Company Financial Statements continued
For the year ended 31 December 2020

Company Statement of Financial Position
As at 31 December 2020

	Note	2020 £'000	2019* £'000
Assets			
Investment in subsidiaries	3	1,465,501	–
Cash and cash equivalents		35,000	–
Other assets		487	
Total assets		1,500,988	–
Liabilities			
Tier 2 loan notes issued to a related party	5	302,564	–
Total liabilities		302,564	–
Equity			
Called up share capital presented as equity	7	100,000	–
Merger relief reserve	7	155,910	–
Retained earnings		942,514	
Total equity		1,198,424	
Total equity and liabilities		1,500,988	

* As noted in the basis of preparation due to the Company being dormant, the 2019 comparative figures presented are unaudited.

The notes on pages 107 to 109 form an integral part of these financial statements.

The financial statements on pages 103 to 109 were approved and authorised for issue by the Board of Directors on 18 May 2021 and signed on its behalf by.

Paul Thompson
Director
18 May 2021

Ian Maidens
Director
18 May 2021

Company Financial Statements

For the year ended 31 December 2020

Company Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	2020 £'000	2019* £'000
Investment income			
Change in fair value of subsidiaries	3	(69,124)	
Dividends received	4	171,186	–
		102,062	–
Expenses			
Interest expense	5	(2,564)	–
Profit for the year before tax		99,498	–
Tax credit/(charge)	6	487	–
Profit for the year after interest and tax		99,985	–

* As noted in the basis of preparation due to the Company being dormant, the 2019 comparative figures presented are unaudited.

Income and expenses for the year derive wholly from continuing operations. The notes on pages 107 to 109 form an integral part of these financial statements.

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 70 to 76

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Called up share capital presented as equity £'000	Merger relief reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2019*	–	–		–
Profit and total comprehensive income for the year	–		–	–
Shares issued during the year	–	–	–	–
Balance as at 31 December 2019	–	–	–	–
Profit and total comprehensive income for the year	–	–	99,985	99,985
Issue of share capital	1,206,548	155,910	–	1,362,458
Share capital reduction	(1,106,548)	–	1,106,548	–
Dividends paid	–	–	(264,019)	(264,019)
Balance as at 31 December 2020	100,000	155,910	942,514	1,198,424

* As noted in the basis of preparation due to the Company being dormant, the 2019 comparative figures presented are unaudited

The notes on pages 107 to 109 form an integral part of these financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 £'000	2019* £'000
Net cash flows from operating activities	8	59,000	–
Cash flows from investing activities			
Net cash used in investing activities		–	–
Cash flows from financing activities			
Dividends paid		(24,000)	–
Net cash flows from financing activities		(24,000)	–
Net increase/(decrease) in cash and cash equivalents		35,000	–
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		35,000	–

* As noted in the basis of preparation due to the Company being dormant, the 2019 comparative figures presented are unaudited

The notes on pages 107 to 109 form an integral part of these financial statements.

Notes to the Company Financial Statements

For the year ended 31 December 2020

1 Significant Accounting Policies

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 70 to 76. The notes identified on pages 107 to 109 are an integral part of these separate financial statements.

2 Critical accounting estimates and judgements

Critical accounting estimates

Investment in subsidiary undertakings

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

The Group calculates the fair value of its investment in subsidiary in non-insurance companies on an IFRS net asset value basis. IFRS net assets are used in determining the fair value of non-insurance companies given the simplistic nature of the balances in these companies (other than investment in subsidiaries) and that a substantial amount of the net asset value of these non-insurance companies relates to the fair value of investments in insurance company subsidiaries. Management therefore concludes that the net asset value provides a materially appropriate approximation for the fair value.

The methodology for the determination of fair value for insurance company subsidiaries and the basis of this determination as the value a market participant would pay is detailed in note 3.

3 Investment in subsidiary undertakings

	2020 £'000	2019 £'000
Cost		
At 1 January	–	–
Acquisitions and capital contributions during the year	1,534,625	–
At 31 December	1,534,625	–
Revaluation		
At 1 January	–	–
Movement in fair value	(69,124)	–
At 31 December	(69,124)	–
Fair value at 31 December	1,465,501	–

The Group calculates the fair value of its investment in subsidiary in non-insurance companies on an IFRS net asset value basis. For insurance company subsidiaries the fair value approach applied by the Company is to measure the "economic value" of the underlying based on a Solvency II assessment of the value of the business, adjusted for other components where management view that Solvency II doesn't reflect the commercial value of the business. One such component is to adjust the "risk margin" (an amount required under Solvency II rules to represent the potential cost of transferring insurance obligations to a third party should an insurer fail), calculated using a cost of capital set to 6% under regulatory rules. For determining fair value in accordance with IFRS, management have applied a 3% cost of capital (2019: 3%) in calculating the risk margin, to more appropriately reflect management's view of the fair value a market participant would pay. The impact on the fair value of investment in subsidiaries of a 1% change in the cost of capital would be £47,368k (2019: nil).

