

Utmost Life and Pensions Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

2021



Contents

Corporate information	2
Strategic Report	3
Report of the Directors	16
Independent Auditors' Report	19
Profit and Loss Account	26
Statement of Comprehensive Income	28
Balance Sheet	29
Statement of Changes in Equity	31
Notes to the Financial Statements	32

Corporate Information

Directors

Chairman	Michael J Merrick
Chief Executive	Stephen Shone
Chief Financial Officer	Jeremy S Deeks
Independent Non-Executive Directors	Duncan A Finch Lord Daniel W Finkelstein Susan P Kean (resigned 31 October 2021) Vicky Kubitscheck (appointed 26 January 2022) Feilim Mackle
Group Non-Executive Directors	A Paul Thompson Ian G Maidens
Secretary	C Mark Utting

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
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Strategic Report

The Directors present the Strategic Report of Utmost Life and Pensions Limited ("ULP", "the Company") for the year ended 31 December 2021. The Directors have prepared the Financial Statements in accordance with the UK financial reporting framework, FRS 102 and FRS 103.

Executive summary

Key highlights for 2021 include the following:

- Completing the final stages of the integration, delivering a much more efficient operating model, and preparing the business for future growth.
- Substantial changes to systems in 2021, including a move away from an expensive legacy mainframe system and the introduction of a new image and workflow system.
- Developing MyUtmost, initially for ULP's former individual Equitable customers who held UK policies, which is due to be launched in the summer of 2022. More details of MyUtmost are included below.
- Widening the availability of Utmost Drawdown, launched in 2020, to former Reliance customers.
- Launching our Sustainability Strategy in March 2021 and further details are below. As part of this, we have committed to halving the carbon emissions across our shareholder investments by 2030 and to be net zero across our shareholder investments by 2050.
- Successfully retaining both former Equitable and former Reliance individual customers.
- Maintaining a strong solvency position throughout 2021, beginning the year with an estimated solvency coverage ratio of 176%, and ending it with an estimated solvency coverage ratio of 184%, having also paid dividends of £55m to Utmost Group in the year.

We remain in a strong and resilient position, able to meet our capital requirements and ready for the next acquisition.

Further detail regarding the activities of 2021 are included in the Review of Business section below.

Our purpose and strategy

We purchase long-established life insurance businesses and books. We provide a safe home for their existing customers and policies, due to our strong capital position and efficient operational management. Built upon the combined strengths of trusted sector expertise, secure financial foundations and commitment to customer focus we are here to help every customer in our care achieve future peace of mind with their life and pension policies.

Our vision is to become a successful medium-sized UK life and pension consolidator. We acquired the business of Reliance Mutual Insurance Society in April 2018 and Equitable Life Assurance Society ("ELAS"; "Equitable Life") in January 2020. In conjunction with Utmost Group Plc ("UGP"), our ultimate UK holding company, we will continue to look for and evaluate further acquisition opportunities.

Looking to the future, we believe that significant opportunities exist as UK Life and Pensions companies continue to consider their operating models, and we are well-placed to provide a variety of solutions to meet these needs.

Our business model

We are able to achieve economies of scale, pool risk and maintain capital strength due to our experience and expertise, so we can continue to provide accessible solutions to customers, and we can create value for our stakeholders.

Review of the Business

Throughout 2021, we have actively executed our strategy, primarily through a combination of continuing to develop our customer proposition and experience, finalising the integration activities following the acquisition of Equitable Life in 2020, as well as delivering a more efficient operational model.

Strategic Report continued

Review of the Business continued

Developing MyUtmost

We are developing a new online service for our customers called "MyUtmost" which we are aiming to launch to our former individual UK-policyholder Equitable Life customers in mid-2022. It will provide customers with an additional channel of communication with the opportunity of being able to perform a variety of tasks including;

- viewing up-to-date policy values and policy details;
- sending and receiving secure messages;
- viewing annual statements;
- updating all personal details.

We are also working to widen availability of this service to former Reliance customers.

The successful rollout of MyUtmost is also consistent with our Sustainability Strategy, helping to reduce the usage of paper and the carbon footprint of sending out customer information by post.

Systems Development

We also completed a number of substantial changes to our systems in 2021, including the roll-out of a new Image and Workflow system to be used by our Customer Services department. The successful conclusion of this implementation allowed us to move away from our reliance on an expensive legacy mainframe system and to utilise server-based infrastructure going forward. These two initiatives were completed in conjunction with our strategic IT partner, Atos.

Investment Performance

The majority of former Equitable Life customers continue to be invested in our Age Related Strategy. For customers in the Age Related Strategy, their monies were initially invested in a Secure Cash Fund for the first six months of 2020 and then transferred into Unit-Linked Managed Funds managed by JP Morgan Asset Management ("JPMAM") through the second half of 2020 in weekly tranches with the choice of which Managed Fund determined by their age.

These funds have continued to perform well through the second half of 2020 and through 2021. For example, customers invested in the Multi-Asset Moderate Fund (where the majority of our customers are invested) from July 2020 to December 2021 have seen growth in their funds in excess of 23%. The majority of former Reliance customers who have a unit-linked policy are also in the Multi-Asset Moderate Fund and so have also benefitted from good performance.

Former Equitable Life policyholders who already had an existing unit-linked policy at the time of the transfer to ULP were invested in a fund range provided by Abrdn (formerly known as Aberdeen Standard Investments). Following extensive discussions during 2021, we have decided to retain this business with Abrdn. Performance of the Abrdn funds have been above the benchmarks set for them in 2021.

The non-linked assets of ULP continue to be managed with our strategic partner, Goldman Sachs Asset Management ("GSAM"). GSAM have continued to perform effectively throughout 2021 in providing a suitable range of assets to match against our non-linked liabilities.

Utmost Portfolio Management Limited, a fellow subsidiary of UGP, was appointed as investment manager to manage the shareholder assets of the Company in 2020. This arrangement went live in January 2021 and has proved effective in providing performance above benchmark throughout 2021.

Product Development and Marketing

In March 2020, the Company launched a Flexible Drawdown proposition available to former Equitable Life customers. New business written in 2021 included the new Flexible Drawdown product and annuities sold to existing customers on the vesting of their pension savings contracts (including contracts with guaranteed annuity options). In 2021, we enhanced our proposition by also offering former Reliance customers access to our Flexible Drawdown proposition.

Strategic Report continued

Review of the Business continued

Retention

Although the underlying guarantees on Equitable Life policies were exchanged for uplifted fund values as a result of the Scheme of Arrangement in 2020, we are pleased to report that we have retained the vast majority of Equitable Life individual customers with the lapse rate in 2021 lower than our long term assumptions set in 2020 and allowing us to revise this assumption in 2021. We have seen that trend continue into 2022. Overall, ULP continues to maintain a high customer retention rate, helped by the launch of Flexible Drawdown.

Sustainability Strategy

ULP is committed to making a positive difference. Our responsibility to our customers combines with a sense of responsibility in all our corporate actions to the environment, to our people and to the wider society in which we operate in order to maximise the positive impacts we can create. As well as being an overall positive for the society, this also makes business sense in keeping with our long-term vision.

Our Sustainability Strategy is defined along four pillars, which are underpinned by policies and targets, recognising that sustainable business encompasses a range of topics. These four pillars are:

Customer Outcomes
Responsible Investments
Environmental Impact
Community Engagement

We seek to communicate transparently with our customers, providing good customer service and our proposition is continually assessed to ensure suitable outcomes. More information is contained below

Responsible investments - we recognise the importance of our role as a long-term allocator of capital. Sustainable investing is a key issue facing our industry and wider society, and an important factor to our customers when allocating funds. ULP takes its responsibility seriously and is committed to taking a pro-active approach to sustainable investing.

ULP has committed to reducing the carbon emissions in its shareholder investment portfolio. With UGP we have set a target to halve the carbon emissions in our shareholder investment portfolio by 2030, and to be carbon net zero in our shareholder investment portfolio by 2050, in line with the ABI Climate Change Roadmap.

UGP have also become a signatory to the UN's Principles of Responsible Investment initiative ("PRI"). The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance ("ESG") factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

We are committed to taking a proactive approach to sustainable investing and we will continue to embed it across our business – in our strategy, in our investments and in our ongoing stewardship. Becoming a signatory to the PRI demonstrates our commitment to this and encourages investments that contribute to prosperous and inclusive societies for current and future generations.

More information in regards to Pillar 3 (Environmental Impact) and Community Engagement (Pillar 4) are set out in the Environment and Community sections below.

More information on this topic is also provided within our Task Force on Climate-Related Financial Disclosures ("TCFD") report below.

Our Stakeholders

Customers

In line with our mission statement, customer interests are at the forefront of our business model. Our strategy, to consolidate existing books of business, results in servicing long-standing customers. We do this by focusing on meeting their needs, delivering on the commitments made to them and enhancing, with sound financial management and capital security, benefits to them, where possible.

A key objective for us is to achieve good customer outcomes.

Strategic Report continued

Our Stakeholders continued

We consistently monitor asset performance, including that of the unit-linked funds, particularly in relation to the Multi-Asset funds operated by JP Morgan Asset Management (JPMAM) and the Abrdn Managed Fund, where the majority of the unit-linked business is invested.

Customer Service will also be enhanced through the launch of "MyUtmost" in 2022 as detailed above.

People

Our people play a pivotal role in achieving our purpose, so are at the heart of our business. In 2021, we have continued to concentrate on caring for our staff during the challenges resulting from the COVID-19 pandemic, completing the integration activities, and ensuring that we have the skills to grow our business.

As highlighted above, a key area of focus for the Directors and senior management this year was the ongoing situation resulting from the COVID-19 pandemic, including ensuring staff were able to work successfully from home and ensuring their continued mental and physical well-being. We set up an initiative to train a number of our people as "Mental Health First Aiders" who have helped provide support to colleagues during 2021. We did not place any employees on the UK Government-initiated "furlough" schemes and made sure employees had the necessary equipment to work from home successfully. We also undertook a number of surveys during 2021, particularly focussing on these aspects, in order to take action on any further points identified.

We are committed to diversity and equality, and are dedicated to empowering people to develop professionally and personally. We undertake, in conjunction with Utmost Group Plc (UGP), community volunteering initiatives in order to make a positive difference.

We believe in open and fair communication with employees and, during the year, delivered this through a combination of all employee briefings, regular team meetings and regular performance management discussions.

Strategic Partners

We utilise the support of a number of strategic partners to deliver our services to our customers. It is important that we establish and maintain strong, robust working relationships with our partners in order to preserve our existing high standard of delivery.

We have an internal third party framework and conduct regular reviews of all key suppliers.

Regular governance meetings were held throughout the year with each key strategic partner, where scorecards were maintained and monitored.

An agreement was signed in December 2019 with Atos to migrate, following the acquisition, the former Equitable's IT systems and develop a more cost efficient set of IT operating systems. The project to transfer the existing policy administration systems from a mainframe environment to a server environment completed successfully in the first half of 2021. This last step provides the final element of the significant synergies.

Communities

We strive to contribute to all of the communities in which we operate through local volunteering and fundraising projects, as we recognise the importance of doing so and the value that it adds.

UGP operates a matching donation scheme, the Utmost Challenge, providing the opportunity for employees across the Group to get extra support for their favourite charities. Matched donations of up to £200 can be provided either to match or top-up personal fundraising efforts.

Our Environment

Through our Sustainability Strategy, we have made a number of commitments to reduce carbon emissions through our shareholder investment portfolio as detailed above in the Sustainability Strategy.

Further, Utmost Group has achieved a carbon net zero status in its operations. Carbon net zero is where the carbon emissions caused by our organisation are balanced out by funding an equivalent amount of carbon savings elsewhere in the world.

Strategic Report continued

Our Stakeholders continued

The Group has achieved its carbon net zero status through a Tree Buddying Scheme in partnership with Carbon Footprint Limited. As part of the project, the Group has arranged to plant a tree for each of its employees. A tonne of carbon will be offset for each tree planted through Carbon Footprint Limited's verified carbon standard approved carbon credits, where Carbon Footprint Limited protects trees in the Brazilian Amazon through avoided deforestation. We intend to continue to measure and offset our operational carbon emissions in future years.

Regulators

We are subject to regulation across all the areas in which we operate and we maintain an open and collaborative approach with all our regulators. Regulators were consulted throughout 2021, including the ongoing uncertainty created by the COVID-19 pandemic, details of reassurance arrangements and the proposed dividends to UGP.

Shareholders

We engage with the shareholder's representatives through regular dialogue with the Group Non-Executive Directors and the ULP CEO is a member of the Utmost Group Plc Executive Committee.

Key Performance Indicators

We use a number of financial metrics to help the Board and senior management assess performance against our strategic vision. These metrics are reviewed regularly to ensure that they remain appropriate. Key Performance Indicators (KPIs) reflect the vision and mission of our Company in respect of profitability, growth and financial strength. The most important indicators are shown in the table below. The KPIs at 31 December were as follows:

	2021	2020
Solvency coverage ratio*	184%	176%
Dividend and interest**	£55m	£44m
Movement in Economic value***	£41m	£146m

*Estimated

**This relates to dividends and interest paid to ULPH. No interest was paid in 2021 as the loan from Utmost Life and Pension Holdings was repaid in 2020.

*** Movement in Economic Value is calculated by adjusting for dividend and interest payments to date. The 2020 movement includes the value created by the acquisition of Equitable Life Assurance Society.

The Solvency Coverage Ratio at 31 December 2021 is stated after the payment of a £55m dividend during the year (2020: after £40m dividend during the year).

The increase in Economic Value reflects the integration activities undertaken during 2020 and 2021, including the migration of work to Aylesbury, the closure of Tunbridge Wells office, the reduction in cost base and the efficiencies generated from the Equitable Life acquisition on 1 January 2020.

Key Results and Analysis of Performance

The Profit and Loss Account on pages 26 and 27 reflects an improvement from a restated pre-tax profit of £50.0m in 2020 to £71.3m in 2021. The key drivers of this net change of £21.3m were as follows:

- Change in Expense Assumptions;
- Change in Mortality/Longevity Assumptions;
- Change in Persistency Assumptions;
- Run off of the in-force book, releasing reserves; and
- Increase in Unit-Linked book of business driving an overall increase in Annual Management Charges as a result of improved market conditions.

The Statement of Changes in Equity on page 31 reflects an increase in the shareholders' equity from a restated £216.7m to £219.5m driven by £71.3m pre tax profit for the year, offset by the payment of two dividends, totalling £55m, to UGP. Amounts owed between group entities are presented in Notes 17 and 28.

Strategic Report continued

Capital Management

Capital is determined and monitored for the Company on the regulatory basis as stipulated in the PRA rulebook.

