

Old Mutual Financial Services (UK) Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2019

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COMPANY INFORMATION

DIRECTORS

D J L Eardley
K S Lee-Crossett
M O Satchel

SECRETARY

Quilter CoSec Services Limited

BANKER

National Westminster Bank Plc
135 Bishopsgate
London
EC2M 3UR

AUDITOR

KPMG LLP
15 Canada Square
London
E14 5GL

REGISTERED OFFICE AND BUSINESS ADDRESS

Millennium Bridge House
2 Lambeth Hill
London
EC4V 4AJ

Registered in England and Wales

No. 03456361

STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2019.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Old Mutual Financial Services (UK) Limited (the “company”) forms part of the Quilter plc group (the “group”). Quilter plc’s ordinary shares are listed on the London and Johannesburg Stock Exchanges. Quilter plc acts as the parent company and provides the company with strategic and governance oversight. The company forms part of the head office function of Quilter plc group.

The principal activity of the company is that of a holding company.

The results of the company for the period are set out in the income statement on page 9.

On 11 March 2020, a coronavirus (“COVID-19”) was recognised by the World Health Organisation as a global pandemic. COVID-19 has caused widespread uncertainty and will impact global supply chains, global market growth and employee availability over the next few years. The group will be adversely impacted by falls in equity market levels, adverse investor sentiment affecting revenue and increased operational risks depending on the extent of employment availability.

The group has implemented operating plans in response to the challenges arising from COVID-19, including 98% of Quilter’s staff now working remotely and the accelerated delivery of IT and remote telephony solutions allowing Quilter to maintain high client service levels and to support advisers and customers.

The group has reviewed its financial budgets and operating plans in response to the challenges arising from COVID-19 and the unpredictable operating outlook. Quilter is operationally resilient and remains focused on completing principal projects. Given the uncertainty and expected lower assets under management and administration (“AuMA”) leading to lower run-rate of revenues, the group is undertaking a number of management actions to reduce expenses and has acknowledged that operating margin results will be below previously announced targets. The group has no plans to take advantage of any of the government backed support schemes.

The COVID-19 pandemic is expected to have minimal financial impact on the company, given its revenues are not directly impacted by market movements, being investment return from its subsidiary.

QUILTER STRATEGY

Quilter aims to be the leading UK and cross-border full service wealth manager, providing advice-led investment solutions and investment platforms, focusing on delivering good customer outcomes. The breadth of the group’s model helps to generate prosperity for customers by providing the services to develop suitable financial plans, manage customers’ investments in risk-based solutions and by helping customers access modern wealth wrappers via the group’s platforms. Quilter’s purpose and strategy are underpinned by core beliefs, which include: the belief in the value of trusted face-to-face advice, that better choice for customers does not mean more choice, and modern, simple and transparent products should be easily accessible and good value. The directors believe that the group’s competitive advantage lies in its strong positions in attractive markets and its ability to offer high quality solutions across each element of the value chain at a competitive, transparent and unbundled price.

Management is confident in the group’s strategic path and growth prospects. Short term market, economic and political uncertainty may temper momentum in near term flows and the level of assets under administration, but the group operates in a large and fragmented market that has good long-term growth potential.

KEY PERFORMANCE INDICATORS (KPIs)

The company’s KPIs are dividends received, investment in subsidiaries and return on investment, expressed as the ratio between the two aforementioned indicators.

Key performance indicators table

	2019 £000	2018 £000
Dividends received	851	1,340
Investment in subsidiaries	22,715	22,715
Return on investment	3.7%	5.9%

FINANCIAL POSITION AT THE END OF THE YEAR

The company’s net assets have decreased from £207,385,000 to £206,921,000 with cash and cash equivalents remaining at £7,000.

On 18 September 2019, the board of Old Mutual Financial Services (UK) Limited approved a dividend payment of £851,000 to its immediate parent Skandia UK Limited, which was paid on 30 September 2019.

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties of the company arise from the ability of its subsidiary to distribute dividends to the company, any impairment of the valuation of that subsidiary and the ability of its parent undertaking to repay its outstanding loan.

SECTION 172 (1) STATEMENT

The company operates within the governance framework, policies and practices set by the board of its ultimate parent company Quilter plc. These are described in the Quilter plc 2019 Annual Report. The following statement should therefore be read in conjunction with the Quilter plc Annual Report.

