UTMOST HOLDINGS LIMITED

Annual Report and Consolidated Financial Statements
For the year ended 31 December 2017

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DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2017. The consolidated financial statements include the financial statements of the Company and those of its subsidiary undertakings (collectively 'the Group').

PRINCIPAL ACTIVITY

The principal activity of the Company is that of a holding company. It is an indirect majority owned subsidiary of OCM LCCG2 Holdings Limited, a Cayman incorporated entity. The Company's immediate parent is LCCG UK Holdings Limited.

RESULTS, DIVIDENDS AND TRANSFERS

The profit for the period, after taxation, amounted to £930,000 (2016: £72,036,000) which has been transferred to reserves. During the year dividends of £11,000,000 (2016: £NIL) were paid. The Directors do not recommend the payment of a final dividend (2016: £NIL).

DIRECTORS

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

I G Maidens	
A P Thompson	
R N S Angus	(Resigned 11 September 2017)
N A Duggan	
M J Foy	
C J Hall	
J R Kelly	
S Shone	(Alternate Director to R N S Angus 17 May 2017 to 11 September 2017)
S Shone	(Appointed 11 September 2017)

COMPANY SECRETARY

P C Halliday	(Resigned 08 February 2017)
JM McCann	(Appointed 08 February 2017)

REGISTERED AGENT

Estera Trust (Isle of Man) Limited

AUDITOR

The Auditor, PricewaterhouseCoopers LLC has indicated its willingness to continue in office.

Approved by the Board

Secretary

21 March 2018
Royalty House
Walpole Avenue
DOUGLAS
Isle of Man
IM1 2SL

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

In preparing the financial statements the Directors' are responsible for:

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

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

The Directors are responsible for the maintenance of the website on which the financial statements are published. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

Secretary

21 March 2018

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

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the consolidated financial position of Utmost Holdings Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

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

- the consolidated and Company statement of financial position as at 31 December 2017;
- the consolidated and Company statement of comprehensive income for the year then ended;
- the consolidated and Company statement of changes in equity for the year then ended;
- the consolidated and Company statement 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 Directors are responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF UTMOST HOLDINGS LIMITED (CONTINUED)

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and Isle of Man law, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group'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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF UTMOST HOLDINGS LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)
We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

This report, including the opinion, has been prepared for and only for the Company's member in accordance with our engagement letter dated 12 September 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
21 March 2018

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Consolidated Year ended 31 December 2017 £'000	Company Year ended 31 December 2017 £'000	Consolidated 13 April 2016 to 31 December 2016 £'000	Company 13 April 2016 to 31 December 2016 £'000
Revenue					
Fees and charges receivable	6	41,064	-	8,088	-
Commissions, fees and rebate income	7	5,570	-	769	-
Other income	8	1,552	-	350	-
		48,186	-	9,207	-
Investment return					
Investment income		45,911	5,000	3,403	-
Gains on investments	9	759,523	-	101,451	-
		805,434	5,000	104,854	-
Changes in technical provisions for investment contract liabilities		(805,251)	-	(104,816)	-
Commission and expenses					
Origination costs	13	456	-	62	-
Fees and expenses	4	(29,615)	-	(5,992)	-
Amortisation of acquired in-force business	10	(18,243)	-	(3,998)	-
		(47,402)	-	(9,928)	-
Gain arising on bargain purchase	3	-	-	72,719	-
Profit before taxation		967	5,000	72,036	-
Taxation	5	(37)	-	-	-
Profit after taxation		930	5,000	72,036	-
Other items of comprehensive income		-	-	-	-
Total comprehensive income		**930**	**5,000**	**72,036**	**-**

The notes on pages 10 to 43 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

Consolidated	**Share Capital**	**Retained Earnings**	**Total**
	£'000	**£'000**	**£'000**
Balance at 13 April 2016	-	-	-
Profit and total comprehensive income for the period	-	72,036	72,036
Transactions with owners:			
Proceeds from issue of shares	183,080	-	183,080
Balance at 31 December 2016	**183,080**	**72,036**	**255,116**
Balance at 1 January 2017	183,080	72,036	255,116
Profit and total comprehensive income for the Year	-	930	930
Transactions with owners:			
Dividends paid	-	(11,000)	(11,000)
Balance at 31 December 2017	**183,080**	**61,966**	**245,046**

Company	**Share Capital**	**Retained Earnings/ (deficit)**	**Total**
	£'000	**£'000**	**£'000**
Balance at 13 April 2016	-	-	-
Profit and total comprehensive income for the period	-	-	-
Transactions with owners:			
Proceeds from issue of Shares	183,080	-	183,080
Balance at 31 December 2016	**183,080**	**-**	**183,080**
Balance at 1January 2017	183,080	-	183,080
Profit and total comprehensive income for the year	-	5,000	5,000
Transactions with owners:			
Dividends paid	-	(11,000)	(11,000)
Balance at 31 December 2017	**183,080**	**(6,000)**	**177,080**

The notes on pages 10 to 43 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Notes	Consolidated 2017 £'000	Company 2017 £'000	Consolidated 2016 £'000	Company 2016 £'000
Intangible Assets					
Acquired in-force business	10	156,650	-	174,893	-
Intangible fixed assets - software	12	81	-	122	-
Deferred origination costs	16	3,044	-	1,058	-
Assets					
Investments in subsidiaries	25	-	177,057	-	183,057
Property, plant and equipment	11	329	-	500	-
Financial Assets					
Assets held to cover linked liabilities	23	9,705,040	-	9,283,464	-
Modified Coinsurance Account	28	777,232	-	796,863	-
Other investments	14	10,181	-	-	-
Debtors and other receivables	15	14,339	-	19,844	-
Deposits		46,383	-	48,557	-
Cash and cash equivalents	17	50,528	23	51,544	23
TOTAL ASSETS		**10,763,807**	**177,080**	**10,376,845**	**183,080**
Liabilities					
Technical provisions for linked liabilities	24	10,491,800	-	10,097,167	-
Deferred front end fees	18	1,607	-	661	-
Amounts due to investment contract holders	19	12,558	-	16,185	-
Creditors and other payables	20	12,796	-	7,716	-
Total Liabilities		10,518,761	-	10,121,729	-
Equity					
Share capital	26	183,080	183,080	183,080	183,080
Retained earnings / (deficit)		61,966	(6,000)	72,036	-
Total Equity		245,046	177,080	255,116	183,080
TOTAL EQUITY AND LIABILITIES		**10,763,807**	**177,080**	**10,376,845**	**183,080**

