

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

31 December 2019

Old Mutual Wealth Limited

Registered in England and Wales No. 01680071

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COMPANY INFORMATION

Executive Directors

S D Levin (Chief Executive Officer)

S K Goodsir

S V Wood

Non-executive Directors

A M Barnes

J E Gill

G M Reid

Secretary

Quilter CoSec Services Limited

Auditors

KPMG LLP

15 Canada Square

London

E14 5GL

Registered office

Old Mutual House

Portland Terrace

Southampton

SO14 7EJ

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 Limited ("the Company") is a leading investment platform provider of retail advised wealth management products and services, operating in the UK. It largely serves an affluent customer base through the Quilter Financial Planning division and third party financial advisers.

The Company and its sister company Old Mutual Wealth Life & Pensions Limited comprise the UK Platform which forms part of the Quilter Wealth Platforms division within Quilter plc group ("the Group"). Quilter plc is the ultimate parent company and delivers strategic and governance oversight. Quilter plc's ordinary shares are listed on the London and Johannesburg Stock Exchanges. Since its IPO in June 2018, the Group's businesses have progressively rebranded to Quilter. The UK Platform will be the final business to rebrand; this will follow the safe delivery of the new platform technology.

The Company is authorised and regulated by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).

Quilter plc 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 Group believes its 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.

Old Mutual Wealth Limited Strategy

The strategic priorities of the Company, aligned to the broader strategy of the Quilter Wealth Platforms division, are to build the investment proposition, leverage benefits from being part of a full service wealth management business and invest significantly in the infrastructure to build a market-leading platform that will provide an enhanced service and proposition to customers and advisers.

UK Platform Transformation Programme

The UK Platform Transformation Programme has been a major priority for the Company over the course of 2019. The year was spent with the system in soft launch phase which was used to verify core system functionality, processes and controls in a live environment. This provided valuable insight as the Programme worked through to the core code delivery in the summer and the delivery of the master version of the code in early November 2019. Alongside a rigorous testing approach, the Programme undertook two dry runs and three dress rehearsals as part of migration readiness plans before the initial migration in February 2020. Lessons learnt from this process will be incorporated into its plans to ensure the new platform is operating well and at scale ahead of undertaking the final migration by the end of the summer, with scheduling of this timed to reduce potential disruption to customers and advisers.

Market Recognition

In 2019, Quilter's platform and products won a total of seven highly sought-after awards, as recognised by financial advisers, independent research agencies and market experts for providing quality products and outstanding service.

Examples include the UK platform receiving a platinum rating for the fifth time, from the independent price comparison and research tool provider, Adviser Asset; and its pension product winning Investment Week's coveted Gold Standard Award for the third year running.

Awards such as these are a huge endorsement of the quality of the proposition and help to demonstrate to customers and financial advisers that the platform provides outstanding products and services.

STRATEGIC REPORT (continued)*Proposition and Integration*

In 2019 the strategic focus has continued on the integration of the Company's market offerings and expertise from the other Quilter plc businesses. The Group defines integrated flows as those that have flowed through two or more segments within the Group. For the UK Platform this means that of the £0.8bn net client cash flow placed with it, £0.7bn was classed as integrated flows being invested into Quilter Investors.

The UK Platform continues to work closely with Quilter Financial Planning – rebranded from Intrinsic in July 2019 – resulting in integrated net client cash flows of £1.1bn coming through the Quilter Financial Planning restricted advice channel.

KEY PERFORMANCE INDICATORS (KPIs)

Table A below shows the key performance indicators the Company uses to manage business performance. The Company assesses its financial performance using a variety of alternative performance measures (APMs). APMs are not defined by the relevant IFRS financial reporting framework, but the Directors use them to provide greater insight into the financial performance, financial position and cash flows of the Company and the way it is managed. APMs should be read together with the IFRS income statements, IFRS statement of financial position and IFRS statement of cash flows, which are presented in the financial statements on pages 15 - 19. Further details of APMs used by the Company are provided below.

APM	Definition
Adjusted profit (AP)	Represents the adjusted profit before tax of the Company. It adjusts IFRS profit for key adjusting items and excludes non-core operations, the quantum of these are shown in table B below. Due to the nature of the Company's businesses, we believe that adjusted profit is an appropriate basis by which to assess the Company's underlying operating results and it enhances comparability and understanding of the financial performance of the Company.
Gross sales	Gross sales are the gross client cash inflows received from customers during the period and represent our ability to increase assets under administration and revenue.
Assets under administration	Represents the total market value of all financial assets managed and administered on behalf of customers and includes shareholder assets.
Net client cash flow (NCCF)	The difference between money received from and returned to customers during the relevant period for the Company or for the business indicated. This measure is considered to be a lead indicator of reported net revenue.

The Company achieved gross sales of £2.2bn (2018: £2.7bn), a decrease of 18% year-on-year due to dampened investor appetite caused by the uncertainty of the UK withdrawal from the European Union (EU). NCCF was £(583.3)m in 2019 (2018: £27.1m). Despite the negative NCCF, Assets under administration have increased to £26.7bn from £24.0bn at the previous year end due to strong fund performance.

The business continues to be profitable on an adjusted profit basis. The Company's post-tax adjusted profit has increased by £1.6m to £8.4m in 2019. On an IFRS basis the business continues to make losses as a result of the expenditure incurred on the Platform Transformation Programme. These costs are regarded as one-off and transformational, and are therefore excluded from the adjusted profit results. On an IFRS basis the Company has made a loss of £12.7m in 2019 compared to £14.5m in 2018.

STRATEGIC REPORT (continued)

Table A: Key performance indicators:

	2019	2018 (Restated)
	£m	£m
Gross sales	2,224.0	2,716.4
Net client cash flow	(583.3)	27.1
Assets under administration*	26,658.7	23,923.9 *
Return on assets (calculated as IFRS adjusted profit after tax / total assets)	6%	5%
IFRS adjusted profit (AP) before tax	10.8	8.4
IFRS adjusted profit (AP) after tax	8.4	6.8
IFRS loss after tax	(12.7)	(14.5)

*In 2018, assets under administration were disclosed as £24,029.8m including shareholder assets. The 2018 comparative has been restated to now show only policyholder assets.

Table B: Reconciliation between IFRS adjusted profit before tax and IFRS loss after tax:

	2019	2018
	£m	£m
IFRS adjusted profit before tax	10.8	8.4
Adjusting items	(29.8)	(29.8)
IFRS loss before tax	(19.0)	(21.4)
Total tax	6.3	6.9
IFRS loss after tax for the financial year	(12.7)	(14.5)

Adjusting items represent the Company's share of the Platform Transformation Programme spend of £29.8m (2018: £29.8m).

FINANCIAL POSITION AT THE END OF THE YEAR

The Company's total net assets have increased from £108.6m to £130.9m over the course of the year. During the year £35m of share capital was issued to cover the regulatory solvency impact from strategic developments in respect of the Platform Transformation Programme mentioned above. There were no dividends paid in 2019.