The group has taken steps to embed a deeper understanding of the responsibilities ascribed to directors under section 172 (1) of the Companies Act 2006 at a Quilter plc level and across its management committees and subsidiaries including the company. Presentations have been made by the Quilter Corporate Secretariat to the business to explain the importance of the considerations referred to in section 172 (1) as part of good decision making, to ensure that proposals coming to the Board contain appropriate information on the potential impact of business decisions on all of the company's stakeholders and other relevant matters. Examples of best practice have been provided and rolled out to the business, with further explanation and guidance on directors' duties to ensure that section 172 (1) considerations remain at the heart of the group's decision making at all levels. Insights into how Quilter has done this and the outputs of these decisions have been set out in the Quilter plc Annual Report.

In overseeing the business during the year, the Board of the company has paid due regard to its duty to promote the success of the company in the long term for the benefit of its shareholder by supporting the delivery of the group's purpose and strategic priorities.

By order of the board

M O Satchel
Director
26 May 2020

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2019.

The review of the business, including future outlook and principal risks and uncertainties are disclosed within the strategic report.

DIRECTORS

The names of the current directors are listed on page 1. The directors who have held office during the year and to date are listed below:

D J L Eardley
K S Lee-Crossett
M O Satchel

All directors are employed by, and receive their emoluments from fellow group undertakings. The directors holding office during the year ended 31 December 2019 consider that their services to the company are incidental to their other duties within the group and accordingly no remuneration has been apportioned to this company.

The company secretary during the period was Quilter CoSec Services Limited.

DIVIDENDS

During the year dividends totalling £851,000 were declared and paid (2018: £1,340,000).

EMPLOYEES

The company had no employees during or at the end of the year (2018: nil).

FINANCIAL INSTRUMENTS

The financial risk management objectives and policies of the company are disclosed in note 1.

POLITICAL DONATIONS

During the year the company made no political donations (2018: £nil).

STATEMENT OF GOING CONCERN

The financial statements have been prepared on a going concern basis. The board has reviewed the company's projections for the next 12 months and beyond including cash flow forecasts. An assessment of the impact of COVID-19 on the going concern for the group has also been completed, concluding that the group remains financially strong. As a result, the board has a reasonable expectation that the company has adequate resources to continue in operational existence for at least 12 months from the date of approving these financial statements.

ULTIMATE PARENT COMPANY

The company's immediate parent is Skandia UK Limited, a company registered in England and Wales. The ultimate parent is Quilter plc. The company's financial statements are consolidated within the financial statements of Quilter plc, the ultimate parent company and controlling party, registered in England and Wales.

DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as each director is individually aware, there is no relevant audit information of which the company's auditor is unaware, and
- each director has taken all the steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The confirmation is given in accordance with the provisions of the Companies Act 2006.

AUDITOR

KPMG LLP has held office in accordance with Section 487 of the Companies Act 2006 for the 2019 financial year. Following a rigorous tender process conducted by Quilter plc, PricewaterhouseCoopers LLP will assume the role of independent auditor for the Quilter group, of which the company is a member, for the year ending 31 December 2020. Formal appointment as auditor to the company will be completed after the approval of these financial statements.

By order of the board

M O Satchel
Director
26 May 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OLD MUTUAL FINANCIAL SERVICES (UK) LIMITED (CONTINUED)

Opinion

We have audited the financial statements of Old Mutual Financial Services (UK) Limited for the year ended 31 December 2019 which comprise the income statement, statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion, the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OLD MUTUAL FINANCIAL SERVICES (UK) LIMITED

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Elizabeth Cox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
15 Canada Square
London
E14 5GL

26 May 2020

INCOME STATEMENT

for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Revenue			
Investment return	3	851	1,340
Profit before taxation		<u>851</u>	<u>1,340</u>
Income tax	4	(464)	(424)
Profit for the year after tax		<u>387</u>	<u>916</u>

All the above amounts in the current and prior year derive from continuing activities.

The notes on pages 13 to 19 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019	2018
	£000	£000
Profit for the year	387	916
Total comprehensive income for the year	<u>387</u>	<u>916</u>

All the above amounts in the current and prior year derive from continuing activities.
The result for the current and prior year is attributable to the equity holder of the company.

