



Utmost Holdings Isle of Man Limited Solvency and Financial Condition Report Year- End 2021

Month: June 2022
Author: Utmost Holdings IOM Ltd
Owner: Board of Directors

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Introduction

The harmonised European Union ("EU") wide regulatory regime for Insurance Companies, known as Solvency II, came into force with effect from 1 January 2016. The regime requires reporting and public disclosure arrangements to be put in place by insurers. The objective of the Solvency and Financial Condition Report ("SFCR") is to increase transparency in the insurance market by requiring insurance and reinsurance undertakings to disclose publicly, on at least an annual basis, a report on their solvency and financial condition.

Although it is not a regulatory requirement Utmost Holdings Isle of Man Limited ('UHIOML' or 'the Company') and its subsidiaries (together, 'the Group') has decided to produce this report to be consistent with other parts of the Utmost International Group ("UIG"). For the purposes of this report, UHIOML represents the consolidated results of its subsidiary companies which include Utmost Limited ("UL") and Quilter International Isle of Man Limited ("QIloM"). The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

This report covers the Business and Performance of the Group, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. The Company's Board of Directors ("the Board") has ultimate responsibility for all of these matters and is assisted by various governance and control functions put in place to monitor and manage the business.

On 30 November 2021, UHIOML acquired the entire issued share capital of Quilter International Holdings Limited ("QIHL"). Upon completion of the QIHL acquisition, and as part of a group reorganisation, UHIOML directly acquired the issued share capital of QIHL subsidiaries. As a result of this the 2020 numbers are for UHIOML without Quilter entities being consolidated.

UHIOML, UL and QIloM are incorporated in the Isle of Man. Both life companies are authorised and regulated by the Isle of Man Financial Services Authority. For UK business UL is regulated by the UK Financial Conduct Authority. QIloM has regulated branches in Hong Kong & Singapore.

The Company's financial year runs to 31 December each year and the results are reported in Sterling (£).

Summary

BUSINESS AND PERFORMANCE

The principal activity of the Company is the writing of long-term assurance business classified as both investment and insurance contracts. Following the acquisition of Quilter International on 30th November 2021, the combined business holds c. £32bn of assets under administration.

UL business is sold through two main products, predominately in the UK, whilst QlloM business is sold through a range of products worldwide.

The Company generated a profit after tax for the 2021 financial year of £293,023k. This compares to a profit after tax of £6,267k in 2020. The key drivers behind the higher profit in 2021 and revised profit in 2020 is due to the addition of QlloM figures on a consolidated basis.

SYSTEM OF GOVERNANCE

Corporate governance represents the sum of the methods, models and planning, management and control systems that are required for the operation of the governing bodies. UHIOML's Risk Management Governance and Control Framework consists of company policies, administrative and accounting procedures and organisational structures, which are aimed at identifying, measuring, managing and monitoring the main risks. The specific Risk Policies, together with their Guidelines and Operating Procedures, provide more detailed rules on the Internal Control and Risk Management System.

Risk governance is aimed at establishing an effective organisational structure based on a clear definition of risk roles and responsibilities, and on a set of policies, guidelines and operating procedures. As part of its governance structure, the Group Board of Directors ("BoD") has established a series of BoD Committees with specific delegated authorities.

The key aspects of the Framework are:

Internal Control Environment - The Group has established a positive internal control environment. The control environment is the foundation for all other components of internal control, providing discipline and structure. It sets the tone of the organisation, influencing and strengthening the control consciousness of all employees. It includes the integrity, ethical values, competence development of the personnel, management's philosophy and operating style, the way roles and responsibilities are assigned, the organisation structure and governance. The oversight and direction provided by the BoD is a fundamental element for a successful control environment.

Internal Control Activities - The Group ensures that management directives are effectively carried out through the establishment of adequate control activities. These ensure that necessary actions are taken to address risks in order to achieve each of the Group's objectives.

Control activities are set up throughout the organisation, at all levels and in all business functions. The control activities may include approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets. Control activities are appropriate to the risks arising from the activities and processes to be controlled. Processes and controls are documented. Monitoring of the controls and documentation is considered to be an essential part of the management of the business.

Duties and responsibilities are clearly allocated, segregated and coordinated. They are reflected in the description of tasks and responsibilities included in Role Profiles for each individual. Effective cooperation

between personnel is fostered. Powers of delegation provide for any significant decision to involve at least two key managers before the decision is being implemented.

Internal controls include the task of identifying and managing any areas of potential conflicts of interest appropriately.

Contingency plans are maintained and updated to address material risks as and when identified, which could cause vulnerabilities to entities within the Group. The aim of contingency planning is to enable the entity to continue its business activity at a predetermined minimum level to protect individuals and tangible property as well as assets. Contingency plans are reviewed, updated and tested on a regular basis.

Awareness - The Group ensures that all personnel are aware of their role in the internal control system. All personnel receive a clear message from Senior Management that control responsibilities are to be taken seriously.

Monitoring and Reporting - The Group ensures that the quality of the performance of the internal control framework is assessed over time at a business level.

Monitoring and reporting mechanisms within the internal control framework is established in order to provide the Senior Management and BoD with the relevant information for the decision-making processes.

Ongoing monitoring occurs in the course of the operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. Internal control deficiencies are reported upstream and to the control functions, with serious matters reported to Senior Management and the BoD

RISK PROFILE

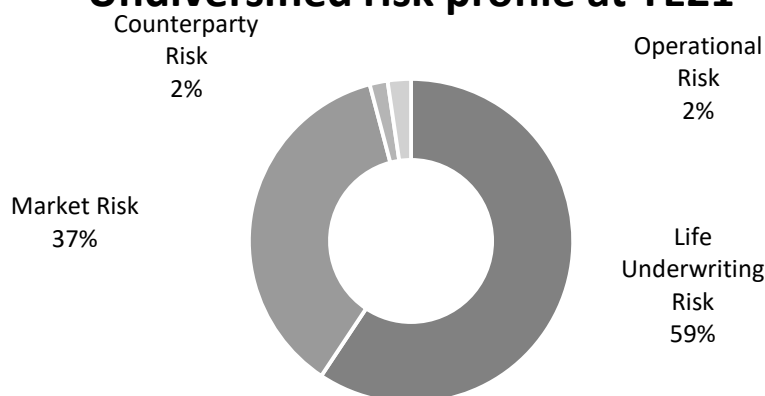
Risks are generally grouped by risk types for the purposes of risk identification and measurement in accordance with the Company's risk management policy. The groups used are life underwriting/insurance (including longevity risk), market, counterparty default, operational, liquidity and other material risks, including regulatory and cyber risks. The classes of risk to which the Company is exposed have not changed significantly over the year.

Risk identification is carried out on a regular basis as part of the business planning process. The process involves consideration of both internal and external data, and their application in both normal and stressed environments. Sources for identifying risk include risk event analysis, management information and other governance processes, and input from management and internal committees.

The Company sets its capital risk appetite and limits considering the Solvency II Solvency Capital Requirement ("SCR") and the solvency coverage ratio. The Company also reports SCR under the local insurance and valuation regulations prescribed by the Isle of Man Financial Services Authority. The SCR and solvency coverage ratio are used to assess the significance of risks and to determine appropriate strategies for their management.

The chart below shows the composition of the Company's undiversified SCR as at 31 December 2021:

Undiversified risk profile at YE21



Market Risks

UHIOML is exposed to market risk as a result of adverse market movements on underlying policyholder assets.

The Company typically invests the single premiums collected in financial instruments but does not bear the market risk directly. However, UHIOML is exposed to adverse market movements, as income to shareholders is calculated as a percentage of asset values, and therefore decreases in market values reduce UHIOML's fee income.

The key market risks UHIOML are exposed to are:

- Equity risk: a reduction in equity values and equity based components of future profits recognised in the shareholder income.
- Currency risk: where movements in exchange rates can result in gains or losses on shareholder income. The Company's base currency is GBP and the next largest exposure is to USD.
- Interest rate risk: movements in interest rates directly impact the present value of future asset and liability cash flows.
- Property risk: where movements in property values reduce the related components of future profits. There is limited exposure to property investments held by policyholders.
- Spread risk: defined as the risk that arises from changes in or volatility of credit spreads over the risk free interest rate term structure. This risk may be specific to the standing of an obligor or guarantor or may be systemic. UHIOML's has exposure both within policyholder and shareholder assets.
- Concentration risk: additional risk arising from aggregated exposures to entities under the common control of a single name entity.

Market risks contribute £312.9m of SCR before diversification (2020: £109.8m). The SCR arising from Equity and Currency risks are the main contributors to market risk.

Counterparty Risks

UHIOML is exposed to the risk of incurring losses due to the inability of counterparties to honour their financial obligations. UHIOML's direct credit risk exposure includes both credit and counterparty default risks.

The Company's key default risks include:

- The exposure the Company has to Aviva Life and Pensions Limited as a result of the reinsurance agreement in place to allow the Company's policyholders access the With-Profits funds

- The counterparty default exposure from cash deposits.

Life Underwriting Risk

Life Underwriting Risk relate to the risk of unfavourable underwriting and expense experience, relative to assumptions, resulting in reduced profitability for UHIOML. The key life risks for the Company are:

- Lapse risk: this arises from customers lapsing their policies earlier than expected through either partial or full surrenders. This also includes a catastrophic event resulting in a mass lapse event.
- Expense risk: defined as the change in the value of liabilities resulting from changes in the expenses incurred in servicing insurance contracts.

Operational Risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. UHIOML is exposed to operational risk as part of its day-to-day operations. An operational risk management framework has been implemented to identify, assess and monitor operational risks.

Liquidity Risk

Liquidity risk refers to the risk that the company will not be able to meet both expected and unexpected cash flow requirements. UHIOML manages this Risk to meet its own obligations and cash commitments due to unexpected contingent market situations, through an ongoing monitoring of actual and expected cash flows, and the availability of assets that can be sold easily without loss in the event of need. This activity aims at maintaining a high financial robustness both in the short- and long-term horizons, which helps to mitigate UHIOML's liquidity risk and is the basis for the evaluation of the adequacy of the adopted measures.

Further information on UHIOML's risks is included in Section C.

VALUATION FOR SOLVENCY PURPOSES

UHIOML's assets, technical provisions and other liabilities are valued in accordance with the Solvency II Directive, and also on the local Isle of Man regulations as stipulated in the Insurance (Long-Term Business Valuation and Solvency) Regulations 2018, a risk-based solvency regime similar to Solvency II. The principle underlying the approaches is that the value determined is that at which the relevant item could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

The valuation methods used by the Company have not changed during the year. The Company has not applied any transitional measures, nor does it apply matching or volatility adjustments, in its valuation of technical provisions.

The Solvency II assets and liabilities and technical provisions at 31 December are outlined below.

Solvency II Assets, Liabilities and Technical Provisions

	31 December 2020 £'000	31 December 2021 £'000
Total Assets	10,641,717	32,412,660
Total Liabilities	10,404,504	31,499,227
Net Technical Provisions	10,157,363	31,165,537

The assets, liabilities and technical provisions increased during 2021. The key reason for the increase was the acquisition of QlloM which added £20.7bn of assets, £20.0bn of liabilities and £20.0bn of technical provisions.

Further information on the assets and liabilities, including the differences between the Solvency II value and the Statutory Accounts value, is provided in Sections D1 and D3.

CAPITAL MANAGEMENT

The Solvency Capital Requirement is calculated according to the Standard Formula methodology, corresponding to a Value-at-Risk of basic own funds of the Company subject to a confidence level of 99.5% over a one-year period. At year-end 2021 the solvency capital ratio, using the Standard Formula methodology, of 170%.

Own Funds are all classified as Tier 1. The table below outlines the Own Funds that are eligible to meet the SCR and Minimum Capital Requirement ("MCR"). Note that the MCR is calculated on an IoM FSA basis in line with the presentation within the Group QRTs.