STATEMENT OF GOING CONCERN

The use of the going concern basis of accounting is considered appropriate, reflecting future expected profitability. There are no material uncertainties, related events or conditions that may cast significant doubt over the ability of the Company to meet its liabilities as they fall due, for at least 12 months from the date of approving these financial statements.

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.

STRATEGIC REPORT (continued)

The Board has used its regular meetings to discharge its duties under s.172 of the Companies Act 2006, including the matters it discussed and debated during the year. Each Board meeting follows an agenda agreed in advance by the Chairman and Chief Executive Officer. At each meeting the Board of the Company and where appropriate its Governance, Audit and Risk Committee receives regular reports which include updates on customers and advisers, employees, any conduct issues and business relationships. Specific consideration is also given in respect of the impact of any specific projects relevant to the Company and the impact on the interests of employees and customers, together with updates and monitoring of the business relationship with its platform provider.

The Board received the following regular reports during 2019:

- Chief Executive’s Report – provides the Chief Executive’s summary views of the significant matters impacting the UK Platform business.
- Finance Report – updates the Board on the Company’s financial performance against the Business Plan, prior year performance and other Key Performance Indicators.
- Distribution Report - a regular performance update on gross and net client cash flows against the business plan, how the Company’s products are performing and any relevant topics and influences impacting the market and sales.
- Chief Information Officer Report on IT Service – briefing the Board on IT Service and Risk & Change Delivery across the UK platform business.
- Chief Operating Officer’s Report – this provides the Board with an update across Operations, with a focus on Customer Service, service quality, Risk and Complaints.
- The People Update - providing an overview of the UK Platform’s performance across a range of key people metrics including engagement and alignment of culture with strategy.
- Chief Risk Officer’s Report – a second line view on the key risks in the business and the effectiveness of management’s efforts to mitigate those risks.
- Customer Reports – these provide updates on customer outcomes, any changes to customer terms and conditions as well as monitoring of investment performance.
- Updates on the new Investment Platform Transformation Programme – the Board was provided with regular progress updates on the delivery of this key programme during the year which will benefit customers and advisers who utilise our investment platform.

More information on the Company’s Business Relationships can be found in the Directors’ Report.

As highlighted earlier in the report, 2019 was a critical year for the introduction of the new investment platform. The delivery of the new investment platform is the most critical strategic priority for the Group. The Company remains committed to being transparent with customers and the market and has ensured that any significant milestones are shared with the market when they occur. The Company has monitored the journey for its employees, whose roles will change as a result of the introduction of the new platform and the approach and progress of the training programme so that employees are ready to support our advisers and customers. The Company has carefully scrutinized the impacts for advisers and customers and examined the communications programme that will be rolled out to them.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is exposed to a number of risks as a result of its business model, including certain strategic, business, operational, financial and regulatory risks. The nature of the Company’s business risks are largely consistent with those it has faced over recent years and the Company only seeks risks consistent with the Company’s risk appetite with the aim of ensuring delivery of long term commitments to customers and shareholders. The platform transformation is a large scale and complex programme, the majority of which is being implemented through third party suppliers and outsource providers, and carries a high degree of execution risk.

The Company is affected by macroeconomic conditions and geo political risks, including the UK’s withdrawal from the European Union (EU), which arise given the impact that these conditions have on financial markets and customer behaviours. Similarly, retail investor sentiment is influenced by general economic market conditions and their confidence in the future outlook of economies, which has a strong correlation on the flow of assets available to be attracted to the Company’s wealth solution

STRATEGIC REPORT (continued)

offering. Fund-based management fees, which comprise the majority of the Company's revenues, are directly linked to investment markets.

We continue to operate in a challenging political and economic environment where uncertainty has become the norm. The UK General Election of 12 December 2019 has provided more certainty on the UK's future status and relationship with the EU, albeit with trade agreements still to be established with the EU and other trading partners. Although Quilter's UK-focused business model has protected the Group from many of the cross-border challenges faced by others in the sector, that UK focus means the firm is strongly exposed to any detriment to future UK economic performance that may arise from the UK's future status and consequential impacts such as loss of investor confidence.

The Company expects regulatory risk to continue to be high. Significant impact from regulatory changes is anticipated, for example the proposals from the Investment Platform Market Study, the FCA's Post-Implementation Review of the Retail Distribution Review and Financial Advice Market Review, the Senior Managers and Certification Regime and likely regulatory developments around operational resilience. The Company continues to be transparent and responsive with the regulators to help manage and build these relationships.

There will be implications and economic impacts on financial services as a result of the UK leaving the EU. As a UK-based company, the scenario under which the UK leaves the EU will influence the extent to which the Company's risks are impacted. This will be particularly relevant to strategy, market, legal & regulatory and third party risks, and includes potential disruption to the Company's business operations and supply chain. Investor confidence could also deteriorate further, under various scenarios related to the UK leaving the EU. A group-wide programme is in place to actively monitor these risks and a number of actions have been taken to mitigate any implications to the business and customers.

At this time, there remain the much publicised concerns about the risk of Coronavirus becoming a global pandemic and further impact to global supply chains, global growth and employee availability. The Company could be adversely impacted by falls in equity market levels, adverse investor sentiment affecting NCCF and increased operational risks should employment availability be badly affected. The length and severity of the impact remains unclear but the Company would not expect these to adversely change the underlying prospects of the business.

The Company manages these risks by establishing a risk framework, including a consistent set of risk definitions and policies, and a risk strategy. A risk appetite is set and risks are managed within that appetite which is integrally linked to the business strategy. The risk appetite is reassessed annually, or more regularly, where deemed appropriate by the Board, to ensure it remains relevant in implementing the business strategy. Strategic risk appetite measures are in place and supported by more granular risk appetite measures and key risk indicators in key areas. Work to develop further measures is ongoing. Stress and scenario testing is performed regularly to test the resilience of the business. The Company's risk framework and capabilities continue to be enhanced to ensure that ongoing risk management considers existing and emerging challenges.

The key risks, summarised in the following table, are closely monitored by management and regularly reported to the Board.

STRATEGIC REPORT (continued)

