impairments relating to acquired value of in-force business ("AVIF"), which are not considered part of underlying operating performance, and depreciation of tangible assets.

Expenses incurred relating to M+A activity:
Certain expenses are incurred directly in relation to the acquisition activity, including inter alia due diligence fees and associated professional fees, and taxes associated with M+A activity (stamp duty, for example).

A reconciliation between the Group's operating profit and IFRS PBIT for 2018 and 2017 is shown below:

	2018 £'m	2017 £'m
IFRS PBIT	71	(3)
Gain on bargain purchases/related party acquisition	(102)	–
Amortisation of AVIF and depreciation	31	18
Write-off of intangible assets on acquisition of UPE	10	–
Expenses related to M+A activity	21	–
	31	15

NEW BUSINESS ANNUAL PREMIUM EQUIVALENT ("APE")

APE represents an industry-recognised sales metric used to allow comparisons of new business written over the year. Management monitor APE on a monthly basis across each business to align with the strategic pillar of growing the business organically in addition to by acquisition. The Group calculates APE in line with industry norm, which is as the value of regular premiums written in the year plus 10% of any new single premiums written. Whilst this metric is not directly reconcilable to the IFRS financial statements (as the split between single premiums and regular premiums is not shown) the majority of the Group's single premiums are written as investment contracts through the Utmost Wealth Solutions brand, and most of the regular premiums are written as insurance contracts through the Utmost Corporate Solutions brand.

VALUE OF NEW BUSINESS ("VNB")

Whereas APE provides a view of how much new business is written in the year, VNB provides a view of the profitability of new business to the Group. Management monitor the VNB margin (defined as VNB expressed as a percentage of APE) on a monthly basis across each business. VNB is calculated as the present value of future income streams arising from new business written in the year, after deducting costs associated with writing this new business. VNB is not directly reconcilable to any of the IFRS metrics presented in the financial statements, given it provides a view of the profitability of new business from an actuarial view as opposed to an accounting view.

SOLVENCY II ECONOMIC VALUE ("SII EV")

Whilst AUA provides a view of the scale of the business, SII EV provides an overall view of the underlying value of the Group attributable to shareholders. SII EV is considered by management to better reflect the commercial value of the Group than IFRS equity, as the latter excludes components of value such as the present value of future earnings arising from in-force business. SII EV represents a metric which better aligns with the traditional Embedded Value reporting which preceded the Solvency II regulations which became effective on 1 January 2016.

The Group's SII EV is calculated by adding the economic value of its insurance companies and its non-insurance companies. The Group's internal metric to calculate the value of its insurance companies is calculated as follows:

Solvency II Own Funds
plus Risk Margin
plus Value of In-force business outside Contract Boundaries
plus Foreseeable dividends
less Transitional Measures on Technical Provisions
less Intra-group balances which qualify as Tier 2 capital in the receiving entity.

The Group calculates the value of its non-insurance companies on an IFRS net asset value basis. Solvency II Own Funds is shown net of external debt. Other components of value are considered based on circumstances, to ensure that solvency capital on a regulatory basis is adjusted to a view of economic capital.

The Group's SII EV as at 31 December 2018 is £614m (2017: £271m). This APM can be reconciled to IFRS information as follows:

	£'m	
UIGH investment in subsidiaries	541	Reflects the IFRS fair value of the Company's investment in its underlying subsidiaries
Risk margin add back	77	SII EV adds back the whole risk margin, as management consider this more closely aligns with traditional Embedded Value reporting. The investment in subsidiaries figure above already includes 50% of the risk margin, so the £77m adjustment represents a further 50%.
Capitalised arrangement fees	(4)	These are included on an IFRS basis but as a sunk cost not included in SII EV
SII EV APM	**614**	

AMCs
Annual Management Charges

APE
Annual Premium Equivalent

APM
Alternative Performance Measure

AUA
Assets under Administration

DAC
Designated Activity Company (Irish entities)

EV
Economic Value

FCA
Financial Conduct Authority

GEB
Generali Employee Benefits

GFSC
Guernsey Financial Services Commission

GPE
Generali PanEurope DAC (former name of Utmost PanEurope DAC)

GW
Generali Worldwide Insurance Company Limited (former name of Utmost Worldwide Limited)

GWP
Gross Written Premium

HNW
High-Net Worth

HNWI
High-Net Worth Individual – someone with a net worth of over US$1m excluding their primary residence

Holdcos
The indirect holding companies of the Group operating entities

IFAs
Independent Financial Advisers

IoM
Isle of Man

IoM FSA
Isle of Man Financial Services Authority

KPI
Key Performance Indicator

LCCG
Life Company Consolidation Group (former name of Utmost Group of Companies)

MCR
Minimum Capital Requirement

MNCs
Multi-National Corporations

Net Solvency Coverage Ratio
Whilst there is no single Group regulator, solvency coverage is calculated and monitored at the Group level as Solvency II Own Funds/Solvency Capital Requirement

Operating Businesses
Utmost Wealth Solutions and Utmost Corporate Solutions

Own Funds
Own Funds represents the amount of capital available to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) under Solvency II

SCR
Solvency Capital Requirement

SII
Solvency II

SII EV
Solvency II Economic Value

TOM
Target Operating Model

UCS
Utmost Corporate Solutions

UHNW
Ultra-High Net Worth

UHNWI
Ultra-high net worth individual – someone with a net worth of over US$30m excluding their primary residence

UIGH
Utmost International Group Holdings Ltd.

UL
Utmost Limited

U-Link
Utmost Link Limited

UPE
Utmost PanEurope DAC

USIL
Utmost Services Ireland Limited

UIGH Ltd/Utmost International
Utmost International Group Holdings Ltd and all its subsidiaries

Utmost Ireland
Utmost Group Ireland, being Utmost Holdings Ireland Limited and all its subsidiaries

Utmost Isle of Man
Utmost Holdings (Isle of Man) Limited and all its subsidiaries, including Utmost Limited and Utmost Services Limited

UW
Utmost Worldwide Limited (formerly Generali Worldwide Insurance Company Limited)

UWS
Utmost Wealth Solutions

VNB
Value of New Business

DIRECTORS
Paul Thompson
Ian Maidens
Christopher Boehringer
Harry Smith

SECRETARY
C. L. Secretaries Limited

REGISTERED OFFICE
1st and 2nd Floors
Elizabeth House
Les Ruettes Brayes
St Peter Port
Guernsey
GY1 1EW

REGISTERED IN GUERNSEY
Company Number
61518

INDEPENDENT AUDITOR
PricewaterhouseCoopers LLC
Sixty Circular Road
Douglas
Isle of Man
IM1 1SA

PRINCIPAL BANKERS
The Royal Bank of Scotland International Limited
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey
GY1 4BQ

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Utmost International undertakes no obligation to update any of the forward-looking statements contained within this Report or any other forward-looking statements it may publish. Nothing in the 2018 Annual Report and Accounts is or should be construed as a profit forecast or estimate.

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