There were no instances of non-compliance with the SCR or MCR over the reporting period.

Solvency Capital Requirement and Minimum Capital Requirement

	31 December 2020 £'000	31 December 2021 £'000
Solvency Capital Requirement	156,744	537,608
Minimum Capital Requirement*	70,535	184,376
Eligible Own Funds for SCR	232,784	913,433
Solvency Coverage Ratio	151%	170%
Eligible Own Funds for MCR	232,784	911,768
Minimum Solvency Coverage Ratio	336%	495%

*The Minimum Capital Requirement for 2020 was on a Group SII basis. This is now calculated on a local regulatory basis in line with Group requirements.

Further details on the capital position are outlined in Section E.

A. Business and Performance

A.1. BUSINESS

Legal Entity Name:

Utmost Holdings Isle of Man Limited

Registered Office:

Royalty House
Walpole Avenue
Douglas
Isle of Man
IM1 2SL

Auditors:

PriceWaterhouseCoopers
Sixty Circular Road Douglas, Isle of
Man
IM1 1SA

Utmost Limited & Quilter International Isle of Man Regulated by:

Isle of Man Financial Services Authority ("IOM FSA")

PO Box 58

Finch Hill House

Douglas

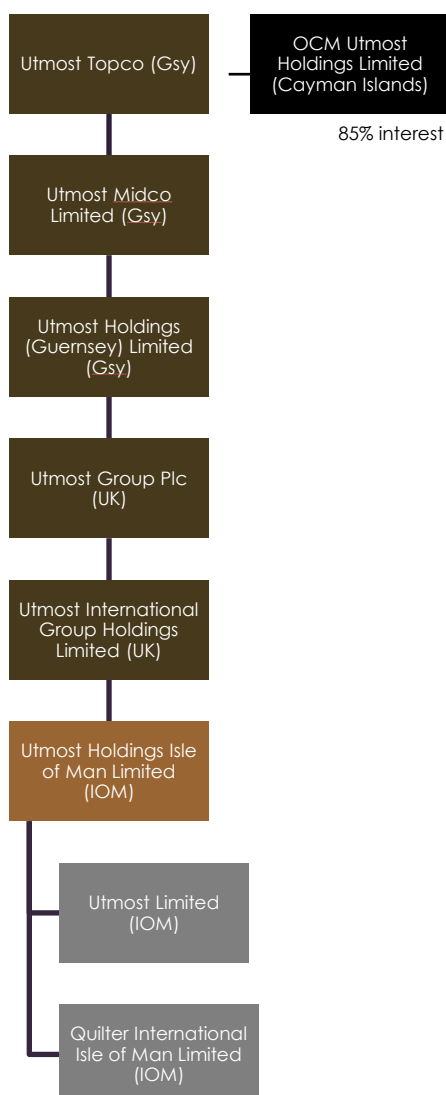
Isle of Man

IM99 1DT

UHIOML Board of Directors as at 31 December 2021:

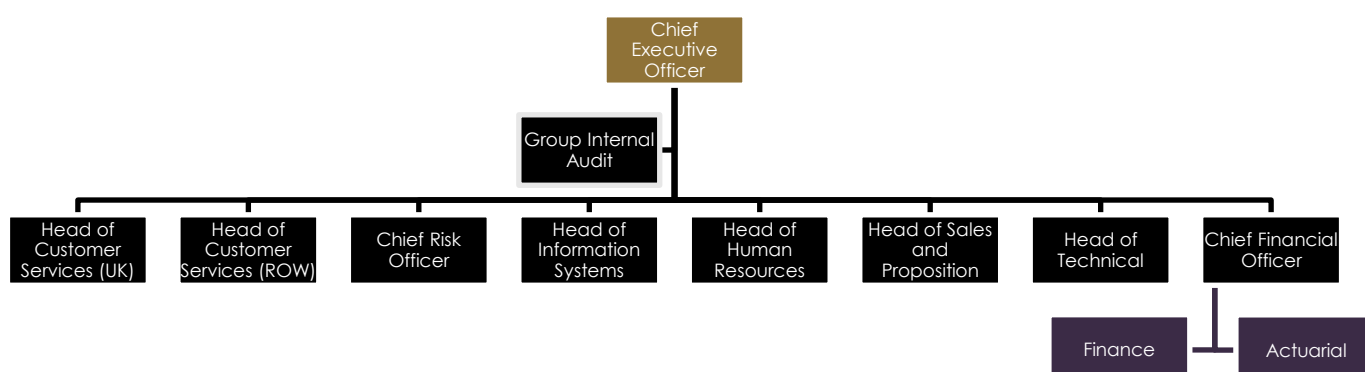
Name	Position	Nationality	Date Appointed
Neil Duggan (Chairman)	Independent Non-Executive	British	March 2013 (Chairman - September 2018)
Matthew Coffey	Independent Non-Executive	Irish	September 2018
Chris Hall	Independent Non-Executive	British	November 2013
Ian Maidens	Non-Executive	British	October 2016
Paul Thompson	Non-Executive	British	October 2016
Michael Foy	Executive, Chief Executive Officer	British	February 2008
Karl Moore	Executive, Chief Financial Officer	British	September 2018

UHIOML Ownership Structure (all ownership is 100% unless otherwise stated)



UHIOML is incorporated in the Isle of Man and is authorised by the IOM FSA to conduct insurance business.

UHIOML Organisational Structure



A.2. UNDERWRITING PERFORMANCE

The majority of the Company's gross premium written in both 2021 and 2020 for UL was from the United Kingdom. Note that premiums for QlloM are included for the final month of the year only due to the acquisition occurring on 30 November 2021.

Gross Written Premiums

	31 December 2020 £'000	31 December 2021 £'000
Gross Written Premiums	375,844	805,396

The financial statements have been prepared on a going concern basis in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101").

Detailed information on the Company's premiums, claims and expenses is included in S.05.01.02 and S.05.02.01 in Section F. Quantitative Reporting Templates.

A.3. INVESTMENT PERFORMANCE

Investments for the Benefit of Life Assurance Policyholders who bear the Investment Risk

The investments linked to insurance policies are selected by policyholders, or their appointed advisors or, where applicable, by asset managers selected by the policyholders and appointed for the purpose by the UL and QlloM. The value of assets under management is affected by new business, asset and currency performance, fee deductions and policies maturing or surrendering each year.

Investments for the benefit of life assurance policyholders who bear the investment risk

Policyholder Investments	31 December 2020 £'000	31 December 2021 £'000
Financial assets at fair value to cover liabilities under insurance contract	218,337	226,142
Financial assets at fair value to cover linked	10,315,059	30,655,047

liabilities		
Policyholder loans	-	171,516
Cash balances and cash equivalents	24,250	1,036,211
Total	10,557,646	32,088,916
Breakdown of Investments		
Ordinary Shares and Funds	3,107,313	14,814,240
Discretionary managed portfolios	6,359,370	14,092,693
Modified coinsurance account	402,073	408,943
Deposits	398,698	996,247
Other Investments	47,605	342,924
Total Investments	10,315,059	30,655,047

Total policyholder investments increased from 2020 to 2021 primarily due to the acquisition of Quilter entities, financial market performance and new business premiums, partially offset by policyholder withdrawals.

Company Financial Investments

Company financial investments are primarily bonds, investment funds and investments in subsidiaries.

Company Financial Investments

Company Financial Investments	31 December 2020 £'000	31 December 2021 £'000
Financial Assets		
Investment Funds	11,036	12,651
Deposits	10,000	39,166
Cash balances and cash equivalents	20,372	213,498
Total Financial Assets	41,408	265,315
Long term loan	20,000	20,805
Total Company Financial Investments	61,408	286,120

Investment income on the Group's financial investments relates to interest income on the long-term loan, deposits, and cash and cash equivalents, and dividend income from investment funds. Movements are recognised in the statement of comprehensive income in the period in which they arise.

Investment performance

Investment performance on Policyholder and Company Financial Investments	31 December 2020 £'000	31 December 2021 £'000
Interest income	3,862	3,531
Dividend income	26,311	26,642
(Loss)/Gains on investments	383,144	1,187,254
Total Investment Performance	413,317	1,217,427

A.4. PERFORMANCE OF OTHER ACTIVITIES

Expenses

Operating expenses for the Group include acquisition and other commission for direct insurance. The expenses include payroll costs as well as third party administrator related expenditure and office overheads. Depreciation of tangible fixed assets, amortisation of intangible fixed assets, write-off of intangible fixed assets and Auditors' remuneration for the audit of the entity's financial statements are also included. Operating costs are charged through the statement of comprehensive income of the Group.

Dividends

During 2021 UHIOML paid dividends of £10,000k to its immediate parent Utmost Group Plc (2020: £20,000k).

Leasing Arrangements

The Group has several leases in place to rent office buildings. These are held by Utmost Services Limited, QlloM, AAM Advisory PTE. Ltd and Quilter International Middle East Limited. These are accounted for in accordance with IFRS 16 whereby the Companies recognise a right-of-use asset and a corresponding lease liability.

A.5. ANY OTHER INFORMATION

B. System of Governance

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

Corporate governance represents the sum of the methods, models and planning, management and control systems that are required for the operation of the Company's governing bodies.

UHIOML's corporate governance is based on a number of cornerstones, such as the central role played by the Board, the correct management of situations that present conflicts of interest, transparency in disclosing decisions regarding the management of the Company, and the effectiveness of the Internal Control & Risk Management framework.

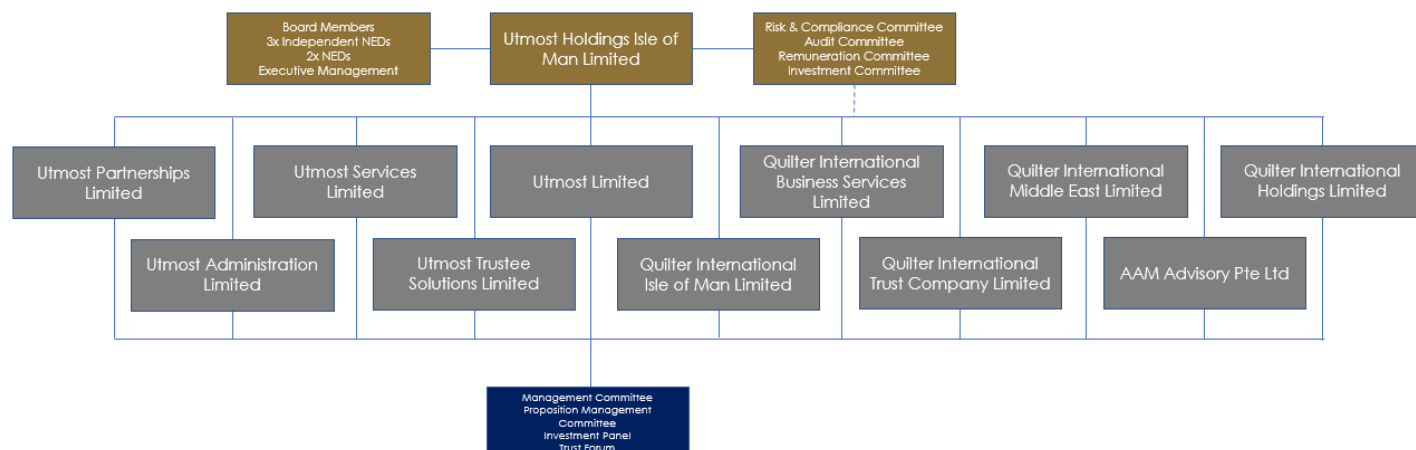
B.1.1. INFORMATION ON GENERAL GOVERNANCE

Utmost Holdings Isle of Man Limited is the holding company of the Group. The Board of Utmost Holdings Isle of Man Limited consists of three independent non-executive directors, two non-executive directors and two executive directors.