These financial statements on pages 6 to 43 were approved and authorised for issue by the Board of Directors on 21 March 2018 and were signed on its behalf by

Director

Director

The notes on pages 10 to 43 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Consolidated 2017 £'000	Company 2017 £'000	Consolidated 13 April 2016 to 31 December 2016 £'000	Company 13 April 2016 to 31 December 2016 £'000
Net cash flows from operating activities	27	20,352	-	223	-
Cash flows from investing activities					
Acquisition of subsidiaries - net cash		-	-	51,287	-
Distributions from pre-acquisition reserves		-	6,000	-	-
Acquisition of investment		(10,361)	-	-	-
Acquisition of property, plant and equipment		(84)	-	(29)	-
Acquisition of intangible fixed assets		(16)	-	-	-
Proceeds on disposal of property, plant and equipment		93	-	40	-
Dividends received		-	5,000	-	-
Net cash flows from investing activities		(10,368)	11,000	51,298	-
Cash flows from financing activities					
Issue of share capital		-	-	23	23
Dividends paid		(11,000)	(11,000)	-	-
Net cash flows from financing activities		(11,000)	(11,000)	23	23
Net movement in cash and cash equivalents		(1,016)	-	51,544	23
Cash and cash equivalents at the beginning of the financial year		51,544	23	-	-
Cash and cash equivalents at the end of the financial year		**50,528**	**23**	**51,544**	**23**

The share capital of £183,080,000 as reflected in Note 26 was issued to finance the purchase of the subsidiaries in 2016. The purchase consideration was initially held in legal advisors client accounts prior to settlement with the former owners. The balance of the share capital (£23,000) was transferred to Utmost Holdings Limited.

The notes on pages 10 to 43 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

General Information

The principal activity of Utmost Holdings Limited ('the Company') and its subsidiaries (together, 'the Group) is the writing of long term assurance business which is exclusively classified as investment contracts because of the absence of significant insurance risk associated with the underlying policies. These contracts are written back into the UK and to Hong Kong and Singapore under modified coinsurance arrangements.

The principal accounting policies that have been consistently applied by the Group in preparing its consolidated financial statements for the financial year ended 31 December 2017 are set out below.

The comparative figures cover the period from incorporation on 13 April 2016 to 31 December 2016. From 13 April 2016 to 20 October 2016 there was no activity in the Group. The subsidiaries were acquired on 21 October 2016 and the results reflect the period of trading from that date to 31 December 2016.

Utmost Holdings Limited is incorporated and domiciled in the Isle of Man. The address of its registered office is Royalty House, Walpole Avenue, Douglas, Isle of Man, IM1 2SL.

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union as applicable at 31 December 2017.

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, and its subsidiary undertakings. A subsidiary is an entity where the Company has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Company controls the entity. Subsidiaries are consolidated from the date on which control is transferred to the Company until the date that control ceases.

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

1. **ACCOUNTING POLICIES** (continued)

Basis of consolidation (continued)

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

(1.1) Foreign currency

The Group and Company's presentational and functional currency is Pounds Sterling, being the primary economic environment in which the Group operates.

Transactions denominated in currencies other than Sterling are translated at the actual rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than Sterling are translated at the rates ruling at the statement of financial position date. Realised and unrealised foreign exchange gains and losses are shown as part of "Gains on investments" in the statement of comprehensive income.

Non-monetary assets and liabilities that are held at historical cost are translated using the rate ruling at the date of the transaction; those held at fair value are translated using the rate ruling at the date on which fair value was determined.

(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 Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements

(1.3) Financial assets and financial liabilities

Classification

Financial assets are classified into the following categories: at fair value through profit or loss or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories: at fair value through profit or loss or other payables. Management determines the classification of its financial liabilities at initial recognition.

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

The decision to classify financial investments at fair value through profit or loss reflects the fact that the investment portfolio is managed, and its performance evaluated, on a fair value basis.

The decision to designate 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.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise "Debtors and other receivables", "Deposits and loans" and "Cash and cash equivalents" in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Classification (continued)

(iii) Other payables

Other payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. The Group's other payables comprise "Amounts due to investment contract holders", and "Creditors and other payables" in the statement of financial position

Recognition and measurement

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

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. The Group recognises purchases and sales of investments on a trade date basis. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fixed interest securities, ordinary shares and funds, which principally comprise collective investment schemes, are valued at their fair value on 31 December 2017. 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 the valuation provided by Aviva of the Group's share of assets in the with profit funds as at 31 December 2017.

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

Discretionary portfolios are carried as at 31 December 2017 using the latest valuation from the discretionary fund manager which 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 the consistent practice of the Group in valuing and is considered most appropriate.

Financial liabilities carried at fair value are valued by reference to the underlying financial assets at fair value through profit or loss, as described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.3) Financial assets and financial liabilities (continued)

(ii) Loans and receivables

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

(iii) Other payables

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

(1.4) Investment in subsidiary undertakings

Investments in subsidiary undertakings are accounted for at cost less impairment.

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

(1.5) Impairments

For financial assets (other than those at fair value) an impairment loss is recognised if the present value of the estimated future cash flows (discounted at the financial asset's original effective interest rate) arising from the asset is lower than the asset's carrying value. For financial assets (other than those at fair value) an impairment loss is reversed if there is a decrease in the impairment that can be related objectively to an event occurring after the impairment was recognised.

