ANNUAL REPORT
AND
FINANCIAL STATEMENTS

31 December 2019

# Old Mutual Wealth Life & Pensions Limited

**Registered in England and Wales No. 04163431**

**CONTENTS**

**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 Life & Pensions 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 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 Life & Pensions 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.

**STRATEGIC REPORT (continued)**

*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 our UK platform receiving a platinum rating for the fifth time, from the independent price comparison and research tool provider, Adviser Asset; and our pension product, the Collective Retirement Account, 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.

*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 18 - 22. 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.<br>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.<br><br>This measure is considered to be a lead indicator of reported net revenue. |

The Company achieved gross sales of £3.8bn (2018: £5.1bn), 26% less than 2018, predominately due to a reduction in pension sales. This trend has been experienced by the whole market, driven by reductions in Defined Benefit (DB) to Defined Contribution (DC) pension transfers as a consequence of increased scrutiny of the DB transfer market. Furthermore, uncertainty caused by the UK's withdrawal from the European Union (EU) has dampened investor appetite. These factors have resulted in the reluctance of clients to invest in the current climate. NCCF was £1.4bn in 2019 (2018: £3.1bn). Strong fund performance and positive NCCF have increased assets under administration to £31.9bn from £26.8bn at the previous year end.

**STRATEGIC REPORT (continued)**

The business continues to be profitable on an adjusted profit basis. The Company's post-tax adjusted profit has increased by £1.9m to £34.6m in 2019. This is attributable to an increase in revenue from assets under administration, following the positive net client cash flow. The expenditure for the UK Platform Transformation Programme is regarded as one-off and transformational, and is therefore excluded from the adjusted profit results. The Company has made a post-tax loss of £43.2m in 2019 compared to a post-tax profit of £65.7m in 2018. High levels of market volatility over 2018 and 2019 have had significant impacts on the IFRS result. The recognition of the income received from policyholders (which is included within revenue) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding policyholder tax expense, creating volatility to the Company's IFRS profit before tax.

Table A: Key performance indicators:

| | 2019<br>£m | 2018<br>(Restated)<br>£m |
|---|---|---|
| Gross sales | 3,831.9 | 5,132.5 |
| Net client cash flow | 1,362.3 | 3,060.1 |
| Assets under administration* | 31,898.5 | 26,789. 3 * |
| | | |
| IFRS adjusted profit (AP) before tax | 40.5 | 37.2 |
| IFRS adjusted profit (AP) after tax | 34.6 | 32.7 |
| IFRS (loss) / profit after tax | (43.2) | 65.7 |

*In 2018, assets under administration were disclosed as £27,153.5m 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) / profit after tax:

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| **IFRS adjusted profit before tax** | **40.5** | **37.2** |
| Adjusting items | (90.8) | 36.7 |
| **IFRS (loss) / profit before tax (net of policyholder tax)** | **(50.3)** | **73.9** |
| Income tax attributable to policyholder return | 98.6 | (60.9) |
| **IFRS profit before tax** | **48.3** | **13.0** |
| Total tax expenses | (91.5) | 52.7 |
| **IFRS (loss) / profit after tax for the financial year** | **(43.2)** | **65.7** |

Adjusting items include the Company's share of the Platform Transformation Programme spend of £28.4m (2018: £28.4m). In addition, adjustments to policyholder tax are made to remove distortions arising from market volatility and other non-operating items that can in turn lead to volatility in policyholder tax reported under IFRS between periods. At 31 December 2019 this has resulted in a £(62.4)m adjustment (2018: £65.0m). Note 9 provides information regarding the impacts of market volatility on policyholder tax reported within the IFRS (loss) / profit after tax for the financial year.

**FINANCIAL POSITION AT THE END OF THE YEAR**

The Company's total net assets have decreased from £204.6m to £181.4m over the course of the year. During the year £40m of share capital was issued to cover the regulatory solvency impact from strategic developments in respect of the Platform Transformation Programme mentioned above. The Company paid a dividend of £20m 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.

**STRATEGIC REPORT (continued)**

**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.

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 it's 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 faced over recent years and the Company only seeks risks consistent with the Company's risk appetite with the aim of ensuring delivery of the 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 offering. Fund-based management fees, which comprise the majority of 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 Company 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, with continuing regulatory focus in connection with pensions business. The outcome from the FCA's Post-Implementation Review of the Retail Distribution Review and Financial Advice Market Review may also have an impact. There are likely to be 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 |
|---|---|
| **Macroeconomic conditions**<br>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.<br><br>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.<br><br>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. | 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.<br><br>The Company aims to ensure the cost base can flex to mitigate volatility in its revenues. Potential management actions to mitigate these impacts are subject to approval by the Old Mutual Wealth Life & Pensions Limited Board.<br><br>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. |
| **Competitor and margin risk**<br>The Company is exposed to external margin pressure whereby competitive market changes may reduce the attractiveness of the 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. | The customer proposition has been designed to be competitive and meet customer needs.<br><br>The delivery of the new platform infrastructure will further enhance capacity to respond to competitive market changes. |
| **Customer and conduct risk**<br>Risks to customers are inherent within the Company's business model and can occur at any point in the customer journey or product lifecycle.<br><br>Customer and conduct risk is an area of increasing focus by regulators across the business. | 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.<br><br>The Customer Outcomes Forum reviews any areas where customer outcomes may be affected significantly and ensures appropriate action is taken where that risk arises.<br><br>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. |