The Board takes overall responsibility for the management of the Group which includes:

- Strategic planning and direction;
- Setting budgets;
- Compliance with regulatory and legal expectations;
- Risk management including setting the risk appetite; and
- Remuneration policies

Governance Structure



The two regulated boards consist of three Independent Non-Executive Directors, two Non-Executive Directors and two Executive Directors, with membership reviewed every three years.

All Committees have been established and authorised by the Board of Utmost Holdings Isle of Man Limited and have the delegated authority from the other Group companies to provide oversight. The Committees consist of the three Independent Non-Executive Directors, Non-Executive Directors, and the relevant Executive Directors with contributions from the appropriate Subject Matter Experts. For the Audit Committee this will include the external auditor, PwC, and ordinarily the Group Head of Internal Audit.

The Board has a Terms of Reference (TOR) and a Statement of Reserved Matters (SORM). The Board is responsible for organising and controlling the affairs of the Company effectively and to do this within a Group context, it delegates a wide variety of tasks.

The Board, however, retains ultimate responsibility for the affairs and management of the Company and, to satisfy the general obligations placed on it by Isle of Man Companies legislation, the Isle of Man Government Financial Services Authority and where appropriate the UK Financial Conduct Authority, it must ensure that such delegation is properly controlled. This entails the Board undertaking certain key tasks itself, and ensuring appropriate notification with respect to delegated tasks.

The SORMs identify those matters which the boards require to be brought before them for decision in all instances.

UHIOM Board Committees:

Committee	Membership/Attendees	Purpose/Responsibilities	Frequency
Risk & Compliance Committee	3 x Independents NEDs, 2 X NEDs, Chief Executive Officer, Chief Financial Officer, Appointed Actuary, Head of Internal Audit, Head of Governance, Risk & Compliance	To oversee the Group's risk and compliance management arrangements, ensuring that risk appetite is appropriate and adhered to; that relevant regulatory requirements have been identified and adequate arrangements are in place to ensure compliance; and that key risks are identified and managed.	Quarterly
Audit Committee	3 x Independents NEDs, 1 X NED, Chief Executive Officer, Chief Financial Officer, Appointed Actuary, PWC, Head of Internal Audit, PWC, Head of Governance, Risk & Compliance	For ensuring that there is a framework for accountability; examining and reviewing all systems and methods of financial control; ensuring the Company is complying with its Articles of Association; ensuring compliance with all applicable legal and regulatory requirements; and overseeing all matters relating to the relationship between the Company and its Group companies and the External Auditors.	Quarterly
Remuneration Committee	3 x Independents NEDs, 2 X NEDs, Chief Executive Officer, Head of Human Resources	Recommending to the Board the remuneration policy for the Chief Executive Officer. Recommending and monitoring the level and structure of remuneration for senior management. Reviewing the on-going appropriateness and relevance of the remuneration policy.	Ad-hoc (at least annually)
Investment Committee	3 x Independents NEDs, 2 X NEDs, Chief Executive Officer, Chief Financial Officer, Appointed Actuary	Recommending the overall strategic investment policy for the Board's consideration. Identifying, monitoring, reporting and controlling the Company's investment activities. Recommending the overall strategic investment policy for the Board's consideration.	Quarterly

Underpinning the Board and Committees are:

- The Executive Committee;
- The Proposition Management Committee;
- The Investment Panel; and
- Trust Forum

B.1.2. INFORMATION ON RISK MANAGEMENT, INTERNAL AUDIT, COMPLIANCE AND ACTUARIAL FUNCTIONS INTEGRATION INTO THE ORGANISATIONAL STRUCTURE

In accordance with local regulatory and Risk Based Solvency Regime UHIOML has established a Risk Management Framework which is defined as a set of strategies, guidelines, processes and procedures aimed at identifying, measuring, monitoring and reporting on a continuous basis the risks to which UHIOML is exposed.

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

In addition, as part of its governance structure UHIOML has established a series of Board Committees with specific delegated authorities (as outlined above).

The Internal Control and Risk Management framework is put in place in UHIOML through a specific on-going

process which involves, with different roles and responsibilities, the Board, Executive Committee and the organisational functions. The functions involved in the risk management process operate according to the Three Lines of Defence approach:

- The operational functions (Risk Owners) are the first line of defence. The Risk Owners are ultimately responsible for risks concerning their area and to define and update the actions needed to make their risk management processes effective and efficient. They control the activities undertaken from which risks may arise. The risk management initiatives defined by the Risk Owners address the way the risks are managed. In addition, there are a number of support units (e.g. Actuarial) and oversight (Risk Officers) responsible for constantly monitoring specific risk categories, in order to measure and analyse them and to identify risk mitigation actions to the Risk Owners.
- The Risk Management, Legal, Compliance and elements of the Actuarial Function represent the Second Line of Defence. The Risk Management Function oversees the whole Risk Management Framework ensuring its effectiveness. It supports the Board and the Executive Committee in defining the Risk Strategy and in the development of the methodologies to identify, take, assess, monitor and report risks. It also supports the Operating functions implementing and adopting relevant policies and guidelines. The Risk Function is in charge of evaluating whether the internal processes are adequate to mitigate compliance risk. The Actuarial Function, through the Head of the Actuarial Function ("HoAF"), challenges the contents and assumptions of the Own Risk and Solvency Assessment ("ORSA") and provides an assessment on the appropriateness of the ORSA.
- Group Internal Audit is the Third Line of Defence. Group Internal Audit is responsible for independently evaluating the effectiveness of the Internal Control and Risk Management Framework and for confirming the operational effectiveness of the controls.

The roles and responsibilities of each of the control functions (Risk Management, Legal and Compliance, Actuarial and Internal Audit) and how they interact with the organisation in the execution of that responsibility are set out in their respective Role Profiles.

Risk Function acts as guarantor for the effective implementation of the risk management framework, as required and as established by the Board.

The Risk Function supports the Board and the Executive Committee in the definition of the risk management strategy and the development of tools for risk identification, monitoring, management and reporting.

B.1.3. MATERIAL CHANGES TO THE SYSTEM OF GOVERNANCE

With Utmost Group Limited becoming subject to UK PRA Group supervision a number of Solvency II based policies will be applied to all companies. This will ensure consistency across the wider Group and set the minimum standards that must be met. Where local requirements are greater than the Group's then the local standards will prevail.

B.1.4. REMUNERATION POLICY

Balanced Remuneration Package

The UHIOML remuneration package comprises of 4 key elements; basic salary, annual staff performance/recognition/incentive scheme, contribution to a Company Pension Scheme and a number of other staff benefits. Basic salary is based on an individual's role profile and reflects their skills, competencies, performance and relevant experience in that role. Salaries are benchmarked against industry through the Isle of Man specific salary survey. The annual staff performance/recognition/incentive schemes are specific to the roles that are undertaken and are based on Company and individual performances in line with the

business objectives.

The salary structure has been designed to recognise that different roles command higher salaries. Also for each grade a salary band has been set to allow flexibility for the Company to recognise individuals who are performing well within a role.

Target Setting and Appraisal

For non-sales support staff based in the Isle of Man the Company has established a bonus scheme. The aim of the scheme is to recognise the delivery of objectives achieved at both Company and individual employee level. In addition, for qualifying employees it recognises the behaviours displayed by employees in meeting their objectives.

B.1.5. MATERIAL TRANSACTIONS DURING THE REPORTING PERIOD

On 30th November 2021, Utmost International completed the acquisition of Quilter International, following the initial announcement in April 2021 and achievement of necessary regulatory approvals in November 2021.

B.2. FIT AND PROPER REQUIREMENTS

A core component of an effective risk culture is the knowledge and skills of the Company's resources. In order to confirm that the right resources and skills are in place, UHIOML has implemented a process to ensure that it meets the requirements of the IOM FSA Fitness and Propriety Guidance and related procedures in order to assess the fitness and propriety both initially and on an on-going basis of the individuals who are performing key functions.

B.2.1. DESCRIPTION OF THE SPECIFIC REQUIREMENTS CONCERNING SKILLS, KNOWLEDGE AND EXPERTISE REQUIRED

As part of the IOM FSA Fitness and Propriety Guidance a number of roles within UHIOML have been identified where the company is required to complete an assessment. The types of roles have been categorised as ones requiring regulatory approval before an appointment can be made, and others where notification to the IOM FSA is only required. For both categories UHIOML must assess if the individual is considered to be 'Fit and Proper'.

The assessment of 'Fit and Proper' considers a number of components, these include:

Integrity, Financial Standing, Competence

B.2.2. PROCESS FOR ASSESSING THE FITNESS AND THE PROBITY OF THE PERSONS

The relevant roles with UHIOML that the IOM FSA consider they need to approve before an appointment can be made are:

Code	Role
R8	Chief Executive
R4	Director
R11	Appointed Actuary
R13	Head of Compliance
R12	Principle Control Officer

R15	MLRO
R16	DMLRO
R18	Senior Manager with Significant Responsibility
R19	Financial Controller
R20	Head of Operations

Roles that do not need prior approval of the IOM FSA, but need to be notified are:

Code	Role
R9	Company Secretary
R17	Person responsible for the submission of Regulatory Returns

Human Resources in conjunction with Risk Management Function manage the ongoing maintenance of employee roles through their time with the Company.

B.3. RISK MANAGEMENT FRAMEWORK INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1. RISK MANAGEMENT SYSTEM

The Risk Management Function forms part of the overarching Risk Function and is separate from the operational business units and does not have operating responsibilities as it performs a second line role.

The Risk Management function consists of the Chief Risk Officer supported by a risk team of five.

The Risk Management Function oversees the sustainability of the risk management framework and supports the BoD, the Executive Committee and departmental managers in defining risk management strategies and the instruments to monitor and measure risks, providing, through an appropriate reporting system, the elements for an assessment of the performance of the risk management framework as a whole. The Risk Management Function is responsible in particular for the following activities:

- Define the risk measurement methodologies;
- Cooperates, with the Risk Owners, on the definition of the operating limits attributed to the operating structures and on the definition, with the first level functions (i.e. senior management) in charge of control, of the procedures for the prompt verification of such limits;
- Validates the information flows, prepared by the various Risk Owners, necessary to ensure the timely control of risk exposures and the prompt identification of any operational anomaly;
- Presents appropriate monthly reports to the Executive Committee, BoD and the Risk and Compliance Committee on the overall performance of the risk control and management framework and its ability, in particular, to react to context and market changes, as well as on the development of risks and any instances in which the operating limits have been exceeded; and
- Ensures that the Executive Committee reacts to results from the stress tests if unexpected events or results are identified.

Risk Management Function

As stated above the Risk Management Function is separate from the operational business units and does not have operating responsibilities or a direct reporting line to those responsible for the operating activities.

Policy Framework

The documentation tree is structured into:

- First Level Policies (required by art.41 of the Solvency II Directive and approved by the Board).

- Second Level Policies approved by the Board.
- Guidelines providing operating rules.
- Operating Procedures.

Risk Management System

The purpose of the Risk Management Framework is to ensure that all risks to which the Group is exposed to are properly and effectively managed on the basis of the risk strategy defined, following a set of processes and procedures and based on clear governance provisions.

The principles defining the Risk Management Framework are provided in the Risk Management Policy, which is the cornerstone of all risk-related policies and guidelines. The Risk Management Policy outlines all risks the entity is exposed to, on a current and on forward-looking basis.

The Risk Management process is defined in the following phases:

Risk Management Process



1. Risk Identification

The purpose of the risk identification phase is to ensure that all material risks to which the Company is exposed are properly identified. For that purpose, the Risk Management Function interacts with the main Business Functions in order to identify the main risks, assess their importance and ensure that adequate measures are taken to mitigate them according to a sound governance process. Within this process, emerging risks are also taken into consideration.

Based on Solvency II risk categories, and for the purpose of SCR calculation, risks are categorised according to the Risk Map below.