This primarily focusses upon Own Funds and Solvency Capital Requirement ("SCR") of the Company. The SCR was monitored on a monthly basis and the impact of market volatility is monitored daily. This ensures that adequate capital requirements are met.

The Company's capital position is formally reviewed and approved on a quarterly basis by delegated authority from the Board of Directors to the management and the solvency position monitored by the Asset and Liability Committee ("ALCo").

The total available Own Funds for the year end 31 December 2021 were £290.7m (2020: £306.3m). The Company had a SCR of £157.6m at year end 2021 (2020: £173.9m), with an estimated Solvency Coverage Ratio of 184% (2020: 176%).

The Company seeks to have a Solvency Capital Ratio (Available Financial Resources/SCR) in excess of 135% at all times, and targets a Solvency Capital Ratio of at least 150% immediately after a payment of a dividend or loan interest.

Financial Instruments

The Company has a low appetite for liquidity risk and a medium appetite for market and credit risk driven by investment policy of the assets adopted. The fixed-income assets held are matched to the liabilities by duration and are sterling denominated, investment grade securities. The ALCo provides oversight to the monitoring, systems and controls required to manage and control the risks, and reported to the Board on a quarterly basis, within a risk based capital framework.

The external environment

We anticipate the following long-term trends facing our industry, resulting in challenges and opportunities for which we are prepared:

- Political and macroeconomic: Continued focus on interest rates and taxation changes to enable governments to recover the support provided during the COVID-19 pandemic;
- Regulation: Introduction of IFRS 17 accounting regulations, which impacts the Company's reporting to its ultimate UK parent, and potential amendments to the Solvency II regime following the ongoing PRA review post departure from the EU;
- Advancements in technology: Including the speed/convenience of services and the ethical use of data; and
- Continued focus on climate change initiatives.

Principal Risks and Uncertainties

The Company operates within a dynamic business environment, which is continually influenced by the external environment, including economic, political and industrial, competitive, demographic, health/lifestyle, legal and regulatory factors. By operating within this environment, the Company is exposed to risks. Part of the Company's success is dependent on managing these risks appropriately.

The Company's Enterprise Risk Management ("ERM") Framework provides the framework for the management of these risks and supports attainment of the Company's strategic objectives. The ERM Framework is designed to support the identification of all material risks, including medium and long-term risks. The ERM Framework further sets out the Company's overall strategy towards and appetite for risk, the risk governance and management processes, and the Company's approach to risk classification, monitoring and analysis.

As part of the ERM Framework mechanisms, risks are quantified and are subject to stress test and scenarios analysis. Non-quantifiable risks are fully covered within the framework and are monitored and managed through the Company's risk reporting and risk governance structures.

Strategic Report continued

Principal Risks and Uncertainties continued

The four principal risks to the business are:

Market risk	Primarily in the form of equity, interest rates and currency risks
Underwriting risk	Primarily in the form of expense, longevity and persistency risks and the take up of guaranteed options
Credit risk	Primarily from spread risk on corporate bonds and counterparty default risk on risk mitigating contracts e.g. reinsurance.
Operational risk	The Company has identified seven operational risk categories, as follows:- Internal Fraud, External Fraud, Employment Practices, Damage to Physical Assets, Business disruption and system failures, Client/ Products/ Business practices and Execution/ Delivery/ Process management

COVID-19

2021 continued to be dominated by the COVID-19 pandemic and ensuring that the risks from financial market volatility and the operational impacts of serving our policyholders were managed appropriately. We have been able to provide all services to our customers and continued to work with our outsourcers to ensure continuity of service. We have followed all Public Health advice measures to ensure the health and well-being of staff.

Market and Underwriting Risks

Looking forwards, equity and persistency risk associated with unit-linked business are large financial risks because they can reduce the main source of future income – future annual management charges ("AMC"s). Persistency risks also reduce the number of policies over which to spread overhead costs.

A key factor that will affect future equity performance will be the path of the global recovery to the COVID-19 pandemic, which will be dependent on any new variants and the subsequent response to these. We will continue to monitor the impacts of the pandemic and manage the risk appropriately.

Inflationary pressures are expected as a near term risk although for ULP this is limited to inflation linked benefits (primarily funeral plans and inflation linked annuities) and expenses. We aim to manage the risk on inflation linked benefits through asset and liability matching to ensure that appropriate assets are held.

After persistency risk, the next largest underwriting risk is expense risk. As a closed book consolidator, managing expenses is critical to the success of ULP due to fixed expenses becoming a larger proportion of total expenses as policies run-off. The business model relies on ULP continuing to obtain and efficiently integrate a steady stream of acquisitions. In the absence of future acquisitions, there is a risk that diseconomies of scale will require additional cost savings to be made, which may result in a subsequent challenge to retain top talent. A key part of the ongoing strategy will be to find further opportunities to improve the Company's efficiency and reduce costs in an appropriate and controlled manner.

The company is also exposed to spread risk from its corporate bond holdings and defaults from counterparties, such as reinsurers. These are managed through the regular review of assets with investment managers and the monitoring of credit ratings of reinsurers.

Operational Risks

Cyber risk is the risk of financial loss, disruption or reputational damage due to breaches of or attacks on ULP's information technology ("IT") systems. The risks from a cyber-attack have continued to increase in 2021 with hackers becoming increasingly more sophisticated. Any failure of ULP's IT systems could have a large impact on operations. To manage this risk, the Company ensures that staff are made aware of risk areas (e.g. phishing emails) and ensures that systems are regularly kept up to date with security software. In addition, the Company outsources IT services to Atos who have a dedicated security team and a Security Operations Centre. In the event of a cyber-attack the Security Operations Centre would manage investigation and resolution of a cyber-attack.

Strategic Report continued

Principal Risks and Uncertainties continued

Due to the industry in which the Company operates, ULP is exposed to the risk of changes in regulation which could have an adverse impact on expenses through complying with any significant change. The Company has in place processes to conduct regular horizon scanning to ensure that potential changes can be understood and acted upon in a timely manner.

Climate Change and wider ESG Risks

Over the last year the expectations with regards to the management of climate change risk and wider ESG risks has continued to increase. We continue to develop our understanding of these risks by working with UGP to develop our risk management framework which includes work on scenario analysis.

The Company has been actively working to ensure that climate risk is integrated effectively within the Company's risk management. This includes:

- Effective management and oversight from the Board
- Developing a Climate Change Risk Management Roadmap framework to position the approach to considering climate-related risks, in the context of the RM framework
- Embedding controls into relevant processes covering risk identification, assessment, acceptance or approval, monitoring, and reporting through the Company's Risk Control Self-Assessment process.
- The existing set of Policies has been enhanced through the addition of an Investment ESG Policy which includes policy objectives for ESG scores.
- We have taken positive steps in assessing the sensitivity of the Company's financial positions to climate transition risk based on results from scenario analysis.

The Company will continue to monitor closely the significant advisory, legal, and regulatory developments in respect of climate change risk and related disclosures.

Brexit

The Company, together with its subsidiary Equitable Life, has dealt with the regulatory changes that were introduced following the end of the Brexit transition period. The changes have had little operational and policyholder impact. There remains uncertainty on the degree of continuing equivalence between UK and EU financial services regulation. A significant divergence could lead to greater market volatility and increase certain other risks. The impact of Brexit on Equitable Life will need consideration over the longer term. The Company believes that it has adequate mitigating controls and procedures in place to address these risk areas.

Russia/Ukraine Conflict

The Russia/Ukraine conflict, which has evolved over recent weeks, has added volatility to the global economy which is still recovering from the after effects of the COVID-19 outbreak. This conflict, and any other geopolitical risks which evolve over the coming months, could have significant impacts on the global economy.

Given our exposure to equity markets for our future income, any fall in the value of equity markets will reduce the value of annual management charges ("AMC's"). We will continue to monitor the impacts of the conflict and any other geopolitical risks in to ensure we remain resilient. JPMAM have confirmed that, as of the end of February 2022, they have no exposure to Russia and Ukraine within their Emerging Markets Fund, which is a building block of the Multi-Asset Funds. Our Non Profit funds have no direct exposure in Russia.

Strategic Report continued

Task Force on Climate-Related Financial Disclosures ('TCFD')

Climate change is the greatest risk facing us all. Around the world storms, floods and wildfires are intensifying and becoming more frequent, with severe impacts to homes and livelihoods.

To ensure that 'We do our utmost to help our customers achieve future peace of mind through our trusted sector expertise, secure financial foundations and customer focus' action is required to turn the tide on climate change. This report sets out ULP's progress on integrating the recommendations of the TCFD.

Governance

Appropriate climate change governance ensures that active oversight and management of climate change-related risks and opportunities is provided by the Board and Executive Management. ULP has given the CFO the regulatory responsibility for managing the risks from climate change on the Company.

The Board-established Risk and Compliance Committee and Investment Committee are regularly updated on developments on climate risk and actions taken by Investment Managers on addressing climate risks as part of the wider ESG agenda. The Board has also invited our Investment Managers to the Investment Committee to discuss their work regarding ESG matters.

At the Executive level, climate change is included within the Terms of Reference of the Asset and Liability Committee and there are climate-related training sessions across the Company.

ULP is a subsidiary of UGP. UGP sets the overall strategy and risk appetite for climate-related actions. ULP sets its own strategy and risk appetite while being mindful of UGP's overarching ambition. At a Group level, ULP takes an active part in the Group Sustainability Working Group and the Climate Steering Group, as detailed in the UGP TCFD report. The ULP Chief Risk Officer is a member of and attends both these Groups.

Strategy

As part of UGP, the Company's sustainability strategy is framed along four pillars as described in the Strategic Report. The Company has incorporated climate change and its sustainability strategy in to policies and frameworks. There are overriding Group standards for both shareholder and policyholder assets which direct and set minimum expectations to which the Company must adhere. ULP is in compliance with these Group standards.

Identification of Climate-Related Risk and Opportunities:

The Company is exposed to physical climate impacts, low carbon transition risks and potential opportunities. These are shown in more detail in the UGP TCFD report.

Impact of Climate-Related Risks and Opportunities on the Organisations Businesses, Strategy and Financial Planning:

The Company is building its capabilities regarding scenario analysis, following the progress of the 2021 Climate Biennial Exploratory Scenario (CBES) which explores the financial risks posed by climate change for the largest UK banks and insurers. The Company has carried out qualitative analysis of climate-related risks with investments considered to be the most material risk area.

Physical risks are more likely to impact over the medium- to long-term. Chronic physical risks such as increasing temperatures may impact mortality and morbidity, which may impact the assumptions used to value our liabilities.

There is exposure to transition risks arising from policy and legal changes, market and economic factors and the implications for our reputation. Policyholders may be exposed to transition risks depending on the nature of assets backing their policies. Policy and legal changes may impact the value of securities in certain sectors.

Strategic Report continued

Task Force on Climate-Related Financial Disclosures ('TCFD') continued

Without adequate response to the challenges posed by climate-related risk, the Company may face reputational damage and could see an increase in the policyholder lapse rate.

The Company is investigating the development of its investment proposition. As awareness of climate change increases we are considering ways to offer further options of sustainable funds to our policyholders.

Investment Strategy:

In considering climate change risk, the Company's investments can be divided into two main categories:

- Policyholder Investments – Our policyholders select investments from a range offered by the Company or defined by the policy terms. We continue to work closely with our Investment Managers who have developed their own proprietary methods of measuring and assessing climate risks. We have provided our policyholders with revised fund fact sheets from Morningstar which detail sustainability scores for each fund and these are available on our website.
- Shareholder Assets – The Company controls the investment allocation of the shareholder asset portfolios and has put in place a Pathway to Net Zero for these assets. The Company has set a target to be net zero by 2050 on these assets when measured by carbon intensity with a 50% reduction by 2030.

The Company does not operate any blanket sectoral exclusion policies as we do not believe that rapid total divestment is the optimal strategy for either limiting climate change, or other ESG impacts. Instead, through our Investment Managers and application of their Stewardship policies, we are working with companies who are making the transition to carbon net zero. The Group Standards are set such that companies who fail to make the transition will not part be part of our portfolio.

To further demonstrate our commitment, the Group became a signatory to the UN-supported Principles for Responsible Investment in January 2022.

Resilience to Climate Change:

Whilst the Company does not have significant exposure to policyholder investment risk as the business is predominantly unit linked with limited guarantees, the Company will be impacted by a reduction in Charges should the underlying investments reduce in value.

Risk Management

Process for Identifying and Assessing Climate Related Risks:

The Company has identified climate risk as one of its top Enterprise Risks and as such discusses this on a regular basis at Executive and Board level.

The risk to operations is low as the physical location and internal operations are not at high risk of climate related disruption. The nature of policyholder assets limits the exposure of the Company to climate-related risks.

However, there is the risk that a lack of action by investment managers could cause policyholder dissatisfaction, leading to disinvestment or lapse. Likewise, shareholder assets could lose value if the underlying companies do not make sufficient progress to net zero.

The Company is developing a climate risk framework to ensure consideration of climate risk is embedded across the business. The framework encourages each of the three lines of defence to consider climate risk in their business-as-usual operations.

Strategic Report continued

Task Force on Climate-Related Financial Disclosures ('TCFD') continued

Metrics and Targets

UGP and, therefore, the Company is committed to achieving net zero across its shareholder assets by 2050. A pathway has been set out to achieve net zero and the aim is to provide transparency on progress through regular reporting on key metrics, based on TCFD guidance and best practice, to demonstrate progress towards our goals.

Actions so far:

- The Company, through actions taken by Group, achieved a net zero operational status for 2020 through carbon offsetting. The company's carbon emissions were balanced out by funding an equivalent amount of carbon savings elsewhere in the world. Net zero carbon status was achieved through a Tree Buddying Scheme.
- The nature of the Company's operations limit the ability to take action. The office is multi-tenanted and utilities and common facilities are supplied by the landlord. Local measures over which the Company has control have been enacted. This includes removing single use plastic cups, recycling stations throughout the office, and all securely destroyed paper being recycled.
- During 2021, the Company undertook a clearance of archive papers and of unused office furniture and fittings. After secure disposal, all the paper is recycled. All of the office furniture and fittings have been reused or recycled and none of the items have gone to landfill.

Risk Appetite Monitoring

To support its risk appetite statement related to climate risk, the Company has developed metrics for climate risks that can be monitored on a regular basis.

These include:

- The use of third party ESG scores for its investments and the setting of Group Standards.
- Monitoring of policyholder enquiries and complaints.
- The sensitivity of the financial positions to climate related risks based on results from sensitivity and scenario analysis.

Taxation

As a proprietary life assurance company, the Company was required to pay UK corporation tax at two rates during 2021. Firstly, it was required to pay tax at the main UK corporation tax rate (currently 19%) on the profits earned by its shareholders from conducting life assurance business. Secondly, it was required to pay tax at the 'policyholder rate' - (currently 20%) on investment returns accruing to the benefit of the holders of certain categories of customers.