The notes on pages 13 to 19 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Note	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2019		178,300	29,085	207,385
Profit for the financial year		-	387	387
Dividends paid	5	-	(851)	(851)
Balance at 31 December 2019		178,300	28,621	206,921

	Note	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018		178,300	29,509	207,809
Profit for the financial year		-	916	916
Dividend paid	5	-	(1,340)	(1,340)
Balance at 31 December 2018		178,300	29,085	207,385

The result for the current and prior year is attributable to the equity holder of the company.

The notes on pages 13 to 19 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
at 31 December 2019

	Notes	2019 £000	2018 £000
Assets			
Investment in subsidiary	6	22,715	22,715
Other receivables	7	185,087	185,087
Cash and cash equivalents	8	<u>7</u>	<u>7</u>
Total assets		<u>207,809</u>	<u>207,809</u>
Equity and liabilities			
Equity			
Share capital	9	178,300	178,300
Retained earnings		<u>28,621</u>	<u>29,085</u>
Total Equity		<u>206,921</u>	<u>207,385</u>
Liabilities			
Current tax payable		<u>888</u>	<u>424</u>
Total liabilities		<u>888</u>	<u>424</u>
Total equity and liabilities		<u>207,809</u>	<u>207,809</u>

The notes on pages 13 to 19 are an integral part of these financial statements.

Approved by the board of directors on 26 May 2020 and signed on its behalf by:

M O Satchel
Director

Company registered number: 03456361

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	2019	2018
	£000	£000
Cash flows from operating activities		
Profit before tax	851	1,340
Reallocation dividend to investing activities	<u>(851)</u>	<u>(1,340)</u>
Total net cash flows from operating activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Dividends received from associated undertaking	<u>851</u>	<u>1,340</u>
Total net cash from investing activities	<u>851</u>	<u>1,340</u>
Cash flows from financing activities		
Dividends paid	<u>(851)</u>	<u>(1,340)</u>
Total net cash used in financing activities	<u>(851)</u>	<u>(1,340)</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	<u>7</u>	<u>7</u>
Cash and cash equivalents at end of the year	<u>7</u>	<u>7</u>

The notes on pages 13 to 19 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1 ACCOUNTING POLICIES

Old Mutual Financial Services (UK) Limited (“the company”) is a limited company incorporated in England and Wales. The address of its registered office is disclosed in the company information section on page 1. The principal activities of the company are disclosed in the strategic report.

Basis of preparation

The financial statements have been prepared and approved by the directors in accordance with the Companies Act 2006 and in accordance with IFRSs as adopted by the EU. The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments, have been prepared in sterling and are rounded in thousands.

The financial statements have been prepared under the going concern basis. The board has reviewed the company’s projections for the next 12 months and beyond including cash flow forecasts. As a result, the board have a reasonable expectation that the company has adequate resources to continue in operational existence for at least 12 months from the date of approving these financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as noted below.

Critical accounting estimates and judgements

The preparation of financial statements requires management to exercise judgement in applying accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Critical accounting estimates and judgements are those that involve the most complex or subjective assessments and assumptions. Management uses its knowledge of current facts and circumstances and applies estimation and assumption setting techniques that are aligned with relevant accounting guidance to make predictions about future actions and events. Actual results may differ significantly from those estimates. There are no significant accounting estimates or judgments in these financial statements.

Standards, amendments to standards, and interpretations adopted in the 2019 annual financial statements

The following amendments to the accounting standards, issued by the International Accounting Standards Board (“IASB”) and endorsed by the EU, have been adopted by the company from 1 January 2019 with no material impact on the company’s results, financial position or disclosures:

- IFRS 16 *Leases*
- Amendments to IFRS 9 *Financial Instruments* – Prepayment features with negative compensation
- Annual improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3 *Business combinations*, IFRS 11 *Joint arrangements*, IAS 12 *Income taxes* and IAS 23 *Borrowing costs*.

