Registered in England and Wales No. 01752066

Old Mutual Wealth UK Holding Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 December 2019

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COMPANY INFORMATION

Directors	P A Dark D J L Eardley J Mitchell A M Waters
Secretary	Quilter CoSec Services Limited
Banker	National Westminster Bank Plc 68 Above Bar Street Southampton SO14 7DS
Auditor	KPMG LLP 15 Canada Square London E14 5GL
Registered office	Old Mutual House Portland Terrace Southampton SO14 7EJ Telephone: 0808 171 2626 Website: www.quilter.com Registered in England and Wales No. 1752066

STRATEGIC REPORT

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

REVIEW OF THE BUSINESS AND PRINCIPAL ACTIVITY

Old Mutual Wealth UK Holding Limited (the “company”) forms part of 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.

The company is an investment holding company and as such its principal activities consist of monitoring liquidity and ensuring an adequate level of cash is available to the regulated trading entities should it be required. Conversely, should surplus cash arise in the trading entities, it will ensure this is passed from its subsidiaries to its parent Old Mutual Wealth Holdings Limited. The principal activities of the company's subsidiaries during the year related to the transaction of life assurance, pensions and investment products in the UK. These activities are expected to continue for the foreseeable future. Its subsidiaries are disclosed in note 10.

The results of the company for the period are set out in the income statement on page 10.

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 to 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.

KEY PERFORMANCE INDICATORS (“KPIs”)

The table below shows the key performance indictors that the company uses to manage its business performance.

The company’s key performance indicator is IFRS profit. The profit for the year, after taxation, amounted to £320,212,000 (2018: £21,458,000).

Other internal KPIs used by management are dividends received, investment in subsidiaries and the return on investment (dividends received expressed as a percentage of investments in subsidiaries).

	2019 £'000	2018 £'000
IFRS Profit	320,212	21,458
Net assets	437,428	257,216
Dividends received	170,000	55,400
Investment in subsidiaries	764,343	960,742
Return on investment	22.2%	5.8%

FINANCIAL POSITION AT THE END OF THE YEAR

The company’s total net assets have increased from £257,216,000 to £437,428,000, with cash and cash equivalents increasing from £104,732,000 to £139,613,000.

On 25 March 2019, the company received dividends of £50,000,000 from its subsidiary Old Mutual Wealth Life Assurance Limited and dividends of £20,000,000 from its subsidiary Old Mutual Wealth Life & Pensions Limited.

On 26 March 2019, the company received dividends of £40,000,000 from its subsidiary Old Mutual Wealth Life Assurance Limited.

On 29 March 2019, the company paid dividends of £110,000,000 to its parent company Old Mutual Wealth Holdings Limited.

On 12 June 2019, the company received dividends of £20,000,000 from its subsidiary Old Mutual International Holdings Limited.

On 25 June 2019, the company invested £25,000,000 in its subsidiary Old Mutual Wealth Life & Pensions Limited.

On 30 August 2019, the company received dividends of £40,000,000 from its subsidiary Old Mutual Wealth Life Assurance Limited.

STRATEGIC REPORT (continued)

On 31 December 2019, the company invested £15,000,000 in its subsidiary Old Mutual Wealth Life & Pensions Limited and paid dividends of £30,000,000 to its parent company Old Mutual Wealth Holdings Limited.

On 31 December 2019, the company completed the sale of Old Mutual Wealth Assurance Limited to ReAssure Group for total consideration of £446,250,000. The company has recognised a profit on the disposal of Old Mutual Wealth Life Assurance Limited of £338,670,000.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the company's strategy through its subsidiaries is subject to a number of risks. The key risks affecting the business are transition change, liquidity risk and credit risk.

The company has adopted the Enterprise Risk Management framework of the group. This provides the framework for the monitoring, management and governance of risk, as detailed in note 3.

As a UK based financial services group, the implications and economic impact of several scenarios of the UK leaving the European Union ("EU") in relation to financial services will influence the degree to which these risks act upon the group, particularly with regards to strategy, market, legal and regulatory, and third party risks.

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 have 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.

As explained in note 10, the carrying value of the company's subsidiaries is estimated based on management's best estimate of the expected future cash flows. The cash flows used in the calculation have incorporated the forecast impact of COVID-19.

The COVID-19 pandemic is expected to have minimal financial impact on the company's revenues which are not directly impacted by market movements, being investment return from subsidiaries and the company's immediate parent, and interest received on short term bank deposits.

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.

More information on the company's business relationships and employees can be found in the Directors' Report.