Risk Map

Financial Risks	Credit Risks	Insurance Risks	Other Risks
Interest Rate Yields	Credit Default	Mortality CAT	Operational
Interest Rate Volatility	Counterparty Default	Mortality no CAT	Liquidity
Equity Price		Longevity	Regulatory and Compliance
Equity Volatility		Lapse	Cyber
Currency		Expense	
Concentration			
Property			

2. Risk Measurement

The UHIOML has formally adopted a number of risk assessment methodologies. In compliance with Solvency II regulation, the SCR is calculated based on the European Insurance and Occupational Pensions Authority ('EIOPA') Standard Formula. On an annual basis the Company completes an appropriateness assessment of the Standard Formula against the risk profile.

3. Risk Management and Control

UHIOML operates a sound Risk Management Framework in line with the established strategy and processes. To ensure that the risks are managed according with the risk appetite, as outlined within the Risk Appetite Statement ("RAS"). The RAS sets the desired level of risk (in terms of risk appetite and risk preferences) and limits excessive risk-taking. Tolerance Levels on the basis of capital and liquidity metrics are set accordingly. Should an indicator approach or breach the defined Tolerance Levels, escalation mechanisms are activated.

4. Risk Reporting

Risk monitoring and reporting is a key Risk Management process which allows Business Functions, Executive Committee and the board, also the relevant regulatory Authority to be aware of, and informed about, the risk profile development, risk trends and any matters outside of risk tolerances.

Risk factors are taken into consideration in the following decision making processes: Strategic Planning Process; Capital Allocation and Management; Asset Liability Matching and Investments; Solvency, Liquidity and Funding; Product Pricing, Development and Monitoring; Management Information; and Performance Management.

Risk Culture

A core objective of the Risk Management Function is to embed a positive and open risk management culture within the Group. In support of this objective, risk management and compliance training is provided to all new staff. In addition, the following structures have been established in order to embed a risk culture:

- The senior management team, supported by the Risk Management Function, meet regularly to review risk management issues and to integrate risk management thinking into the decision-making process. Furthermore, material risk incidents and the results of risk assessments are reviewed, resulting in the required corrective actions being identified.
- The Chief Risk Officer is a member of the senior management team in this role their role integrates risk management thinking into the decision-making process.
- The strategic planning process must remain consistent with the Own Risk and Solvency Assessment ("ORSA") in order to include a risk based forward-looking view in the development of the strategic plan.
- The Risk Management Function is involved in the material initiatives which may impact on the risk profile of the Group. The role of the Risk Management Function is to integrate the risk management assessment methodologies into the decision-making process by supporting the business in identifying, assessing and managing the risks associated with these initiatives.
- The Operational Risk Forum comprises representatives from all business areas. Its aim is to encourage risk awareness and the free discussion of emerging risks or issues arising in the day-to-day activities undertaken across the business.

B.3.2. INTERNAL MODEL FRAMEWORK: GOVERNANCE, DATA AND VALIDATION

This section is not applicable to UHIOML. The local regulator has encouraged insurers to use the Standard Formula based on the Insurance Long Term Business Valuation and Solvency Regulations 2018. The Company tests the appropriateness of the Standard Formula through the ORSA process.

B.3.3. ORSA PROCESS

The ORSA process is a key component of the Risk Management framework which is aimed at assessing the adequacy of the solvency position and the risk profile on a current and forward-looking basis.

The ORSA Methodology is considered proportionate to support the assessment of the risk profile and is in line with the implementation of Solvency II. In its target state, the ORSA effectively enables the reporting of overall solvency needs and the verification of continuous compliance with regulatory requirements. To this end:

- The material risks have been identified and addressed according to Company methodologies. Utmost Limited's key risks have been identified through the Departmental Risk Registers and the Market Risk Appetite Statement.
- Quilter International's key risks are identified through a Risk and Control Self-Assessment process, along with the Market Risk Appetite Statement.
- The ORSA process is performed in conjunction with the local strategic planning process.
- UHIOML has identified a series of trigger events to allow the ORSA process to respond to changes in its risk profile. These are as follows:
 - Change in the risk profile depending on changed assumptions underlying the Solvency Capital Requirement;
 - Change in the risk profile consequent to failed remedial actions within an appropriate timeframe;
 - Breaches to the regulatory capital requirements over the business planning period;
 - Changes to the structure, amount and quality of "Own Funds", which might compromise the achieving of Business Plan target or breach regulatory requirements;
 - Changes in business model, business strategy, products and lines of business, emerging risks, investment strategy, reinsurance strategy, portfolio rebalancing and any other relevant changes to key business processes that are material to risk taking activity;
 - Significant change in the legal environment, such as new regulations impacting the marketing of insurance products, pensions, taxation, court awards, changes in claims environment, etc.;
 - Change in the ORSA governance such as the outsourcing of Risk Management activities (or in-sourcing of activities previously outsourced).
 - UHIOML defined and applied the market and business assumptions for the projection of the capital and solvency position. These assumptions are part of the strategic planning process.
 - The market and business assumptions are considered a reasonable assessment of the macroeconomic developments.

UHIOML conducts its business in compliance with law, internal regulations and professional ethics. Although the ORSA is a process strongly driven by Risk Management, all stakeholders involved in the production of this Report are both committed to provide timely input to the process and understand the implications that the ORSA assessment may have on their key decision-making processes.

B.3.4. RISK EMBEDDING IN CAPITAL MANAGEMENT PROCESS

Capital Management Planning and Risk Management are strongly integrated processes. This integration is deemed essential to ensure alignment between business and risk strategies.

The ORSA process is a key component in the Risk Management Framework which is aimed at assessing the adequacy of the solvency position of the company and risk profile on a current and forward-looking basis. On a quarterly basis the Board of directors assess the solvency position of the company and known factors which may influence the position. This review includes verifying the assumptions made and the adequacy of the current and future capital needs.

B.4. INTERNAL REGULATIONS FRAMEWORK

The Board of UHIOML has established an Internal Regulations Framework (IRF) to ensure that the business complies with the applicable laws and regulations. The IRF is structured into:

- First Level Policies (required by art.41 of the Solvency II Directive and approved by the BoD).
- Second Level Policies approved by the BoD.
- Guidelines providing operating rules.
- Operating Procedures.
- Minimum standards / contents or limits for breaches which a formal approval is required.

Roles and Responsibilities have been defined as follows:

Board of Directors

The BoD ensures that the internal control and risk management system, as well as the other elements of the system of governance are consistent with the Governance and Control Framework and the Risk Policies at all times. To this end, the BoD reassesses the consistency periodically and at least once a year.

The BoD holds the ultimate responsibility for the compliance with applicable laws, regulations and administrative provisions, including those adopted pursuant the Solvency II Directive for insurance and reinsurance.

Risk and Compliance Committee

On the basis of the applicable system of delegated powers, the Group has established a Risk and Compliance Committee to support the CEO in the implementation, maintenance and monitoring of the internal controls and risk management system. The Risk and Compliance Committee:

- a. identifies, evaluates and addresses the actions to mitigate the significant risks;
- b. monitors the adequacy of the main policies, procedures and processes to mitigate the risks;
- c. monitors the effective implementation of the Risk Policies; and
- d. challenge and evaluate the results of the risk assessments.

The Control Functions participate in the committee's meetings providing their evaluation on the adequacy of the internal control system.

Senior Management

The Group has adopted a Fit and Proper Policy in order to define the minimum standards to be applied in terms of fitness and probity to all relevant personnel identified in the Policy. The Fit and Proper Policy also defines the procedure for assessing the fitness and probity of the relevant personnel (both when being considered for the specific position and on an ongoing basis), and a description of the situations that give rise to a re-assessment of the above mentioned fit and proper requirements. The Group undertakes due diligence of all persons identified under the Fit and Proper guidelines to ensure they can perform their duties by carrying out the following assessments of being Competent and Capable, Honest, Ethical and Act with Integrity and Financial Soundness.

Risk Owners (First Line of Defence)

The heads of operational departments have direct responsibility to take charge for risks, manage them and implement appropriate control measures. To this end, they provide the Senior Management with the information needed to define the policies, methods and tools for the management and control of the risks

for which they are responsible, oversee their implementation and ensure their adequacy over time. They also ensure that the operational departments that are under their responsibility comply with their objectives and policies, implement corrective actions within the scope of their autonomy, while on a higher hierarchical level, they submit specific recommendations or proposals to the senior management.

Controls are an integral part of every business process and are primarily the responsibility of the Manager of the individual business area. Each business area is responsible to identify, assess and mitigate through adequate controls and training initiatives the risks embedded in the relevant processes.

B.4.1. INTERNAL CONTROL FUNCTIONS (Second and Third Lines of Defence)

The company has established the Actuarial, Compliance and Risk Management Function as second line of defence and the Audit Function as third line of defence according to the provisions of the relevant Policies. The Control Functions are to be considered key functions in the system of governance of the Group.

They are independent from the operational functions and, as a consequence, they: (i) retain the responsibility for taking the decisions necessary for the proper performance of their duties without interference from others and (ii) be able to report their results and any concerns and suggestions to the BoD without restrictions as to their scope or content from anybody else.

Actuarial Function (Second Line of Defence)

The Actuarial Function has the responsibility to:

- a. coordinate the calculation of technical provisions;
- b. ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- c. assess the sufficiency and quality of the data used in the calculation of technical provisions;
- d. compare best estimates against experience;
- e. inform the BoD of the reliability and adequacy of the calculation of technical provisions;
- f. oversee the calculation of technical provisions in the cases where there are insufficient data or appropriate quality to apply a reliable actuarial method;
- g. express an opinion on the overall underwriting policy;
- h. express an opinion on the adequacy of reinsurance arrangements; and
- i. contribute to the effective implementation of the risk management system.

Compliance Function (Second Line of Defence)

The Compliance Function has the responsibility to advise the business areas and BoD on compliance with laws, regulations and administrative provisions, including those adopted pursuant to the Solvency II Directive for insurance and reinsurance Companies. The Compliance Function advises also on other laws, regulations and administrative provisions.

Moreover, the Compliance Function has the responsibility to assess the possible impact of any changes in the legal environment on the operation of the relevant Company and to identify and assess the compliance risks, including the adequacy of the measures adopted to prevent non-compliance.

Risk Management Function (Second Line of Defence)

The Risk Management Function, oversees the accurate implementation of the risk management framework in accordance with the Solvency II Directive, the other applicable legal and regulatory provisions, the directions given by the BoD and the provisions of the Risk Management Policy.

This function supports the BoD and senior management in defining the risk management strategies and tools

for identifying, monitoring, managing and measuring risks. It also provides the information needed to evaluate the adequacy of the risk management framework as a whole, through an adequate reporting system.

The Risk Management Function is responsible to report to the BoD on risks that have been identified as potentially material. The Risk Management Function should also report on other specific areas of risks both on its own initiative and following requests from the administrative, management or supervisory Body.

The Risk Management Function has the responsibility to:

- a. assist the BoD and other functions in the effective operation of the risk management system;
- b. monitor of the risk management framework and the implementation of the Risk Management Policy;
- c. monitor the general risk profile of the Group and provide the reporting defined in the RAS, including the reporting in case of tolerances breaches;
- d. coordinate a detailed reporting on risk exposures and, in particular, coordinate ORSA Report preparation, based on the process defined in the Risk Management Policy;
- e. advise BoD on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments and, in general, foster risk management embedding with business decision making processes;
- f. as part of the broader risk identification process, identify and assess emerging risks.

B.4.2. INTERNAL AUDIT FUNCTION (Third Line of Defence)

The Internal Audit Function has the responsibility to evaluate the adequacy and effectiveness of the internal control framework of the Group and to report to the BoD any finding or recommendation.