Future standards, amendments to standards, and interpretations not early-adopted in the 2019 annual financial statements

Certain new standards, interpretations and amendments to existing standards have been published by the IASB that are mandatory for the company’s annual accounting periods beginning after 1 January 2020. The company has not early adopted these standards, amendments and interpretations. The following standard has been issued by the International Accounting Standards Board, and is not applicable or not expected to be applicable for the company:

- IFRS 17 *Insurance Contracts* (yet to be endorsed by the European Union)

Financial Instruments

Financial instruments cover a wide range of financial assets, including financial investments, other receivables and cash and cash equivalents. Financial assets are recognised in the company’s statement of financial position when the company becomes party to the contractual provisions of the instrument. The company derecognises a financial asset when the contractual rights to receive cash flows have expired or been forfeited by the company.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the company changes its business model for managing financial assets. Reclassifications are expected to occur infrequently.

Measurement

Under IFRS 9, the classification of financial assets depends on (i) the purpose for which they were acquired, (ii) the business model in which a financial asset is managed, and (iii) its contractual cash flow characteristics. The standard has four categories, of which one is applicable to the company: amortised cost. This classification determines the subsequent measurement basis. The following accounting policies apply to the subsequent measurement of financial assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

Measurement basis	Accounting policies
Amortised cost	These financial assets are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding on specified dates.

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration of the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short term deposits with an original maturity of three months or less.

All cash and cash equivalents are classified as amortised cost which means they are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method and are subject to the impairment requirements outlined below. The carrying amount of cash and cash equivalents approximates to their fair value.

Loans and advances

Loans to group companies are initially recorded at cost including transaction costs and are recognised on the date the funds are transferred. Subsequently, loans are stated at amortised cost using the effective interest rate method less any deduction for possible impairment.

Other receivables

Other receivables are non-interest bearing and are stated at amortised cost using the effective interest rate method, less appropriate allowances for estimated irrecoverable amounts which approximates to fair value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Other financial liabilities are measured at amortised cost using the effective interest method.

Impairment of financial assets

The impairment model applies to financial assets measured at amortised cost. Financial assets at amortised cost include trade receivables and cash and cash equivalents.

Under IFRS 9, credit loss allowances are measured on each reporting date according to a three stage expected credit loss ("ECL") impairment model:

Performing financial assets:

Stage 1

From initial recognition of a financial asset to the date on which an asset has experienced a significant increase in credit risk relative to its initial recognition, a stage 1 loss allowance is recognised equal to the credit losses expected to result from its default occurring over the earlier of the next 12 months or its maturity date ("12-month ECL").

Stage 2

Following a significant increase in credit risk relative to the initial recognition of the financial asset, a stage 2 loss allowance is recognised equal to the credit losses expected from all possible default events over the remaining lifetime of the asset ("Lifetime ECL").

The assessment of whether there has been a significant increase in credit risk requires considerable judgement, based on the lifetime probability of default ("PD"). Stage 1 and 2 allowances are held against performing loans; the main difference between stage 1 and stage 2 allowances is the time horizon. Stage 1 allowances are estimated using the PD with a maximum period of 12 months, while stage 2 allowances are estimated using the PD over the remaining lifetime of the asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

Impaired financial assets:

Stage 3

When a financial asset is considered to be credit-impaired, the allowance for credit losses ("ACL") continues to represent lifetime expected credit losses, however, interest income is calculated based on the amortised cost of the asset, net of the loss allowance, rather than its gross carrying amount.

Application of the impairment model

The company applies IFRS 9's ECL model to two main types of financial assets that are measured at amortised cost:

- Other receivables, to which the simplified approach prescribed by IFRS 9 is applied. This approach requires the recognition of a Lifetime ECL allowance on day one and thereafter.
- Cash at amortised cost, to which the general three stage model (described above) is applied, whereby a 12 month ECL is recognised initially and the balance is monitored for significant increases in credit risk which triggers the recognition of a Lifetime ECL allowance.

ECLs are a probability-weighted estimate of credit losses. ECLs for financial assets that are not credit-impaired at the reporting date are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due in accordance with the contract and the cash flows that the company expects to receive). ECLs for financial assets that are credit-impaired at the reporting date are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. ECLs are discounted at the effective interest rate of the financial asset. The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

The measurement of ECLs considers information about past events and current conditions, as well as supportable information about future events and economic conditions. The company has implemented its impairment methodology for estimating the ACL, taking into account forward-looking information in determining the appropriate level of allowance. In addition it has identified indicators and set up procedures for monitoring for significant increases in credit risk.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes events such as significant financial difficulty of the borrower or issuer, a breach of contract such as a default or past due event or the restructuring of a loan or advance by the company on terms that the company would not otherwise consider. The assumption that the credit risk for balances over 30 days significantly increases has been rebutted on the basis that some balances will go over 30 days in the normal course of the settlement cycle, and therefore, there is no increase in the credit risk.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-offs

Loans are written off (either partially or in full) when there is no realistic prospect of the amount being recovered. This is generally the case when the company concludes that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Other payables

Other payables are not interest-bearing and are stated at their amortised cost, which is not materially different from their cost and approximate to fair value.