STRATEGIC REPORT (continued)

CORPORATE GOVERNANCE STATEMENT

Quilter plc is subject to the requirements of the 2018 UK Corporate Governance Code (the “Code”) and complied with all its provisions during the year. The company has chosen not to apply a governance code during the year. As a wholly owned subsidiary of Quilter plc, the company has instead complied with the Quilter plc Group Governance Manual which sets out certain minimum standards and guidance for the governance frameworks of Quilter plc’s subsidiaries. The Board is comprised of executives of the Quilter plc group. The Board’s composition is consistent with the Quilter plc Group Governance Manual’s requirements.

By order of the board

A M Waters
Director
30 June 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 are listed below:

P A Dark
D J L Eardley
J Mitchell
A M Waters

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

Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

DIVIDENDS

During the year dividends of £140,000,000 (2018: £nil) were paid.

EMPLOYEES

The company has no employees (2018: nil). Management services are provided by a fellow group undertaking as disclosed in note 22.

FINANCIAL INSTRUMENTS

The financial risk management objectives and policies of the company are disclosed in note 3.

POLITICAL DONATIONS

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

CHARITABLE DONATIONS

During the year, the company made charitable donations of £36,357 (2018: £152,644).

PRINCIPAL RISKS AND UNCERTAINTIES

The company does not trade and therefore does not have any material risks and uncertainties.

EVENTS AFTER THE REPORTING DATE

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.

As explained in note 10, the carrying value of the company's subsidiaries is estimated based on management's best estimate of the expected future cash flows. The cash flows used in the calculation have incorporated the forecast impact of COVID-19.

The COVID-19 pandemic is expected to have minimal financial impact on the company's revenues which are not directly impacted by market movements, being investment return from subsidiaries and the company's immediate parent, and interest received on short term bank deposits.

DISCLOSURE OF INFORMATION TO AUDITOR

Each director at the date of approval of this report confirms that:
- so far as the directors are each 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 a 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.

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

DIRECTORS REPORT (continued)

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 can withstand a severe but plausible downside scenario and 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.

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

A M Waters
Director
30 June 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, 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 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 WEALTH UK HOLDING LIMITED

Opinion

We have audited the financial statements of Old Mutual Wealth UK Holding Limited (the "company") 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 2.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OLD MUTUAL WEALTH UK HOLDING LIMITED (continued)

Directors’ responsibilities
As explained more fully in their statement set out on page 5 , 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.

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

30 June 2020

INCOME STATEMENT
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Revenue			
Investment return	4	171,194	55,884
Expenses			
Management fees paid to fellow subsidiary undertaking	5	(15,708)	(11,322)
Finance costs	6	(33,916)	(32,816)
Impairment to investment in subsidiary undertaking	10	(148,157)	-
Total expenses		(197,781)	(44,138)
Profit on disposal of subsidiary undertaking	10	338,670	-
Profit before tax		312,083	11,746
Income tax credit	8	8,129	9,712
Profit after tax		320,212	21,458
Attributable to equity holders		320,212	21,458

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

The notes on pages 15 to 32 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	2019	2018
	£'000	£'000
Profit after tax	320,212	21,458
Total comprehensive profit for the year		
All attributable to equity holders	320,212	21,458

The notes on pages 15 to 32 are an integral part of these financial statements.

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

	Note	Share capital £'000	Retained earnings £'000	Total equity holder's funds £'000
Balance at 1 January 2019		**58,000**	**199,216**	**257,216**
Profit for the year		-	320,212	320,212
Dividends paid	9	-	(140,000)	(140,000)
Balance at 31 December 2019		**58,000**	**379,428**	**437,428**

	Share capital £'000	Retained earnings £'000	Total equity holder's funds £'000
Balance at 1 January 2018	**58,000**	**177,758**	**235,758**
Profit for the year	-	21,458	21,458
Balance at 31 December 2018	**58,000**	**199,216**	**257,216**

The notes on pages 15 to 32 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 undertakings	10	764,343	960,742
Current tax receivable		-	446
Deferred tax assets	11	982	1,457
Loans and advances	12	40,000	-
Other receivables	13	33	69
Cash and cash equivalents	14	139,613	104,732
Total assets		944,971	1,067,446
Equity and liabilities			
Equity			
Share capital	15	58,000	58,000
Retained earnings		379,428	199,216
Total equity attributable to equity holders		437,428	257,216
Liabilities			
Interest bearing liabilities	17	458,920	788,920
Current tax payable		5,483	-
Other liabilities	20	181	-
Other payables	21	42,959	21,310
Total liabilities		507,543	810,230
Total equity and liabilities		944,971	1,067,446

The notes on pages 15 to 32 are an integral part of these financial statements.