The Internal Audit function has the responsibility to:

- a. establish, implement and maintain an audit plan setting out the audit work to be undertaken in the upcoming years, taking into account all activities and the complete system of governance of the Group;
- b. take a risk-based approach in deciding its priorities;
- c. issue audit reports with agreed (with the Auditee) actions (to mitigate the identified risks) based on the result of the audit work and submit a written report to the BoD on at least a semi-annual basis on activities and significant issues during the period and a proposal of an action plan. The BoD determines what actions are to be taken with respect of each of the issues presented in the report to the BoD and ensure that those actions are carried out;
- d. significant issues reported in the audits will be closely monitored to ensure a proper closing of the agreed actions and then tested for effectiveness. The progress of this and the outstanding issues will at least annually be reported to the BoD.

To assist in carrying out its duties in relation to the risk management and internal control system, the Group has established an Audit Committee (meets quarterly) - consisting of non-executive directors, the majority of whom are independent, which perform research, advisory and makes recommendations. The Committee consists of at least three members. The Audit Committee as a whole has relevant financial experience and at least one member has an appropriate qualification. The Terms of Reference of the Audit Committee reference in full the powers delegated to the Committee by the BoD and outline the reporting structures between the Audit Committee and the BoD and outlines their remit.

B.5. OUTSOURCING

The Company relies on the services of another company within the Isle of Man group of companies for the provision of staff, services and systems for its business activities. A legal agreement is in place to manage the arrangement.

The Company has developed an Outsourcing policy, outlining the regulatory requirements covering such arrangements.

Following the acquisition of Quilter International in late 2021, a sizeable outsource arrangement now exists with Quilter plc for provision of the IT estate during the transitional period. It is expected this period will last for two years from the point of transaction, with the current agreement due to cease in November 2023.

B.6. ANY OTHER INFORMATION

B.6.1. ASSESSMENT OF THE ADEQUACY OF THE SYSTEM OF GOVERNANCE TO THE NATURE, SCALE AND COMPLEXITY OF THE RISKS INHERENT IN THE BUSINESS

The UHIOML Board, as part of the ORSA process, has assessed its corporate governance framework and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of the Company.

B.6.2. OTHER MATERIAL INFORMATION REGARDING THE SYSTEM OF GOVERNANCE

The following additional processes are implemented under the System of Governance.

Business Continuity

UHIOML has established a Business Continuity Plan which identifies key personnel to form an Incident Management Team (IMT) which will manage any disruptive incident that may occur. Testing of the elements of the plan is conducted on a regular basis

Information Technology and Cyber Security

The Company has established a framework for the policies and processes which the senior management of the Utmost Isle of Man Group have adopted to implement an information security management framework which complies with ISO/IEC 27001:2013 ("the ISMS"). The Framework covers aspects of information processing and security including cyber security.

C. Risk Profile

The Company's risk profile is best represented by the following Risk Map:

RISK MAP			
MARKET RISKS	CREDIT RISKS	INSURANCE RISKS	OTHER RISKS

Interest Rate Yields	Credit Default	Mortality CAT	Operational
Interest Rate Volatility	Counterparty Default	Mortality no CAT	Liquidity
Equity Price		Longevity	Regulatory and Compliance
Equity Volatility		Lapse	Cyber
Currency		Expense	
Concentration			
Property			

The breakdown of the Solvency Capital Requirements is as follows:

	31 December 2020	31 December 2021
	£'000	£'000
Life underwriting risk	105,987	398,889
Market risk	85,959	245,687
Counterparty risk	6,682	12,033
Operational risk	2,266	15,594
Diversification	(44,150)	(134,595)
Adjustment for the loss-absorbing capacity of deferred taxes	-	-
Solvency Capital Requirement	156,744	537,608

C.1. UNDERWRITING RISK

Life and health underwriting risks, relate to the risk of unfavourable underwriting and expense experience relative to assumptions and expectations resulting in reduced profitability for UHIOML. As life insurance companies, UL and QlloM are at risk from the uncertainty in the assumptions used in the calculation of their liabilities. Assumptions are necessary for expectations of future claims (life or health claims), lapse rates and expenses among other items.

C.1.1. RISK EXPOSURE AND ASSESSMENT

The Risk Map shown in C above sets out the underwriting/insurance risks to which the Company is exposed. The key risks include:

- Mortality risk – defined as change in the value of liabilities resulting from changes in the mortality rates, where an increase in mortality rates leads to an increase in the value of insurance liabilities. Mortality risk also includes the Mortality Catastrophe risk, defined as a change in the value of insurance liabilities resulting from extreme or irregular events;
- Longevity risk – defined as the risk that people live longer than expected leading to an increase in the value of insurance liabilities
- Lapse risk – defined as the change in liabilities due to changes in the expected exit rates. Exits can

happen from either a partial or full surrender of a policy. This also includes a catastrophic event with a mass lapse resulting and

- Expense risk – defined as the change in the value of liabilities resulting from changes in the expenses incurred in servicing the contracts.

The SCR for underwriting/insurance risks is calculated using the Standard Formula approach. The measurement is made by applying pre-defined stresses to the best estimate liabilities at levels calibrated to the Solvency II confidence level of 99.5%.

- For the Mortality risks, the uncertainty in insured population mortality and its impact on the Company is measured by applying permanent and catastrophe stresses to the policyholders' death rates
- For Longevity risk, an instantaneous and permanent decrease of 20% is made to the mortality rates used to calculate technical provisions
- For Lapse risk, the measurement is calculated as the worst case of the effect of a permanent increase or decrease in the underlying lapse rates or a mass lapse event
- Expense risk is measured through the application of stresses to the amount of expenses and expense inflation that the Company expects to incur in the future.

C.1.2. RISK MANAGEMENT AND MITIGATION

Underwriting/insurance risks are closely monitored on a monthly basis to ensure the Risk appetite is not breached. Mortality and longevity risk are not significant and are monitored through feedback mechanism from the actuarial experience investigations to the underwriting team.

C.1.3. RISK SENSITIVITY FOR UNDERWRITING RISKS

The Company carries out stress and scenario testing as part of the ORSA process which includes stress testing for the material underwriting risks. The results of this analysis showed that the most material impact on the SCR cover was in the lapse down and inflation stresses. Lapse down also significantly affects the Present Value of Future Profits (PVFP), and the net solvency effect remains acceptable. Utmost International is relatively well protected from increasing inflation on an economic value basis especially as the expenses in the business reduce over the plan period. However, from a solvency perspective the increased future inflation coupled with the 10% uplift to expenses within the capital requirement calculation act to increase the risk margin and overall SCR and therefore reduce the solvency coverage.

C.2. MARKET RISK

C.2.1. RISK EXPOSURE AND ASSESSMENT

The Company is exposed to market risks both directly and indirectly. Directly through the investment risk it bears on shareholder invested assets. Indirectly through the exposure of the Present Value of Future Profits (PVFP) to the investment decisions made by policyholders where they bear investment risk. The Company is also exposed to market risks in its technical provisions where these are calculated with reference to market data such as interest rate yield curves.

The key Market Risks that UHIOML is exposed to include:

- Equity risk: mainly a reduction in ad valorem fees earned on equity-based components of future profits recognised in the Technical Provisions.
- Currency risk: where the movement in exchange rates can result in gains and losses arising from net changes in currency mismatched asset and liability positions

- Spread Risk: defined as the risk that arises from changes in or volatility of credit spreads over the risk-free interest rate term structure. This risk may be specific to the standing of an obligor or guarantor or may be systemic. The spread risk module is calibrated to also include an element for default on credit exposures.
- Interest rate risk: where movements in interest rates directly impact the present value of future asset and liability cash flows.
- Market risk concentration risk: additional risk arising from aggregated exposures to entities under the common control of a single name entity.

Equity, currency, and yield risks represent the three most material components of the SCR at a sub-module level.

C.2.2. RISK MANAGEMENT AND MITIGATION

The Company has an Asset Liability Matching Policy which also dictates where shareholder investments should be invested. The Company does not invest directly into equities. Monitoring of market risk is performed on a monthly basis as part of risk reporting. Actual monthly movements are compared to the risk appetite limits and appropriately reported through the red, amber, and green statuses.

C.2.3. RISK SENSITIVITY FOR MARKET RISKS

The Company carries out stress and scenario testing as part of the ORSA process which includes stress testing for the material market risks. No scenarios were identified that would render the Company insolvent at the balance sheet date. The sensitivity of the Company's position to market and expense shocks are shown in the table below.

Solvency Ratio Sensitivity	YE21			
	Eligible Own Funds	Solvency Capital Requirement	Solvency Ratio	Change in percentage points
Base Position	913	538	170%	
Equity Value -40%	805	437	184%	12%
Risk Free Rate +100 bps	950	531	179%	9%
Risk Free Rate -100 bps	872	540	162%	-8%
Expenses +10%	856	537	159%	-10%
Lapse up +50%	705	394	150%	-20%
GBP +20%	851	537	149%	-21%

C.3. COUNTERPARTY DEFAULT RISK

C.3.1. RISK EXPOSURE AND ASSESSMENT

The counterparty default risks that UHIOML is exposed to arise from its exposure to banks, in relation to cash, reinsurers and other debtors, including policyholders. Default risk is the risk that these counterparties are unwilling or unable to honour their obligations to the Company. In assessing counterparty default risk, the Company further considers the default exposure of risk mitigations, and the interactions with other risks, such as underwriting/insurance risks.

C.3.2. RISK MANAGEMENT AND MITIGATION

For the reinsured fund links with Aviva Life & Pensions Ltd (ALAP), UL manages its counterparty exposure through active monitoring of ALAP's credit rating and regular reviews of the performance of the sub-funds through which its policyholders are exposed to. In addition, the Company holds a negative pledge agreement on ALAP's assets in the case of insolvency.

UHIOML also monitors its cash counterparty risk by using only rated banks unless there is a regulatory requirement to the contrary. Limits are set through the Risk Appetite Statement and other exposures monitored against these.

C.3.3. RISK SENSITIVITY FOR CREDIT RISKS

The Company performs stress and scenario testing as part of the ORSA process which includes stress testing for the material counterparty default risks. The results show the Company to be resilient to counterparty default stresses.

C.4. OPERATIONAL RISK

C.4.1. RISK EXPOSURE AND ASSESSMENT

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

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

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

Following best industry practices, UHIOML's framework for Operational Risk Management includes as main activities the risk incident reporting and loss data collection process, risk assessment and scenario analysis.

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

The risk assessment and scenario analysis processes provide a forward-looking view on the operational risks UHIOML is exposed to. The Annual Operational Risk and Compliance Assessment provides a high-level evaluation of the forward-looking inherent and residual operational risks faced by UHIOML. The outcomes of the assessment drive the scenarios assessed as part of the scenario analysis. Scenario analysis is a recurring process which provides a detailed evaluation of the key operational risks faced by UHIOML and their potential impact.

C.4.2. RISK MANAGEMENT AND MITIGATION

The Company monitors operational risks through incident reporting and regular reporting whilst profiling issues that are identified and the Risk function working with the business areas concerned to address them.

No major operational risk incidents were identified during 2021. The Company monitored five main operational risks identified during the year namely:

- The risk that errors or anomalies exist in either our current or historic product suite leading to claims for compensation and irrevocable reputational damage
- Risk of anything being processed incorrectly, including but not limited to dealing errors, pricing errors and claims payment errors.
- Inaccurate budgets, leading to loss of shareholder value/dividend, and impacts on solvency ratios
- Fraud – internal and external fraud when attempts are made to fraudulently obtain money by deception
- Underperforming IT equipment may not be fast enough to meet current business demands.

C.5. LIQUIDITY RISK

C.5.1. RISK EXPOSURE AND ASSESSMENT

Liquidity risk refers to the risk that the Company will not be able to meet both expected and unexpected cash flow requirements.

UHIOML has a Credit & Liquidity Risk Policy in place which is approved at least annually by the Board. The policy requires that the Company maintains a proportion of its assets not backing liabilities to policyholders in assets classes expected to be the most liquid in times of significant market stress.