Revenue recognition

Revenue comprises the fair value for services, net of value added tax. Revenue is recognised as follows:

Dividend income

Dividend income from investments is recognised when the shareholder's rights to receive payments have been established.

Expense recognition

All expenses are recognised in the income statement as a cost when incurred.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less impairments. Where in the opinion of the directors there has been a permanent impairment in the value of an asset, such impairment is recognised as a charge in the income statement. Where the impairment relates to a previous downward valuation, and where this was taken to other income in the income statement, any reversal of the downward revaluation will also be taken to other income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

Taxation

Current tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years. The taxable income for the year is determined in accordance with enacted legislation and taxation authority practice for calculating the amount of tax payable.

Current tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or in other comprehensive income.

Risk management framework

The company has adopted the Quilter group Enterprise Risk Management ("ERM") framework which comprises core components such as:

- the corporate governance arrangements which set out the way that the organisation is structured and managed;
- a set of Strategic Risk Appetite Principles that provide guidance on our attitude toward key areas of risk and support
- the ongoing management and oversight of risk;
- the processes involved in the identification, measurement, assessment, management and monitoring of risk, including assignment of risk owners and risk reporting;
- the culture and behaviour that is exhibited and the associated reward mechanisms.

The ERM framework aims to align strategy, capital, processes, people, technology and knowledge in order to evaluate and manage business opportunities, uncertainties and threats in a structured, disciplined manner. In this way Quilter seeks to ensure that risk and capital implications are considered when making strategic and operational decisions, and to ensure that Quilter's risk profile is understood and managed on a continuous basis within the agreed risk appetite.

Operational risk

Quilter group accepts a level of Operational risk as an integral and unavoidable part of our business where it arises out of the activities it undertakes in order to provide services to its customers and generate profits for its shareholders. Under the ERM framework which has been adopted, operational risk is defined as 'The risk of loss (or unintentional gain/profit) arising from inadequate or failed internal processes, or from personnel and systems, or from external events (other than financial or business environment risks), resulting in an adverse impact to earnings or reduced solvency'.

The prime objectives of Operational Risk Management within Quilter are to ensure there is:

- robust risk culture so that employees are able to identify, assess, manage and report against the key risks the business is faced with and/or may face as it looks to the horizon and implements the group business strategy;
- appropriate balance between minimising risk and the cost of control;
- a defined risk appetite within which risks are managed;
- swift and effective responses to events in order to minimise impact.

From a company perspective, the material risks faced by the company itself are described below.

Credit and counterparty risk

Credit and counterparty is the risk of adverse movements in credit spreads (relative to the reference yield curve), credit ratings or default rates leading to a deterioration in the level or volatility of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency.

The company is exposed to credit and counterparty risk primarily arising from the investment of its shareholder funds but this is not significant risk.

Sources of credit risk are managed in line with the requirements of the Credit Risk Policy that ensures cash is placed with highly rated counterparties and is appropriately diversified. The company additionally makes loans to other entities in the group which are monitored to ensure the credit and counterparty risk is appropriately managed.

The company's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the financial statements.

Liquidity risk

Liquidity risk is the risk that there are insufficient assets or that assets cannot be realised in order to settle financial obligations as they fall due.

The liquidity strategy is to maintain sufficient liquidity within the company such that it can meet its target liquidity requirement, as defined by the group's liquidity policy, at all times.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

2 AUDIT EXPENSES

Auditor remuneration paid to KPMG LLP, of £8,802 (2018: £8,802) is borne by Quilter Business Services Limited (formerly Old Mutual Wealth Business Services Limited), a fellow group company.

Auditor's remuneration for audit services consists of fees in respect of the statutory audit. There are no non-audit fees.