Approved at a meeting of the board of directors on 30 June 2020 and signed on its behalf by:

A M Waters
Director

Company registered number: 01752066

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	2019	2018
	£'000	£'000
Cash flows from operating activities		
Cash paid to service providers	(13,427)	(11,322)
Bank interest received	502	484
Tax and group relief received	14,533	9,788
Accrued bank interest	38	(69)
Net cash flows used in operating activities	1,646	(1,119)
Cash flows from investing activities		
Net cash received for short term funding arrangements	28	469
Proceeds from sale of subsidiary	446,250	-
Increase in loan notes	181	-
Interest received	692	-
Investment in subsidiary	(40,000)	(18,000)
Net cash flows from/(used in) investing activities	407,151	(17,531)
Cash flows from financing activities		
Interest paid	(33,916)	(32,816)
Increase in loan from parent company	60,000	100,000
Decrease in loan from fellow group undertaking	(430,000)	-
Dividends paid	(140,000)	-
Dividends received	170,000	55,400
Net cash flows (used in)/from financing activities	(373,916)	122,584
Net increase in cash and cash equivalents	34,881	103,934
Cash and cash equivalents at beginning of the year	104,732	798
Cash and cash equivalents at end of the year	139,613	104,732

The notes on pages 15 to 32 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

1 GENERAL INFORMATION
Old Mutual Wealth UK Holding 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.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared and approved by the directors in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRSs") as adopted by the EU. The financial statements have been prepared on a historical cost basis, have been prepared in sterling and are rounded into thousands.

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. 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 accounts.

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

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; and
- 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 companies annual accounting periods beginning after 1 January 2020. The company has not early adopted these standards, amendments and interpretations.

At the date of authorisation of these financial statements, the following standards have been issued by the International Accounting Standards Board, and are not relevant for the company:
- IFRS 17 *Insurance Contracts* (yet to be endorsed by the EU)
- IFRIC 23 *Uncertainty over Income Tax Treatments* (endorsed by the EU)

Financial instruments
Financial instruments cover a wide range of financial assets, including financial investments, trade receivables and cash and cash equivalents and financial liabilities, including investment contract liabilities, trade payables, and borrowings. Financial assets and financial liabilities 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. A financial liability is derecognised when the liability is extinguished.

The company assesses the objective of a business model in which an asset is held at a portfolio level because this best represents the way the business is managed and information is reported to management. The assessment considers the stated portfolio policies and objectives. It is important to determine whether management's strategy in holding the financial asset is to earn contractual interest revenue, for example to match the duration of financial assets to the duration of liabilities that are funding those assets or to realise cash flows through the sale of the assets. The frequency, volume and timing of sales in prior periods may be reviewed, along with the reasons for such sales and expectations about future sales activity. This helps management determine whether financial assets should be measured at fair value.

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

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 two are applicable within the company: FVTPL and amortised cost. This classification determines the subsequent measurement basis. The following accounting policies apply to the subsequent measurement of financial assets.

Measurement basis	Accounting policies
Financial assets at FVTPL	These financial assets are subsequently measured at fair value. Net gains and losses, including interest and dividend income, are recognised in profit or loss.
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.

Financial investments

All other financial assets that are not measured at amortised cost are classified as measured at FVTPL. In addition, on initial recognition, the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost, at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVTPL because this best reflects the way they are managed.
The company recognises purchases and sales of financial investments on trade date, which is the date that the company commits to purchase or sell the assets. The costs associated with investment transactions are included within expenses in the statement of comprehensive income.

Cash and cash equivalents

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

Cash and cash equivalents held within money market collective investment funds are classified as FVTPL. All other 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, other than money market collective investment funds, approximates to their 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.

Trade payables and receivables

Trade payables and receivables are classified at amortised cost and non-financial assets. Due to their short term nature, their carrying amount is considered to be the same as their fair value.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets
The impairment model applies to financial assets measured at amortised cost, but not to investments in equity instruments. Financial assets at amortised cost include trade receivables, cash and cash equivalents (excluding money market collective investment funds which are measured at fair value).

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.

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 new ECL model to two types of financial asset which are measured at amortised cost:

- other receivables and cash, 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; and
- loans 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

The company's critical accounting estimates are shown below and involve the most complex or subjective assessments and assumptions, which have a significant risk of resulting in material adjustment to the carrying amounts of assets and liabilities within the next financial year. Management uses its knowledge of current facts and circumstances and applies estimation and assumption setting techniques that are aligned with relevant actuarial and accounting guidance to make predictions about future actions and events. Actual results may differ from those estimates.