The Company's total tax charge in the year was £13.6m (2020: tax charge of £9.4m). The tax charge in the Technical account is comprised of a tax charge of £4.2m in respect of tax payable at the policyholder rate (2020 : tax charge of £1.0m) and a tax credit of £(0.1)m in respect of tax payable at the main UK corporation tax rate (2020: tax charge of £9.0m).

On 10 June 2021 the Finance Act 2021 was enacted, increasing the UK corporation tax from its current rate of 19% to 25% with effect from April 2023. The impact of the change in the tax rate was to increase the Company's deferred tax charge by £0.1m.

Section 172(1) statement and our stakeholders

We report here on how our directors have performed their duty under section 172 (s172) of the Companies Act 2006. S172 sets out a series of matters to which the directors must have regard in performing their duty to promote the success of the Company for the benefit of its shareholders, which includes having regard for its other stakeholders. Where this statement draws upon information included in other sections of the Strategic Report, this is signposted accordingly.

Strategic decisions made in 2021

For each matter which comes before the Board, the Board considers the likely consequences of any decision in the long-term and identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process.

Strategic Report continued

Section 172(1) statement and our stakeholders continued

During 2021, decisions have been made in line with achieving the strategy to become a successful medium-sized UK life and pension consolidator. This has included completing the integration activities following the acquisition of Equitable Life in 2020, developing our online proposition "MyUtmost", the retention of Abrdn as a fund manager and continued focus on the impact of the Covid-19 pandemic. Our key financial decisions made during the year included the declaration and payment of two dividends, totalling £55m, after careful consideration of all the consequences for other stakeholders, including customers. A more detailed account of our financial performance is included in the 'Key Performance Indicators', 'Review of the Business' and 'Capital Management' sections of this report.

Stakeholder engagement

The table below sets out our approach to stakeholder engagement during the year.

Stakeholder	How we engaged them
Customers	<ul style="list-style-type: none"> - The Board regularly receives and monitors customer-related service level reporting and details of any customer-related initiatives. - The Board engages frequently with senior leadership to understand and follow up on our investment performance. - The Board oversee any material IT platform developments which allow us to better support our customers. - Examples of areas of Board focus in 2021 include the development of the online functionality, MyUtmost, and the decision to retain Abrdn as a fund manager. More details of these and other areas of focus are included in the 'Stakeholders – Customers' section of this report.
People	<ul style="list-style-type: none"> - The Board engages with our people through regular informal meetings and internal communications on a wide range of topics. - ULP carry out regular employee surveys and act on findings. - Together with our ultimate UK parent company, we sponsor mentorships and volunteering opportunities. - This year, a focus for the Board included the well-being of our staff during the COVID-19 pandemic. More details of this and other areas of focus are included in the 'Stakeholders – People' section of the report.
Strategic Partners	<ul style="list-style-type: none"> - Members of the Board maintain oversight of the management of our main Strategic Partners, and our senior management regularly review and report on performance. - More details of this are included in the 'Stakeholders – Strategic Partners' section of this report.
Communities	<ul style="list-style-type: none"> - ULP are engaged in becoming resilient against climate change, and to promote a working environment which support this, through the Sustainability Strategy. More details of this are included in the 'Stakeholders – Communities and Environment' section of this report.
Regulators	<ul style="list-style-type: none"> - The Board maintains an open and engaging relationship with our regulators. - The directors meet regularly with them, and 2021 included discussions around business changes. More details are included in the 'Stakeholders – Regulators' section of this report.
Shareholders	<ul style="list-style-type: none"> - The Board engages regularly with its shareholder, and is consistently focused on generating a successful outcome for this stakeholder. - Key financial decisions made by the Board which directly impact the shareholder include the payment of dividends.

Overall, the Board considers that it has given due regard to stakeholders' needs when performing its duty under section 172 of the Companies Act 2006.

Strategic Report continued

Looking ahead

Throughout 2021, we have continued to deliver for our customers through good customer service and investment performance. We have taken significant strides in developing our online proposition "MyUtmost", which is designed to enhance our customer proposition and which we expect to launch in 2022. We have also made our operations more efficient through significant system development to migrate from mainframe to server. Finally, we have also maintained a strong and resilient Balance Sheet, whilst also delivering £55m of dividends to our shareholder. We therefore start 2022 in a strong position, well-aligned behind our strategy to face the opportunities and challenges for the year ahead and continuing to deliver successful outcomes for our customers, shareholder and other stakeholders.

We are ready for further acquisitions to continue our strategy and to grow.



Stephen Shone
Chief Executive
31 March 2022

Report of the Directors

The Directors present their report together with the audited Financial Statements for the year ended 31 December 2021.

Principal activities

The principal activity of Utmost Life and Pensions Limited is the provision of life and pensions policies by pursuing its strategy of acquiring and consolidating businesses in the UK.

Directors

The following Directors and secretary served throughout the year except where otherwise noted:

Chairman:	Michael J Merrick
Chief Executive:	Stephen Shone
Chief Financial Officer	Jeremy S Deeks
Independent Non-Executive Directors:	Duncan A Finch Lord Daniel W Finkelstein Susan P Kean (resigned 31 October 2021) Feilim Mackle Vicky Kubitscheck (appointed 26 January 2022)
Group Non-Executive Directors	A Paul Thompson Ian G Maidens

Company Secretary C Mark Utting

One of our Directors, Sue Kean, sadly passed away in 2021. The Board would like to express its thanks and gratitude for Sue's support and service as both Director and Chair of the Risk and Compliance Committee.

Directors' Interests

As at 31 December 2021 the Directors and Secretary, and their spouses and dependent children, had no beneficial interest in the shares of the Company.

Going Concern

The financial position of the Company is presented in the primary financial statements and disclosure notes on pages 26 to 66. The Directors have made an assessment of the Company's going concern, considering both the Company's current performance and its outlook for a period of at least 12 months from the date of approval of these financial statements, which takes into account, amongst others, the further impact of the COVID-19 pandemic, using the information available up to the date of issue of the Company's financial statements.

The Company manages and monitors its capital and liquidity, and various assessments and stresses are applied to those positions to understand potential impacts of market downturns. These stresses, including the additional considerations applied in response to COVID-19, do not give rise to any material uncertainties over the ability of the Company to continue as a going concern. Based upon the available information, the Directors consider that the Company has the plans and resources to manage its business risks successfully and that it remains financially strong.

The Directors have assessed the principal risks and uncertainties discussed in the Strategic Report on pages 8 to 10, both in light of COVID-19 and the current economic climate, and have taken into consideration the guidance provided by the Financial Reporting Council ("FRC") on 'Going Concern and Liquidity Risk' published in April 2016. The Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements. Therefore, they have considered it appropriate to continue to adopt the going concern basis of accounting when preparing the financial statements.

Report of the Directors continued

Review of the business

Key events during the year include:

- Substantial changes to systems in 2021, including a move away from an expensive legacy mainframe system and the introduction of a new image and workflow system have helped pave the way for the launch of ULP's new online service, MyUtmost for our customers;
- Reduction in the cost base and delivery of a more efficient operating model, through integration work;
- The launch of the Sustainability Strategy; and
- Extension of Flexible Drawdown product to ex-Reliance customers.

Further detail on the above is included in the Strategic Report on pages 3 to 15.

Results and dividend

The result for the year is shown in the Profit and Loss Account and Statement of Comprehensive Income. The Company made a profit before tax £71.3m, an increase of £21.3m from 2020 restated pre-tax profit of £50.0m.

In 2021, interim dividends totalling £55m were paid (2020: £40m).

Employees

The Company has no employees, and all services are undertaken by employees seconded to the Company from Utmost Life and Pensions Services ("ULPS") under a secondment agreement. ULPS remains the employer during the secondment term. ULPS makes a management charge for secondment services in accordance with the agreement.

Financial Risk Management

The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in Note 4 of the Financial Statements.

Liability Insurance

From 1 January 2020 to 28 February 2021, directors' and officers' liability insurance was held by the Companies UK parent undertaking Utmost Life and Pensions Holdings Limited and covered all subsidiaries in the Group, as permitted by the Companies Act 2006. From 1 March 2021, this cover was held at an Utmost Group level.

SECR Reporting

Streamlines Energy and Carbon Reporting (SECR) legislation came into effect in April 2019, requiring all large and/or quoted UK companies to report on their annual energy use and energy efficiencies taken. The Company is exempt from this reporting in its individual financial statements as it is included in the SECR statement included in the consolidated financial statements of its ultimate UK parent, Utmost Group Plc.

Post Balance Sheet Events

There are no adjusting or non-adjusting post balance sheet events between 31 December 2021 and the approval of the Report and Accounts of the Company which require disclosure.

Political and Charitable Donations

The Company made no political or charitable donations during 2021 (2020: £nil).

Pension Schemes

The Company operates a defined contribution pension scheme for the employees of ULPS. In addition, the Company continues to operate the Reliance Pension Scheme, a defined benefit scheme, which has been closed to future accruals for all members since 31 December 2015. The Company remains the principal employer of the scheme following the flexible apportionment arrangement on 1 April 2018.

Report of the Directors continued

Independent Auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue as the Company's independent auditors.

Disclosure in the Strategic Report

As permitted by paragraph 1A of Schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Directors' Report have been omitted and included in the Strategic Report on pages 5 to 14. These matters relate to:

- Details of subsequent events;
- Future developments; and
- Indication of principal risk exposure and management.

Statement of Directors' responsibilities

The Directors are responsible for the preparation of the Annual Report and Financial Statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed in the Financial Statements; and
- Prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

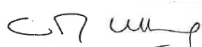
The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that their responsibilities have been fulfilled.

Statement of Disclosure of Information to Auditors

The Directors at the date of the approval of this report confirm that, so far as each Director 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 they ought to have taken in their duty as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

By order of the Board



C. Mark Utting
Company Secretary
31 March 2022

Independent auditors' report to the members of Utmost Life and Pensions Limited

Report on the audit of the financial statements

Opinion

In our opinion, Utmost Life and Pensions Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2021 (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Profit and Loss Account; the Statement of Comprehensive Income; and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 8, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We have performed a full scope audit of the complete financial information of the company in accordance with our materiality and risk assessment.

Key audit matters

- Valuation of technical provisions - Longevity assumptions
- Valuation of technical provisions - Expense assumptions

Materiality

- Overall materiality: £2,200,000 (2020: £2,100,000) based on 1% of Net Assets.
 - Performance materiality: £1,650,000 (2020: £1,575,000).
- Specific materiality for assets held to cover linked liabilities, technical provision for linked liabilities (non-insurance) and associated income statement line items: Overall materiality £54,503,000 (2020: £54,637,000) based on 1% of assets held to cover linked materiality.
 - Performance materiality: £40,877,000 (2020: £40,977,000)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

"Equitable Life Assurance Society ('ELAS') - Part VII transfer", "Actuarial model migration" and "Impact of COVID-19", which were key audit matters last year, are no longer included because of them not being considered applicable in the current period. Equitable Life Assurance Society ('ELAS') - Part VII transfer and Actuarial model migration took place in 2020 and therefore do not impact the current period. The uncertainty in relation to COVID-19 has reduced in the current period as a result of the vaccine roll out and easing of lockdown restrictions and as such, whilst uncertainty still exists, the impact of COVID-19 is not considered an individual KAM in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of technical provisions - Longevity assumptions</p> <p>Refer to Accounting policy 2(i) subsection (a) Long term business provision and subsection (b) Technical provisions for linked liabilities (insurance contracts only) and note 23 Technical provisions.</p> <p>Longevity assumptions are an area of significant management judgement, due to the inherent uncertainty involved. Whilst the company manages the extent of its exposure to longevity risk through reinsurance, we consider these assumptions underpinning gross technical provisions to be a key audit matter given the company's exposure to annuity business.</p> <p>The longevity assumption has two main components:</p> <p>Base mortality assumption</p>	<p>We performed the following to test the longevity assumptions (including base mortality assumptions, future mortality improvements and prudential margins):</p> <ul style="list-style-type: none"> • Validated the appropriateness of the methodology used to perform the annual experience studies. This involved the assessment of key judgements with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience; • Tested the controls in place around the performance of annuitant mortality experience analysis studies, approval of the proposed assumptions and implementation within actuarial models; • Validated the appropriateness of areas of expert judgments used in the development of the mortality improvement assumptions, including the parameterisation and selection of the version of the CMI model including the choice of the smoothing parameter, initial rate, long term rate and tapering at older ages;

<p>This part of the assumption is mainly driven by internal experience analyses, but judgement is also required. For example, in determining the most appropriate granularity at which to carry out the analysis; the time window used for historic experience, whether data should be excluded from the analysis; and in selecting the margin for prudence and an appropriate industry mortality table to which management overlays the results of the experience analysis.</p> <p>Rate of mortality improvements</p> <p>This part of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. The allowance for future mortality improvements is inherently subjective, as improvements develop over long timescales and cannot be captured by analysis of internal experience data.</p> <p>The Continuous Mortality Investigation Bureau (CMIB) provides mortality projection models which are widely used throughout the industry and contain a standard core set of assumptions including initial rates of improvement, calculated by the CMIB based on the most recent available population data.</p>	<ul style="list-style-type: none"> Assessed the appropriateness of the margin for prudence b considering the variability of the longevity experience and benchmarking this to peer industry companies; Compared the annuitant mortality assumptions selected by management against those used by peers using our annual survey of the market; In respect of the Covid-19 pandemic, we have assessed management's considerations of potential changes in current and future expected rates of annuitant mortality and their conclusion not to include any short-term or long term adjustments to their longevity assumptions in relation to this; and Assessed the disclosure of the annuitant mortality assumptions, changes in these assumptions over 2021 and their sensitivities. <p>The results of our procedures indicated that the valuation of technical provisions – longevity assumptions were supported by the evidence we obtained.</p>
<p><i>Valuation of technical provisions - Expense assumptions</i></p> <p>Refer to Accounting policy 2(i) subsection (a) Long term business provision and subsection (b) Technical provisions for linked liabilities (insurance contracts only) and note 23 Technical provisions.</p> <p>Future maintenance expenses and expense inflation assumptions are used in the measurement of the insurance contract liabilities and in addition, the methodology includes an allowance for diseconomies of scale as the business volumes decline.</p> <p>This includes several areas of judgement including the level of future expenses including the allocation between maintenance/acquisition, the allocation between products, the future policy levels and the margin for prudence.</p>	<p>We performed the following procedures over maintenance expenses:</p> <ul style="list-style-type: none"> We understood and tested the governance process in place to determine the maintenance expense, expense inflation assumptions and allowance for diseconomies of scale; We tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience; We tested and challenged the 2022 budget expenses by comparing the 2021 actuals against the 2021 budget, assessing the split of expenses between ongoing and one-off costs and those that are fixed or variable to supporting evidence; We have reviewed and challenged significant judgements and assumptions used, particularly relating to the allowance for spreading of fixed costs over the reducing portfolio of the business as it runs-off; and Assessed the appropriateness of the margin for prudence by considering the potential variability of expenses and benchmarking this to peer industry companies. <p>The results of our procedures indicated that the valuation of technical provisions – Expense assumptions were supported by the evidence we obtained.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company is a regulated insurance entity. The investment administration function is outsourced.