3 INVESTMENT RETURN

	Note	2019 £000	2018 £000
Dividends received from subsidiary undertaking (OMFS (GGP) Limited)	10	851	1,340

4 TAXATION

	2019 £000	2018 £000
Income tax expense		
Tax charge	464	424
Tax charge for the year	464	424

The total tax charge for the year can be reconciled to the accounting profit as follows:

Profit before taxation	851	1,340
Tax on profit at the applicable rate 19% (2018: 19%)	162	255
Effect of:		
Non-taxable income	(162)	(255)
Transfer pricing adjustment	464	424
	464	424

Factors that may affect future charges

Since 1 April 2017 the main rate of UK corporation tax has been 19%. A reduction to 17% from 1 April 2020 was enacted in 2016; this change was subsequently revoked, and the rate remains at 19%.

Throughout the year the company has loaned £185,087,169 to OMFS (GGP) Limited, being a fellow member of the Quilter group. As this loan is interest free, a transfer pricing adjustment has been made, being calculated using the 3 month London Inter Bank Offered Rate (LIBOR) plus 0.5%.

5 DIVIDENDS

	2019 £000	2018 £000
Dividends paid		
2018 dividend paid to Skandia UK Limited (0.75p per share)	-	1,340
2019 dividend paid to Skandia UK Limited (0.48p per share)	851	-
Dividends paid to immediate parent	851	1,340

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

6 INVESTMENT IN GROUP UNDERTAKING	2019	2018
	£000	£000
Carrying value at 31 December	<u>22,715</u>	<u>22,715</u>

In accordance with the requirements of IAS 36 *Impairment of Assets*, the investment in subsidiary is tested annually for impairment by comparing the carrying value of the underlying investment to the recoverable value, being the higher of the value-in-use or fair value less costs to sell. If applicable, an impairment charge is recognised when the recoverable amount is less than the carrying value.

As the recoverable amount of the company's investment in subsidiary is based on fair value less costs to sell, there are no critical accounting estimates that impact their valuation and are therefore not subject to any sensitivity analysis.

At 31 December 2018, the company held a direct interest in the following company:

Name	Class of shares	Nature of business	%	Country of incorporation
OMFS (GGP) Limited	Ordinary	Holding company	9.61	England & Wales

7 OTHER RECEIVABLES		2019	2018
	Note	£000	£000
Due from OMFS (GGP) Limited	10	<u>185,087</u>	<u>185,087</u>

All amounts are non-interest bearing and repayable on demand. Amounts are recognised at amortised cost and fall due within one year.

8 CASH AND CASH EQUIVALENTS	2019	2018
	£000	£000
Bank balances	<u>7</u>	<u>7</u>

Bank balances are current and recognised at amortised cost. They are subject to a 12 month ECL, and are credit rated A.

9 SHARE CAPITAL	2019	2018
	£000	£000
Authorised 750,000,000 (2018: 750,000,000) ordinary shares of £1 each	<u>750,000</u>	<u>750,000</u>
Issued and fully paid 178,300,354 (2018: 178,300,354) ordinary shares of £1 each	<u>178,300</u>	<u>178,300</u>

10 RELATED PARTY TRANSACTIONS

Details of balances and other transactions with related parties are disclosed in Notes 3 and 7.

11 FINANCIAL AND CAPITAL COMMITMENTS

There are no material financial and capital commitments at 31 December 2019 (2018: £nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

12 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 December 2019 (2018: £nil).

13 EVENTS AFTER THE REPORTING DATE

COVID-19

On 11 March 2020, a coronavirus ("COVID-19") was recognised by the World Health Organisation as a global pandemic. This has resulted in disruption to businesses and economic activity as reflected in recent fluctuations in global stock markets. The company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event.

The COVID-19 pandemic is expected to have minimal financial impact on the company, given its revenues are not directly impacted by market movements, being investment return from its subsidiary.

14 ULTIMATE PARENT COMPANY

The company's immediate parent is Skandia UK Limited, a company registered in England and Wales.

The company's financial statements are consolidated within the financial statements of Quilter plc, the ultimate parent company and controlling party, registered in England and Wales. The financial statements are available from:

The Company Secretary
Quilter plc
Millennium Bridge House
2 Lambeth Hill
London
EC4V 4AJ