For non financial assets, an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. 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. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.6) Investment return

All gains and losses arising from changes in the fair value of financial investments, realised or unrealised, are recognised within "Gains on investments" in the statement of comprehensive income in the period in which they arise. Unrealised gains and losses represent the difference between the valuation of the investments and their original cost. Realised gains and losses are calculated as net sales proceeds less purchase costs. Purchase costs are calculated on a weighted average basis. Movements in unrealised gains and losses include the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current 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 income" in the statement of comprehensive income on an accruals basis.

Dividends receivable for investments held within unit linked funds managed by the Group, are accrued on the ex-dividend date. All other dividends, including distributions from collective investments, are accounted for as received as this is when the income can be measured reliably. The Group has not accrued all dividends on their ex-dividend date due to the lack of consistent and timely information as to the value as at period end. Based on management judgement the impact of adopting this approach is not significant.

The attributable investment income and net gains or loss on investments due or payable under the agreement with AXA China Region or AXA Life Singapore is due or payable simultaneously with the underlying contracts reassured which are recognised at the same point as for the Utmost Limited contract.

(1.7) Commissions receivable

Commissions receivable arising from with profit bond investments and where commissions from investments in funds are provided for on an accruals basis are both accounted for on an accruals basis. Other inward commissions and rebates are accounted for on a receipts basis net of any amounts directly attributable to policies as this is when the income can be measured reliably.

(1.8) Expenses

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

(1.9) 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.

(1.10) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. The Company 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.10) Pension obligations (continued)

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.

(1.11) Financial liabilities under investment contracts

Investment contracts consist of unit linked contracts written by the Group. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset value of the underlying assets at the statement of financial position date. The decision by the Group to designate its unit linked liabilities at fair value through profit or loss reflects the fact that the liabilities are calculated with reference to the value of the underlying assets.

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

Investment contract premiums are not included in the statement of comprehensive income but are recognised as deposits to investment contracts and are included in financial liabilities in the statement of financial position. Withdrawals from investment contracts and other benefits paid are not included in the statement of comprehensive income but are deducted from financial liabilities under investment contracts in the statement of financial position. Benefits are deducted from financial liabilities and transferred to amounts due to investment contract holders 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.

(1.12) Property, plant and equipment

Property plant and equipment are stated at historic purchase cost less accumulated depreciation. The cost 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%
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.13) Intangible fixed assets – software

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

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

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

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

(1.14) 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.

(1.15) 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.

(1.16) Fees and charges and deferred front end fees

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

Initial and establishment fees that exceed the level of recurring fees and relate to the future provision of services are deferred, to the extent the Company defers sales incentives and adviser fees, in the statement of financial position and amortised in line with the projected payment of fees. These fees are accounted for on the issue of a contract and on receipt of incremental premiums on existing single premium contracts.

Regular fees charged to contracts are recognised on a straight-line basis over the period in which the service is provided. Transactional fees are recorded when the required action is complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.17) 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.

Regular fees charged to contracts are recognised on a straight-line basis over the period in which the service is provided. Transactional fees are recorded when the required action is complete.

(1.18) Fund administration fees

Fund administration fees are charged on the internal funds available to investment contract holders. The fees are based on the value of the fund and accrue daily within the fund price. The accrued fees crystallise monthly and are deducted from the fund. These fees form part of the ongoing fund charge.

(1.19) Trustee fees

Trust Establishment fees are recognised as income and become due on the establishment of the Trust and issue of any underlying insurance policy. Annual fees are payable in advance and are recognised as income at the point they become due. Termination fees are recognised as income on the completion of the termination. Administration fees are accounted for on an accruals basis, in relation to a monthly service charge for services incurred through a Third Party Agreement.

(1.20) Origination costs and deferred origination costs

Origination 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 origination costs. Origination costs that do not meet the criteria for deferral are expensed as incurred.

Deferred origination costs are amortised in line with the projected payment of fees, allowing for expected level of surrenders. The amortisation of deferred origination costs is charged to the statement of comprehensive income within the origination costs line.

Reviews to assess the recoverability of deferred origination costs on investment contracts are carried out at each statement of financial position date to determine whether there is any indication of impairment. If there is any indication of irrecoverability or impairment, the asset’s recoverable amount is estimated. Impairment losses are reversed through the statement of comprehensive income if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of amortisation where applicable, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.21) Modified Coinsurance Account – see Note 28

Under the modified coinsurance arrangement the statutory reserve on the ceded business is the obligation of, and held by the ceding company. The Company remains on risk of loss from lapse and surrenders.

The amounts contractually withheld and legally owned by the cedant in the form of assets equal to the reserve are reflected in the Modified Coinsurance Account. 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 income" or "Gains on investments" in the statement of comprehensive income.

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

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

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

In accordance with IFRS 10, positive goodwill is recognised as an intangible asset in the statement of financial position. Negative goodwill, a bargain purchase gain, is recognised immediately in the statement of comprehensive income.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(1.23) Taxation

Current tax payable is the expected tax payable on the taxable income for the period adjusted for changes to previous periods and is calculated based on the applicable tax law in the relevant tax jurisdiction.

A current tax liability is recognised for the tax payable on the taxable profit of the current and past periods. A current tax asset is recognised in respect of a tax loss that can be carried back to recover tax paid in previous periods.

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

(1.24) Share Capital

Ordinary shares are classified as equity.

(1.25) Changes in accounting policy and disclosure

New standards, amendments and interpretations

No new accounting standards, amendments to accounting standards or IFRIC interpretations, effective for the first time for the financial year beginning on or after 1 January 2017 have had a material impact on the financial statements.

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

- IFRS 9 Financial Instruments (effective 1 January 2018 subject to EU endorsement).
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018 subject to EU endorsement).
- IFRS 16 Leases (2019). IFRS 16 will replace IAS 17 Leases. The new standard removes the classification of leases as either operating or finance leases for the lessee, thereby treating all leases as finance leases.

The Directors are of the opinion that the adoption of the above standards is not expected to have a significant impact.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with EU 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.

Origination costs and amortisation of deferred origination costs
Expenses have been reviewed to determine the relationship of these expenses to the issuance of an investment contract. Expenses which relate to the origination of a contract are deferred. Other expenses are written off as incurred.