Area	Critical accounting estimates	Note
Investment in subsidiaries – measurement	Investment in subsidiaries are initially held at historical cost and tested annually for impairment. Where the values of the subsidiaries are impaired, then investments in subsidiaries are carried at management's estimate of the recoverable value, being the higher of the value-in-use or fair value less costs to sell. The recoverable value of the company's trading subsidiaries, including companies that have direct or indirect investments in underlying trading subsidiaries, is based on their value-in-use, which incorporates the discounted value of expected future cash flows. This calculation includes significant estimates relating to forecast cash flows, new business growth and discount rates. The recoverable value of the company's non-trading subsidiaries is based on the fair value less costs to sell, which is not subject to any significant estimate.	10
Deferred tax – measurement	The recognition of deferred tax assets is subject to the estimation of future taxable profits, which is based on the Quilter plc group annual business planning process and in particular on estimated levels of assets under management, which are subject to a large number of factors including worldwide stock market movements and related movements in foreign exchange rates, together with estimates of net client cash flow, expenses and other charges. Tax planning is undertaken on a group-wide basis and the business plan, adjusted for known and estimated tax sensitivities, is used to determine the extent to which deferred tax assets are recognised. In general the group assesses recoverability based on estimated taxable profits over a 3 year planning horizon. Where credible longer term profit forecasts are available the specific entity may assess recoverability over a longer period, subject to a higher level of sensitivity testing. Sensitivity analysis demonstrates significant headroom in the recoverable amount of the deferred tax asset over the taxable profits contained within the Quilter plc group 3 year planning horizon. The impact of a 20% decrease in group profitability over that period has been assessed and would not result in any impact over recoverability of deferred tax assets.	11

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Other receivables
Other receivables are non interest-bearing and are stated at amortised cost, which is not materially different to cost and approximates to fair value.

Investments in subsidiaries
Parent company investments in subsidiary undertakings are initially stated at cost. Subsequently, investments in subsidiary undertakings are stated at cost less provision for impairment. An investment in a subsidiary is deemed to be impaired when its carrying amount is greater than its estimated recoverable amount, and there is evidence to suggest that the impairment occurred subsequent to the initial recognition of the asset in the financial statements. All impairments are recognised in the income statement as they occur.

Interest bearing liabilities
Interest bearing liabilities are recognised initially at the proceeds received, net of transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Other payables
Other payables are short-term, non interest-bearing and are stated at amortised cost, which is not materially different to cost and approximates 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.

Taxation
Current tax
Current tax is the expected tax payable on the taxable income for the year, using 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.

Deferred tax
Deferred taxes are calculated according to the statement of financial position method, based on temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or in other comprehensive income. In certain circumstances, as permitted by accounting guidance, deferred tax balances are not recognised. In particular, where the liability relates to the initial recognition of goodwill, or transactions that are not a business combination and at the time of the occurrence affect neither accounting nor taxable profit.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in collective investment schemes
Investments in collective investment schemes are designated at fair value through the income statement at initial recognition and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Holdings in unit trusts are valued at quoted bid price for long positions and quoted offer price for short positions. Open Ended Investment Company ("OEIC") assets are single priced funds and are valued at the quoted net asset value per share. Any holdings in dual priced unit trusts are priced at the mid-price of the creation and cancellation prices. Purchases and sales of securities and currencies are recognised on the trade date.

3 FINANCIAL INSTRUMENTS RISK

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; and
- 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

The company defines operational risk as the risk of failure of people, processes, systems or external events which results in financial loss, damage to brand/reputation or adverse regulatory intervention or government or regulatory fine.

Operational risk includes all risks resulting from operational activities which the company undertakes excluding strategic risks and risks resulting from being part of a wider group of companies.

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 in money market OIEC investments and cash held at bank. 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's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the financial statements.

Market risk

Market risk is defined as the risk of an adverse change in the level or volatility of market prices of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency.

Quilter plc group results may be materially adversely affected by conditions in global capital markets, the global economy generally and the UK economy in particular that result in a decrease in the value of customer investment portfolios. The volatility and strength of debt and equity markets, the direction and pace of change of interest rates and inflation all affect the economic environment, investor confidence, our reputation and, ultimately, the volume and profitability of Quilter plc group business.

The company is not subject to material market risk in any of these areas.

3 FINANCIAL INSTRUMENTS RISK (continued)

Interest rate risk

Interest rate risk is defined as the risk of a deviation of the actual interest rates from the expected interest rates, resulting in the potential for, a negative impact on earnings or capital and/or reduced solvency.