Current impact and risk outlook	Risk mitigation and management actions
<p><u>Macroeconomic conditions</u></p> <p>The Company has a material exposure to macroeconomic and political conditions in the UK and globally. There is a risk that the UK’s withdrawal from the EU, other political developments or developments otherwise affecting market confidence may result in outflows of assets from investment portfolios with exposure to the UK, which could include funds administered by the Company. Fund based management fees, which comprise the majority of revenues, are directly linked to the value of funds under administration.</p> <p>Due to the size and importance of the UK economy in the global economy, particularly with respect to the UK financial services market, as well as the uncertainty and unpredictability concerning the UK’s legal, political, financial and economic relationship with the EU after withdrawal, there may continue to be instability in the national and international financial markets, significant currency fluctuations and otherwise adverse effects on consumer confidence for the foreseeable future, including beyond the date of the UK’s withdrawal from the EU.</p> <p>The statement of financial position remains resilient to financial and economic market shock; however a severe fall in equity markets due to ongoing uncertainty could potentially reduce profitability in the Company.</p>	<p>Regular stress and scenario testing is carried out, which includes stresses and scenarios based on severe economic conditions and political events. These allow the Company to understand the impact of potential events on earnings, liquidity and capital resilience.</p> <p>The Company aims to ensure cost base can flex to mitigate volatility in revenues. Potential management actions to mitigate these impacts are subject to approval by the Old Mutual Wealth Limited Board.</p> <p>A group-wide programme is in place to actively monitor the risks of the UK’s withdrawal from the EU and a number of actions have been taken to mitigate any implications for the Company and its customers.</p>
<p><u>Competitor and margin risk</u></p> <p>The Company is exposed to external margin pressure whereby competitive market changes may reduce the attractiveness of proposition. If the proposition is not compelling, sustainable and profitable, then there is a risk the Company may not be able to meet its business plan targets and objectives.</p>	<p>The customer proposition has been designed to be competitive and meet customer needs.</p> <p>The delivery of the new platform infrastructure will further enhance capacity to respond to competitive market changes.</p>
<p><u>Customer and conduct risk</u></p> <p>Risks to customers are inherent within the Company’s business model and can occur at any point in the customer journey or product lifecycle.</p> <p>Customer and conduct risk is an area of increasing focus by regulators across the business.</p>	<p>Good customer outcomes are defined and processes are put in place to achieve these for customers. Product development starts from an understanding of customer needs and preferences and engages with customers in areas such as the ongoing development of customer communications.</p> <p>The Customer Outcomes Forum reviews any areas where customer outcomes may be affected significantly and ensures appropriate action is taken where that risk arises.</p> <p>The Group’s Regulatory and Conduct Risk teams provide strong oversight, challenge and advice to the business. The Code of Conduct, reinforced by mandatory training, sets out expectations of all staff.</p>

STRATEGIC REPORT (continued)

<p><u>Delivery of strategic change initiatives</u></p> <p>The Company faces execution risk from the implementation of the business strategy. This includes the delivery of new platform infrastructure and IT enhancements to the existing platform infrastructure to ensure it remains fit for purpose while the new platform infrastructure is being developed</p> <p>The delivery of strategic objectives necessitates increased likelihood of operational risk exposure, including increased third party risk as a result of the Platform Transformation Programme.</p>	<p>In delivering strategic change initiatives, the Company actively seeks to identify, manage and control risk. Where the identified risk is, or may become, outside of the risk appetite, prompt and appropriate actions are taken to ensure the Company continues to maintain effective controls to deliver appropriate business and customer outcomes.</p> <p>The Company is fully engaged with regulators on the most significant change programmes to ensure that their requirements are met and to demonstrate that customers are at the forefront of the business.</p> <p>The Company has appropriate governance and control processes managed through the three lines of defence model to manage and mitigate this exposure.</p> <p>All material projects are subject to professional programme and project management processes. Change initiatives are delivered by first-line management with second-line oversight and challenge and third-line assurance. The Company also uses external business support, subject matter experts and assurance partners for significant change initiatives such as the Platform Transformation Programme.</p> <p>Improvements to supplier risk management processes are made continuously, to achieve strong outsourced supplier controls and governance in support of major change programmes.</p>
<p><u>People risk</u></p> <p>Risk that the Company fails to deliver core parts of its strategy or fails to complete business-as-usual activities to the required standards due to resource pressures and management distraction. This risk is enhanced during the run-up to the platform transformation.</p> <p>In addition, resource stretch can increase key person dependency that adds further potential operational risk.</p>	<p>Risks to our people plan continue to be mitigated through a series of key actions. These include a monthly assessment of our core people metrics including engagement, absence and turnover. In addition, the core change programmes each have a people work stream focused on a range of areas such as communication and line manager upskilling.</p>
<p><u>Regulatory risk</u></p> <p>The Company is exposed to a high degree of regulatory change, including EU regulation up until the end of any transition period or a no-deal Brexit. While such change can present opportunities, it can increase costs and impact products and services.</p> <p>The Company continues to see significant impact from regulatory change through, for example, the proposals from the Investment Platform Market Study, the FCA’s Post-Implementation Review of the Retail Distribution Review and Financial Advice Market Review, the Senior Managers and Certification Regime and likely regulatory developments around operational resilience.</p> <p>The Company is exposed to the risk of not maintaining strong positive relationships with regulators. This is critical to the business.</p>	<p>Forthcoming regulatory change is reviewed to ensure the Company is well placed to make any changes required to comply fully when such changes are implemented. Work streams are set up to deliver the requirements of regulatory changes.</p> <p>The Company focuses on being transparent, responsive and proactive in dealings with regulators to help to manage and build these relationships.</p> <p>The compliance framework is overseen at a Group level by the Quilter Board Risk Committee which derives its authority from Quilter plc, and at a local level by the Governance, Audit and Risk Committee of Old Mutual Wealth Limited.</p>

STRATEGIC REPORT (continued)

<p><u>Information/Cyber security risk</u> The Company’s business, by its nature, requires it to store, retrieve, evaluate and utilise customer and company data and information, which is highly sensitive. The Company is subject to the risk of IT security breaches from parties with criminal or malicious intent (including cyber crime). Should the Company’s intrusion detection and anti penetration software not anticipate, prevent or mitigate a network failure or disruption, or should an incident occur to a system for which there is no duplication, it may have a material adverse effect on the Company’s customers, business, financial condition, results of operations and prospects, and reputation.</p>	<p>The Company continues to review and enhance security risk framework by ensuring it has controls to manage and mitigate this key risk.</p> <p>Monitoring of market experience, awareness campaigns and penetration testing exercises are performed to identify security vulnerabilities within the Security Risk Framework and ensure appropriate plans are in place to mitigate any weaknesses that are identified.</p>
<p><u>Information technology risk:</u> The Company uses computer systems to conduct its business, which involves managing and administering assets on behalf of customers on its platforms. The business is highly dependent on its ability to access these systems to perform necessary business functions and to provide adviser and customer support, administer products, make changes to existing policies, file and pay claims, manage customer’s investment portfolios and produce financial statements and regulatory returns. Failure to manage this risk could have a material adverse impact on the Company’s business, financial condition, results of operations and prospects and reputation.</p>	<p>The Company has defined and tested resilience plans in place and systems are actively monitored to identify issues in a timely manner.</p> <p>IT estate management programmes are in place to ensure systems remain supported and fit for purpose.</p> <p>The Company has documented IT policies and standards and compliance with these is monitored on a regular basis.</p>

By order of the Board

S V Wood
 Director
 9 March 2020

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The review of the business 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:

S D Levin	(Chief Executive Officer)
A M Barnes	(appointed 9 December 2019)
J E Gill	
S K Goodsir	
G M Reid	
D J Still	(resigned 31 December 2019)
S V Wood	

QUALIFYING THIRD-PARTY INDEMNITIES

Qualifying third-party provisions were in force (as defined by section 234 of the Companies Act 2006) during the course of the financial year ended 31 December 2019 for the benefit of the then Directors, and at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties/powers or office.

DIVIDENDS

During the year no dividends were remitted to Old Mutual Wealth Holdings Limited (2018: £nil).