Our audit work focused on the testing of transactions and balances to appropriate supporting evidence. Where required we obtained confirmation from the relevant third parties with regards to cash and investment balances.

In respect of the outsourced investment administration service providers, we were able to obtain appropriate evidence through a review of assurance reports on internal control that monitor the procedures carried out by the service providers.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Overall company materiality</i>	£2,200,000 (2020: £2,100,000). £54,503,000 (2020: £54,637,000)
<i>How we determined it</i>	1% of Net Assets 1% of assets held to cover linked liabilities
<i>Rationale for benchmark applied</i>	We believe that net assets, which drives the entity's ability to generate surplus and pay dividends, is the primary measure used by the relevant stakeholders in assessing performance, as well as being a generally accepted materiality benchmark. The company issues unit-linked policies. As a result, technical provisions - investment contract liabilities are covered by assets held to cover linked liabilities and return on investment contracts derived on the assets is offset by the change in policyholder liabilities under investment contracts. In accordance with the guidance on the audit of insurers issued in the United Kingdom by the Financial Reporting Council we have applied a higher materiality for these balances for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities. This materiality is based on 1% of assets held to cover linked liabilities.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £1,650,000 (2020: £1,575,000) for the company financial statements. Our performance materiality is also at 75% (2020: 75%) of specific overall materiality for assets held to cover linked liabilities, technical provisions for linked liabilities (non-insurance) and associated income statement line items our specific performance materiality was £40,877,000 (2020: £40,977,000).

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £110,000 (2020: £105,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained the directors' going concern assessment and challenged the rationale for downside scenarios adopted and material assumptions made using our knowledge of the company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;

- Considered management's assessment of the regulatory solvency coverage and liquidity position in the forward looking scenarios considered;
- Assessed the impact of severe, but plausible, downside scenarios;
- Assessed liquidity of the company, including the company's ability to pay policyholder obligations, suppliers and creditors as amounts fall due;
- Enquired and understood the actions taken by management to mitigate the impacts of COVID-19; and
- Reviewed the disclosures included in the financial statements, including the Basis of Preparation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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 we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 (UK) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of insurance liabilities and intangible assets. Audit procedures performed by the engagement team included:

- Discussions with management and Internal Audit, including consideration of any known or suspected instances of non-compliance with laws and regulation and fraud.
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations.
- Reviewing relevant meeting minutes including those of the Audit Committee, Risk and Compliance Committee and Investment Committee.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to technical provisions (see related Key Audit Matter above).
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and those posted by unexpected users.
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.
- Reviewing the company's register of litigation and claims, Internal Audit reports, and Compliance reports in so far as they related to non-compliance with laws and regulations and fraud.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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 Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 29 August 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2018 to 31 December 2021.



Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2022

Profit and Loss Account

For the year ended 31 December 2021

Technical account – long-term business	Notes	2021 £m	Restated ¹ 2020 £m
Gross premiums written	5	16.2	13.6
Outward reinsurance premiums		(21.1)	(22.4)
Earned premiums, net of reinsurance		(4.9)	(8.8)
Other technical income	7	35.0	26.0
Revenue		30.1	17.2
Investment income	6	83.0	65.8
Realised gains/(losses)	6	71.5	(118.6)
Unrealised gains on investments	6	410.2	325.4
Investment return		564.7	272.6
Total income		594.8	289.8
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(114.1)	(132.8)
Reinsurers' share		35.0	35.6
		(79.1)	(97.2)
Change in provision for claims			
Gross amount		(1.8)	8.2
Total claims incurred		(80.9)	(89.0)
Transfer (to)/from the fund for future appropriations	22	(2.6)	6.0
Change in other technical provisions, net of reinsurance			
Long-term business provision			
Gross amount	23	194.4	0.7
Reinsurers' share	23	(54.5)	10.8
		139.9	11.5
Change in technical provision for linked liabilities, net of reinsurance	23	(553.0)	(142.1)
		(415.7)	(124.6)
Net operating expenses	8	(16.6)	(17.9)
Investment expenses and charges		(4.4)	(5.2)
Tax attributable to the long-term business	11	(4.1)	(10.0)
		(25.1)	(33.1)
Balance on the long-term business technical account		73.1	43.1

Profit and Loss Account

For the year ended 31 December 2021

Non-technical account	Notes	Restated ¹	
		2021 £m	2020 £m
Balance on the long-term business technical account		73.1	43.1
Tax credit attributable to balance on long-term business technical account	11	1.8	10.0
Shareholders' pre-tax profit from long-term business		<u>74.9</u>	<u>53.1</u>
Investment income	6	4.7	1.3
Unrealised (loss)/gain on Investments	6	(3.2)	(0.3)
(Loss)/gain on investment in subsidiary		(0.3)	0.7
Realised (loss)/gain on investments	6	(3.1)	0.5
Interest payable	10	-	(3.6)
Other charges	7	<u>(1.7)</u>	<u>(1.7)</u>
Profit on ordinary activities before tax		71.3	50.0
Tax on profit on ordinary activities	11	<u>(13.6)</u>	<u>(9.4)</u>
Profit after tax for the year	21	<u>57.7</u>	<u>40.6</u>

¹ Please refer to Note 23.

¹ Please refer to Note 23.

Statement of Comprehensive Income

For the year ended 31 December 2021

			Restated ¹
	Notes	2021 £m	2020 £m
Profit for the financial year	21	57.7	40.6
Other comprehensive income/(expense):			
Fair value movements of owner occupied land and buildings	14	0.1	(0.2)
Remeasurements of net defined benefit obligations	29	0.1	0.3
Total tax on components of other comprehensive (expense)/income		(0.1)	(0.1)
Other comprehensive income for the year, net of tax	21	0.1	-
Total comprehensive income for the year		57.8	40.6

¹ Please refer to Note 23.

Balance Sheet

As at 31 December 2021

	Notes	2021 £m	Restated ¹ 2020 £m
Assets			
Present value of acquired in-force business	12	119.9	129.7
Negative goodwill	12	(100.9)	(109.0)
Intangible assets		19.0	20.7
Investment in subsidiaries	13	4.9	5.2
Tangible assets	14	3.5	3.4
Financial investments	15	1,058.9	1,208.8
Net Assets held to cover linked liabilities	16	5,450.4	5,451.6
Reinsurers' share of long-term business provision	23	343.6	380.7
Reinsurer's share of linked liabilities		5.1	6.4
Debtors	17	19.2	21.0
Prepayments and accrued income		11.9	12.7
Cash at bank and in hand	18	97.5	91.9
Total assets		7,014.0	7,202.4

¹ Please refer to Note 16

Balance Sheet

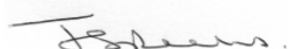
As at 31 December 2021

	Notes	2021 £m	Restated ^{1,2} 2020 £m
Equity and liabilities			
Capital and reserves			
Share capital	19	100.0	100.0
Profit and loss account	21	119.5	116.7
Total equity		219.5	216.7
Fund for future appropriations	22	67.4	64.8
Technical provisions			
Long-term business provision	23	1,142.7	1,337.1
Long-term reinsurance business provision	23	57.8	40.5
Claims outstanding	24	32.7	33.7
		1,233.2	1,411.3
Technical provisions for linked liabilities	23	5,452.1	5,453.7
Provisions for other risks and charges	27	9.5	9.5
Deposits received from reinsurers		4.6	5.4
Creditors: amounts falling due within one year	28	18.4	21.5
Accruals and deferred income		7.9	17.2
Total liabilities excluding pension scheme net liability		6,793.1	6,983.4
Defined benefit pension net liability	29	1.4	2.3
Total liabilities including pension scheme net liability		6,794.5	6,985.7
Total equity and liabilities		7,014.0	7,202.4

¹Please refer to Note 16.

²Please refer to Note 23

The notes on pages 32 to 66 form an integral part of these financial statements. The financial statements were approved by the Board of Directors on 31 March 2022 and were signed on its behalf on 31 March 2022 by:



Jeremy S Deeks
Director

Statement of Changes in Equity

For the year ended 31 December 2021

	Called up share capital £m	Profit and loss account £m	Total £m
Balance as at 1 January 2020 ¹	142.6	14.1	156.7
Prior year adjustment	-	(0.6)	(0.6)
Restated balance as at 1 January 2020	142.6	13.5	156.1
Profit after tax	-	40.6	40.6
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	40.6	40.6
Share capital issued	60.0	-	60.0
Share capital reduction	(102.6)	102.6	-
Dividends paid	-	(40.0)	(40.0)
Restated balance as at 31 December 2020 ¹	100.0	116.7	216.7
Profit after tax	-	57.7	57.7
Other comprehensive income for the year	-	0.1	0.1
Total comprehensive income for the year	-	57.8	57.8
Dividends paid	-	(55.0)	(55.0)
Balance as at 31 December 2021	100.0	119.5	219.5

¹ Please refer to Note 23.

Notes to the Financial Statements

1. General information

The Company is a life regulated entity incorporated (as a limited liability company under the laws of England and Wales) in the UK. The Registered Office is located at Walton Street, Aylesbury, HP21 7QW.

The principal activity of the Company is the provision of life and pensions policies by pursuing its strategy of acquiring and consolidating businesses in the UK.

The Financial Statements are presented in sterling (£) which is the functional and presentational currency of the Company and rounded to the nearest £0.1m, except where otherwise stated.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with FRS102 and FRS103 and with the applicable requirements of the Companies Act 2006. 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 Company has taken advantage of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements, as its results, and that of its subsidiaries RMIS (RTW) Limited and The Equitable Life Assurance Society (ELAS), are included in the group financial statements of Utmost Group Plc (UGP). These consolidated financial statements are prepared in accordance with International Financial Reporting Standards and are publicly available from Sadlers House, 44 Gutter Lane, London, EC2V 6BR.

In these consolidated financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS). In the preparation of the individual financial statements, the Company has applied the exemptions available under FRS 102 in respect of the following disclosures:

- The requirement to prepare a cash flow statement and related notes;
- Related party disclosures;
- Key management compensation;
- Reconciliation of the number of shares outstanding at the beginning and end of the year; and
- Presentation of share-based payments disclosure as per FRS102 paragraphs 26.18(b), 26.19 to 26.21 and 26.23.

(b) Going concern

The financial position of the Company is presented in the primary financial statements and disclosure notes on pages 26 to 66. The Directors have made an assessment of the Company's going concern, considering both the Company's current performance and its outlook for a period of at least 12 months from the date of approval of these financial statements, which takes into account, amongst others, the impact of the COVID-19 pandemic, using the information available up to the date of issue of the Company's financial statements.

The Company manages and monitors its capital and liquidity, and various assessments and stresses are applied to those positions to understand potential impacts of market downturns. These stresses, including the additional considerations relating to COVID-19, do not give rise to any material uncertainties over the ability of the Company to continue as a going concern. Based upon the available information, the Directors consider that the Company has the plans and resources to manage its business risks successfully and that it remains financially strong.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

(b) Going concern continued

Having assessed the principal risks and uncertainties (both financial and operational), discussed in the Strategic Report on pages 8 to 10, in light of the current economic environment, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements and have, therefore, considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

(c) Foreign currency translation

Foreign currency monetary items are translated using the year end closing rate and any exchange differences are recognised in the income statement. Foreign currency transactions during the year are recognised in the income statement using an average rate.

(d) Business combinations, negative goodwill and acquired value of in-force policies

Business combinations are accounted for using the purchase method, under which the acquirer recognises the acquiree's fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. The excess of any purchase consideration transferred over the fair value of the identifiable net assets is recorded as goodwill. Negative goodwill arises when the purchase consideration is less than the fair value of the identifiable assets and liabilities, and is recognised on the Balance Sheet as a negative intangible asset.

The present value of future profits on a portfolio of long-term insurance and investment contracts acquired is recognised as an acquired value of in-force business ('AVIF') intangible on acquisition. AVIF arises primarily from the expected emergence of profits from the policies acquired due to a more prudent assessment of policy liabilities compared to a fair value approach. On acquisition, the insurance contract liability is measured in accordance with the accounting policies for insurance contracts. The difference between the fair value of the acquired contracts and the value attributed to the insurance contract liability is the AVIF.

AVIF is amortised through the Profit and Loss over 15 years, the useful lifetime of the related contracts in the chosen portfolio, on a straight line basis. The rate of amortisation is chosen by considering the profile of the value of the in-force business acquired and the expected depletion in its value. Negative goodwill is released to Profit and Loss over the expected benefit period, which is in line with the amortisation rate of the related AVIF. Any acquisition-related costs are recognised in Profit or Loss as incurred.

AVIF is tested for impairment by reference to the present value of estimated future profits, which is considered to be a representation of fair value. Significant estimates include forecast cash flows and discount rates.

(e) Investments in subsidiary undertakings

The fair value of investments in subsidiaries in non-insurance companies is calculated on a UK GAAP net asset value basis. For insurance company subsidiaries, the fair value approach applied is to measure the 'economic value' of the underlying subsidiary based on the Solvency II assessment of the value of the business, adjusted for other components where management's view that Solvency II does not reflect the commercial value of the business. One such component is to adjust the 'risk margin' (an amount required under SII rules to represent the potential cost of transferring insurance obligations to a third party should an insurer fail), calculated using a cost of capital of 6% under regulatory rules. For determining fair value in accordance with UK GAAP, Management have applied 50% of this Risk Margin as an adjustment (2020: 50%), to more appropriately reflect management's view of economic value.

(f) Tangible assets

Tangible assets include land and buildings, which are measured at fair value. Full valuations are made annually by independent, professionally qualified valuers. Revaluation gains and losses (to the extent that they reverse previous gains) on owner occupied properties are taken to Other Comprehensive Income. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess is recognised in profit or loss.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

(g) Financial investments

The Company has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement and the disclosure requirements of FRS 102.

The Company classifies its financial assets into the following categories:

- Shares and other variable yield securities – Fair Value through Profit and Loss (FVTPL);
- Units in unit trusts – FVTPL;
- Derivatives – at Held-for-Trading (HFT);
- Debt securities and other fixed-income securities – at FVTPL; and
- Deposits with credit institutions – Loans and Receivables

a. Financial assets – Fair Value through Profit and Loss

The fair values of financial assets traded in active markets are based on quoted bid prices on the balance sheet date.