An exposure exists as a result of a small number of loans that are linked to an underlying variable interest rate, such as LIBOR, and so the value of these interest payments will vary if the underlying interest rate changes. It also has a loan that has a fixed interest rate, where the present value of these loans would vary in the event of a change in interest rates. The company monitors the impact of interest rate changes on its financial position, with the risk managed in line with the group's Market Risk Policy.

The company is exposed to limited interest rate risk except in respect of loans from group undertakings and surplus cash which is held on overnight deposit and current accounts. The amount of cash held at 31 December 2019 was £94,313,000 (2018: £25,732,000).

The effective interest rate applicable to interest bearing financial instruments is as follows:

	2019 Variable	2018 Variable
Assets		
Deposits with credit institutions	0.70%	0.70%
Current account with credit institutions	0.32%	0.76%

Liquidity risk

The risk that there are insufficient assets or that assets cannot be realised in order to settle financial obligations as they fall due, or that market conditions preclude the ability of the firm to trade in liquid assets in order to maintain its asset and liability matching ("ALM") profile.

The liquidity strategy is to maintain sufficient liquidity within the business such that it can meet its target liquidity requirement at all times. The minimum requirements are set out in the Liquidity Policy that ensures a risk appetite statement, limits and triggers are in place, supported by an appropriate Contingency Funding Plan that addresses potential liquidity requirements that may arise during a liquidity stress.

Sensitivity tests

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at the reporting date.

The sensitivities described below are only in respect of the company's holdings of cash and loans described in the Market Risk section above. Changes in interest rates and equity market prices also impact the profitability and related valuation of subsidiaries which can, in certain circumstances, result in impairments to the carrying values of those subsidiaries as further explained in 'Critical accounting estimates and judgements' in Note 2.

Interest rate sensitivity

The impact of an increase and decrease in market interest rate of 1% (e.g. if the current interest rate is 5% the test allows for the effects of an immediate change to 4% and 6%) is assessed.

An increase in interest rate of 1% would have decreased profit and shareholder equity by £2,372,000 (2018: decrease £5,715,000) after tax; an equal change in the opposite direction would have increased profit by £3,311,000 (2018: increase £5,785,000) after tax. The reduction in profit would however be limited to the amount of interest received, as the company only has accounts currently attracting interest of less than 1%.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

4 INVESTMENT RETURN

	Note	2019 £'000	2018 £'000
Dividends from subsidiary Quilter International Holdings Limited	22	20,000	55,400
Dividends from subsidiary Old Mutual Wealth Life & Penions Limited	22	20,000	-
Dividends from former subsidiary Old Mutual Wealth Life Assurance Limited	22	130,000	-
Interest on short term bank deposits (amortised cost)		51	50
Interest on short term bank deposits (mandatorily at FVTPL)		451	434
Interest on loan to immediate parent	22	692	-
		171,194	55,884

5 ADMINISTRATIVE EXPENSES

	Note	2019 £'000	2018 £'000
Management fees paid to subsidiary undertaking	22	15,708	11,322
Of which:			
Auditor's remuneration: services paid to KPMG LLP		11	11

Auditor's remuneration for audit services consists of fees in respect of the statutory audit. There are no-non audit fees (2018: £nil).

6 FINANCE COSTS

	Note	2019 £'000	2018 £'000
Financing costs for liabilities held at amortised cost			
Interest payable to ultimate parent[1]	22	2,538	1,606
Interest payable to immediate parent[2]	22	1,622	-
Interest payable to fellow group undertaking[3]	22	29,756	31,210
		33,916	32,816

[1] Quilter plc
[2] Old Mutual Wealth Holdings Limited
[3] Skandia UK Limited

7 REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity and as such, only directors are considered to meet this definition.

	2019 £'000	2018 £'000
Aggregate directors' emoluments		
Aggregate emoluments excluding pension contributions	377	274
Company pension contribution to money purchase schemes	15	11
Share-based payments	53	16

Four directors had money paid to money purchase schemes during the year (2018: two).

Four directors received or were due to receive shares or share options under a long term incentive scheme (2018: two). Three directors (2018: two) exercised options during the year.

Shares or share options were in Old Mutual plc shares for the period up to the Quilter plc listing date (25 June 2018), and in Quilter plc shares for the period from listing date onwards.

	2019 £'000	2018 £'000
Emoluments of the highest paid director		
Aggregate emoluments excluding pension contributions	109	161
Company pension contribution to money purchase schemes	4	5

The highest paid director exercised share options during the current and prior years.

The directors' emoluments disclosed above are in respect of the four directors of the company in office during the year who are directly employed by Quilter Business Services Limited (formerly Old Mutual Wealth Business Services Limited), a fellow group undertaking (2018: two directors). During the year the company paid £12,056, relating to directors' remuneration, to Quilter Business Services Limited as part of the management fee.