EMPLOYEES

The Company has no employees (2018: nil). As stated in note 21, management services are provided by Quilter Business Services Limited (formerly Old Mutual Wealth Business Services Limited), a fellow subsidiary undertaking.

FINANCIAL INSTRUMENTS

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

POLITICAL DONATIONS

No political donations were made during the year (2018: £nil).

BUSINESS RELATIONSHIPS

From the perspective of the Board, as a result of the Group governance structure whereby the entity board is embedded within the Group, the matters that it is responsible for carrying out the duties of a board in respect of the Company's other stakeholders have been considered to an appropriate extent by both the Group Board and the Board of the Company.

An explanation of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, has been set out in the report and accounts of the Group annual report, which does not form part of this report.

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 benefits from strong representation of independent Non-executive Directors who would be considered independent under the Code but do not represent a majority on the Board. There is a clear division of responsibilities on the Board with the roles of the Chairman and the executive directors being clearly articulated in the Board Charter adopted by the Board.

The composition, succession plans and evaluation of the Board are overseen by the Quilter plc Board Corporate Governance and Nominations Committee. The Board has established a Governance, Audit & Risk Committee whose responsibilities include risk oversight, review of internal controls, review of financial reporting and the governance framework for the business. The Board has not established a Remuneration Committee or a Nominations Committee as the functions of such committees in relation to the Company are discharged at Quilter plc level.

DIRECTORS' REPORT

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a 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.

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 auditors for the Group, of which the Company is a member, for the year-end 31 December 2020. Formal appointment as auditors to the Company will be completed after the approval of these financial statements.

By order of the Board

S V Wood
Director
9 March 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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF OLD MUTUAL WEALTH LIMITED**

Opinion

We have audited the financial statements of Old Mutual Wealth 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 loss 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company’s future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company’s future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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, including the impact of Brexit, 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.

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

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 12, 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.

Thomas Tyler (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

9 March 2020

INCOME STATEMENT

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
REVENUE			
Investment contracts			
Fee income and other income from service activities	4	79.1	79.2
Other revenue			
Investment return	5	0.6	0.4
Other income		0.5	0.4
TOTAL REVENUE		<u>80.2</u>	<u>80.0</u>
EXPENSES			
Commission expenses	6	0.5	-
Change in contract costs	11	(0.6)	(0.5)
Administrative expenses	7	(99.1)	(100.7)
Other expenses		-	(0.2)
TOTAL EXPENSES		<u>(99.2)</u>	<u>(101.4)</u>
LOSS BEFORE TAX		<u>(19.0)</u>	<u>(21.4)</u>
Taxation	9	6.3	6.9
LOSS FOR THE YEAR		<u>(12.7)</u>	<u>(14.5)</u>
Attributable to equity holders		<u>(12.7)</u>	<u>(14.5)</u>

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

The notes on pages 20 to 43 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019 £m	2018 £m
LOSS FOR THE YEAR	<u>(12.7)</u>	<u>(14.5)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR All attributable to equity holders	<u>(12.7)</u>	<u>(14.5)</u>

The notes on pages 20 to 43 are an integral part of these financial statements.

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

	Share capital £m	Capital contributions £m	Retained losses £m	Total equity-holder's funds £m
Balance at 1 January 2018	50.4	218.5	(154.8)	114.1
Loss for the year	-	-	(14.5)	(14.5)
Issue of share capital	9.0	-	-	9.0
Balance at 1 January 2019	<u>59.4</u>	<u>218.5</u>	<u>(169.3)</u>	<u>108.6</u>
Loss for the year	-	-	(12.7)	(12.7)
Issue of share capital	35.0	-	-	35.0
Balance at 31 December 2019	<u>94.4</u>	<u>218.5</u>	<u>(182.0)</u>	<u>130.9</u>

Capital contributions represent amounts received from the parent company and are reflected within equity as there is no obligation to repay the contributions nor is there any interest payable on the contributions.

The notes on pages 20 to 43 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

at 31 December 2019

	Notes	2019 £m	2018 £m
ASSETS			
Contract costs	11	3.0	3.6
Investments in collective investment schemes	12	2.9	2.7
Current tax assets		6.1	5.4
Deferred tax assets	17	2.0	2.9
Other receivables	13	10.3	10.9
Cash and cash equivalents	14	119.2	111.0
Total assets		<u>143.5</u>	<u>136.5</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	15	94.4	59.4
Capital contributions		218.5	218.5
Retained losses		(182.0)	(169.3)
Total equity attributable to equity holders		<u>130.9</u>	<u>108.6</u>
LIABILITIES			
Other provisions	18	-	0.2
Other payables	19	12.6	27.7
Total liabilities		<u>12.6</u>	<u>27.9</u>
Total equity and liabilities		<u>143.5</u>	<u>136.5</u>

The notes on pages 20 to 43 are an integral part of these financial statements.

Approved at a meeting of the Board of directors on 9 March 2020 and signed on its behalf by:

S V Wood
Director

Company registered number: 01680071

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	2019 £m	2018 £m
OPERATING ACTIVITIES		
Client fee income and fund based fees	78.7	79.2
Net cash paid to clients and service providers	(111.0)	(91.0)
Net amount of funding repaid by clients	1.5	0.2
Other	(3.2)	(0.8)
Taxes received	6.6	4.5
Net cash used in operating activities	<u>(27.4)</u>	<u>(7.9)</u>
INVESTING ACTIVITIES		
Interest received	0.6	0.3
Net cash from financing activities	<u>0.6</u>	<u>0.3</u>
FINANCING ACTIVITIES		
Issue of share capital	35.0	9.0
Net cash from financing activities	<u>35.0</u>	<u>9.0</u>
Net increase in cash and cash equivalents	<u>8.2</u>	<u>1.4</u>
Cash and cash equivalents at beginning of the year	<u>111.0</u>	<u>109.6</u>
Cash and cash equivalents at end of the year	<u><u>119.2</u></u>	<u><u>111.0</u></u>

The notes on pages 20 to 43 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 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 Part 15 of the Companies Act 2006, Schedule 3 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and International Financial Reporting Standards (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 and have been prepared in sterling.

The financial statements have been prepared on the going concern basis. It is the Company's policy to maintain a strong regulatory solvency position and the Board has reviewed the Company's projections for the next 12 months and beyond, including cash flow forecasts and the level of regulatory capital surplus. As a result, the Board has a reasonable expectation that the Company has adequate resources to meet its liabilities as they fall due, 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.

New standards, amendments to standards, and interpretations adopted in these annual financial

The Company has adopted IFRIC 23 Uncertainty over Income Tax Treatments during the year ended 31 December 2019. This interpretation sets out how to determine taxable profits/losses, tax bases, unused tax losses, unused tax credits and tax rates (collectively referred to as the "accounting tax position") where there is uncertainty over treatment. All tax provisions for the Company continue to be calculated consistent with IAS 12.

Income taxes and provisions in respect of any uncertain tax positions have been calculated consistent with IFRIC 23. No adjustments to tax balances have resulted from the adoption of IFRIC 23.