The fair values of financial assets that are not traded in an active market are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants. More detail is provided on these valuation models is provided in Note 4.

Net gains or losses arising from changes in the fair value of financial assets at FVTPL are presented in the Profit and Loss Account within Investment Income in the period in which they arise.

b. Financial assets – Held for Trading

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Net gains or losses arising from the change in fair value are presented in the Profit and Loss Account within Investment Income. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company receives and pledges cash as collateral in respect of certain derivative contracts to reduce the credit risk of these transactions. The amount of the collateral required is dependent upon the credit risk of the counterparty. The collateral received is segregated from the Company, and is recognised as an asset in the Balance Sheet with a corresponding liability for repayment.

c. Financial assets – Loans and Receivables

Deposits with credit institutions are initially recognised at the fair value of the consideration paid including transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently they are measured at amortised cost, using the effective interest method.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

For financial assets not at FVTPL, the Company assesses at each balance sheet date, whether there is objective evidence that a financial asset is impaired. The impairment losses are incurred only if there is evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Impairment losses are recognised in the profit or loss.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

(h) Reinsurance

The Company cedes reinsurance in the normal course of business in order to limit the potential for losses and to provide financing. Such contracts are accounted for as insurance contracts, provided the risk transfer is significant.

The amounts recoverable from reinsurers, recognised as assets on the Balance Sheet, are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance receivables are reviewed for impairment at each reporting date.

The reinsurers' share of claims incurred, in the Profit and Loss Account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year.

Any deposit received from reinsurers is recorded on the Balance Sheet as a current asset with a corresponding current liability to reflect that this is due back to the reinsurer. Net reinsurance payable amounts represent mortality swaps in respect of annuity payments.

(i) Product classification - Insurance contracts

Contracts which transfer significant insurance risk to the Company at the inception of the contract are classified as insurance contracts. Any contracts not considered to be insurance contracts are classified as investment contracts (see Note 2(j)).

Insurance contract liabilities are included in the Long term business provision and the Technical provisions for linked liabilities on the Balance Sheet.

a. Long term business provision

The long-term business provision is determined on the basis of recognised actuarial methods and in accordance with the regulations contained in the Prudential Regulation Authority (PRA) Rulebook, with adjustments to align to FRS 103 requirements. All relevant guidance from the Board of Actuarial Standards has been followed. The long-term provision also includes the non-unit liabilities in respect of unit-linked insurance contracts.

All long-term business technical provisions are determined in accordance with the Solvency II regulatory valuation adjusted as follows:

- The removal of the impact of Transitional Measures on Technical Provisions ("TMTPs"), if applicable;
- The use of discount rates based on swap rates with an additional margin for annuity business to allow for an illiquidity premium;
- The addition of a margin to best estimate expense, mortality and longevity assumptions as well as the take-up of Guaranteed Annuity Options ("GAOs") to ensure sufficient prudence in the provisions and no allowance is made for lapses;
- Confirmation that, at an individual policy level, the provision calculated will not be less than the guaranteed amount immediately due (this applied primarily to unit-linked insurance policies); and
- The removal of future final bonuses from with-profit provisions because these are not guaranteed. The excess of assets over liabilities in the with-profits funds shall be used to enhance the bonuses in these funds.

b. Technical provisions for linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives and/or investment property.

Unit-linked contracts which transfer significant insurance risk, including guaranteed benefits, are classified as insurance contracts and are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

(i) Product classification - Insurance contracts continued

b. Technical provisions for linked liabilities continued

The Technical provisions for linked liabilities also includes amounts in respect of unit-linked contracts which principally involve the transfer of financial risk (see Note 21).

The change in insurance liability reflects the assumption changes relating to claims expectations, expenses, the addition of business acquired and the unwind of the previous year's expectations. It also includes the reduction in liability due to the payment of claims in the year.

Premiums, including reinsurance premiums, and consideration for annuities are recognised as income when due for payment, except for unit-linked insurance premiums, which are recognised when units are created.

Maturity claims and annuity benefit payments are recognised when due for payment.

Surrenders are accounted for when paid or, if earlier, on the date the policy ceases to be included within the calculation of the long term business provision and/or the technical provision for linked liabilities.

Death claims are recognised on the basis of notifications received.

Claims payable include the related internal and external claims handling costs.

(j) Product classification - Investment contracts

Contracts which transfer financial risk (e.g. Change in interest rate), but not significant insurance risk are classified as investment contracts.

Amounts received in respect of unit-linked investment contracts which principally involve the transfer of financial risk are accounted for under deposit accounting, with amounts collected credited directly to the Balance Sheet.

Financial liabilities in respect of unit-linked investment contracts are measured at fair value, determined by reference to the value of the underlying net asset values of the unitised investment funds at the balance sheet date. These are presented in the Balance Sheet within 'Technical provisions for linked liabilities'.

Fees receivable from unit-linked investment contracts (included in 'Other technical income') as well as investment income and interest payable on contract balances are recognised in the Profit and Loss Account in the year they are accrued.

Claims are not included in the Income Statement but are deducted from investment contract liabilities. The movement in investment contract liabilities (included in Change in other technical provisions, net of reinsurance) consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised and the investment return credited to policyholders.

(k) Cash

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

(l) Debtors

Debtors' balances arise from the normal operating activities of the Company. Debtors that are expected to be received within one year of the balance sheet date are recorded at their undiscounted amounts. Balances greater than one year or which constitute financing transactions are recorded at fair value less transaction costs and subsequently at amortised cost, net of impairment.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

(m) Creditors

Creditors are initially recognised when due and are measured at fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost.

(n) Borrowings

Interest-bearing borrowings are recognised initially at fair values less any attributable transaction costs. Subsequently, they are recognised at amortised cost using the effective interest method.

(o) Taxation

Taxation comprises of current tax and deferred tax.

Current tax is the expected tax payable or receivable on current year profits adjusted for non-tax deductible and non-taxable items, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is calculated on the differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent that it is probable that future taxable profits will arise against which the losses can be utilised. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Both Current tax and Deferred tax are recognised in the Profit and Loss Account unless they relate to items which are recognised in Other Comprehensive Income or directly through Equity.

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as operating leases. The Company has no finance leases throughout the reporting year.

Rental payments under operating leases are charged to the income statement on a straight line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction to the expense recognised over the lease term on a straight line basis.

(q) Provisions and contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation as well as any material impact of the time-value of money.

(ii) Defined benefit pension scheme

The Company has a defined benefit pension scheme, from the acquisition of RMIS (RTW) Limited (RMIS) on 1 April 2018. The scheme has been closed to future accruals since June 2010.

The liability recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets.

The defined benefit obligation is calculated by an independent actuary each year using the projected unit credit method. The present value is determined by discounting the estimated future cash flows. The discount rate used is based on market yields on high quality corporate bonds that are denominated in sterling and have terms approximating the estimated period of future payments.

The fair value of scheme assets is measured in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

(q) Provisions and contingencies continued

(ii) Defined benefit pension scheme continued

Included on the balance sheet are the present value scheme liabilities less the aggregate plan assets, net of deferred tax. The change in the net liability, less net interest, of the scheme is recognised in Other Comprehensive Income as 'Remeasurements of net defined benefit obligations'. Net interest is recognised in operating expenses in the Technical account – long term business within the Profit and Loss Account.

The cost of the defined benefit scheme includes the increase in the pension liability arising from employee service during the period and the cost of benefit changes, curtailments and settlements. This is recognised in Other expenses in the Profit and Loss Account.

(iii) Contingencies

Contingent liabilities arise as a result of past events when it is not probable that there will be an outflow of resources or that amount cannot be reliably measured at the reporting date, or when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control.

Contingent liabilities are not recognised on the Balance Sheet, unless acquired in a business combination, but are disclosed, unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the Financial Statements when an inflow of economic benefits is probable.

(r) Investment return

Investment return comprises investment income, including realised investment gains and losses and movements in unrealised gains and losses on investments designated as fair value through profit or loss, net of investment expenses and charges.

Interest income is recognised as it accrues.

Dividends are included as investment income on the date when the right to receive has been established.

(s) Distributions to equity holders

Dividends and other distributions to the Company's shareholder are recognised as a liability in the Balance Sheet in the year they are approved by the shareholders.

(t) Funds for Future Appropriation

The Funds for Future Appropriation (FFA) represent the accumulated excess funds yet to be allocated to with-profits policyholders.

(u) Segmental reporting

In the opinion of the Directors, the Society operates in one business segment, being that of long-term insurance business.

Notes to the Financial Statements continued

3. Critical accounting estimates and judgements

The preparation of the financial statements which conform to UK GAAP FRS 102 requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about carrying amounts of assets and liabilities that are not objectively verifiable. Actual results may differ from the estimates made. Estimates and underlying assumptions are reviewed regularly by Management and the Board, and, where necessary, are revised to reflect current conditions.

Critical accounting estimates

(a) Insurance and investment contract liabilities

The calculation of insurance and investment contract liabilities is a critical estimate, based on the fact that although the process for the establishment of these liabilities follows specified rules and guidelines, the provisions, and any related AVIF, that result from the process are the subject of estimations. As a consequence, the eventual claims could vary from the amounts provided to cover future claims. The Company seeks to provide appropriate levels of contract liabilities taking known facts, market conditions and past experience into account but, regardless, such liabilities remain uncertain. The calculation methodology is discussed further in accounting policy note 1 (i) and 1 (j) and sensitivities arising from significant non-economic assumptions are detailed in note 4.

(b) Fair value of financial assets and liabilities

Where possible, financial assets and liabilities are valued on the basis of listed market prices, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates.

If prices are not readily determinable, fair values are determined using valuation techniques including pricing models 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.

(c) Recoverability of acquired value of in-force business and related negative goodwill

The calculation of AVIF includes significant estimates such as forecast expenses, charges, persistency rates, guarantee costs and discount rates. AVIF is tested for impairment by reference to the present value of estimated future profits.

The amortisation and testing for impairment of related negative goodwill is closely linked to the recoverability of the underlying assets acquired, of which AVIF is one, and, therefore, is also subject to uncertainty. The recoverability is measured by calculating the fair value less costs to sell.

(d) Defined benefit pension scheme

The Company, as a principal employer, has a net liability in respect of the Reliance Pension Scheme. The present value of the liability recognised on the Balance Sheet is calculated actuarially each year using the projected unit method, which is dependent upon a number of factors, including: life expectancy, salary increases, asset valuations and the discount rates for corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Notes to the Financial Statements continued

3. Critical accounting estimates and judgements continued

Critical judgements

The Company's classification between which products are insurance contracts and which are investments contracts is a critical judgement as the classification dictates the relevant presentation and measurement that is applied to each type of contract in the financial statements.

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause the insurer to make significant additional payments. These contracts may also include the transfer of financial risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Any contracts not considered to be insurance contracts are classified as investment contracts.

4. Financial risk management

The Company is exposed to both insurance and financial risk as a consequence of its business activities. These are managed in accordance with the Enterprise Risk Management (ERM) Framework which sets out the Company's overall strategy towards and appetite for risk. This has been approved by the Board of Directors. The principal risks in the light of the COVID-19 are discussed in the Strategic report.

The risks arising from the insurance and investment activities that the Company is exposed to at the end of the reporting period are discussed as follows:

(a) Insurance risk

This is defined as the uncertainty attaching to the occurrence, amount and timing of insurance liabilities. The Company's principal insurance risks are as follows:

- Longevity risk, which arises primarily on the Company's significant in-force book of in-payment annuities;
- Expense risk, which arises because the majority of the Company's operational activity is carried out in-house; and
- Persistency and option take-up risk, which arises primarily on the large block of in-force unit-linked business.

The Company manages these risks by:

- Setting and monitoring appropriate risk appetite limits;
- Monitoring the amount of economic capital it holds;
- Use of reinsurance;
- Assumption setting;
- Claims underwriting; and
- Cost control and budget reforecasting.

The long term business provisions are sensitive to the assumptions used in respect of these risks, which are set periodically by the Board of Directors, with appropriate levels of prudence based on analysing actual experience.

While the impact of a short-term variation in the experience may not be material, if these assumptions were to be changed, this would impact on the long term business provisions, which would generate a profit or a loss in the calendar year in which the change to assumptions was applied.

Notes to the Financial Statements continued

4. Financial risk management continued

The table below illustrates the impact of the increase in long term business provisions assumptions:

Sensitivities	2021 Loss £m
5% increase in GAO take-up rates	2.5
10% decrease in mortality rates*	13.4

*These are based on long term business provisions net of reinsurance.

Governance framework

The Board determines the level of insurance risk through the business planning process and sets the risk appetite. Insurance risk is controlled through the local or Utmost Risk and Capital Committee ("RCC"), which approve all new insurance risks within the context of the risk appetite, including the launch of new products and cover types. The performance of the in-force book is monitored by the RCC with specific risks tracked for remedial actions where needed. Stress and scenario testing is carried out as part of the Own Risk and Solvency Assessment ("ORSA") process to consider the impact of larger risk events and how they would be managed by the Company.

General mitigation of insurance risks

In addition to the specific risks above, insurance risk is mitigated through the design of the policies with specific exclusions and limits on the size and durations of benefits which are set out in their Terms and Conditions.

(b) Market risk

Market risk is the adverse financial impact from changes in fair values or cash flows of the Company's assets and liabilities from fluctuations in interest rates, movement in credit spreads and changes due to equity risk. It is recognised that market risk is part of managing the portfolios and that a certain level of market risk is acceptable in order to deliver benefits to the Company. The Company is exposed to market risk from owning a portfolio of invested assets and has a low/medium appetite for this type of risk. The Company does not actively pursue a trading strategy in financial instruments that are vulnerable to gains or losses from fluctuations in interest rates or other economic values.

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk.

The market risk to which the company is exposed include:

- Reduction in returns on assets, due to a sustained fall in yields on fixed income investments;
- Impact to solvency margins driven by rise in yields on fixed interest investments from a rise in interest rates and spreads; and the
- Loss of investment income or market value of the portfolio from an adverse shock to a specific sector.

A variety of risk management techniques are utilised to control and mitigate the market risks to the business is exposed to, including:

- Asset liability matching strategy. The Company's investment portfolio is managed in such a way that the maturities have a duration that is matched to the estimated liability cash out flow profile, Matching is achieved in total by portfolio and fund.
- Regular review of the Sector diversification of the portfolio.
- Solvency monitoring through regular reviews of unrealised gains and losses.
- Timely market updates and forecasts from the investment advisors covering interest rates, credit spreads and market development by sectors.

The average duration target for the investment portfolio is 9-10 years for various with-profits funds and for the annuity assets. A quarterly mismatch report is presented to the Asset Liability Committee, who would decide to take remedial action, if required.