Deferred origination costs consists of sales incentives to the UK Sales team and initial commission payable on new policies which are amortised in line with the projected payment of fees.

Amortisation of deferred front end fees
Deferred front end fees are amortised on the same basis as deferred origination costs above. Deferred front end fees consist of establishment fees receivable in the year together with a portion of initial fees receivable.

Recoverability of deferred origination costs
Deferred origination costs are tested annually, at Group level, for recoverability by comparing embedded value to the value of deferred origination costs.

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

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

Fair value assessment of investments
Where the Directors determine that there is no active market for a particular financial investment, fair value is assessed using valuation techniques based on available relevant information and an appraisal of all associated risks. In some cases the fair value is assessed as £nil even though a price may be available publicly.

3. SUBSIDIARIES

The consolidated financial statements include the following subsidiaries:

Subsidiary	Nature of business	Shares held
Utmost Limited	Writing long term assurance business	100% of the issued share capital
Utmost Services Limited	Management and administration services	100% of the issued share capital
Utmost Trustee Solutions Limited	Provision of trustee services	100% of the issued share capital
Utmost Administration Limited	Third party administration services	100% of the issued share capital
Utmost Partnerships Limited	Dormant company	100% of the issued share capital

The date of acquisition of each of the subsidiary companies is 21 October 2016.

The registered office/business address of each of the subsidiaries is:

Royalty House
Walpole Avenue
DOUGLAS
Isle of Man IM1 2SL

Below is an analysis of the fair value net assets of the acquired subsidiaries in 2016, the consideration paid and the intangible assets arising from these acquisitions.

	2016
	£'000
Fair value of Net Identifiable Assets acquired	76,885
Value of in-force policies ('VIF')	178,891
Fair Value of Net Assets acquired including VIF	**255,776**
Consideration paid	183,057
Gain arising on bargain purchase	**72,719**

This business combination resulted in a bargain purchase because the fair value of the assets acquired, including the value of in-force policies, and liabilities assumed exceeded the total of the fair value of consideration paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. FEES AND EXPENSES

All costs and expenses arising in respect of the Company are borne by its subsidiary; Utmost Limited.

Utmost Services Limited, a fellow subsidiary provides management and administration services to the other companies in the Group. Directors' fees and audit fees are paid by this subsidiary and recovered through a service charge levied on other subsidiaries.

Fees and expenses charged to the statement of comprehensive income include:

	2017	2016
	£'000	£'000
Wages and salaries	6,628	1,122
Social security costs	869	143
Pension costs – Defined contributions	996	178
Termination costs	684	-
Other staff benefits	1,190	326
Depreciation of Property, plant and equipment	164	27
Amortisation of intangible fixed assets - software	57	9
Auditor's fees	75	75
Directors' fees	75	12
Ongoing commission and advisor fees payable	14,449	2,676

5. TAXATION

On the Isle of Man, with certain exceptions not relevant to the Group, corporate entities are subject to tax at 0% (2016: 0%). This rate is not expected to change in the foreseeable future.

UK TAXATION

One subsidiary, Utmost Services Limited charges an administration fee on the recharge of certain costs arising in the United Kingdom (UK) which it recharges to a fellow subsidiary. This is a notional charge in 2017 and an actual charge in 2016. The Group is liable to UK Corporation tax at 19.25% on this administration fee.

The Group can make full use of tax losses available in the direct parent company LCCG UK Holdings Limited. There are sufficient losses available to reduce the current taxation liability to nil.

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	2017	2016
	£'000	£'000
Current UK taxation at 19.25% of administration fee	37	11
Group relief on tax losses available.	-	(11)

The Company has agreed to pay to the Group an amount equal to the value of the tax relief on Group losses utilised for 2017 above. The Group is not liable for any other taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FEES AND CHARGES RECEIVABLE

Included within fees and charges are:

	2017	2016
	£'000	£'000
Contract fee income	22,448	5,106
Deferred front end fees net movement (note 18)	(946)	(661)
Renewal commission and advisor fee deductions	13,121	2,560
Policyholder charges	34,623	7,005
Other charges	1,206	60
Fund management charges	5,235	1,023
	41,064	8,088

7. COMMISSIONS, FEES AND REBATE INCOME RECEIVABLE

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

	2017	2016
	£'000	£'000
Commission income	1,473	255
Rebates and fees	3,834	470
Fees	263	44
	5,570	769

8. OTHER INCOME RECEIVABLE

Included within other income are:

	2017	2016
	£'000	£'000
Bank and deposit interest income	1,154	201
Other – including interest charged to policyholders	398	149
	1,552	350

9. GAINS ON INVESTMENTS

Included within gains on investments are:

	2017	2016
	£'000	£'000
Net gains on realisation of investments	284,928	72,358
Net movements in unrealised gains	473,041	29,229
Net foreign exchange gains / (losses)	1,554	(136)
	759,523	101,451

10. ACQUIRED IN-FORCE BUSINESS

	£'000
Value of in-force policies acquired	
At 31 December 2016 & 2017	**178,891**
Accumulated amortisation	
At 31 December 2016	3,998
Amortisation Charge	18,243
At 31 December 2017	**22,241**
Net book value at 31 December 2016	**174,893**
Movement during the year	(18,243)
Net book value at 31 December 2017	**156,650**
Current (within 12 months)	15,534
Non-current (after 12 months)	141,116
	156,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

	Computer and Office Equipment	Motor Vehicles	Total
	£'000	£'000	£'000
Period ended 31 December 2016			
Additions on acquisition of subsidiary	283	241	524
Additions	-	29	29
Disposals	-	(26)	(26)
Depreciation charge	(18)	(9)	(27)
Closing net book value	**265**	**235**	**500**
At 31 December 2016			
Cost or valuation	283	244	527
Accumulated depreciation	(18)	(9)	(27)
Net Book Amount	**265**	**235**	**500**
Year ended 31 December 2017			
Opening net book amount	265	235	500
Additions	14	70	84
Disposals	-	(91)	(91)
Depreciation charge	(113)	(51)	(164)
Closing net book value	**166**	**163**	**329**