Other standards:

In addition to IFRIC 23, 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:

- Amendments to IFRS 9 Financial Instruments – Prepayment features with negative compensation; and
- Annual improvements to IFRSs 2015-2017 Cycle – IAS 12 Income taxes.

Critical accounting estimates and judgements

The preparation of financial statements requires management to exercise judgement in applying significant 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 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Board reviews the reasonableness of judgements and estimates applied and the appropriateness of significant accounting policies adopted in the preparation of these financial statements. The area where an estimate has the most significant effect on the amounts recognised in these financial statements is summarised below:

Area	Critical accounting estimate	Note
Deferred tax measurement	The estimation of future taxable profits is performed as part of the annual business planning process, and is based on estimated levels of assets under administration, which are subject to a large number of factors including worldwide stock market movements, related movements in foreign exchange rates and net client cash flow, together with estimates of expenses and other charges. 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 Company assesses recoverability based on estimated taxable profits over a 3 year planning horizon.	17

This is discussed in more detail in the relevant accounting policy and notes to the financial statements.

Contract costs

Incremental costs, including fee and commission expenses, that are directly attributable to securing investment contracts are deferred and recognised as contract costs if they can be identified separately and measured reliably and it is probable that the costs will be recovered. Contract costs are linked to the contractual right to benefit from providing investment management services, they are therefore amortised through the income statement as the related revenue is recognised.

After initial recognition, contract costs are reviewed by category of business and are impaired to the extent that they are no longer considered to be recoverable. All other costs are recognised as expenses when incurred.

Financial instruments

Financial instruments cover a wide range of financial assets, including financial investments, trade receivables and cash and cash equivalents and certain financial liabilities, including trade payables. 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. The Company determines its strategy in holding the financial asset, particularly considering whether the Company earns 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. These factors enable management to determine which financial assets should be measured at fair value through the profit or loss (“FVTPL”).

Initial measurement

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Subsequent 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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 measured 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 and 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.

The Company’s interests in pooled investment funds, equity securities and debt securities are mandatorily at FVTPL, as they are part of company of financial assets which are managed and whose performance is evaluated on a fair value basis. These investments are recognised at fair value initially and subsequently, with changes in fair value recognised in investment return in the income statement.

Investments in collective investment schemes comprise the Company's short term holdings as a result of daily transactions between the Company and its clients. These transactions will result in either too many units being held (long positions) or too few units being held (short positions).

The fair value of quoted financial investments, which represents the vast majority of the Company’s investments, are based on the bid value (within the bid-ask spread) which the Company considers to be the most representative of fair value. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm’s length transactions, reference to similar listed investments, discounted cash flow or option pricing models.

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 income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 which are measured at fair value, approximates to their fair value.

Trade payables and receivables

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

Investments in subsidiary undertakings

Investments in subsidiary undertakings are initially stated at cost. Subsequently, investments in subsidiary undertakings are stated at cost less any 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 parent company income statement as they occur.

Impairment of financial assets

The expected loss accounting model for credit losses applies to financial assets measured at amortised cost, contract assets, but not to investments in equity instruments. Financial assets at amortised cost include trade receivables and 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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company applies the ECL model □ trade receivables and contract assets, 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.

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 exceed 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.

Purchases and sales of securities and currencies are recognised on the trade date.

Other provisions

Provisions are recognised when the Company has an obligation, legal or constructive, as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are estimated at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present values where the effect is material.

Client money and client assets

The Company holds money on behalf of clients in accordance with the Client Money Rules of the Financial Conduct Authority. Such client monies and other client assets held via its nominee subsidiary are not reflected in the statement of financial position as the Company is not beneficially entitled to them.

Revenue recognition

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

Fee income

Fees are charged periodically based on the market valuation of the investment contracts. They are calculated and recognised on a daily basis in line with the provision of investment management services.

Unit trust rebates

Rebates received from unit trust managers are accounted for on an accruals basis and are included in fund based fees.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment gains and losses

Realised investment gains and losses represent the difference between the net sales proceeds and the cost of the investment. The movement in unrealised investment gains and losses represents the difference between the carrying value of investments at the year-end and the value at the start of the year, or the original cost where an investment is acquired during the year. The realised gains and losses and movement in unrealised gains and losses on investment arising in the year are included in the income statement.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that financial asset's carrying amount.

Dividend income

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

Other expenses

All other 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.

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.

Capital contributions

Capital contributions represent the amount received from the parent company and are reflected within equity as there is no obligation to repay the contribution nor is there any interest payable on the contribution.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES

Risk management framework

The Company has adopted the Group Enterprise Risk Management (ERM) framework, which comprises of core components such as:

- end to end processes to facilitate the identification, assessment, measurement, monitoring and management of risk;
- a set of Strategic Risk Appetite Principles (SRAPs) and supporting 'Level 2' risk appetite principles, that facilitate the measurement of risk exposure against risk appetite on a regular basis;
- a suite of corporate policies to support the adoption of an appropriate system of internal control across the Group; and
- regular assessment of the risk culture of the organisation.

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.

The risks faced by the Company are described below:

Credit risk

Credit risk 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. This includes counterparty default risk, counterparty concentration risk and spread risk.

The Company has adopted the Group's credit risk framework that includes a Credit Risk Policy, Credit Risk Standard and Credit Risk Appetite. This framework applies to all activities where the shareholder is exposed to credit risk, either directly or indirectly, ensuring appropriate identification, measurement, management, monitoring and reporting of credit risk exposures.

The credit risk arising from all exposures is mitigated through ensuring the Company only enters into relationships with appropriately robust counterparties, adhering to the Credit Risk Policy. For each asset, consideration is given as to:

- the credit rating of the counterparty, which is used to derive the probability of default;
- the potential recovery, which may be made in the event of default; and
- any second order risks that may arise where the firm has collateral against the credit risk exposure.

The credit risk exposures of the Group are monitored regularly to ensure that counterparties remain creditworthy, to ensure there is appropriate diversification of counterparties and to ensure that exposures are within approved limits. At 31 December 2019, the Company's material credit exposures were to financial institutions (primarily through the investment of shareholder funds), corporate entities (including external fund managers) and individuals (primarily through fund management trade settlement activities).

With the exception of its bank deposits, the Company has no significant concentration of credit risk and there is no direct exposure to Eurozone sovereign debt within the Company's shareholder investments.

Investment of shareholder funds

The risk of counterparty default in respect of the investment of shareholder funds is managed through:

- setting minimum credit rating requirements for counterparties;
- setting limits and key risk indicators for individual counterparties and counterparty concentrations;
- monitoring exposures regularly against approved limits; and
- ongoing monitoring of counterparties and associated limits.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

Other credit risks

The risk of default by financial advisers is managed through monthly monitoring of loan and commission debt balances and the establishment of a net provision, when considered appropriate.

The Company is exposed to the risk of default by fund management groups in respect of settlements and rebates of fund management charges on collective investments held for the benefit of policyholders. This risk is managed through the due diligence process which is completed before entering into any relationship with a fund group. Amounts due to and from fund groups are monitored for prompt settlement and appropriate action is taken where settlement is not timely.