Notes to the Financial Statements continued

4. Financial risk management continued

Credit spreads:

The Company exposure to credit spreads is driven by market price and cash flow variability associated with changes in credit spreads. A widening of the credit spreads will result in increase in unrealised losses for our investment portfolio while a tightening of credit spreads will reduce our net investment income.

(c) Credit risk

The Company has exposure to credit risk which is the risk, that a counterparty will be unable to pay amounts in full when due. The Company is exposed to the following credit risks:

- Amounts due from debt securities;
- Amounts due from collective investment schemes and money markets;
- Cash deposit due;
- Amounts due from insurance and other receivables; and
- Reinsurers' share of insurance liabilities and of claims paid.

The Company manages these risks by:

- Setting and monitoring appropriate risk appetite limits;
- Monitoring the amount of economic capital it holds;
- Investment guidelines/limit structures;
- Asset optimisation; and
- Collateral arrangements.

The assets, excluding unit-linked assets, bearing credit risk are summarised below, together with an analysis by credit rating.

	2021 £m	2020 £m
Non-linked assets subject to credit risk		
Sovereign debt	400.5	510.3
AAA	6.1	1.0
AA	85.2	77.5
A	635.3	677.6
BBB	185.5	203.0
BB and below or not rated	4.0	8.3
Total assets bearing credit risk	1,316.6	1,477.7
Derivative financial instruments	17.9	21.9
Debt securities	950.0	1,067.3
Loans and receivables	-	1.5
Assets arising from reinsurance contracts held	348.7	387.0
Total assets bearing credit risk	1,316.6	1,477.7

Reinsurance has been included with those non-linked assets with a credit rating of AA, A or not rated.

The above table does not include cash balances, £97.5m (2020: £91.9m).

The Investment Committee sets exposure limits and assesses them periodically. The Investment Committee is also responsible for reviewing actual exposure against limits on a regular basis and for monitoring the performance of the Investment Managers. Reinsurance credit risk is managed by the RCC, which operates under direction from the Board and approves new reinsurance agreements. There are no financial assets that

are either past due or impaired during the year.

Notes to the Financial Statements continued

4. Financial risk management continued

The key area where the Company is exposed to credit risk is through its investment in corporate bonds. The Company manages the level of risk via sector and rating analysis and uses this analysis to help define the optimal balance between the risk taken and the returns earned on the underlying assets.

A quarterly database is prepared analysing the Company's invested assets by market value, issuer, credit rating, sector and geographical region, in order to assess the risk of concentration within the portfolio. This database allows the Company to regularly monitor exposure to the default risk of a given issuer and performance of an individual sector.

Through regular meetings with the Company's Investment Managers and monthly watch lists, the risk of a fall in the value of fixed-interest securities from changes in the perceived credit worthiness of the issuer is considered. In addition, sector and geographical exposure is monitored to ensure diversification and that there is no concentration in either sector or geographical region. In cases where the Company is particularly exposed to credit risk (e.g. sector concentration), this risk is actively managed through the investment guidelines.

The table below shows the sector diversification of the debt portfolio as at 31 December 2021 and 2020 respectively.

Sector	2021 % Holding	2020 % Holding
Government Bonds	26%	36%
Corporate Bonds Financial	27%	25%
Corporate Bonds Industrial	29%	26%
Government Index Linked	12%	10%
Government Guaranteed	1%	0%
Other Index Linked Bonds	2%	1%
Public Authorities	1%	1%
Supranational Bonds	4%	1%

(d) Operational risk

The Company is exposed to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This is managed through the Company's Risk Committee who review and monitor operational risks and report on these to the Board.

A risk manager carries out a review of operational risks, and works with stakeholders to implement action plans to mitigate the risks.

An application of a Risk and Control Self-Assessment ("RCSA") process, where operational risk exposures are identified and assessed as part of a periodical cycle is in place within the Company. This includes a description of risks; the causes and consequences, a gross risk assessment of impact and likelihood; a list of 'prevention and detection' controls; and a 'net' assessment, taking into consideration the effectiveness of the controls in place. Furthermore, the RCSA process also captures risk ownership, assurance and further actions, and an identified risk owner (usually the functional head) is responsible for the management of the risk, including control effectiveness, and any remedial actions required to mitigate the risk.

The Company maintains and tracks daily, an internal incident monitor and capture process, which identifies, quantifies and monitors risk events that have occurred across the business. All incidents reported follow a resolution process, including an escalation and change management process. Controls are attested on a quarterly basis with a summary reported to the Board.

Notes to the Financial Statements continued

4. Financial risk management continued

(e) Liquidity risk

The Company's liquidity risk stems from the need to have sufficient liquid assets to meet policyholder and third party payments as they fall due. This is managed by weekly cash forecasts and also by holding sufficient cash and other assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as they fall due.

The Company has significant internal sources of liquidity, which are sufficient to meet all our expected cash requirements for a period of 12 months from approval date, without having to resort to external sources of funding.

The uses and sources of liquidity are reviewed by ALCO on a quarterly, on a base and stressed basis. The Company has various mitigation of liquidity risk in place, as follows:

- Our liquidity risk policy;
- Access to Group short term loans;
- Risk appetite, triggers levels and limits in place;
- Weekly formal cash reporting; and
- Regular stress testing.

The tables below provides a maturity analysis of the Company's financial liabilities.

2021	On demand £m	Up to 1 year £m	Between 1-5 years £m	>5 years £m	Total £m
Financial liabilities under non-profit investment contracts	5,026.7	-	-	-	5,026.7
Creditors	7.4	11.4	1.4	2.8	23.0
	5,034.1	11.4	1.4	2.8	5,049.7
Financial liabilities under with profits investment contracts included in long term business provision	6.4	-	-	-	6.4
At 31 December 2021	5,040.5	11.4	1.4	2.8	5,056.1

2020	On demand £m	Up to 1 year £m	Between 1-5 years £m	>5 years £m	Total £m
Financial liabilities under non-profit investment contracts	4,798.7	-	-	-	4,798.7
Creditors	11.3	22.5	1.8	3.5	39.1
	4,810.0	22.5	1.8	3.5	4,837.8
Financial liabilities under with profits investment contracts included in long term business provision	6.6	-	-	-	6.6
At 31 December 2020	4,816.6	22.5	1.8	3.5	4,844.4

(f) Fair value estimation

The fair values of debt securities and other fixed income securities were determined using a market approach, income approach or a combination of both depending on the type of instrument and availability of information. The Company utilised certain third-party data providers when determining fair value.

Notes to the Financial Statements continued

4. Financial risk management continued

For pricing services, the Company analysed the prices provided by its primary pricing services to other readily available pricing services and performed a detailed review of the assumptions and inputs from each pricing service to determine the appropriate fair value when pricing differences exceed certain thresholds. It also evaluated changes in fair value that are greater than 10% each month to further aid its review of the accuracy of fair value measurements and its understanding of changes in fair value, with more detailed reviews performed by the asset managers responsible for the related asset class associated with the security being reviewed.

(g) Valuation

In general, valuations from pricing services were obtained in the first instance. If a price was not supplied by a pricing service, a broker quote was sought for public or private fixed maturity securities. The prices obtained are classified as follows:

- Level 1: fair value measurements derived from quoted market prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements derived from valuation techniques that include inputs for the asset and liability that are based on unobservable market data.

The following tables present the Company's assets measured at fair value.

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	£m	£m	£m	£m
2021				
Shares and other variable-yield securities and units in unit trusts	86.9	-	4.2	91.1
Debt securities and other fixed income securities	400.5	549.5	-	950.0
Derivative financial investments	-	17.8	-	17.8
	487.4	567.3	4.2	1,058.9
Financial assets held to cover linked liabilities	5,472.7	0.1	0.8	5,473.6
	5,960.1	567.4	5.0	6,532.5

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	£m	£m	£m	£m
2020				
Shares and other variable-yield securities and units in unit trusts	113.6	-	4.5	118.1
Debt securities and other fixed income securities	510.3	557.0	-	1,067.3
Derivative financial investments	-	21.9	-	21.9
	623.9	578.9	4.5	1,207.3

Financial assets held to cover linked liabilities	5,455.8	0.3	0.8	5,456.9
	6,079.7	579.2	5.3	6,664.2

Notes to the Financial Statements continued

4. Financial risk management continued

(g) Valuation

The following table presents the changes in Level 3 instruments for the year:

	Shares, variable yield securities & unit trusts £m	Linked assets £m	Total Level 3 Assets £m
At 1 January 2021	4.5	0.8	5.3
Gains and losses recognised in Profit and Loss	(0.3)	-	(0.3)
Assets sold/matured in the year	-	-	-
At 31 December 2021	4.2	0.8	5.0

Total Financial assets held to cover linked liabilities (£5,450.4m) include £13.6m cash and net current liabilities which are not presented in the tables above.

The Level 3 share asset (£4.2m) represents an equity holding in an investment company which holds a portfolio of onshore UK wind farms and wind finance companies. The investment company values the wind farms at fair value, using discounted cash flow valuation techniques, and the investment in finance entities at fair value, based on the fair value of loan notes and a share of net current assets.

The significant unobservable inputs into the fair value model for the wind farms include the discount rate, energy yield, power price and inflation rate. The below analysis is provided in order to illustrate the sensitivity of the fair value of investments to the energy yield, while all other variables remain constant.

Significant unobservable input	Range	Average	Change in input	Change in fair value of investment	ULP share	% change in fair value
Energy yield	20.71%-35.98%	30.85%	P50 +10%	£6.8m	£0.5m	12.1%
			P50 – 10%	(£6.9m)	£0.5m	(12.2%)

The above sensitivity information is based on the latest available information from the investment company.

Notes to the Financial Statements continued

5. Gross Premiums

(a) Gross Premiums Written

All premiums relate solely to long-term insurance contracts.

	2021 £m	2020 £m
Gross premiums written comprise		
Direct insurance	16.2	13.6
Gross direct premiums written in respect of insurance contracts and with profits investment contracts		
Periodic premiums	6.5	7.3
Single premiums	9.7	6.3
	16.2	13.6
Gross premiums written comprise		
Life insurance contracts	5.3	6.2
Pensions contracts	10.9	7.4
	16.2	13.6
Gross premiums written comprise		
Unit linked insurance contracts	2.8	2.9
Non linked insurance contracts	13.4	10.7
	16.2	13.6
Geographical analysis		
UK	16.1	13.5
Overseas	0.1	0.1
	16.2	13.6

In addition to the premiums disclosed above in relation to insurance contracts and investment contracts with discretionary participating features, the following premiums were received in relation to investment contracts. These are accounted for using deposit accounting as additions to investment contract liabilities in the Statement of Financial Position (Note 23) rather than as premiums in the long-term technical account.

	2021 £m	2020 £m
Unit-linked investment contracts comprise		
Life	0.3	0.3
Pensions	39.3	34.0
	39.6	34.3

There were no premiums for non-linked investment contracts.

Notes to the Financial Statements continued

5. Gross Premiums continued

(b) Gross new business premiums

New business premiums for insurance contracts include contractual pension vesting and investment contracts with discretionary participating features were as follows:

	2021 £m	2020 £m
Single premiums which were pension contracts and non linked insurance contracts	9.7	6.3
Geographical analysis		
UK	9.7	6.3

In classifying new business premiums the following bases of recognition have been adopted:

- Pensions vested from existing policies into annuity contracts during the year are included as new annuity single premium business at the annuity purchase price.
- Flexible Drawdown product and annuities sold to existing customers on the vesting of their pension savings contracts (including contracts with guaranteed annuity options) are included as new business.

6. Investment Return

	2021 £m	2020 £m
Investment return: long term business technical account		
Investment income – interest income	29.2	28.1
Investment income - dividend income	53.8	37.7
Realised gains/(losses)	71.5	(118.6)
Unrealised gains	410.2	325.4
	<u>564.7</u>	<u>272.6</u>

	2021 £m	2020 £m
Investment return: non-technical account		
Investment income - Interest income	0.6	0.6
Investment income - dividend income	4.1	0.7
Realised (losses)/gains	(3.1)	0.5
Change in fair value of investments	(3.2)	(0.3)
Unrealised (losses)/gains	(0.3)	0.7
	<u>(1.9)</u>	<u>2.2</u>

Notes to the Financial Statements continued

7. Other Technical Income and Charges

Other income includes fees for policy administration and asset management services arising from non-participating investment contracts. Other charges comprise the amortisation (charged)/credited in the year on the acquired value of in-force business and negative goodwill on the acquisition of the assets and liabilities from RMIS.

	2021 £m	2020 £m
Other technical income		
Fee income from investment contracts	33.3	26.0
Intercompany income due to ULP	1.7	-
	<u>35.0</u>	<u>26.0</u>
Other charges: non-technical account		
Amortisation of negative goodwill	8.1	8.1
Amortisation of Present Value of AVIF	(9.8)	(9.8)
	<u>(1.7)</u>	<u>(1.7)</u>

8. Net operating expenses

	2021 £m	2020 £m
Administration expenses¹	17.3	22.9
Release of Integration and Retention provision¹	(0.7)	(5.0)
	<u>16.6</u>	<u>17.9</u>

¹On acquisition of ELAS, a provision was raised to support the integration of the business into the Company's existing infrastructure (see Note 26). Administrative expenses do not include balances relating to this provision.

The Company has no employees, and all services are undertaken by employees seconded to the Company by Utmost Life and Pensions Services (ULPS) under a Secondment Agreement, which became effective from 1 April 2018. ULP incurs a management charge for secondment services in accordance with the Agreement.

Employee costs, incurred via the management charge, are:

	2021 £m	2020 £m
Wages and salaries (incl. fees paid to non-executive directors)	9.3	12.5
Social security costs	1.1	1.5
Pension costs	0.6	0.8
Non-contractual benefits	0.1	0.1
	<u>11.1</u>	<u>14.9</u>

The monthly average number of employees seconded to ULP during the year, including executive Directors, was 167 (Full time equivalent (FTE): 153) (2020: Headcount: 213; FTE: 199). The total staff number at the end of 2021, including contractors, was 157 (FTE: 144) (2020: Headcount: 178; FTE: 165). The ULP cost base has decreased following successful delivery of cost reduction initiatives, including mainframe to server migration leading to a more efficient operating model going forward.

Notes to the Financial Statements continued

8. Net operating expenses continued

	2021	2020
	£'000	£'000
Included within administration expenses are:		
Audit services:		
Audit fees payable to the Company's auditors	672	835
Non-audit services:		
Audit-related assurance services	50	150
	<u>722</u>	<u>985</u>

Fees shown are net of VAT.

9. Directors' remuneration

The Directors' emoluments were as follows:

	2021	2020
	£'000	£'000
Aggregate remuneration	<u>1,137</u>	<u>1,108</u>
Highest paid Director (included in the above figures)	<u>535</u>	<u>511</u>

Executive Directors who are employees of ULPS and independent non-executive Directors are remunerated by ULPS; the cost for which is recharged to the Company and included within administrative expenses (Note 8).