The above disclosure includes the remuneration of those directors in relation to their services to this company and its subsidiaries. The remuneration for each director is apportioned on the basis of time spent across the company and its subsidiaries but restricted to the period in which they were a director of this company.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

8 TAXATION

	2019 £'000	2018 £'000
Current year corporation tax credit	(8,474)	(8,268)
Deferred tax charge/(credit)	475	(1,457)
Prior year corporation tax (credit)/charge	(130)	13
Tax credit for the year	(8,129)	(9,712)

	2019 £'000	2018 £'000
The total tax credit for the year can be reconciled to the accounting profit as follows:		
Profit before tax	312,083	11,746
Tax on profit at the applicable tax rate, 19% (2018: 19%)	59,296	2,232
Effect of:		
Prior year tax (credit)/charge	(130)	13
Recognition of previously unrecognised deferred tax assets	-	(1,457)
Prior year adjustments to deferred tax	321	-
Effect on deferred tax for changes in tax rates	153	-
UK dividends receivable	(32,300)	(10,526)
Other taxable income	-	26
Sale of subsidiary (Old Mutual Wealth Life Assurance Limited) not taxable	(63,638)	-
Impairment of subsidiaries not tax deductible	28,150	-
Expenses not deductible for tax purposes	19	-
	(8,129)	(9,712)

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%.

9 DIVIDENDS

	2019 £'000	2018 £'000
Dividends paid		
Aggregate dividends	140,000	-
Dividends per share	241.38p	-

10 INVESTMENTS IN SUBSIDIARIES

	2019 £'000	2018 £'000
Investment in subsidiary undertakings	764,343	960,742

Investments in subsidiaries are stated at cost, less impairment in value. All shares held are ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

Movement analysis

	Investments in subsidiaries £'000
At 1 January 2018	942,742
Investment in subsidiary undertaking	18,000
At 31 December 2018	960,742
Investment in subsidiary undertaking	40,000
Disposal of subsidiary	(88,242)
Impairment of subsidiary	(148,157)
At 31 December 2019	764,343

2018 investment in subsidiary
On 1 July 2018, the company invested £18,000,000 in its subsidiary Old Mutual Wealth Life & Pensions Limited.

2019 investment in subsidiaries
On 25 June 2019, the company invested £25,000,000 in its subsidiary Old Mutual Wealth Life & Pensions Limited.

On 31 December 2019, the company invested £15,000,000 in its subsidiary Old Mutual Wealth Life & Pensions Limited.

On 31 December 2019, the company completed the sale of Old Mutual Wealth Life Assurance Limited to ReAssure Group for £446,250,000, received as a cash consideration. The sale proceeds of £446,250,000 less the holding value of the investment of £88,242,000 and costs of £19,338,000 resulted in a profit on sale of £338,670,000.

The subsidiary undertakings at the year end, all wholly owned and registered in England and Wales, are:

Company name	**Share class**	**Registered office address**
Old Mutual Wealth Life & Pensions Limited	Ordinary	Old Mutual House, Portland Terrace, Southampton, SO14 7EJ
Quilter Pensions Trustees Limited (formerly Old Mutual Wealth Pension Trustees Limited)	Ordinary	Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ
Quilter International Business Services Limited (formerly Old Mutual International Business Services Limited)	Ordinary	King Edward Bay House, King Edward Road, Onchan, IM99 1NU
Quilter International Holdings Limited (formerly Old Mutual International Holdings Limited) (incorporated in the Isle of Man)	Ordinary	King Edward Bay House, King Edward Road, Onchan, IM99 1NU
Quilter International Isle of Man Limited (formerly Old Mutual International Isle of Man Limited) (incorporated in the Isle of Man)	Ordinary	King Edward Bay House, King Edward Road, Onchan, IM99 1NU
Quilter International Trust Company Limited (formerly Old Mutual International Trust Company Limited) (incorporated in the Isle of Man)	Ordinary	King Edward Bay House, King Edward Road, Onchan, IM99 1NU
Quilter International Middle East Limited (formerly Old Mutual International Middle East Limited) (incorporated in United Arab Emirates)	Ordinary	7 & 8 Level 2, Gate Village Building 7, Dubai International Financial Centre, Dubai, 482062
AAM Advisory PTE, Limited (incorporated in Singapore)	Ordinary	138 Market Street , #06-01/02 Capita Green , Singapore, 048946

10 INVESTMENTS IN SUBSIDIARIES (continued)

Impairment testing
In accordance with the requirements of IAS 36 *Impairment of Assets*, the investments in subsidiaries are 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 recognized when the recoverable amount is less than the carrying value.