	£'000	£'000	£'000
At 31 December 2017			
Cost or valuation	297	223	520
Accumulated depreciation	(131)	(60)	(191)
Net Book Amount	**166**	**163**	**329**

12. INTANGIBLE FIXED ASSETS - SOFTWARE

	Computer Software £'000
Cost	
Additions on acquisition of subsidiary	131
At 31 December 2016	**131**
Additions	16
At 31 December 2017	**147**
Accumulated amortisation	
Amortisation charge	9
At 31 December 2016	**9**
Amortisation charge	57
At 31 December 2017	**66**
Net Book value	
Cost	131
Accumulated amortisation	(9)
At 31 December 2016	**122**
Cost	147
Accumulated amortisation	(66)
At 31 December 2017	**81**

13. ORIGINATION COSTS

Included within origination costs are:

	2017 £'000	2016 £'000
Initial commission payable	1,530	996
Capitalisation of origination costs	(2,109)	(1,077)
Amortisation of deferred origination costs	123	19
	(456)	(62)

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

14. OTHER INVESTMENTS

	2017 £'000	2016 £'000
OEICS – available for sale	10,181	-

Other investments comprise the holding in the Oaktree European Senior Loan Fund (Share Class HGBP I) ISIN code LU0823372296, domiciled in Luxembourg. This fund has monthly valuation and liquidity. This investment falls into the Level 2 fair value hierarchy as per note 21.5.

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

15. DEBTORS AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Investment dealing debtors	9,439	16,098
Accrued investment income and commission	1,460	2,169
Other receivables and prepayments	3,373	1,577
Due from related parties	67	-
	14,339	19,844
Current (within 12 months)	14,260	19,790
Non-current (after 12 months)	79	54
	14,339	19,844

16. DEFERRED ORIGINATION COSTS

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

	2017 £'000	2016 £'000
At 1 January	1,058	-
Origination costs capitalised during the period	2,109	1,077
Origination costs amortised during the period	(123)	(19)
	3,044	1,058
Current (within 12 months)	264	99
Non-current (after 12 months)	2,780	959
	3,044	1,058

17. CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Deposits with credit institutions	15,699	24,881
Cash at bank	34,829	26,663
	50,528	51,544

Cash and cash equivalents includes £23,000 (2016: £23,000) held by the Company.

18. DEFERRED FRONT END FEES

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

	2017 £'000	2016 £'000
At 1 January	661	-
Fees received and deferred during the period	1,048	673
Recognised in contract fees during the period	(102)	(12)
	1,607	661
Current (within 12 months)	266	61
Non-current (after 12 months)	1,341	600
	1,607	661

19. AMOUNTS DUE TO INVESTMENT CONTRACT HOLDERS

	2017	2016
	£'000	£'000
Due to investment contract holders	12,558	16,185

Amount due to investment contract holders are repayable and transferable on demand. In certain circumstances the contractual maturities of a portion of the assets may be longer than one year. Due to the unit linked nature of our contracts the Company will only settle amounts due when the linked asset is realised.

20. CREDITORS AND OTHER PAYABLES

	2017	2016
	£'000	£'000
Premiums received in advance of policy issue	5,230	3,782
Investment dealing creditors	4,922	946
Commission payable	89	58
Other creditors and accruals	2,518	2,930
Due to related parties	37	-
	12,796	7,716

All creditors are due for settlement within one year.

21. FINANCIAL RISK MANAGEMENT

Risk management objectives and risk policies

The Group's objective in the management of financial risk is to minimise, where practicable, its exposure to such risk, except when necessary to support other objectives. The Group seeks to manage risk through the operation of unit linked business whereby the contract holder bears the financial risk. In addition, shareholder assets are invested in highly rated investments.

Overall responsibility for the management of the Group's exposure to risk is vested in the Board. To support it in this role, a risk management framework is in place comprising risk identification, risk assessment, control and reporting processes. Additionally, the Board has established a number of Committees with defined terms of reference. These are principally the Audit Committee, the Investment Committee and the Risk & Compliance Committee.

The more significant financial risks to which the Group is exposed are set out below. For each category of risk, the Group determines its risk appetite and sets its investment, treasury and associated policies accordingly.

21.1 Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, analysed between price, interest rate and currency risk. The Group has a risk averse approach to market risk, with a stated policy of not actively pursuing or accepting market risk except where necessary to support other objectives. However, the Group accepts the risk that the fall in equity or other asset values, whether as a result of price falls or strengthening of Sterling against the currencies in which contract holder assets are denominated, will reduce the level of annual management charge income derived from such contract holder assets and the risk of lower future profits.

21. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis to market risk

The Group's business is unit linked and the direct associated market risk is therefore borne by contract holders (although there is a secondary impact as some aspects of shareholder income are dependent upon the markets, as mentioned above). Financial assets to support the Group's capital resources held outside unitised funds primarily consist of units in money market funds, cash and cash equivalents, and other assets. Cash held in unitised money market funds and at bank is valued at par and is unaffected by movement in interest rates. Other assets are similarly unaffected by market movements.

The Group's financial assets held outside unitised funds are not materially subject to market risk, and movements at the reporting date in interest rates and equity values have an immaterial impact on the Group's profit after tax and equity. Future revenues from annual management charges may be affected by movements in interest rates, foreign currencies and equity values.

(a) Price risk

The Group offers a number of unit linked internal funds. These unit linked funds are exposed to securities price risk as the investments held are subject to prices in the future which are uncertain. The fair value of financial assets (designated at fair value through profit or loss) exposed to price risk at 31 December 2017 was £1,142,844,000 (2016: £1,152,070,000). In the event that investment income is affected by price risk then there will be an equal and opposite impact on the value of the changes in provisions for investment contract liabilities in the same accounting period. The impact on the profit or loss before taxation in a given financial year is negligible.

An overall change in the market value of the unit linked funds would affect the net annual management charges accruing to the Group since these charges, which average 0.45% (2016:0.45%) per annum, are based on the market value of contract holder assets under administration. The approximate impact on the Group's full year profits and equity of a 10% change in fund values, either as a result of price, interest rate or currency fluctuations, is £518,000 (2016: £523,000).