No incremental emoluments were paid to any Group Non-executive Directors in respect of services to the Company (2020: nil).

The Company provides one director with a cash-settled long-term bonus plan. Amounts payable under the plan are dependent on an increase in Solvency II Economic Value over a five year period from 1 April 2018 to 31 March 2023 or earlier event as defined under the plan. The fair value of the plan was £1.7m (2020: £1.4m).

10. Interest payable and similar charges : Non-technical account

	2021	2020
	£m	£m
Interest payable and similar charges	<u>-</u>	<u>3.6</u>

Notes to the Financial Statements continued

11. Tax on profit on ordinary activities

	2021	Restated ¹ 2020
	£m	£m
Technical account – long-term business		
UK corporation tax charge	1.3	8.7
Total current tax charge	1.3	8.7
Current year movement in deferred taxation	2.8	1.3
Total deferred tax charge in the long term account	2.8	1.3
Tax charge in the Profit and Loss Account	4.1	10.0

The tax charge in the Technical account is comprised of a tax charge of £4.2m in respect of tax payable at the policyholder rate (2020 : tax charge of £1.0m) and a tax credit of £(0.1)m in respect of tax payable at the main UK corporation tax rate (2020: tax charge of £9.0m).

	2021	2020
	£m	£m
Non-technical account		
Tax attributable balance on long-term business account	1.8	10.0
	1.8	10.0
Current year movement in current taxation	11.8	(0.6)
	11.8	(0.6)
Tax charge in the Profit and Loss Account	13.6	9.4

Reconciliation between standard and effective tax rate

	2021	2020
	£m	£m
Profit before Tax	71.3	50.0
Income tax at main rate of UK corporation tax of 19% (2020: 19%)	13.6	9.4
Tax charge in the Profit and Loss Account	13.6	9.4

On 10 June 2021 the Finance Act 2021 was enacted, increasing the UK corporation tax from its current rate of 19% to 25% with effect from April 2023. The impact of the change in the tax rate was to increase the Company's deferred tax charge by £0.1m

Corporation taxation and social security consists of the following balances:

	2021	2020
	£m	£m
Corporation taxation (Note 28)	5.0	3.8
Corporation taxation relating to assets held to cover linked liabilities (Note 16)	9.0	4.0
Total	14.0	7.8

¹ Please refer to Note 23.

Notes to the Financial Statements continued

12. Intangible assets

	Goodwill	Present Value of Acquired in force Business	Total
	£m	£m	£m
Cost			
At 1 January 2021	(121.1)	146.6	25.5
Movement during the year	-	-	-
At 31 December 2021	(121.1)	146.6	25.5
Accumulated amortisation			
At 1 January 2021	12.1	(16.9)	(4.8)
Amortisation during year	8.1	(9.8)	(1.7)
At 31 December 2021	20.2	(26.7)	(6.5)
Net book value at 31 December 2021	(100.9)	119.9	19.0
Net book value at 31 December 2020	(109.0)	129.7	20.7

The Present Value of Acquired In-force Business (PVIF) and Negative Goodwill balances relate to two acquisitions: Equitable Life Assurance Society (ELAS) in January 2020 and RMIS in April 2018.

The Directors have assessed the useful life of the PVIF and useful economic value of the Negative Goodwill arising on these acquisitions as 15 years, based on the period over which the value of the underlying business acquired is expected to exceed the value of the acquired identifiable net assets. The remaining amortisation period for ELAS business at 31 December 2021 is 13 years (2020: 14 years). The remaining amortisation period for the RMIS business is 11.25 years at 31 December 2021 (2020: 12.25 years) for these balances.

13. Investments in subsidiaries

The Company has two subsidiaries, RMIS (RTW) Limited (RMIS) and Equitable Life Assurance Society (ELAS).

In 2018, under an agreement with RMIS, all its assets and liabilities were transferred to the Company. The Company holds 100% of the voting rights of RMIS. The value and cost held at the balance sheet date was £nil (2020: £nil).

The principal activity of RMIS is solely to make payments to its former members under the High Court sanctioned Part VII scheme. RMIS (registration number 00491580) is incorporated in England and Wales and the registered office is Walton Street, Aylesbury, HP21 7QW.

On 1 January 2020, the Company acquired, alongside the transfer of its UK business, the retained business of ELAS at a fair value of £4.5m. The fair value at the balance sheet date is £4.9m. The principal activity of ELAS is the provision of life and pensions policies. ELAS is a UK private unlimited life assurance company without share capital and the registered office is Walton Street, Aylesbury, Buckinghamshire, HP21 7QW.

Equitable Life Ireland DAC, a subsidiary at the start of the year, was liquidated on 9 June 2021.

Notes to the Financial Statements continued

13. Investments in subsidiaries continued

The below is a reconciliation of the movement in investment in subsidiaries during the year:

	As at 1 January 2021 £m	Additions / investment £m	Disposal £m	Revaluation £m	As at 31 December 2021 £m
Valuation					
Equitable Life Assurance Society	5.2	-	-	(0.3)	4.9
RMIS (RTW) Limited	-	-	-	-	-
Equitable Life Ireland DAC	-	-	-	-	-
	5.2	-	-	(0.3)	4.9

The registered office of the above companies is Walton Street, Aylesbury, Buckinghamshire, HP21 7QW and all companies are incorporated in England and Wales.

Details of Group undertakings, all of which are domiciled in England, are:

Company	Holding	Principal activity
Equitable Life Assurance Society (ELAS)1	Direct	Life Insurance
RMIS (RTW) Limited	Direct	Member settlements
Equitable Life Ireland DAC	Direct	Liquidated in June 2021

The fair value of investments in subsidiaries in non-insurance companies is calculated on a UK GAAP net asset value basis. For insurance company subsidiaries, the fair value approach applied is to measure the 'economic value' of the underlying subsidiary based on the Solvency II assessment of the value of the business, adjusted for other components where management's view that Solvency II does not reflect the commercial value of the business. One such component is to adjust the 'risk margin' (an amount required under SII rules to represent the potential cost of transferring insurance obligations to a third party should an insurer fail), calculated using a cost of capital of 6% under regulatory rules. For determining fair value in accordance with UK GAAP, Management have applied 50% of this Risk Margin as an adjustment (2020: 50%), to more appropriately reflect management's view of economic value.

The fair value of life insurance companies is inherently uncertain and the valuation is dependent upon prevailing market, economic and other conditions at the valuation date. In determining the fair value, management have applied a valuation multiple of 90% of economic value (2020:100%). The valuation multiple used in market valuations and acquisition prices of life insurance companies vary depending on a number of factors including the location of the subsidiary and the type of business, but are generally in the range of 80% to 120%. The impact on the fair value of investment in subsidiaries of a 5% change in the valuation multiple would be £0.3m.

Notes to the Financial Statements continued

14. Tangible Assets

Tangible assets includes a freehold owner occupied land and building in Tunbridge Wells. There were no acquisitions or disposals during the year.

In July 2020, ULP relocated offices to Aylesbury. This building was advertised for sale at this point, with disposal expected to take place in 2022.

	£m
Cost	
At 1 January 2021	3.1
Movement during the year	-
At 31 December 2021	3.1
Accumulated Revaluation	
At 1 January 2021	0.3
Revaluation gain in period	0.1
At 31 December 2021	0.4
Net book value at 31 December 2021	3.5
Net book value as 31 December 2020	3.4

15. Financial investments

	Market Value £m	2021 Cost £m	Market Value £m	2020 Cost £m
Financial assets at fair value through profit or loss Designated upon initial recognition				
Shares and other variable yield securities and units in unit trusts	91.1	87.5	118.1	116.7
Debt securities and other fixed income securities	950.0	930.6	1,067.3	992.4
Derivative financial instruments	17.8	14.4	21.9	14.4
	1,058.9	1,032.5	1,207.3	1,123.5
Loans and receivables	-	-	1.5	1.5
Total financial assets	1,058.9	1,032.5	1,208.8	1,125.0

Notes to the Financial Statements continued

15. Financial investments continued

Derivative financial instruments

Included within the Company's Financial Investments are a series of sterling receiver swaptions and equity hybrid receiver swaptions with a fair value of £17.8m (2020: £21.9m) that cost £14.4m (2020: £14.4m).

The contracts are not listed on a recognised exchange, but are valued at the amount at which the independent counterparty would be prepared to close out the options. Each series is exercisable on a single fixed date up until 2040.

The effect of exercising sterling options at the exercise date would be to convert a fixed nominal amount of cash into a fixed-interest asset. In the case of the equity hybrid receiver swaptions, the amount of cash convertible into a fixed-interest asset varies proportionately with the FTSE 100 Total Return Index subject to certain minima and maxima at the date of exercise. The cash which would be used to fund the swaptions is the expected future coupon and redemption receipts from part of the fixed-interest portfolio.

Movements in fair value arise due to actual and perceived future movements in interest rates and the FTSE 100 Total Return Index and are reflected in the long-term business technical account. Fair value gain in the year amounted to £4.1m (2020: £4.7m).

16. Net Assets held to cover linked liabilities

	2021 Market Value £m	2021 Cost £m	Restated ¹ 2020 Market Value £m	Restated ¹ 2020 Cost £m
Shares and other variable yield securities and units in unit trusts	5,459.7	4,712.8	5,453.4	5,170.1
Debt securities and other fixed income securities	0.2	0.2	0.2	0.3
Cash and cash equivalents	13.6	13.6	3.0	3.0
Derivative financial instruments	0.2	-	0.3	-
Current assets	6.5	6.5	6.9	6.9
Corporation taxation	(9.0)	(9.0)	(4.0)	(4.0)
Other current liabilities	(20.8)	(20.8)	(8.2)	(8.2)
	5,450.4	4,703.3	5,451.6	5,168.1

¹In 2020, Net Assets held to cover linked liabilities were stated gross of corporation taxation and other current liabilities, £12.2m. These were presented within 'Creditors: amounts falling due within one year'. In 2021, Assets held to cover linked liabilities include related net current assets. As such, the 2020 figures have been represented accordingly. There is no impact on the net asset value of the company.

In addition to the above, £3.6m (2020: £4.3m) relating to linked liabilities is included in Provision for Outstanding Claims, so the net position matches Technical Provisions for linked liabilities, net of reinsurance.

Notes to the Financial Statements continued

17. Debtors

	2021 £m	2020 £m
Amounts owed by Group undertakings	2.5	0.3
Debtors arising out of direct insurance operations	0.2	0.4
Debtors arising out of reinsurance operations	1.1	1.7
Current tax receivable	0.8	0.6
Deferred tax asset	0.4	0.4
Collateral held for swaptions counterparty	7.4	11.3
Linked fund assets	5.7	5.6
Other debtors	1.1	0.7
	19.2	21.0

Included above is collateral held in respect of our swaptions counterparty (Refer to Note 15b above). This asset is ring-fenced.

18. Cash at bank and in hand

	2021 £m	2020 £m
Cash at Bank	97.5	91.9
	97.5	91.9

19. Share Capital

Ordinary Shares of £1 each allotted and fully paid

	Number	£m
At 1 January 2021	100,000,000	100.0
At 31 December 2021	100,000,000	100.0

There is a single class of ordinary shares and there are restrictions on the distributions of dividends.

20. Dividends

	2021 £m	2020 £m
Ordinary share dividends paid in the year	55.0	40.0

Notes to the Financial Statements continued

21. Profit and loss reserves

	2021 £m	Restated ¹ 2020 £m
At 1 January	116.7	13.5
Profit for the year	57.7	40.6
Other comprehensive income for the year	0.1	-
Capital reduction	-	102.6
Dividend paid	(55.0)	(40.0)
At 31 December	119.5	116.7

¹Please refer to Note 23.

22. Funds for Future Appropriation

	2021 £m	2020 £m
As at 1 January	64.8	70.8
Transfer from/(to) the P&L	2.6	(6.0)
As at 31 December	67.4	64.8

23. Technical Provisions

	Restated ¹ Gross £m	Restated ¹ Re- insurance £m	Restated ¹ Net £m
At 1 January 2020	888.8	17.5	906.3
Prior year adjustment ¹	0.6	-	0.6
Restated balance as at 1 January 2020	889.4	17.5	906.9
Equitable Life Acquisition	448.3	(346.9)	101.4
Premiums received	10.7	(22.4)	(11.7)
Claims paid	(82.7)	35.6	(47.1)
Model changes	(38.0)	26.9	(11.1)
Change in demographic assumptions	(6.3)	5.1	(1.2)
Change in expense assumptions	2.3	-	2.3
Change in economic assumptions and Other	120.9	(56.0)	64.9
Prior year adjustment ¹	(7.5)	-	(7.5)
Restated balance as at 31 December 2020 ¹	1,337.1	(340.2)	996.9

Notes to the Financial Statements continued

23. Technical Provisions continued

	Gross £m	Re- insurance £m	Net £m
At 1 January 2021	1,337.1	(340.2)	996.9
Premiums received/(paid)	13.4	(21.0)	(7.6)
Claims (paid)/recovered	(80.0)	35.0	(45.0)
Model changes	(0.0)	(0.1)	(0.1)
Change in demographic assumptions	(41.4)	18.8	(22.6)
Change in expense assumptions	(9.2)	-	(9.2)
Change in economic assumptions and Other impacts	(77.2)	21.7	(55.5)
At 31 December 2021	<u>1,142.7</u>	<u>(285.8)</u>	<u>856.9</u>

Analysis of technical provisions	2021 £m	2020 £m
Movement in the period for gross technical provisions	<u>194.4</u>	<u>0.7</u>
Long-term business provision gross amount credit for the year	<u>194.4</u>	<u>0.7</u>

Reinsurance Balances	2021 £m	2020 £m
Assets	343.6	380.7
Liabilities	<u>(57.8)</u>	<u>(40.5)</u>
	<u>285.8</u>	<u>340.2</u>

With-profits investment contracts

Included within the long-term business provision are amounts of £6.8 m (2020: £6.6m) relating to liabilities under with profits investment contracts, where there is no transfer of significant insurance risk. These investment contracts contain a discretionary participatory feature which entitles the holder to receive, as a supplement to the guaranteed benefits, additional benefits or bonuses through participation in the surplus arising from the assets held in the relevant investment with profits fund. These supplemental discretionary participatory returns are subject to the discretion of the Company. The Company has the discretion within the constraints of the terms and conditions of the instruments and UK regulation, to allocate the surplus to the contract holders.