The recoverable value of the company's trading subsidiaries, including companies that have direct or indirect investments in underlying trading subsidiaries, is based on their value-in-use, which incorporates the discounted value of expected future cash flows. This calculation includes significant estimates relating to forecast cash flows, new business growth and discount rates.

The recoverable value of the company's non-trading subsidiaries is based on the fair value less costs to sell, which is not subject to any significant estimates.

Key assumptions applied and results of the value-in-use calculation

Life assurance companies
The value-in-use calculation for the life assurance companies are determined as the sum of net tangible assets, the expected future profits arising from the in-force business, together with the expected profits from future new business derived from the business plans. Future profit elements allow for the cost of capital needed to support the business. The net tangible assets and future profits arising from the in-force business are derived from Solvency II ("SII") calculations. The value of in-force ("VIF") is calculated as the prospective value of future expected cash flows on all in-force policies at the valuation date on a policy-by-policy basis allowing for surrender or transfer payments, death claims, income withdrawals, maintenance expenses, fund-based fees, mortality charge/protection premiums and other policy charges. The underlying assumptions are based on the best estimate view for the future, which is largely based on recent business experience and any emerging trends. The unit fund growth rates (gross of investment charges) and the risk discount rates are set using the prescribed SII term-dependent risk-free interest rates.

Assumptions

	2019	2018
Period on which management approved forecasts are based	5-20 years	5 - 20 years
Growth rate applied beyond approved business plan period	0.8%	2.1%
Discount rate applied to future cash flows	10.1%	10.8%

2019 *impairment to investment in subsidiary*
An assessment was undertaken to compare the value-in-use to the carrying value of the company's investment in Quilter International Holdings Limited. The outcome of this test has resulted in an impairment of £148,157,000.

Sensitivity of impairment assessment
The value-in-use calculation includes significant estimates relating to forecast cash flows, new business growth and discount rates. Due to the level of estimation involved in this calculation, it is subject to sensitivity tests, including the impacts of a 10% reduction in future cash flows and a 1% increase in the discount rate.

The following table shows the consequence of the downside sensitivities of key assumptions on the carrying amount of the company's investment in subsidiary balance at 31 December 2019.

	Investment in subsidiaries £000
Forecast cash flows reduced by 10%	35,962
Discount rate increased by 1%	4,931

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

11 DEFERRED TAX

The following are the deferred tax balances and the movements thereon, during the current and prior reporting period.

	Tax losses carried forward £'000	Other carried forward £'000	Total £'000
Assets at 31 December 2018	1,457	-	1,457
Movement in the year	(475)	-	(475)
Assets at 31 December 2019	982	-	982

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%.

A deferred tax asset or liability is recognised to the extent that temporary differences are expected to reverse in the foreseeable future.

The value of deferred tax assets not recognised as at 31 December 2019 was £4,507,000 (2018: £4,186,000). This relates to gross carried forward losses of £26,513,000 (2018: £24,622,000).

12 LOANS AND ADVANCES

	Note	2019 £'000	2018 £'000
Loan to immediate parent at 1 month LIBOR + 1.304%	22	40,000	-

The loan is recognised at amortised cost, with the carrying amount approximating to fair value.

The loan is repayable on demand. There have been no non performing loans, loans subject to renegotiations or material impairments on loans and advances.

13 OTHER RECEIVABLES

	Note	2019 £'000	2018 £'000
Accrued bank interest		31	69
Due from immediate parent	22	2	-
		33	69

All amounts due from group companies are unsecured and are settled quarterly. All amounts are current, short term and interest free and recognised at amortised cost, with the carrying amount approximating to fair value.

There have been no non-performing receivables or material impairments in the financial year that require disclosure. None of the receivables reflected above have been subject to the renegotiation of terms.

14 CASH AND CASH EQUIVALENTS

	2019 £'000	2018 £'000
Bank balances	94,313	25,732
Money market OEIC investments	45,300	79,000
Cash and cash equivalents	139,613	104,732
Credit ratings		
Bank balances		
A	89,613	25,732
AA	4,700	-
	94,313	25,732
Money market OEIC investments		
A	-	17,000
AA	-	20,000
AAA	45,300	42,000
	45,300	79,000

Bank balances are current and recognised at amortised cost. Money market investments are recognised mandatorily at FVTPL. Bank balances are subject to a 12 month ECL.