(b) Interest rate risk

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

The Group is primarily exposed to interest rate risk on the balances that it holds with credit institutions. Shareholder's funds are invested in either cash or fixed interest deposits to provide a low level of interest rate risk.

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.

	2017	**2016**
	£'000s	**£'000s**
Increase of 100 bps (2016: 100bps) in interest rate yields	2,598	2,336
Decrease of 45 bps (2016: 62 bps) in interest rate yields	(1,154)	(1,491)

The downward shift of 100bps would decrease rates below 0.0% and hence the impact has been floored at 45bps (2016: 62bps) being the average effective interest rates for deposits with credit institutions.

A summary of the Group's liquid assets at the statement of financial position date is set out in note 21.2.

21. FINANCIAL RISK MANAGEMENT (continued)

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

(c)(i) Group foreign currency exposures
The Group is exposed to currency risk on the foreign currency denominated bank balances, contract fees receivable and other liquid assets that it holds to the extent that they do not match liabilities in those currencies. The impact of currency risk is minimised by frequent repatriation of excess foreign currency funds to Sterling. The Group does not hedge foreign currency cash flows. At the statement of financial position date the Group's exposures to foreign currencies is not considered material.

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

The sensitivity of the Group to the currency risk inherent in investments held to cover financial liabilities under investment contracts is incorporated within the analysis set out in 21(a) above.

At the statement of financial position date the proportion of non-cash financial investments by currencies other than Sterling is 1.5% (2016: 1.6%).

21.2 Credit risk
Credit risk is the risk that the Group is exposed to lower returns or loss if another party fails to perform its financial obligations to the Group. The Group has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

The clearing and custody operations for the Group's security transactions are spread across a number of different brokers and custodians. The Directors do not consider that there is a risk to the Group in respect of assets held supporting the unit linked investment contracts and as a consequence no quantitative disclosure has been included of this.

The Group has an exposure to credit risk in relation to its deposits with credit institutions. To manage these risks, deposits are made in accordance with an established policy.

At the statement of financial position date, an analysis of the Group's own cash (excluding cash held for the benefit of deposit contract holders) and cash equivalent balances and liquid investments was as follows:

	2017	2016
	£'000	£'000
Short term deposits with credit institutions	62,082	73,438
Cash at bank	34,829	26,663
	96,911	100,101

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

21. FINANCIAL RISK MANAGEMENT (continued)

The Group invests General Cash in accordance with guidelines approved by the Board. All new deposit takers must be approved by the Board. Existing deposit takers are reviewed on a regular basis including their long term credit ratings. While no minimum rating is specified the deposit takers will have Moody's long term ratings of A2 and above. Additionally, maximum counterparty exposure limits, minimum numbers of deposit institutions and maximum deposit time periods are defined in the guidelines and monitored on an ongoing basis.

"General Cash" comprises shareholder cash, un-invested premium and pooled cash supporting the Portfolio and Funds General Transaction Accounts.

21.3 Liquidity risk

Liquidity risk is the risk that the Group, though solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost. The Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives.

The Group's objective is to ensure that it has sufficient liquidity over short-term (up to one year) and medium-term time horizons to meet the needs of the business. This includes liquidity to cover, amongst other things, new business costs, planned strategic activities, servicing of equity capital as well as working capital to fund day-to-day cash flow requirements.

Liquidity risk is principally managed in the following ways:

- Assets of a suitable marketability are held to meet contract holder liabilities as they fall due.
- Forecasts are prepared regularly to predict required liquidity levels over both the short- and medium-term.

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

21. FINANCIAL RISK MANAGEMENT (continued)

21.4 Undiscounted contractual maturity analysis

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

	2017	2016
Financial Assets		
Maturity within one year	**£'000**	**£'000**
Debtors and receivables	14,260	19,790
Deposits with credit institutions	46,383	48,557
Maturity from one to five years		
Debtors and receivables	79	54
Maturity over five years		
Debtors and receivables	-	-
Total financial assets with a maturity profile	**60,722**	**68,401**
Cash and cash equivalents	50,528	51,544
Other investments	10,181	-
Investments held to cover linked liabilities under investment contracts	9,705,040	9,283,464
Modified Coinsurance Account	777,232	796,863
Total financial assets with no maturity profile	**10,542,981**	**10,131,871**
Non-financial Assets		
Acquired in-force business	156,650	174,893
Deferred origination costs	3,044	1,058
Property, plant and equipment	329	500
Intangible fixed assets - software	81	122
Total non-financial assets	**160,104**	**176,573**
Total Assets	**10,763,807**	**10,376,845**

There is no significant difference between the value of the Group's assets on an undiscounted basis and the statement of financial position values.

Assets held to cover financial liabilities under investment contracts are deemed to have a maturity of up to one year since the corresponding unit linked liabilities are repayable and transferable on demand. In certain circumstances the contractual maturities of a portion of the assets may be longer than one year, but the majority of assets held within the unit linked funds are highly liquid. The Group actively monitors its fund liquidity.

21. FINANCIAL RISK MANAGEMENT (continued)

21.5 Fair value estimation

The assets held to cover linked liabilities under investment contracts are as follows:

	2017	2016
	£'000	£'000
Deposits	406,829	490,098
Cash and cash equivalents	36,039	37,190
Discretionary managed portfolios	5,572,181	5,281,587
Other assets – analysed below	3,689,994	3,474,589
	9,705,040	**9,283,464**

Assets held on behalf of investment contract holders are subject to market risk, including price and foreign exchange risk, credit risk, liquidity risk and funding risk. Any change in the value of these assets is offset by a corresponding change in the value of investment contract liabilities. The risk is borne in full by the contract holders.

IFRS 13 requires the Group to classify fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring that fair value. The hierarchy is as follows:

- **Level 1:** fair value is determined as the unadjusted quoted price for an identical instrument in an active market.
- **Level 2:** fair value is determined using observable inputs other than unadjusted quoted prices for an identical instrument and that does not use significant unobservable inputs.
- **Level 3:** fair value is determined using significant unobservable inputs.