The CFO is responsible for managing the on-going liquidity requirements of UHIOML.

C.5.2. RISK MANAGEMENT AND MITIGATION

The Company manages Liquidity Risk to meet its own obligations and cash commitments along with unexpected contingent market situations, through a constant monitoring of actual and expected cash flows, and the availability of assets that can be sold easily without loss in the event of need. This activity is aimed at maintaining a high level of financial robustness both in the short and long term, which helps to mitigate UHIOML's liquidity risk and is the basis for the evaluation of the adequacy of the adopted measures. The Company also has in place contractual means to manage cash outflows from surrenders from its unit-linked and investment-linked policies, whereby it is able to match the timing of cash flows with receipts from disposal of the underlying assets.

UHIOML maintains sufficient liquidity levels with specified limits relating to the minimum amount of shareholder assets invested in short term liquid investments such as cash and cash equivalents or government and regulated covered bonds.

C.6. OTHER RISKS

C.6.1. REGULATORY RISK

Regulatory risk arises when changes in regulations are not appropriately and timely implemented. There is also the risk of the impact of regulation will have on the Company's products that could make them unattractive in the market.

Due to the nature of the business, the Company and its customers have to comply with various regulatory requirements from all jurisdictions where UHIOML maintains a presence: Isle of Man, UK, Hong Kong, Singapore, and Dubai. Further consideration must be given to regimes where the Company continues to hold a license, linked to heritage business, namely Jersey, Trinidad and Tobago, and the State of Florida. Failure to comply with these could lead to regulatory fines and sanctions.

The Company performs an active role in checking for changes in regulation and also actively participates in consultations. Product developments and enhancements always consider potential regulatory changes.

C.6.2. CYBER RISK

Cyber Risk is a material risk to the business and primarily arises from external actors penetrating our systems through hacking or phishing attacks. The potential implications include loss of client and staff data, system disruption and financial loss, as well as reputational damage should the business be found to have been negligent in its control environment.

The Company has put IT infrastructure in place such as server firewalls, perform penetration testing and limits client data accessible via web-based servers, and is ISO27001 certified, demonstrating strong security protocols.

C.6.3. External Environment Risk

Following the COVID outbreak which disrupted business for much for the last two years, further external environment risks have begun to emerge with rising inflation and war in Ukraine leading to forecasts of a global recession.

C.7.1. Diversification

The adjustment for diversification reflects a reduction in the overall capital requirement from being exposed to a number of different risks. It is very unlikely that the risks the company is exposed to would all happen at the same time, so the overall risk exposure is less than the total of the individual risk exposures. In determining the adjustment for diversification allowance is made for how related the different risks are to each other. Where risks are more related, there is less allowance for diversification.

D. Valuation for Solvency Purposes

D.1. ASSETS

D.1.1. VALUATION OF ASSETS FOR SOLVENCY II BALANCE SHEET

The following paragraphs describe the value of assets for solvency and financial statements purposes, along with the valuation criteria and the common methodology used by the Group for the determination of fair value of assets and liabilities. The following sections are covered in the report below:

- Valuation of assets – explanation of differences between the financial statements and Solvency II balance sheet.
- Fair value hierarchy – explanation of methods used to classify assets into three levels, based on the inputs used in valuation techniques to increase consistency and comparability of fair value measurements.
- Guidance on fair value measurement approach – The Group reviews its financial investments and classifies them in accordance with IFRS 13 'Fair Value Measurement'. The same approach is taken for investments held on behalf of life assurance policyholders who bear the investment risk.
- Valuation techniques – the methods used to maximise the use of observable inputs.

Solvency II Assets Valuation

	31 December 2020 £'000	31 December 2021 £'000
Solvency II Valuation	10,641,717	32,412,660
Statutory Accounts Valuation	10,761,236	33,148,315
Difference	(119,519)	(735,655)

Valuation of Assets

Certain assets are excluded or measured at fair value to comply with Solvency II principles. In particular, the exceptions and non-applicable items for the Group are summarised in below.

Valuation of Assets 31 December 2021	Solvency II £'000	Statutory Accounts £'000	Difference £'000
Acquired value of in-force business	0	700,479	(700,479)
Other intangible assets	0	585	(585)
Deferred origination costs	0	5,510	(5,510)
Plant, property and equipment	7,580	12,407	(4,827)
Financial assets at fair value held to cover linked liabilities	31,699,705	31,691,258	8,447
Reinsurer's share of insurance contract liabilities	224,179	226,142	(1,963)
Policyholder loans	171,516	171,516	0
Investments (other than assets held for unit-Linked funds)	183,713	12,651	171,062
Long term loan	20,805	20,805	0
Debtors and receivables	33,825	54,298	(20,473)
Deposits (other than deposits held for unit-linked funds)	51,862	39,166	12,696

Cash and Cash Equivalents	19,475	213,498	(194,023)
Total Assets	32,412,660	33,148,315	(735,655)

The primary objective for valuation as set out in Article 75 of L1 - Dir (EIOPA guidelines) requires an economic, market-consistent approach to the valuation of assets and liabilities. According to the approach for Solvency II, when valuing balance sheet items on an economic basis, undertakings need to consider the risks that arise from a particular balance sheet item, using assumptions that market participants would use in valuing the asset or the liability.

Assets should be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

Liabilities should be valued at the amount for which they could be transferred, or settled, between knowledgeable and willing parties in an arm's length transaction.

This valuation section describes the value of assets for Solvency II purposes and for financial statements, valuation criteria and the methodology used by the Company for the determination of fair value of assets and liabilities.

Acquired value of in-force business

The Acquired Value In Force ("AVIF") is the initial measurement of the value of the in-force policies acquired by the company upon completion of purchase. Key assumptions include future lapse, renewal, and expense assumptions. The AVIF is amortised in line with the projected run-off of the Solvency II best estimate liabilities. The AVIF is reviewed for impairments at each reporting date by reference to the value of future profits in accordance with Solvency II principles. Intangible assets are valued at nil under Solvency II, which resulted in an asset decrease of £700,479k.

Other intangible assets

Other intangible assets are recognised under IFRS but is disallowed for Solvency II asset valuation purposes. As a result, the Other intangible assets for Solvency II decreased by £585k to nil.

Deferred origination costs (DOC)

Commission costs incurred in the acquisition of new business are deferred as a DOC asset. This asset is amortised against future revenue margins on the related policies. The DOC asset is reviewed for recoverability at the end of each accounting period against future revenue margins expected to arise from the related policies. They are the part of acquisition costs allocated to future reporting periods. DOC is recognised under IFRS but is disallowed for Solvency II asset valuation purposes. As a result, the DOC asset for Solvency II decreased by £5,510k to nil.

Plant, property, and equipment

This amount represents the Plant, property, and equipment within UHIOML, there is no valuation difference under Solvency II and the statutory financial statements. Under IFRS, AAM and Trust are fully consolidated as subsidiaries however for SII purposes they are treated as participating interests rather than the underlying assets and liabilities being consolidated on a line-by-line basis. Therefore, PPE is decreased by £4,827k.

Investments including assets held for unit-linked funds

Under Solvency II, financial assets backing unit linked contracts are segregated into their own category on the balance sheet. Assets are measured at fair value for both statutory accounts and Solvency II purposes,

being the amount for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, and in accordance with the fair value hierarchy required under IFRS 13 'Fair Value Measurement'.

Reinsurer's share of insurance contract liabilities

This amount represents the reinsurers' share of technical reserves. The reinsurer's share of insurance contract liabilities for Solvency II is £224,179k.

Policyholder loans

This amount represents the policyholder loans, there is no valuation difference under Solvency II and the statutory financial statements.

Investments (other than assets held for unit-Linked funds)

Investments held for the benefit of the Company, rather than for unit-linked funds, are measured at fair value for both statutory accounts and Solvency II purposes. The investment held by the Company is a Collective Investment Fund and is valued monthly and is not considered illiquid.

Other receivables

Receivables represent amounts owing to the Company. Receivables are held at initial book value in the Company's financial statements and are recoverable within one year. Finance reinsurance is recognised under IFRS but is disallowed for Solvency II asset valuation purposes. As a result, the other receivables for Solvency II are decreased by £18,926k. Under IFRS, AAM and Trust are fully consolidated as subsidiaries however for SII purposes they are treated as participating interests rather than the underlying assets and liabilities being consolidated on a line-by-line basis. Therefore, other receivables are decreased by a further £1,546k.

Deposits (other than deposits held for unit-linked funds)

Deposits other than those held for unit-linked funds consist of deposits held for the benefit of the Company, which have a maturity of less than 12 months. There is no valuation difference under Solvency II and the statutory financial statements.

Cash and cash equivalents

Cash is a liquid asset and comprises cash holdings in current accounts. Balances are held at initial book value in the Company's financial statements. There is no valuation difference under Solvency II and the statutory financial statements.

Fair Value Hierarchy

IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categories the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs:

Level 1 inputs

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access

at the measurement date. A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available, with limited exceptions. If an entity holds a position in a single asset or liability and the asset or liability is traded in an active market, the fair value of the asset or liability is measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity, even if the market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 inputs

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly.

Level 3 inputs

Level 3 inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Guidance on Fair Value Measurement Approach

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

A fair value measurement requires an entity to determine all of the following:

- The particular asset or liability that is the subject of the measurement (consistently with its unit of account);
- For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use);
- The principal (or most advantageous) market for the asset or for the liability; and
- The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or the liability and the level of the fair value hierarchy within which the inputs are categorised.

IFRS 13 provides further guidance on the measurement of fair value, including the following:

- An entity takes into account the characteristics of the asset, or the liability being measured that a market participant would take into account when pricing the asset or the liability at measurement date (e.g. the condition and location of the asset and any restrictions on the sale and use of the asset);
- Fair value measurement assumes an orderly transaction between market participants at the measurement date under current market conditions;
- Fair value measurement assumes a transaction taking place in the principal market for the asset or the liability, or in the absence of a principal market, the most advantageous market for the asset or the liability;
- A fair value measurement of a non-financial asset takes into account its highest and best use;
- A fair value measurement of a financial or non-financial liability or an entity's own equity instruments assumes it is transferred to a market participant at the measurement date, without settlement,

- extinguishment, or cancellation at the measurement date;
- The fair value of a liability reflects non-performance risk (the risk the entity will not fulfil an obligation), including an entity's own credit risk and assuming the same non-performance risk before and after the transfer of the liability; and
- An optional exception applies for certain financial assets with offsetting positions in market risks or counterparty credit risk, provided conditions are met (additional disclosure is required).

Valuation Techniques

The Company uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset would take place between market participants and the measurement date under current market conditions. The three valuation techniques used are:

- Market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets/liabilities or a group of assets/liabilities (e.g. a business).
- Cost approach – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost).
- Income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

In some cases, a single valuation technique will be appropriate, whereas in other cases multiple valuation techniques will be appropriate.

Further information on the Company's assets is included in S.02.01.02 in Section F.

D.2. TECHNICAL PROVISIONS

The Technical Provisions as at 31 December 2021 have been assessed adopting the methodology and techniques which are compliant with the Solvency II framework and are proportionate to the nature, scale and complexity of the business in question.

Technical Provisions results as at 31 December 2021 are set out in the table below. No transitional adjustments have been deducted from the Technical Provisions.