Legal contracts are maintained where the Company enters into credit transactions with a counterparty.

Impact of credit risk on fair value

Due to the limited exposure that the Company has to credit risk, credit risk does not have a material impact on the fair value movement of financial instruments for the year under review. The fair value movements on these instruments are predominantly due to changes in market conditions.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the accounts. Credit ratings for financial instruments are enclosed in the relevant notes. The Company does not have any significant exposure arising from items not recognised on the statement of financial position.

Market risk

Market risk is 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.

Market risk arises primarily through potential reductions in future revenues. This may occur due to a fall in the value of underlying assets as a result of fluctuations in equity prices, bond prices, property prices, interest rates and foreign exchange rates.

The Company has adopted the Quilter Market Risk Policy which sets out the market risk management governance framework, permitted and prohibited market risk exposures, maximum limits on market risk exposures, management information and stress testing requirements.

The Company does not undertake any principal trading for its own account. The Company's revenue is however affected by the value of assets under management and consequently it has exposure to equity market levels and economic conditions. Scenario testing is undertaken to test the resilience of the business to severe but plausible events and to assist in the identification of management actions.

Market risk arises from exposure to movements in interest rates, bond, equity and property values and foreign exchange rates.

Interest rate risk

A rise in interest rates would cause an immediate fall in the value of investments in fixed income securities within clients' funds, resulting in a fall in fund based fees. The Company holds no fixed income securities itself and so direct interest rate risk is negligible. However, assuming that the business continues to grow, a rise in interest rates would enable a higher return on new investments, which in turn would cause client investments' values to grow more quickly and so fund based fees may be higher in the longer term.

Exposures of the IFRS income statement and equity within the statement of financial position to interest rates are summarised in sensitivities later in this section.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

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

	2019 Variable	2018 Variable
Assets		
Deposits with credit institutions	0.47%	0.47%

Equity and property price risk

In accordance with the market risk policy, the Company does not invest shareholder assets in equity or property assets (or related collective investments) except where the exposure arises from the manager's box positions which are short term and subject to internal limits. Exposure to this risk is immaterial.

The Company derives revenues (e.g. annual management charges from clients) which are linked to the performance of the underlying assets. Therefore, future earnings will be affected by equity and property market performance.

Sensitivity of profit to changes in equity and property prices is given in the sensitivity analysis later in this section.

Currency risk

The Company is not exposed to direct foreign exchange risk and holds no foreign currency balances. However, the Company is exposed to foreign exchange risk indirectly through fund based fees derived from client funds which hold assets denominated in foreign currencies. Therefore, a movement in exchange rates would affect the value of future fund based fees received by the Company.

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 or that market conditions preclude the ability of the firm to trade in illiquid assets in order to maintain its asset/liability matching (ALM) profile.

The Company manages liquidity on a daily basis through:

- maintaining adequate high quality liquid assets and banking facilities that are readily available, the level of which is informed through appropriate liquidity stress testing;
- continuously monitoring forecast and actual cash flows; and
- monitoring a number of key risk indicators to help in the identification of a liquidity stress.

The Company maintains and manages its local liquidity requirements according to its business needs within the overall Group Liquidity Risk Framework that includes a Group Liquidity Risk Policy, Group Liquidity Risk Standard and Group Liquidity Risk Appetite Statement. The framework is applied consistently across all businesses in the Group to identify, manage, measure, monitor and report on all liquidity risks that have a material impact on liquidity levels. This framework considers both short term liquidity and cash management considerations and longer term funding risk considerations.

Liquidity is monitored centrally by Group Treasury, with management actions taken at a business level to ensure each company has liquidity to cover its minimum liquidity requirement, with an appropriate buffer set in line with the Group Risk Appetite Statement.

The Group maintains contingency funding arrangements to provide liquidity support to businesses in the event of liquidity stresses that are greater than their risk appetite. Contingency Funding Plans are in place for each individual business in order to set out the approach and management actions that would be taken should liquidity levels fall below minimum liquidity requirements. The plans undergo an annual review and testing cycle to ensure they are fit for purpose and can be relied upon during a liquidity stress.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

Information on the nature of the investments and securities held is given in note 12.

Maturity schedule

The maturity dates of financial liabilities are shown below.

	<3 months £m	3-12 months £m	1-5 years £m	>5 years £m	Total £m
2019:					
Amounts due to fellow group undertakings	0.0	-	-	-	0.0
Other payables	12.6	-	-	-	12.6
	<u>12.6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12.6</u>
2018:					
Amounts due to fellow group undertakings	12.6	-	-	-	12.6
Other payables	15.1	-	-	-	15.1
	<u>27.7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27.7</u>

Operational risk

Operational risk is the risk that failure of people, processes, systems or external events results in financial loss, damage to the brand/reputation or adverse regulatory intervention or government or regulatory fine.

Operational risk includes all risks resulting from operational activities, excluding the risks already described above and excluding strategic risks and risks resulting from being part of a wider group of companies. Operational risk includes the effects of failure of administration processes, IT maintenance and development processes, investment processes (including settlements with fund managers, fund pricing and matching and dealing), product development and management processes, legal risks (e.g. risk of inadequate legal contract with third parties), risks relating to the relationship with third party suppliers and outsourcers, and the consequences of financial crime and business interruption events.

Operational risks are managed in accordance with the Group Operational Risk Policy and related standards consistent with the Enterprise Risk Management Framework, which has been adopted by the Company. Operational risk exposure is measured primarily through scenario assessments which use internal and external loss event data, Risk and Control Self-Assessments, and expert judgment provided by the key subject matter experts. Resultant exposures are evaluated against the Company's risk appetite which is the process that drives operational risk reporting and management action.

In accordance with group policies, management have primary responsibility for the identification, assessment, management and monitoring of risks, and the escalation and reporting on issues to executive management.

The Board has responsibility for implementing the Group Operational Risk management methodologies and frameworks and for development and implementation of action plans to manage risk levels within acceptable tolerances and to resolve issues identified.

Investment contract risk

Investment contract risk arises through exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses relative to the assumptions made when pricing contracts, which may prevent the firm from achieving its profit objectives.

The sensitivity of the Company's earnings and capital position to investment contract risks is monitored through the Group's capital management processes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

Persistency

Persistency risk is the risk that the rate at which customers withdraw their funds and cease paying regular premiums exceeds the expectation when preparing the business plan. Excessive withdrawals and regular premium cessations can result in a reduction in profits in future years.

Persistency risk is managed through focus on customer service, conduct, and reputation and statistics are monitored monthly to identify emerging trends.

In the short term, profit is not materially impacted by those changes in persistency experience that are reasonably foreseeable.

Expenses

Expense risk is the risk that actual expenses exceed the levels expected when preparing the business plan.

Expense levels are monitored quarterly against budgets and forecasts. Expense drivers are used to allocate expenses to entities and products.