A further component of economic value relates to the value of in-force business ("VIF") outside the contract boundary, the point which determines which cash flows should be included for calculating Solvency II capital. As at 31 December 2020, the value of VIF outside the contract boundary is £101,181k (2019: nil).

Fair value losses of £69,124k are recognised in the Statement of Comprehensive Income in the year ended 31 December 2020 (2019: nil) in respect of remeasuring the Company's investment in subsidiaries at fair value.

The fair value of investment in subsidiaries is calculated in accordance with the internal definition of SII EV as disclosed on page 110 in the Alternative Performance Measures section, adjusted to reflect the fact that our internal view of SII EV adds back the full risk margin (set at 6% as detailed above) instead of the 3% cost of capital used for IFRS reporting. The fair value of life insurance companies is inherently uncertain and the valuation is dependent upon the prevailing market, economic and other conditions at the valuation date. The fair value of the investments in subsidiaries undertakings balance is Level 3 in the fair value hierarchy. There were no transfers between Levels 1, 2 and 3 in 2020 and 2019.

In determining fair value management have applied a valuation multiple of 100% of own funds. The valuation multiples used in market valuations and acquisition prices of life insurance companies vary depending on a number of factors including the location of the subsidiary and the type of business but are generally in the range of 80% to 120%. The impact on the fair value of investment in subsidiaries of a 5% change in the valuation multiple would be £60,904k (2019: nil).

Notes to the Company Financial Statements continued
For the year ended 31 December 2020

4 Dividends received
During the year the Company received dividends of £171,186k from its subsidiaries (2019: nil).

5 Tier 2 loan notes issued to a related party

	2020 £'000	2019 £'000
Tier 2 loan notes principal	300,000	–
Tier 2 loan notes accrued interest	2,564	–
	302,564	–
Payable within one year	2,564	–
Payable after more than one year	300,000	
	302,564	–

On 9 November 2020, the Company issued £300,000k of Tier 2 loan notes to its parent company Utmost Holdings (Guernsey) Limited. The £300,000k loan notes, which mature on 9 November 2030, qualify as Tier 2 capital under Solvency II rules. Interest is accrued at 6% per annum and is paid bi-annually. The fair value of the Tier 2 loan notes is considered to be the same as their carrying value.

6 Taxation

	2020 £'000	2019 £'000
Current tax credit	487	–

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

	2020 £'000	2019 £'000
Profit on ordinary activities before taxation	99,498	
Tax at the UK rate of 19% (2019: 19%)	(18,905)	–
Difference due to the effects of non-taxable income	19,392	-
Tax credit for the financial year	487	–

7 Called up share capital presented as equity/share premium
The share capital of the Company is the same as that of the Group in note 27 in the notes to the consolidated financial statements. The merger relief reserve arose as the difference between the nominal value of shares issued and the fair value acquired from the acquisition of related parties as part of the Group reorganisation.

8 Cash flow statement

	2020 £'000	2019 £'000
Profit before taxation	99,498	–
Non-cash movements		
Net change in fair value of subsidiaries	69,124	
Dividend income	(112,186)	–
Change in working capital		
Change in other working capital items	2,564	
Net cash flows used in operating activities	59,000	–

9 Risk management

Risk management in the context of the Group is considered in the Group consolidated financial statements, note 30. The business of the Company is managing its investments in subsidiaries. Its risks are considered to be the same as those in the operations themselves, and full details of the major risks and the Group's approach to managing these are given in the Group consolidated financial statements. There are no material assets or liabilities other than investment in subsidiaries which require further risk management by the Company specifically.

10 Related party transactions

Transactions with key management personnel

The Directors and key management of the Company are considered to be the same as for the Group. Information on both the Company and Group key management compensation can be found in notes 34 and 35 in the notes to the consolidated financial statements.

Transactions with related parties

Transactions between the Company and related parties are detailed in note 34 to the consolidated financial statements.

11 Events after the year-end date

The events after the year-end date of the Company are the same as those of the Group in note 37 in the notes to the consolidated financial statements.

Introduction

Strategic Report

Governance

Financial Statements