Notes to the Financial Statements continued

23. Technical Provisions continued

	Unit linked investment contracts Restated ¹		Unit linked insurance contracts Restated ¹		Total Restated ¹	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January	5,036.4	461.1	417.3	179.8	5,453.7	640.9
Prior year adjustment ¹	-	(34.8)	-	34.8	-	-
Restated balance at 1 January	5,036.4	426.3	417.3	214.6	5,453.7	640.9
Acquisition	-	5,527.4	-	239.8	-	5,767.2
Deposits / premiums received	39.5	34.3	2.7	2.9	42.2	37.2
Withdrawals/ payments made to policyholders	(564.9)	(1,130.1)	(35.4)	(50.4)	(600.3)	(1,180.5)
Change in technical provision	512.9	178.5	43.6	10.4	556.5	188.9
Restated 31 December	5,023.9	5,036.4	428.2	417.3	5,452.1	5,453.7

Financial liabilities in respect of unit linked investment contracts are carried in the balance sheet at fair value.

The change in technical provision for unit linked contracts on the P&L is net of the movement in outstanding claims for investment contracts.

Deferred tax is provided on certain unrealised gains/ (losses) and deemed disposals within the linked funds. This deferred tax asset is reflected in assets held to cover linked liabilities. The deferred tax balance in respect of the linked funds at 31 December 2021 is £nil. (2020: £nil).

¹ Following a review of the product classification used to calculate the statutory technical provisions, a number of 2020 profit and loss and balance sheet items have been restated due to a reclassification between investment and insurance products. In 2020, the impacts were as follows:

- The opening P&L reserves have been restated to be £0.6m lower;
- Change in other technical provision: long term business provision has been restated to be £8.1m lower;
- Deferred tax charge has increased in the profit and loss account by £1.4m;
- The Long Term business provision has decreased by £7.5m; and
- Deferred Tax liability (with Provisions for Other Risks and Charges) has increased by £1.4m.

Notes to the Financial Statements continued

24. Outstanding claims

Included in outstanding claims are £3.6m (2020: £4.4m) of unit linked liabilities.

25. Capital management

The Company is required to hold capital at a level of financial resources that do not fall below a minimum as determined in accordance with the PRA regulations and EU directives for insurance and other PRA regulated business.

For the purposes of determining its Regulatory Capital, the Company uses the Solvency II Standard Formula without adjustment. The appropriateness of the Standard Formula approach has been reviewed by management and actuarial functions and approved by the Board.

The capital of the Company comprises ordinary shares and retained earnings.

On 16 December 2019, the Company increased its issued ordinary share capital from £30m to £142.6m, and received loan capital from its immediate parent company Utmost Holdings. This was in advance of the Part VII transfer of business from Equitable Life on 1 January 2020 to meet the increase in the Company's regulatory capital obligations arising therefrom. On 9 November 2020, the Company issued 60m shares of £1 each to its holding company, ULPH and the proceeds were used to repay the loan capital received in 2019. On 23 December 2020, the Company cancelled £102.6m shares of £1 each.

In order to reconcile capital or available financial resources on a UK GAAP accounting basis to a Solvency II basis, a number of adjustments are required. These adjustments include deductions for inadmissible intangible assets, valuation differences on policyholder liabilities (Solvency II only), and deferred tax arising on these adjustments. The following table sets out the reconciliation.

	Total £m
Equity under UK GAAP at 31 December 2021	219.5
Goodwill and Other Intangible Assets	(19.0)
Difference in asset valuations	0.3
Difference in the measurement of technical provisions	124.6
Difference in net deferred taxation liabilities arising from above	(22.5)
Solvency II Own Funds at 31 December 2021	302.9
Restricted Own Funds	(12.2)
Solvency II Eligible Own Funds at 31 December 2021	290.7
 Solvency Capital Requirement at 31 December 2021	 157.6
Solvency Capital Coverage Ratio*	184%

*estimated

Notes to the Financial Statements continued

25. Capital management continued

	Total £m
Equity under UK GAAP at 31 December 2020	216.7
Goodwill and Other Intangible Assets	(20.7)
Difference in asset valuations	1.2
Difference in the measurement of technical provisions	130.6
Difference in net deferred taxation liabilities arising from above	(21.5)
Solvency II Own Funds at 31 December 2020	<u>306.3</u>
 Solvency Capital Requirement at 31 December 2020	 173.9
Solvency Capital Coverage Ratio*	176%

*estimated

The level of capital (at both a sub-fund and overall Company level) required to maintain alignment with the Company's solvency related risk appetite limits provides a direct link between risk appetite and capital management. If the current level of capital cover falls below the target solvency cover ratios, this will indicate that the Company is outside risk appetite.

The approach to capital management is closely linked to the Company's risk appetite, since many of the most material risk exposures have the potential to lead to significant adverse capital impacts on its balance sheet. The Company considers its risk appetite in context of the Solvency II regulatory regime by maintaining a capital buffer above its Solvency II regulatory Solvency Capital Requirement ('SCR'). The SCR reflects a level of financial resources that enable insurance undertakings to absorb significant losses and provide reasonable assurance to its policyholders that payments will be made as they fall due.

The Company seeks to have a Solvency Capital Ratio (own funds/SCR) in excess of 135% at all times, and targets a Solvency Capital Ratio of at least 150% immediately after a payment of a dividend or loan interest.

The Company continually manages and monitors its capital position from a regulatory perspective, by reference to the performance of its assets and liabilities and by giving due consideration to:

- (i) Its internal view of the operational and financial risks to which it is exposed (Note 4), both now and over the business planning period;
- (ii) The capital needed to support delivery of the business plan and make progress towards the Company's long-term strategic objectives; and
- (iii) Its regulatory capital requirements.

For further information on the Company's approach to risk and capital management and on its regulatory capital, see the 'Solvency & Financial Condition Report (SFCR)', which is available on the Company's website www.utmost.co.uk

Notes to the Financial Statements continued

26. Deferred taxation

	2021	Restated ¹ 2020
	£m	£m
Deferred tax provisions:		
Undiscounted deferred tax liabilities (Note 27)	(7.5)	(5.0)
Deferred tax assets (Note 17)	0.4	0.4
Net deferred tax liability	(7.1)	(4.6)

The table below shows and the principal components on which the deferred tax arises.

	2021	2020
	£m	£m
Unrealised losses on financial investments	(7.3)	(4.6)
Pension deficit	0.4	0.4
Acquired intangible asset	(1.0)	(0.8)
Losses carried forward asset	0.4	0.4
Other	0.4	-
Total provision for deferred tax	(7.1)	(4.6)

¹Please refer to Note 23..

In addition to the above balances, deferred tax is provided on certain unrealised gains/ (losses) and deemed disposals held within the linked fund. This deferred tax liability is reflected in assets held to cover linked liabilities. The deferred tax balance in respect of the linked funds at 31 December 2021 is a liability of £nil (2020: liability of £nil).

27. Provisions for other risks and charges

	Deferred Tax Liability £m	Pension Mis-selling £m	Integration & Retention ¹ £m	Total £m
1 January 2021 Restated²	5.0	1.5	3.0	9.5
Amounts utilised during the year	-	-	(1.8)	(1.8)
Amount debited/(credited) to Profit and Loss	2.5	-	(0.7)	1.8
31 December 2021	7.5	1.5	0.5	9.5

¹This provision arose following the acquisition of ELAS, to support the integration of the business into the Company's existing infrastructure.

²Please refer to Note 23.

Notes to the Financial Statements continued

28. Creditors: amounts falling due within one year

	2021	Restated ¹ 2020
	£m	£m
Creditors arising out of direct insurance operations	3.9	4.5
Creditors arising out of reinsurance operations	0.6	0.5
Amounts owed to group undertakings	0.2	0.4
Collateral due for swaptions counterparty	7.4	11.3
Corporation Taxation and social security	5.0	3.8
Other creditors	1.3	1.0
	18.4	21.5

¹Please refer to Note 16.

29. Post-employment benefits

Defined Benefit Scheme

On 1 April 2018, as part of the business transfer agreement all assets and liabilities of the scheme were transferred from RMIS to the Reliance Pension Scheme, at which date the Company became the principal employer to the defined benefit pension scheme. The scheme has been closed to future accrual since June 2010. The last full valuation of the scheme was carried out as at 31 March 2019. Following this the Trustee of the scheme and Utmost Life and Pensions Limited (the employer) agreed that a revised schedule of contributions at £0.2m per quarter to cover the deficit and £0.04m per quarter to cover the expenses would be payable commencing in January 2020 and ending in July 2023. During the year from 1 January to 31 December 2021 the Company made contributions (including deficit funding) of £1.0m (2020: £1.0m).

The principal actuarial assumptions at the year-end were as follows:

	2021	2020
	%	%
Discount rate	1.9	1.4
RPI inflation rate	3.3	2.9
CPI inflation rate	2.9	2.5

Pre and post-retirement mortality:	2021	2020
Base table	SAPS -S3	SAPS -S3
Mortality projections	CMI 2020	CMI 2018
Long term rate of improvement	1.25[Male]	1.25[Male]
	1.25[Female]	1.25[Female]

	2021	2020
	Years	Years
Life expectancies from age 65:		
Male currently aged 65	22.5	22.4
Female currently aged 65	24.8	24.6
Male currently aged 45	23.8	23.8
Female currently aged 45	26.3	26.1

Notes to the Financial Statements continued

29. Post-employment benefits continued

Reconciliation of funded status to the Balance Sheet:

	2021 £m	2020 £m
Defined benefit obligation	(40.1)	(41.7)
Fair value of plan assets	39.8	39.4
	(0.3)	(2.3)
Onerous Liability	(1.1)	-
Net defined benefit liability	(1.4)	(2.3)

Assets

	2021 £m	2021 % weight	2020 £m	2020 % weight
Diversified growth funds	15.5	29.3	15.5	39.2
Liability matching funds	23.5	70.0	23.5	59.8
Cash/other	0.4	0.7	0.4	1.0
Total	39.4	100.0	39.4	100.0

Analysis of profit and loss charge

	2021 £m	2020 £m
Net interest expense	-	0.1
Pension scheme expenses (excluding investment related expenses)	0.2	0.2
Past service cost	-	0.1
Total pension expense recognised in profit and loss	0.2	0.4

Reconciliation of defined benefit obligation over the year:

	2021 £m	2020 £m
Defined benefit obligation at start of the year	(41.7)	(37.1)
Interest expense on defined benefit obligation	(0.6)	(0.8)
Remeasurement- effect of experience adjustments (loss)/gain	(0.1)	0.7
Remeasurement- effect of changes in financial assumptions gain/(loss)	1.6	(5.2)
Remeasurement- effect of demographic assumptions loss	(0.1)	-
Benefits paid	0.8	0.8
Past service cost	-	(0.1)
Defined benefit obligation at the end of the year	(40.1)	(41.7)

Notes to the Financial Statements continued

29. Post-employment benefits continued

Reconciliation of fair value of plan assets over the year

	2021 £m	2020 £m
Fair value of plan assets at the start of the year	39.4	33.9
Interest income on plan assets	0.6	0.7
Remeasurement –(loss)/gain on plan assets excluding interest income	(0.2)	4.8
Contributions by the Company	1.0	1.0
Benefits paid	(0.8)	(0.8)
Pension scheme expenses (excluding investment related expenses)	(0.2)	(0.2)
Fair value of plan assets at the end of the year	<u>39.8</u>	<u>39.4</u>

Remeasurements recognised in other comprehensive income (OCI)	2021 £m	2020 £m
Actuarial (loss)/gain due to experience on defined benefit obligation	(0.1)	0.7
Actuarial gain/(loss) due to changes in financial assumptions	1.6	(5.2)
Actuarial loss due to changes in demographic assumptions	(0.1)	-
Return on plan assets (less)/greater than discount rate	(0.2)	4.8
Change in onerous liability excluding interest	(1.1)	-
Total remeasurement gain recognised in OCI	<u>0.1</u>	<u>0.3</u>

Reconciliation of funded position	2021 £m	2020 £m
Net defined benefit liability at start of the year	(2.3)	(3.3)
Expense recognised in profit and loss	(0.2)	(0.3)
Gain recognised in OCI	0.1	0.3
Contributions by the Company	1.0	1.0
Net defined benefit liability at end of the year	<u>(1.4)</u>	<u>(2.3)</u>

The Company is exposed to a number of risks relating to the pension scheme, including assumptions not being borne out in practice. These include:

- Asset volatility: There is a risk that a fall in asset values is not matched by a corresponding reduction in the value of the Scheme liability.
- Change in bond yields: A decrease in corporate bond yields will increase the value placed on the Scheme liability, although this will be partially offset by an increase in the value of the Scheme's corporate bond holdings.
- Inflation risk: The majority of the Scheme liability is linked to inflation, where higher inflation will lead to a higher value in the liability, which is not offset by a corresponding increase in the assets.
- Life expectancy: An increase in life expectancy will lead to an increase in the Scheme liability.

Notes to the Financial Statements continued

29. Post-employment benefits continued

Sensitivities

There are a number of actuarial assumptions included the calculation of the Scheme liability. Sensitivities to changes in the significant assumptions are presented below.

Scenario	Impact on value of liability	
	£m	
	Up	Down
Interest rates – up 50 bps/down 50 bps	4.1	(4.1)
Inflation – up 100 bps/down 100 bps	8.1	(8.1)
Mortality tables – add/subtract 5% to Male and Female multiplier	0.6	(0.6)

Current ULP employees can contribute to a Defined Contribution scheme run by Legal & General Plc

30. Capital and other commitments

	2021	2020
	£m	£m
The Company had the following future minimum lease payments under non-cancellable operating lease for each of the following periods		
Not later than one year	0.9	0.9
Later than one year and not later than five years	1.3	2.3
	<u>2.2</u>	<u>3.2</u>

31. Related parties transactions

In accordance with Section 33 of FRS102, the Company is exempt from disclosing related party transactions within other companies that are wholly owned within the group. Excluding the parent company, there were no related party transactions with non-wholly owned companies with the Group.

No Directors nor senior managers were in receipt of loans from the Company at any time during the year.

32. Controlling party

The Company's immediate parent is Utmost Life and Pensions Holdings Limited, a direct subsidiary of Utmost Group plc (UGP), which is the Company's ultimate UK holding company.

The ultimate parent company which maintains a majority controlling interest in the Company is recognised by the Directors as OCM Utmost Holdings Limited: a Cayman Islands incorporated entity. Advantage has been taken of the exemption under section 33 of FRS 102 not to disclose transactions between entities wholly-owned within the UGP group of companies. OCM Utmost Holdings Limited is an investment vehicle owned by funds which are managed and advised by Oaktree Capital Management, L.P.: a subsidiary of the ultimate controlling party, Oaktree Capital Group LLC.

33. Contingent liabilities

There are no contingent liabilities. (2020: £nil).

34. Event after the reporting period

There are no events which have occurred after the reporting date but before the signing of these Financial Statements, which requires amendment of any balances or further disclosure.