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

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

Level 2 financial instruments are mainly listed corporate bonds, medium term notes (MTNs), structured products in inactive markets and collective investment schemes, external life and managed portfolios with other than daily dealing frequencies. These have generally been classified as Level 2 as the prices provided by the third party sources do not met the definition of Level 1 as they include inputs which are not based on inputs which are readily observable.

Level 3 financial instruments include interests in private equities and other investments funds that have been illiquid, suspended or in liquidation.

21. FINANCIAL RISK MANAGEMENT (continued)

The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where the Directors determine that there is no active market for a particular financial instrument, fair value is assessed using valuation techniques based on available, relevant, information and an appraisal of all associated risks. This process requires the exercise of significant judgement on the part of the Directors.

The following tables show an analysis by fair value hierarchy of other assets.

As at 31 December 2017:

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Equities and exchange traded funds	35,018	34,517	501	-
Collective investment funds	3,324,788	3,255,337	57,431	12,020
Fixed interest securities	-	-	-	-
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
	3,689,994	**3,289,854**	**386,916**	**13,224**

As at 31 December 2016:

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Equities and exchange traded funds	11,226	11,224	-	2
Collective investment funds	3,249,825	3,168,875	64,353	16,597
Fixed interest securities	237	-	237	-
External life funds	144,394	-	144,394	-
Managed portfolios	31,358	-	31,358	-
Structured products and MTNs	36,493	-	36,493	-
Other including private equities	1,056	-	-	1,056
	3,474,589	**3,180,099**	**276,835**	**17,655**

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 Group has a general policy of no further investment into a Level 3 instrument. The Level 3 investments in respect of illiquid, suspended or liquidating funds and private equities as at 31 December 2017 were £13,224,000 (2016: £17,655,000). Any significant movements during the period will be realisations.

21. FINANCIAL RISK MANAGEMENT (continued)

Only a small proportion of the assets are valued at a fair value derived using unobservable Level 3 inputs. The majority of these are valued using valuations obtained from external parties which are reviewed internally to ensure they are appropriate. The Group has limited access to the key assumptions and data underlying these valuations and most of these investments are in suspended funds or funds in liquidation for which any changes in valuation is derived from realisation of underlying assets therefore no sensitivity analysis has been presented.

The application of the three tier analysis of invested assets has not been applied to discretionary managed portfolios. This is 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. The direct market risk is borne by the contract holders.

For discretionary portfolios, which represent groups of policyholder assets where the power to make investment decisions has been delegated to an approved discretionary manager (these are termed “Externally Managed Contracts” or “EMCs”), Management believe that the appropriate valuation technique is to use the valuation provided by the External Manager (which may not be at the year end, due to timing delays in receiving information from them). Whilst this may mean that different prices are used for the same assets (those held by the Group on behalf of contract holders directly, against those held within different EMCs which may use different price sources), this is considered to be appropriate in the circumstances and maximises the use of relevant observable inputs - the External Managers’ statements.

Due to the unit linked nature of the contracts administered by the Group, any change in the value of financial assets held to cover financial liabilities under those contracts will result in an equal and opposite change in the value of contract liabilities. The separate effect on financial assets and financial liabilities is included in Gains on investments and Changes in provisions for investment contract liabilities, respectively, in the statement of comprehensive income.

22. CAPITAL MANAGEMENT

It is the Group’s policy to maintain a strong capital base in order to:

- satisfy the requirements of its contract holders, creditors and regulators;
- maintain financial strength to support new business growth and create shareholder value; and
- match the profile of its assets and liabilities, taking account of the risks inherent in the business.

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

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

There has been no material change in the Group’s management of capital during the period and the Group has capital in excess of the minimum solvency requirement at the statement of financial position date.

Utmost Limited is required to maintain a certain margin of solvency by the Isle of Man Regulator. This is calculated as the higher of £500,000 and 0.25% of the actuarial valuation of liabilities to policyholders net of reinsurance. The solvency requirement at 31 December 2017 was £26,231,000 (2016 £25,239,000). The excess over the minimum margin is £55,855,000 (2016 £47,596,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. CAPITAL MANAGEMENT (continued)

Utmost Trustees Solutions Limited is required to meet a number of minimum requirements in respect of share capital, net tangible assets and liquid capital by the Isle of Man regulator. Utmost Trustees Solutions Limited is also required to submit an annual Financial Resources Statement. At the statement of financial position date the minimum share capital requirement is £25,000 (2016: £25,000) the minimum net tangible asset requirement is £28,000 (2016: £28,000) and the minimum liquid capital requirement is £146,000 (2016: £147,000). Utmost Trustees Solutions Limited has complied with and exceeded these requirements.

The Group has complied with all externally and internally imposed capital requirements throughout the period. The capital, defined as total equity, is available to meet the regulatory capital requirements without any restrictions. The Group's other assets are largely investment in Oaktree European Senior Loan Fund (note 14), cash and cash equivalents and deposits with credit institutions.

23. 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.

Other investments comprise £277,530,000 (2016: £144,394,000) of investments reassured to the Friends Life Assurance Society With Profit Fund and the Friends Life With Profit Fund. These funds were originally invested by the Company in the with profits funds managed by the AXA UK Group. Following the transfer of these funds to those managed by the Friends Life, part of the AVIVA Group, the investments are now held under a reassurance contract and are managed by Friends Life at the valuation as at 31 December 2017. The Company holds a floating charge over the assets of Friends Life as additional security on these investments.

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

	2017	2016
	£'000	£'000
Fixed interest securities	-	237
Deposits	406,829	490,098
Ordinary shares and funds	3,412,464	3,329,958
Discretionary managed portfolios	5,572,181	5,281,587
Other investments	277,530	144,394
Cash and cash equivalents	36,036	37,190
	9,705,040	**9,283,464**

Included in the analysis above are investments of £13,224,000 (2016: £17,655,000) which have restricted liquidity through suspensions, liquidations or by the nature of assets the fund invests into.