Main Technical Provisions Results

Entity	31 December 2020 £'000	31 December 2021 £'000
Best Estimate of Liabilities	10,285,433	31,115,034
Risk Margin	90,267	274,683
Gross Technical Provisions	10,375,700	31,389,717
Reinsurers' Share of Insurance Contract Liabilities	(218,337)	(224,179)
Net Technical Provisions	10,157,363	31,165,537

The increase in the technical provisions from 31 December 2020 to 31 December 2021 is mainly driven by:

- The acquisition of the QlloM business which added £19.9bn to gross technical provisions and £20.0bn to net technical provisions.
- Positive market performance increasing the unit-linked liabilities

The difference between IFRS reserves and SII technical provisions is due to the methodological differences between the two valuations. The valuation of the IFRS reserves is based on technical provisions calculated in accordance with local accounting principles. The Solvency II valuation, instead, is based on the projection of future cash flows performed using best estimate assumptions, and discounting using the current interest rate term structure. Moreover, under the Solvency II framework, the valuation of technical provisions includes the risk margin which is not included in the valuation of IFRS reserves.

The main factors that have an impact on the Technical Provisions are set out below:

- The best estimate assumptions;
- The application of contract boundaries; and
- Projected SCRs: The risk margin is a constituent part of the total technical provisions. As the risk margin is based on projected SCRs the method and assumptions used in projecting these SCRs can have a sizeable impact on the resulting risk margin.

In calculating the technical provisions, the Company has made material judgments in relation to:

- The choice of what are deemed to be best estimate assumptions;
- The use of certainty equivalent deterministic calculations;
- The choice of method used in calculating the risk margin; and
- The application of contract boundaries.

Best Estimate of Liabilities

The BEL is defined as the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure.

The method used to derive the BEL is the direct approach, which specifically refers to a valuation method based on projecting and discounting on a market consistent basis all expected future cash flows to policyholders in the certainty equivalent scenario. Therefore, the cash flow projection used in this context considers all potential cash in-and-out flows required to settle the insurance obligations over their lifetime, within the appropriate contract boundaries.

The projected future cash flows typically include:

- Single and Regular premium receipts (subject to contract boundaries);
- Claims payments with an allowance for any early discontinuance charges;
- Product specific charges;
- Expenses;
- Commissions;
- External fund charges; and
- Any overseas withholding tax

These cash flows are then discounted using the relevant risk-free rates provided by EIOPA to obtain the gross BEL.

Reinsurers' Share of Insurance Contract Liabilities

The best estimate of the reinsurers' share of the insurance contract liability for UHIOML is set equal to the best estimate liability determined by the Company and confirmed by the reinsurer for the reinsured insurance policies.

Risk Margin

The risk margin represents a prudent margin for unavoidable uncertainty. The risks considered are:

- Mortality Risk;
- Mortality Catastrophe Risk;
- Longevity Risk;
- Lapse Risk;
- Expense Risk;
- Counterpart Default Risk with respect to Reinsurance contracts; and
- Operational Risk.

Description of the Level of Uncertainty of Technical Provisions Valuation

The key sources of uncertainty for the Company are expenses and policyholder behaviour assumptions such as surrenders.

It is noted that no significant simplified methods were used to calculate technical provisions, including those used for calculating the risk margin.

The Company does not apply a volatility adjustment, as referred to in Article 77d of Directive 2009/138/EC

No basic own fund items have been subject to transitional arrangements.

Further information on the technical provisions is included in S.02.01.02 and S.12.01.02 in Section F.

D.3. OTHER LIABILITIES

D.3.1. VALUATION OF LIABILITIES FOR SOLVENCY II BALANCE SHEET

The following paragraphs describe the valuation criteria and the common methodology used by the Group for the determination of fair value of other liabilities.

Valuation of Liabilities

In the Solvency II environment, fair value should be generally determined in accordance with International Financial Reporting Standards ("IFRS"). Certain liabilities are excluded or fair valued to comply with Solvency II principles. In particular, the exceptions and non-applicable items for the Group are as follows.

- Technical liabilities;
- Deferred taxes;
- Financial liabilities;
- Deferred income liability;

- Other liabilities; and
- Contingent liabilities (not applicable for the Group).

Solvency II Liabilities Valuation

	31 December 2020 £'000	31 December 2021 £'000
Solvency II Valuation	10,404,504	31,499,227
Statutory Accounts Valuation	10,588,547	32,261,124
Difference	(184,043)	(761,897)

Value of Liabilities

Values of Liabilities 31 December 2021	Solvency II Value	Statutory Accounts Value	Difference
	£'000	£'000	£'000
Technical Liabilities – Life (Inc. Index Linked and Unit Linked)	29,544,356	30,283,450	(739,094)
Liabilities under insurance contracts	1,845,361	1,845,361	0
Deferred front-end fees	0	10,853	(10,853)
Other payables	106,874	113,198	(6,324)
Provisions	2,636	2,769	(133)
Deferred Tax Liabilities	0	5,493	(5,493)
Total Liabilities	31,499,227	32,261,124	(761,897)

The valuation section describes the value of liabilities for solvency purposes and for financial statements, valuation criteria and the common methodology used by the Company for the determination of fair value of assets and liabilities.

Technical Liabilities

The Technical Liabilities comprise the Technical Provisions for life assurance policies where the investment risk is borne by the policyholders, the provision for claims, the life assurance provision, and the provision for unearned premiums.

Under Solvency II, Technical Provisions comprise the Best Estimate Liabilities (BEL) and risk margin. The BEL recognises the cash flow required to meet policyholder liabilities, while the risk margin represents a prudent margin for unavoidable uncertainty. The Technical Provisions liability for Solvency II were £739,094k lower than the IFRS liabilities.

Please refer to section D2 for detailed narrative on the valuation of Technical Provisions.

Deferred front-end fees

Deferred front-end fees of £10,853k relates to the unit linked business deferred income liability recognised under IFRS but disallowed under Solvency II.

Other payables

Other liabilities represent amounts owing by the Group, including outstanding claims. Claims are settled once all due diligence is received from the customer. The policyholder is regularly contacted on outstanding requirement to ensure prompt settlement. Death claims follow the normal probate process and are settled accordingly.

Other trading balances are settled in the normal course of business and usually settled within one month. Under IFRS, AAM and Trust are fully consolidated as subsidiaries however for SII purposes they are treated as participating interests rather than the underlying assets and liabilities being consolidated on a line-by-line basis. Therefore, other payables have decreased by £6,324k.

Provisions

Provisions are recognised when the Company has an obligation, legal or constructive, as a result of a past event, and it is probable that the Company will be required to settle that obligation. Under IFRS, AAM and Trust are fully consolidated as subsidiaries however for SII purposes they are treated as participating interests rather than the underlying assets and liabilities being consolidated on a line-by-line basis. Therefore, provisions have decreased by £133k.

Deferred Tax Liability

In general, on the Solvency II balance sheet, deferred tax assets and liabilities arise because there are differences between the value ascribed to an asset or a liability for tax purposes, and its value in accordance with the Solvency II principles.

Therefore, a deferred tax liability ("DTL") should be recognised in the following cases:

- The Solvency II Balance Sheet value of an asset is higher than the related carrying value for tax purposes; or
- The Solvency II Balance Sheet value of a liability is lower than the related carrying value for tax purposes.

A DTL is the recognition of a tax debt to be paid at a later date because of a future profit which is already anticipated in the economic balance sheet. This profit (i.e. the difference between the market value and the book value) leads to an increase of the net asset value. A DTL will be recognised for unrealised taxable gains such as an increase of a financial asset value, or a decrease of the value of Technical Provisions when shifting from book value to market value.

Fair Value Measurement Approach

The fair value measurement approach for other liabilities is outlined above. Further information on UHIOML's liabilities is included in S.02.01.02 in Section F.

D.4. ALTERNATIVE METHODS FOR VALUATION

The Company does not use any alternative methods for valuation.

D.5. ANY OTHER INFORMATION

No other information noted.

E. Capital Management

E.1. OWN FUNDS

According to the Article 87 of the Directive 2009/138/EC (hereinafter 'Directive' or 'L1 – Dir'), own funds comprise the sum of Basic Own Funds, referred to in Article 88 and ancillary own funds referred to in Article 89.

E.1.1. CAPITAL MANAGEMENT POLICIES

The following capital policy has been applied to UHIOML:

- Seek to maintain a Regulatory Solvency Coverage Ratio of at least 125% at all times.
- Maintain a Regulatory Solvency Coverage Ratio of 150% immediately after payment of a dividend.

For QlloM, the internal capital policy under Quilter has been to maintain a Regulatory Solvency Coverage Ratio of 145% at all times prior to acquisition by Utmost.

This is underpinned by the following framework:

- A description of the procedure to ensure that own fund items, both at the time of issue and subsequently, meet the requirements of the applicable capital and distribution regime and are classified correctly as the applicable regime requires;
- A description of the procedure to monitor the issuance of own fund items according to the medium-term capital management plan;
- A description of the procedure to ensure that the terms and conditions of any own fund item are clear and unambiguous in relation to the criteria of the applicable capital regime; and
- A description of the procedures to:
 - ensure that any policy or statement in respect of ordinary share dividends is taken into account in consideration of the capital position; and
 - identify and document instances in which distributions on an own funds item are expected to be deferred or cancelled.

Planning and managing own funds are a core part of the strategic planning process.

Basic Own Funds

According to Article 88 of L1-Dir, Basic Own Funds is defined as the sum of the excess of assets over liabilities (reduced by the amount of own shares held by the insurance or reinsurance undertaking) and subordinated liabilities.

The components of the excess of assets over liabilities are valued in accordance with Article 75 and Section 2 of the Directive, which states that all assets and liabilities must be measured on market consistent principles.

Basic own fund items shall be classified into three tiers, depending on the extent to which they possess

specific characteristics. Article 69 of Delegated Acts issued at October 2014 (hereinafter 'L2 – DA' or 'DA'), outlines Tier 1 capital, with Article 72 and Article 76 covering Tier 2 and Tier 3 capital respectively.

Basic own funds include ordinary share capital and a reconciliation reserve. The entities have Tier 1 capital only.

Basic Own Funds

	Total	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
	£'000	£'000	£'000	£'000	£'000
Total eligible Own Funds to meet the SCR at 31 Dec 2021	913,433	913,433	0	0	0
Total eligible Own Funds to meet the SCR at 31 Dec 2020	237,213	237,213	0	0	0

Tier 1 Basic Own Funds

Basic own fund items are classified into three tiers, depending on the extent to which they possess specific characteristics. Generally, assets which are free from any foreseeable liabilities are available to absorb losses due to adverse business fluctuations on a going-concern basis or in the case of winding-up. The Company's excess of assets over liabilities, is valued in accordance with the principles set out in L1 - Dir, and treated as Tier 1. Details on the composition of the company's Own Funds assets are outlined above.

Ordinary Share Capital:

The paid-in ordinary share capital is identified by the following methods:

- The shares are issued directly by the undertaking with the prior approval of its shareholders or, where permitted under national law, it's administrative, supervisory or management body.
- UL has issued 23,380,000 ordinary shares issued at par of £1 each.
- QllOM has issued 8,600,000 ordinary shares issued at par of £1 each.

Reconciliation Reserve:

The excess of assets over liabilities are divided into amounts that correspond to capital items in the financial statements and a reconciliation reserve. The reconciliation reserve may be positive or negative. The reconciliation reserve is made up of the revenue reserves as per the financial statements and adjustments to assets and liabilities for Solvency II purposes, as outlined in sections D1 and D3.

Tier 2 Basic Own Funds

This does not apply to the Company.

Tier 3 Basic Own Funds

This does not apply to the Company.

Reconciliation between Equity in the Financial Statements and Basic Own Funds

The Company has Basic Own Funds of £913,433k at 31 December 2021, while the IFRS equity per the Financial statements is £887,191k. The table below reconciles the movement from IFRS equity to basic own funds.

Reconciliation to IFRS Equity

Reconciliation of IFRS Equity to Basic Own Funds	31 December 2021 £'000
IFRS Equity	887,191
Removal of Goodwill	(689,626)
Elimination for Deferred Acquisition Costs, Deferred Income Liability and Intangible Assets	(6,096)
SII Valuation of Technical Provisions	739,115
Removal of Financial Reinsurance Asset	(18,926)
Deferred Taxes	5,493
Other	(3,718)
Basic Own Funds	913,433

Own Funds increased by £645m due to the acquisition of QlloM. UL own funds increased by £28m over the year.