Risk and capital management

The potential impacts on the capital resources and future profits of the Company are assessed regularly. Market and investment contract risks are assessed through stress tests applied to business plan financial projections by varying assumptions for future experience. Operational risks are assessed using scenario based risk assessments, constructed using expert judgment supplemented by review of the risk control processes in place, internal and external event data, key risk indicators and internal audit reports. Credit risks are assessed by determining the financial exposure to material counterparties and the likelihood of default of these counterparties. Credit ratings are used to assess the likelihood of default.

The Group Capital Management policy sets out the key considerations and restrictions with regard to the amounts of capital that is retained.

Capital is managed to the Company's solvency target which is set to ensure that the business maintains capital in excess of the Regulatory Capital Requirement and to maintain working capital to provide for fluctuations in experience, in particular in respect of new business volumes. The Company regards the regulatory statutory capital resources of £126.0m (unaudited) (2018: £93.1m) as capital. The regulatory capital requirements have been met throughout the year.

The Internal Capital Adequacy Assessment Process (ICAAP) is used to assess the level of capital which should be retained by the Company. It is a consolidated assessment for the investment and advice firms within the Group. The ICAAP considers all of the risks faced by the Company and the degree to which risks have similar or related causes and so could occur together. Capital resources are then allocated appropriately within the entities forming the ICAAP group taking into account the risks faced by each business.

The Company uses a variety of metrics to monitor its capital position including IFRS capital and reserves, which are £130.9m as at 31 December 2019 (2018: £108.6m).

Sensitivity tests

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at 31 December 2019 and 31 December 2018.

Interest rate risk

The impact of an increase and decrease in market interest rate of 1% is tested (e.g. if the current interest rate is 5%, the test allows for the effects of an instantaneous change to 4% and 6% from the reporting date). The test allows consistently for similar changes in investment returns. The sensitivity of both profit and shareholder's equity to interest rates is provided.

A decrease in interest rate by 1% would have reduced the loss and increased shareholder's equity by £0.6m after tax (2018: £1.4m); an equal change in the opposite direction would have increased the loss by £0.1m after tax (2018: £0.9m). The reduction

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

in the shareholder element is limited to the amount of interest received i.e. it cannot be less than 0%, as the Company only has bank balances currently attracting interest of 0.47%, therefore rates can only be reduced by 0.47%..

Market risk

A 10% movement in assets under administration would impact the annual fee income and rebates received from unit trust managers. There are no impacts on the balances in the statement of financial position. The sensitivity is applied as an instantaneous shock to equity and property prices at the start of the year (e.g. if the current assets under administration is £10.0bn, the test allows for the effect of an immediate change in assets under administration to £9.0bn and to £11.0bn).

A decrease of 10% in assets under administration would have increased the loss and reduced shareholder's equity by £6.4m (2018: £6.5m) after tax while an increase of 10% in assets under administration would have reduced the loss and increased shareholder's equity by £6.4m after tax (2018: £6.3m).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

4 FEE INCOME

	2019 £m	2018 £m
Investment contracts		
Fund based fees	<u>79.1</u>	<u>79.2</u>

Other fee income consists primarily of charges taken from unit-linked funds to meet future policyholder tax liabilities.

5 INVESTMENT RETURN

	2019 £m	2018 £m
Interest on short term bank deposits	<u>0.6</u>	<u>0.4</u>

6 COMMISSION EXPENSES

	2019 £m	2018 £m
Renewal commission	<u>0.5</u>	<u>-</u>
	<u>0.5</u>	<u>-</u>

In the current year, £0.5m of commission payable to brokers no longer in operation was written back to the income statement. This commission had been charged as a commission expense in previous years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

7 ADMINISTRATIVE EXPENSES

	2019 £m	2018 £m
Administrative expenses	<u>99.1</u>	<u>100.7</u>
Administrative expenses include:		
Management fees paid to fellow group undertakings (see note 21)	98.0	100.4
Of which:		
Auditor's remuneration: services paid to KPMG LLP	<u>0.4</u>	<u>0.3</u>

Amounts paid to KPMG LLP were in respect of audit services, consisting of fees for statutory audits and group reporting, of £0.4m (2018: £0.1m) and non-audit services, consisting of fees for regulatory returns of nil (2018: £0.2m).

Amounts paid to the Company's auditor in respect of services rendered to the Group, other than the audit of the Company's financial statements, have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of Quilter plc.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

8 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.

Directors' emoluments shown below are included in management fees charged by Quilter Business Services Limited, the employing entity of the directors, payable to fellow subsidiary undertakings shown in note 7.

	2019 £m	2018 £m
Aggregate directors' emoluments		
Aggregate emoluments excluding pension contributions	0.6	0.7
Aggregate share based payments	0.4	0.4

3 directors had money paid to money purchase schemes during the year (2018: 6).

3 directors, including the highest paid director, received or were due to receive shares or share options in Quilter plc under a long term incentive scheme (2018: 6). 3 directors (2018: 6) 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 £m	2018 £m
Emoluments of the highest paid director		
Aggregate emoluments excluding pension contributions	0.2	0.2

The highest paid director did not (2018: did) exercise share options during the year.

The above disclosure includes the remuneration of the Directors in relation to their services to this company. The remuneration for each director is apportioned on the basis of time spent across the companies of which they are a director.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

9 TAXATION

	2019 £m	2018 £m
Current year corporation tax credit	(3.6)	(4.0)
Prior year corporation tax credit	(3.7)	-
Deferred tax charge	1.0	(2.9)
Total tax credit	<u>(6.3)</u>	<u>(6.9)</u>
The total tax credit for the year can be reconciled to the accounting profit as follows:		
Loss before tax	(19.0)	(21.4)
Tax on loss at the applicable tax rate, 19.00% (2018: 19.00%)	(3.6)	(4.1)
Effect of:		
Expenses not deductible for tax purposes	0.1	0.1
Recognition of previously unrecognised deferred tax assets	-	(2.9)
Prior year corporation tax charge/(credit)	(3.7)	-
Prior year adjustments to deferred tax	0.6	-
Effect on deferred tax for changes in tax rates	0.3	-
	<u>(6.3)</u>	<u>(6.9)</u>

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.

The prior year corporation tax credit recognised in the current year relates to a group relief election made after finalisation of the 2018 financial statements.

10 INVESTMENTS IN SUBSIDIARIES

Old Mutual Wealth Limited holds all ordinary shares of Old Mutual Wealth Nominees Limited. The investment is valued at original cost of £2 (2018: £2).

Old Mutual Wealth Nominees Limited is incorporated in England & Wales and its registered office address is: Old Mutual House, Portland Terrace, Southampton, SO14 7EJ.

The subsidiary holds investments on behalf of the clients of Old Mutual Wealth Limited in a nominee capacity. It did not trade during the current or prior year and consequently there are no results or dividends in either year. This is expected to continue for the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

11 CONTRACT COSTS

	2019 £m	2018 £m
Opening balance	3.6	4.1
Capitalisation of contract costs	0.7	1.1
Amortisation of contract costs	(1.3)	(1.6)
Change in contract costs	<u>(0.6)</u>	<u>(0.5)</u>
Closing balance	<u>3.0</u>	<u>3.6</u>
Current	1.2	1.2
Non-current	<u>1.8</u>	<u>2.4</u>
	<u>3.0</u>	<u>3.6</u>

The recoverability of contract costs is impairment tested with reference to the present value of estimated future profits at the reporting date calculated using actuarial methodology and assumptions. No impairment was required in the current or prior year.