24. TECHNICAL PROVISION FOR LINKED LIABILITIES

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

	2017 £'000	2016 £'000
Balance at 1 January	10,097,167	-
Acquired on acquisition	-	10,161,765
Deposits to investment contracts	389,759	78,639
Withdrawals from investment contracts	(762,642)	(241,005)
Fees and charges deducted including third party charges	(43,177)	(8,001)
Commissions and rebates receivable	5,246	530
Change in technical provision for linked liabilities	805,251	104,816
Third party compensation applied	196	423
Movement in the year/period	394,633	10,097,167
Balance at 31 December	**10,491,800**	**10,097,167**

25. INVESTMENTS IN SUBSIDIARIES

	Company 2017 £'000	Company 2016 £'000
Balance at 1 January	183,057	-
Acquisitions during the financial period	-	183,057
Distributions from pre-acquisition reserves	(6,000)	-
Balance at 31 December	**177,057**	**183,057**

26. SHARE CAPITAL

CONSOLIDATED AND COMPANY

	Number	2017 £'000	2016 £'000
Authorised			
Ordinary shares of £1 each	**183,080,002**	**183,080**	**183,080**
Allotted, issued and fully paid			
Ordinary shares of £1 each	**183,080,000**	**183,080**	**183,080**
Allotted, issued but not yet paid			
Ordinary shares of £1 each	**2**	**-**	**-**

27. NET CASH FLOWS FROM OPERATING ACTIVITIES

Cash generated from operations:

Consolidated	2017 £'000	2016 £'000
Profit before taxation	**930**	**72,036**
Adjustments for		
Gain arising on bargain purchase	-	(72,719)
Profit on disposal of property, plant and equipment	(2)	(14)
Amortisation of acquired in-force business	18,243	3,998
Amortisation of intangible fixed asset	57	9
Depreciation of Property, plant and equipment	164	27
Change in deferred origination costs	(1,986)	(1,058)
Net acquisition of financial investments	357,759	162,707
Net fair values losses/ (gains) on financial investments	(757,969)	(101,587)
Net foreign exchange losses/ (gains)	(1,554)	136
Change in investment contract liabilities	394,633	(64,598)
Change in operating receivables	7,679	8,779
Change in operating payables	2,398	(7,493)
Net cash flows from operating activities	**20,352**	**223**

Company	2017 £'000	2016 £'000
Profit before taxation	**-**	**-**
Net cash flows from operating activities	**-**	**-**

28. 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 on risk of loss from lapse and surrenders.

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

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

A new 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:

	2017	**2016**
	£'000	**£'000**
Balance at 1 January	796,863	-
Acquired on acquisition	-	938,037
Deposits to investment contracts	88,835	41,280
Withdrawals from investment contracts	(68,491)	(151,712)
Attributable investment income	29,197	522
Attributable net loss on investments	(63,103)	(29,653)
Policy charges	(5,955)	(1,603)
Attributable expenses and charges	(114)	(8)
Balance at 31 December	**777,232**	**796,863**

29. IMMEDIATE AND ULTIMATE PARENT COMPANIES

The Company is incorporated in the Isle of Man and is an indirect wholly owned subsidiary of LCCG UK Holdings Limited, a company incorporated in Great Britain and registered in England and Wales. The ultimate parent company which contains a majority controlling interest in the group is recognised by the Directors as OCM LCCG2 Holdings Limited, a Cayman incorporated entity.

The parent undertaking of the largest and smallest group which includes the Company and for which group financial statements are prepared is Life Company Consolidation Group (No 2) Limited and LCCG Holdings (No 5) Limited respectively. The financial statements of Life Company Consolidation Group (No 2) Limited and the Company are available from www.lccgl.co.uk.

Related parties

Transactions with key Management personnel

Key Management personnel comprise persons who, at any time during the financial period ended 31 December 2017, were members of the Board of Directors and certain members of Management. Key Management compensation for the period includes salaries and short term benefits of £518,000(2016: £50,000), Non-Executive Directors' fees of £75,000 (2016: £12,000) and post-employment benefits of £46,000 (2016: 7,000).

Costs of acquisition

Costs incurred in acquiring the subsidiaries in 2016 totalling £1,162,000 were borne by related companies, primarily LCCG Holdings (No 4) Limited. These related companies are under common ownership and control.

Balances with related parties

	2017	2016
	£'000	£'000
Receivables from related parties		
Utmost Ireland DAC	67	-
Payables to related parties		
LCCG UK Holdings Limited	(37)	-

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

The payables to related parties arise from a fee levied equal to the amount of tax relieved through losses available in the direct parent company utilised (see note 5). The balance is interest free and there is no set repayment date.

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30. 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.

A subsidiary, Utmost Trustee Solutions Limited, acts as Trustee on two loan trusts with a combined loan value of £151,000 (2016: £167,000). In the event of any ultimate default on the loans, the Trustees may be held liable for any shortfall between the outstanding amounts due on the loans and the value of the policies concerned. At the year end there was a surplus (2016: surplus) on both policies between the outstanding amounts due on the loans and the current value of these policies. These two policies are active at year end and are continually monitored.

The Group does not offer investment advice to its policyholders. All investment decisions are made either by the policyholders directly or by advisers appointed by the policyholders, and all of the investment performance risk lies with policyholders. 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 2017 and 2016 there are no outstanding claims against the Group, however it is possible that future claims could be made about past investment performance. If such claims were made and substantiated, it is possible that an adverse resolution could have a material impact on the Group's financial statements.

31. FINANCIAL COMMITMENTS

The Group has a 21-year lease expiring 13 September 2020. This lease covers office space at Royalty House Walpole Avenue Douglas. The lease expenditure charged during the period is £511,000 (2016: £71,000).

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

	2017	2016
	£'000	£'000
Not later than one year	511	426
Later than one year and no later than five years	869	1,151
Later than five years	-	-
	1,380	**1,577**

During 2017 the Group entered into an agreement to purchase computer equipment and support services in 2018 for £558,000.