15 SHARE CAPITAL

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
57,999,999 (2018: 57,999,999) ordinary shares of £1 each	58,000	58,000

The company has elected under the Companies Act 2006 to remove authorised share capital limits.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

16 FINANCIAL INSTRUMENTS

Fair value hierarchy
The table below analyses financial instruments into a hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following statement of financial position captions contain financial instruments that have been analysed into the three specified levels as described above:

2019:	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets designated at fair value through the income statement				
- cash and cash equivalents-money market funds only	45,300	-	-	45,300
Total assets measured at fair value	45,300	-	-	45,300

2018:	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets designated at fair value through the income statement				
- cash and cash equivalents-money market funds only	79,000	-	-	79,000
Total assets measured at fair value	79,000	-	-	79,000

There have been no changes in valuation techniques during the year under review. There have been no transfers between level 1 and level 2 during the year under review.

17 INTEREST BEARING LIABILITIES

	Note	2019 £'000	2018 £'000
Loan from immediate parent at 1 month LIBOR + 0.5%[1]	22	122,704	122,704
Loan from fellow group undertaking at 5.512%[2]	22	136,216	566,216
Loan from ultimate parent at 1 month LIBOR plus 1.304%[3]	22	200,000	100,000
		458,920	788,920

[1]Old Mutual Wealth Holdings Limited
[2]Skandia UK Limited
[3]Quilter plc

Amounts borrowed are at amortised cost, unsecured and repayable on demand. The carrying amount approximates to fair value which is valued as the principal amount repayable.

18 FINANCIAL AND CAPITAL COMMITMENTS

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

19 CONTINGENT LIABILITIES

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

20 OTHER LIABILITIES

	2019 £'000	2018 £'000
Unsecured loan notes	181	-

A loan note liability held by IFA Holding Company Limited, a subsidiary undertaking, was transferred to the company during 2019. An equivalent cash amount was paid to the company from IFA Holding Company Limited at the same time. The loan notes were held at a nominal interest rate range of 4.0975% - 8.0975%.

The transfer of the liability was approved to enable the preparation of the strike off of IFA Holding Company Limited during 2020.

The face value and carrying value of the unsecured loan notes are considered to be equal and held at amortised cost.

21 OTHER PAYABLES

	Note	2019 £'000	2018 £'000
Due to subsidiary undertaking[1]	22	12,000	12,000
Due to ultimate parent[2]	22	11	1
Due to fellow group undertakings[3]	22	30,920	9,309
Loan note accruals		28	-
		42,959	21,310

[1]Quilter International Isle of Man Limited
[2]Quilter plc
[3]Quilter Business Services Limited and Skandia UK Limited

All amounts are current and short term. Amounts due to group companies are at amortised cost, unsecured and are settled quarterly.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

22 RELATED PARTY TRANSACTIONS

The following transactions were entered into with related parties during the period:

	Notes	2019 £'000	2018 £'000
Management fees paid to fellow subsidiary undertaking	5	15,708	11,322
Dividends from subsidiary undertaking	4	170,000	55,400
Interest on loan to immediate parent	4	692	-
Interest payable to ultimate parent	6	2,538	1,606
Interest payable to immediate parent	6	1,622	-
Interest payable to fellow group undertaking	6	29,756	31,210
Investment in subsidiary undertaking - addition	10	40,000	18,000
Investment in subsidiary undertaking - disposal	10	(88,242)	-
Investment in subsidiary undertaking - impairment	10	(148,157)	-
Due from immediate parent	13	2	-
Loan from immediate parent at 1 month LIBOR + 0.5%	17	122,704	122,704
Loan from fellow group undertaking at 5.512%	17	136,216	566,216
Loan from ultimate parent at 1 month LIBOR plus 1.304%	17	200,000	100,000
Liability transfer from subsidiary undertaking	20	181	-
Due to subsidiary undertaking	21	12,000	12,000
Due to ultimate parent	21	11	1
Due to fellow group undertakings	21	30,920	9,309

Management services and fixed assets in the current and prior period are provided by Quilter Business Services Limited, a fellow group undertaking. Quilter Business Services Limited charges a management fee for costs incurred and services provided. This management fee is charged at a mark-up.

23 EVENTS AFTER THE REPORTING DATE

On the 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.

As explained in note 10, the carrying value of the company's subsidiaries is estimated based on management's best estimate of the expected future cash flows. The cash flows used in the calculation have incorporated the forecast impact of COVID-19.

The COVID-19 pandemic is expected to have minimal financial impact on the company's revenues which are not directly impacted by market movements, being investment return from subsidiaries and the company's immediate parent, and interest received on short term bank deposits.

24 ULTIMATE PARENT COMPANY

The company's immediate parent company is Old Mutual Wealth Holdings 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