12 INVESTMENTS IN COLLECTIVE INVESTMENT SCHEMES

	2019 £m	2018 £m
At FVTPL		
Investments in collective investment schemes (designated at FVTPL)	<u>2.9</u>	<u>2.7</u>

These investments are individually insignificant and collectible within 12 months of the reporting date. Therefore any difference between cost and fair value is minimal. The net loss or gain on these investments in the current year is included in the income statement within other income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

13 OTHER RECEIVABLES

	2019	2018
	£m	(Restated) £m
Due from fellow group undertakings (see note 21)	1.0	-
Trade debtors	5.9	7.3
Prepayments and accrued income	0.1	0.1
Contract assets	3.3	2.9
Other	-	0.6
	<u>10.3</u>	<u>10.9</u>

Trade debtors principally comprise amounts due from clients.

Amounts due from group companies are unsecured and interest free.

The Directors consider that the carrying amount of trade and other receivables approximates to their 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. All amounts are current.

Contract assets are now shown separately within other receivables. Following refinement of the Company's interpretation of IFRS 15 post adoption at 1 January 2018 and to conform with current year presentation, in the year ended 31 December 2018, £2.9m of assets has been reclassified between accrued income and contract assets.

14 CASH AND CASH EQUIVALENTS

	2019	2018
	£m	£m
Bank balances	47.4	93.0
Money market OEIC investments	71.8	18.0
Cash and cash equivalents	<u>119.2</u>	<u>111.0</u>

All cash and cash equivalents are current, and recognised at amortised cost, apart from money market OEIC investments, which are recognised mandatorily at FVTPL.

Investments in money market OEICs are classified as cash and cash equivalents. Management hold these investment funds for short term liquidity purposes. The funds are highly liquid, have an AAA credit rating and a very low risk of reduction in value. Bank balances are all credit rated AA or A.

Bank overdrafts are used to fulfil short term liquidity needs and are repayable on demand. The Company has a gross overdraft facility of £2.5m (2018: £2.5m) for individual bank accounts subject to the aggregate balance across all accounts being at least zero.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

15 SHARE CAPITAL

	2019 £m	2018 £m
Allotted, called up and fully paid 94,430,000 (2018: 59,430,000) ordinary shares of £1 each	<u>94.4</u>	<u>59.4</u>

In 2019 the Company issued the following number of ordinary shares of nominal value of £1.00 each: the issue of 10,000,000 ordinary shares approved on 25 March 2019 and 25,000,000 ordinary shares approved on 23 July 2019.

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 AT FAIR VALUE**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).

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets designated at fair value through profit or loss				
Investments in collective investment schemes	<u>2.9</u>	<u>-</u>	<u>-</u>	<u>2.9</u>
2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets designated at fair value through profit or loss				
Investments in collective investment schemes	<u>2.7</u>	<u>-</u>	<u>-</u>	<u>2.7</u>

Structured entities

The table below summarises the types of structured entities in which the Company holds an interest:

<i>Type of structured entity</i>	<i>Nature</i>	<i>Purpose</i>	<i>Interest held by the Company</i>
Investments in collective investment schemes	Manage company funds through the investment in assets	Generate fees from managing assets	Investment in units issued by the fund

Investments in unconsolidated structured entities

The table below sets out the shareholder investments held by the Company in unconsolidated structured entities. This represents the ownership of collective investment vehicles that have a narrow and well defined objective. The maximum exposure to losses is equal to the carrying amount of assets held.

	Investment securities £m
As at 31 December 2019:	
Investments in collective investment schemes	2.9
As at 31 December 2018:	
Investments in collective investment schemes	2.7

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

17 DEFERRED TAX

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

	Tax losses carried forward £m
As at 31 December 2017	-
Movement in the year	2.9
As at 31 December 2018	<u>2.9</u>
Movement in the year	(0.9)
As at 31 December 2019	<u>2.0</u>

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.

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

The value of deferred tax assets not recognised as at 31 December 2019 was £15.8m (2018: £15.2m). This relates to gross carried forward losses of £93.2m (2018: £89.5m).

Sensitivity analysis demonstrates significant headroom in the recoverable amount of the deferred tax asset over the taxable profits contained within the 3 year planning horizon. The impacts of a 20% decrease in profitability have been assessed and do not give rise to concerns over recoverability.

18 OTHER PROVISIONS

	Provision for rectifications £m
Balance at 1 January 2018	0.2
Additions in the year	0.2
Utilisation	(0.1)
Release of provision	(0.1)
Balance at 31 December 2018	<u>0.2</u>
Release of provision	(0.2)
Balance at 31 December 2019	<u>0.0</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

19 OTHER PAYABLES

	2019	2018
	£m	£m
Due to fellow group undertakings (see note 21)	-	12.6
Trade creditors	12.4	15.0
Other taxes and social security costs	0.2	0.1
	<u>12.6</u>	<u>27.7</u>

Trade creditors principally comprise amounts due to advisers.

The Directors consider that the carrying amount of trade and other payables approximates their fair value. All trade and other payables are current, short term and interest free. Amounts due to group companies are unsecured, interest free and current.

£0.7m (2018: £0.5m) of the total is classified as a non-financial liability. The remaining balance is recognised at amortised cost.

20 FINANCIAL AND CAPITAL COMMITMENTS

There are no material financial and capital commitments as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

21 RELATED PARTY TRANSACTIONS

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

	2019 £m	2018 £m
Management fees paid to fellow group undertakings (see note 7)	<u>98.0</u>	<u>100.4</u>

Management services and fixed assets in the current and prior period are provided by Quilter Business Services Limited (formerly Old Mutual Wealth 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 after addition of a mark up.

Amounts due at amortised cost from or to group undertakings and fellow subsidiaries at the reporting date are included in notes 13 and 19 respectively. Balances are settled in cash on a quarterly or monthly basis.

As disclosed and quantified in the strategic report, the Company works closely with its fellow subsidiary companies in generating integrated flows, taking new business generated via restricted financial planners (RFPs) in Quilter Financial Planning, the Group's financial adviser network, and placing customer assets with Quilter Investors, the Group's investment company.

Details of transactions with directors are provided in note 8.

Investment settlements payable and receivable have been shown gross on the statement of financial position to better reflect the settlement process.

The Company's products are available to the Directors and employees of the Group on preferential staff terms. The impact of this on the financial statements is immaterial.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

22 EVENTS AFTER THE REPORTING DATE

There are no events that have occurred, between the reporting date and the date when the financial statements have been authorised for issue, that require disclosure.

23 CONTINGENT LIABILITIES

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

24 ULTIMATE PARENT COMPANY

The Company's immediate parent is Old Mutual Wealth Holdings Limited, a company registered in England & 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 & Wales. The financial statements are available from:

The Company Secretary
Quilter plc
5th Floor, Millennium Bridge House
2 Lambeth Hill
London
EC4V 4AJ