Deduction from Own Funds

The Company does not have any deduction from own funds.

Ancillary Own Funds

The Company does not have any ancillary own funds.

E.1.2. ELIGIBLE OWN FUNDS

Own Funds Assets

	Total £'000	Tier 1 Unrestricted £'000	Tier 1 Restricted £'000	Tier 2 £'000	Tier 3 £'000
Total Eligible Own Funds to Meet the SCR at 31 Dec 2021	913,433	913,433	0	0	0
Total Eligible Own Funds to Meet the SCR at 31 Dec 2020	235,524	235,524	0	0	0
Total Eligible Own Funds to Meet the MCR at 31 Dec 2021	911,768	911,768	0	0	0
Total Eligible Own Funds to Meet the MCR at 31 Dec 2020	237,213	237,213	0	0	0

The Company maintains an efficient capital structure to meet its regulatory requirements. The life companies are required to hold sufficient capital to cover 150% of the SCR on an Isle of Man basis. The solvency coverage on an Isle of Man basis for UL is 153% and QlloM is 193%.

E.1.3. ELIGIBLE OF OWN FUNDS TO MEET THE SOLVENCY CAPITAL REQUIREMENT

All of the Company's Own Funds are classified as Tier 1 and are eligible to meet the SCR.

E.1.4. ELIGIBLE OF OWN FUNDS TO MEET THE MINIMUM CAPITAL REQUIREMENT

All of the Company's Own Funds Tier 1 capital is eligible to meet both the Solvency II and Isle of Man MCRs.

Further information on the own funds is included in S.23.01.01 in Section F.

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1. SCR AND ISLE OF MAN MCR VALUES

The SCR at year-end 2021 was £537,608k. The calculations of the capital follow EIOPA's Standard Formula regime. The Directive 2009/138/EC and the Delegated Regulation (EU) 2015/35 describe the process to be followed by companies applying the Standard Formula approach, defined by EIOPA. The MCR at year-end 2021 was £184,376k on an Isle of Man basis, which is the reported MCR on a Group basis within the QRTs. The calculation of the Isle of Man MCR follows the Insurance and Valuations Regulations, 2018 of the Isle of Man.

The primary reason for changes in capital requirements from 2020 to 2021 is due to the acquisition of QlloM, which added £353,040k to the SCR and £121,017k to the MCR. The change in UL is due to updated asset allocation and changes in operating assumptions following the annual assumption review.

SCR and Isle of Man MCR Values

	31 December 2020 £'000	31 December 2021 £'000
Solvency Capital Requirement	156,744	537,608
Minimum Capital Requirement	70,535	184,376
Eligible Own Funds for SCR	232,784	913,433
Solvency Coverage Ratio	149%	170%
Eligible Own Funds for MCR	232,784	911,768
Minimum Solvency Coverage Ratio	330%	495%

E.2.2. SCR BREAKDOWN

A summary of Company's SCR is provided below with further detail provided in S.25.01.21 in Section F.

SCR Breakdown

	31 December 2020 £'000	31 December 2021 £'000
Life underwriting risk	105,987	398,889
Market risk	85,959	245,687
Counterparty risk	6,682	12,033
Operational risk	2,266	15,594
Diversification	(44,150)	(134,595)
Adjustment for the loss-absorbing capacity of deferred taxes	-	-
Solvency Capital Requirement	156,744	537,608

Further information on the consolidated SCR is included in S.25.01.21 in Section F.

E.3. USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

This section is not applicable.

E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

This section is not applicable.

E.5. NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND SOLVENCY CAPITAL REQUIREMENT

The entities have complied with the MCR and the SCR at all times.

E.6. ANY OTHER INFORMATION

No additional information required.

F. Quantitative Reporting Templates

F.1.S.02.01.02 BALANCE SHEET

		Solvency II Value
Assets		C0010
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant and equipment held for own use	R0060	7,579,612
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	235,600,759
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	1,664,210
Equities	R0100	11,598
Equities - listed	R0110	11,598
Equities - unlisted	R0120	
Bonds	R0130	14,012
Government Bonds	R0140	
Corporate Bonds	R0150	13,974
Structured notes	R0160	39
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	182,049,057
Derivatives	R0190	
Deposits other than cash equivalents	R0200	51,861,881
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	31,699,679,268
Loans and mortgages	R0230	192,320,131
Loans on policies	R0240	171,515,597
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	20,804,534
Reinsurance recoverables from:	R0270	224,179,424
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	224,179,424
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	14,431,683

		Solvency II Value
Reinsurance receivables	R0370	912,091
Receivables (trade, not insurance)	R0380	18,481,668
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	19,475,410
Any other assets, not elsewhere shown	R0420	
Total Assets	R0500	32,412,660,047
Liabilities		
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	156,879,887
Technical provisions - health (similar to life)	R0610	
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	156,879,887
Technical provisions calculated as a whole	R0660	180,774,252
Best Estimate	R0670	(23,894,365)
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	31,232,836,849
Technical provisions calculated as a whole	R0700	31,948,057,493
Best Estimate	R0710	(989,903,651)
Risk margin	R0720	274,683,007
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	2,636,473
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Debts owed to credit institutions resident domestically	ER0801	
Debts owed to credit institutions resident in the euro area other than domestic	ER0802	
Debts owed to credit institutions resident in rest of the world	ER0803	

		Solvency II Value
Financial liabilities other than debts owed to credit institutions	R0810	8,553,682
Debts owed to non-credit institutions	ER0811	
Debts owed to non-credit institutions resident domestically	ER0812	
Debts owed to non-credit institutions resident in the euro area other than domestic	ER0813	
Debts owed to non-credit institutions resident in rest of the world	ER0814	
Other financial liabilities (debt securities issued)	ER0815	
Insurance and intermediaries payables	R0820	67,844,934
Reinsurance payables	R0830	259,633
Payables (trade, not insurance)	R0840	30,215,891
Subordinated liabilities	R0850	
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	31,499,227,350
Excess of assets over liabilities	R1000	913,432,697

F.2.S.05.01.02 PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410		150,000	805,245,679						805,395,679
Reinsurers' share	R1420		150,000	285,685						435,685
Net	R1500		0	804,959,994						804,959,994
Premiums earned										
Gross	R1510		150,000	805,245,679						805,395,679
Reinsurers' share	R1520		150,000	285,684.81						435,685
Net	R1600		0	804,959,994						804,959,994
Claims incurred										
Gross	R1610		4,724,391	756,255,893						760,980,284

Reinsurers' share	R1620		4,724,391	26,051						4,750,442
Net	R1700		0	756,229,842						756,229,842

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
Changes in other technical provisions										
Gross	R1710		(12,276,436)	(1,211,518,045)						(1,223,794,481)
Reinsurers' share	R1720		(12,276,436)							(12,276,436)
Net	R1800		0	(1,211,518,045)						(1,211,518,045)
Expenses incurred	R1900			47,200,083						47,200,083
Administrative expenses										
Gross	R1910									
Reinsurers' share	R1920									
Net	R2000									
Investment management expenses										
Gross	R2010			33,808,611						33,808,611
Reinsurers' share	R2020			0						0

Net	R2100			33,808,611						33,808,611
Claims management expenses										
Gross	R2110									

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
Reinsurers' share	R2120									
Net	R2200									
Acquisition expenses										
Gross	R2210			8,022,153						8,022,153
Reinsurers' share	R2220			0						0
Net	R2300			8,022,153						8,022,153
Overhead expenses										
Gross	R2310			5,369,318						5,369,318
Reinsurers' share	R2320			0						0
Net	R2400			5,369,318						5,369,318
Other expenses	R2500									
Total expenses	R2600									47,200,083
Total amount of surrenders	R2700		4,724,391	458,018,161						462,742,552

F.3.S.05.02.01 PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY

		Home country	Country (by amount of gross premiums written)	Country (by amount of gross premiums written)	Country (by amount of gross premiums written)	Country (by amount of gross premiums written)	Country (by amount of gross premiums written)		Total for top 5 countries and home country (by amount of gross premiums written)
			IT	IE	HK	FI	PT		
		C0220	C0230	C0240	C0250	C0260	C0270		C0280
Premiums written									
Gross	R1410				5,464,854				5,464,854
Reinsurers' share	R1420				4,744				4,744
Net	R1500				5,460,110				5,460,110
Premiums earned									
Gross	R1510				5,464,854				5,464,854
Reinsurers' share	R1520				4,744				4,744
Net	R1600				5,460,110				5,460,110
Claims incurred									
Gross	R1610				130,196,441				130,196,441
Reinsurers' share	R1620				0				0
Net	R1700				130,196,441				130,196,441
Changes in other technical provisions									
Gross	R1710				(100,265,365)				(100,265,365)
Reinsurers' share	R1720				0				0
Net	R1800				(100,265,365)				(100,265,365)
Expenses incurred	R1900				2,436,210				2,436,210
Other expenses	R2500								
Total expenses	R2600				2,436,210				2,436,210

F.4.S.23.01.01 OWN FUNDS

		Total	Tier 1 unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	614,580,002	614,580,002			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	298,852,695	298,852,695			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

R0220

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Deductions						
Deductions for participations in financial and credit institutions	R0230	1,664,210	1,664,210			
Total basic own funds after deductions	R0290	911,768,488	911,768,488			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	911,768,488	911,768,488			

		Total	Tier 1 unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total available own funds to meet the MCR	R0510	911,768,488	911,768,488			
Total eligible own funds to meet the SCR	R0540	911,768,488	911,768,488			
Total eligible own funds to meet the MCR	R0550	911,768,488	911,768,488			
SCR	R0580	537,607,793				
MCR	R0600	184,375,876				
Ratio of Eligible own funds to SCR	R0620	1.6960				
Ratio of Eligible own funds to MCR	R0640	4.9452				
Reconciliation reserve						
		C0060				
Reconciliation reserve		C0060				
Excess of assets over liabilities	R0700	913,432,697				
Own shares (held directly and indirectly)	R0710					
Foreseeable dividends, distributions and charges	R0720					
Other basic own fund items	R0730	614,580,002				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740					
Reconciliation reserve	R0760	298,852,695				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	R0770	7,462,247				
Expected profits included in future premiums (EPIFP) - Non-life business	R0780					
Total Expected profits included in future premiums (EPIFP)	R0790	7,462,247				

F.5.S.25.01.21 SOLVENCY CAPITAL REQUIREMENT – STANDARD FORMULA

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0030	C0040	C0050
Market risk	R0010	245,686,790	245,686,790	
Counterparty default risk	R0020	12,033,192	12,033,192	
Life underwriting risk	R0030	398,888,826	398,888,826	
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	(134,595,302)	(134,595,302)	
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	522,013,506	522,013,506	
Calculation of Solvency Capital Requirement				
		Value		
		C0100		
Adjustment due to RFF/MAP nSCR aggregation	R0120			
Operational risk	R0130	15,594,287		
Loss-absorbing capacity of technical provisions	R0140			
Loss-absorbing capacity of deferred taxes	R0150			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160			
Solvency Capital Requirement excluding capital add-on	R0200	537,607,793		
Capital add-on already set	R0210			
Solvency capital requirement	R0220	537,607,793		
Other information on SCR				

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
Capital requirement for duration-based equity risk sub-module	R0400			
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	537,607,793		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430			
Diversification effects due to RFF nSCR aggregation for article 304	R0440			
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation (*)	R0450	1 – Full recalculation	* 1. - Full recalculation 2. - Simplification at risk sub-module level 3. - Simplification at risk module level 4. - No adjustment	
Net future discretionary benefits	R0460			
Minimum consolidated group solvency capital requirement	R0470	184,375,876		