**STRATEGIC REPORT (continued)**

| | |
|---|---|
| **Delivery of strategic change initiatives**<br>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.<br><br>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. | In delivering strategic change initiatives, the Company 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.<br><br>The Company is fully engaged with its regulators on the most significant change programmes to ensure that their requirements are met and to demonstrate that the customers are at the forefront of the business.<br><br>The Company has appropriate governance and control processes managed through the three lines of defence model to manage and mitigate this risk exposure.<br><br>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. External business support, subject matter experts and assurance partners are also used for significant change initiatives, such as the Platform Transformation Programme.<br><br>Improvements to supplier risk management processes are made continuously, to achieve strong outsourced supplier controls and governance in support of major change programmes. |
| **People risk**<br>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.<br><br>In addition, resource stretch can increase key person dependency that adds further potential operational risk. | 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. |

| | |
|---|---|
| **Regulatory risk**<br>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.<br><br>The Company continues to see significant impact from regulatory change through, for example, the future introduction of Drawdown Investment Pathways, potential new regulations around Non-Workplace Pensions, the consequences of changes impacting Pension Transfer advice and the DWP proposals for a Pensions Dashboard. The outcome from the Post-Implementation Review of the Retail Distribution Review and Financial Advice Market Review may also have an impact. There are likely to be regulatory developments around operational resilience.<br><br>The Company is exposed to the risk of not maintaining strong relationships and trust with regulators. This is critical to the business. | 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.<br><br>The Company focuses on being transparent, responsive and proactive in dealings with regulators to help to manage and build these relationships.<br><br>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 Life & Pensions Limited. |
| **Information/Cyber security risk**<br>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. | The Company continues to review and enhance its security risk framework by ensuring it has controls to manage and mitigate this key risk.<br><br>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. |
| **Information technology risk:**<br>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. | The Company has defined and tested resilience plans in place and systems are actively monitored to identify issues in a timely manner.<br><br>IT estate management programmes are in place to ensure systems remain supported and fit for purpose.<br><br>The Company has documented IT policies and standards and compliance with these is monitored on a regular basis. |

**STRATEGIC REPORT (continued)**

## SOLVENCY II

The Company complies with the Solvency II capital regime. Solvency II is an EU directive that defines a set of requirements for European insurance entities in respect of the measurement of assets and liabilities, the assessment of risk based capital requirements, risk management and governance practices and external reporting to the public and to the PRA.

Under Solvency II, the Company continues to review the capital strength and solvency of the business relative to the underlying business risks. The Company has applied the standard formula approach for the purposes of Solvency II in line with management's view that this is the most appropriate basis. The Company conducts annual assessments to ensure that this basis remains appropriate.

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 Directors of the Company who held office during the year and up to the date of signing the financial statements were:

| | |
|---|---|
| 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 a dividend of £20m was remitted to Old Mutual Wealth UK Holding Limited (2018: £nil).

**EMPLOYEES**
The Company has no employees (2018: nil). As stated in note 25, management services are provided by Quilter Business Services Limited, (formerly Old Mutual Wealth Business Services Limited), a fellow Group 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 Company 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.

**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 LIFE & PENSIONS LIMITED

### 1. Our opinion is unmodified

We have audited the financial statements of Old Mutual Wealth Life & Pensions Limited ("the Company") for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows, and the 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 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Governance, Audit and Risk Committee.

We were first appointed as auditor by the shareholders on 27 April 2001. The period of total uninterrupted engagement is for the nineteen financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

### 2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below, the key audit matters in arriving at our audit opinion above together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

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

| **Valuation of investments and securities (£31,898.5 million; 2018: £26,789.3 million)**<br>Risk vs 2018: ◄►<br>Refer to page 28 (accounting policy) and page 46 (financial disclosures) | |
|---|---|
| **The risk** | **Our response** |
| **Subjective valuation**<br><br>The investments and securities held by the Company comprise of level 1 investments with a small proportion of level 3 investments, representing suspended funds. The inputs required to value the majority of these investments are observable and little or no judgement is required to value these investments and as such the risk of material misstatement is low. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which has the greatest effect on our overall audit strategy and allocation of resources in planning and completion of our audit.<br><br>The relevant accounting standard disclosures regarding fair value hierarchy of financial assets are detailed and complex to complete in part due to the number of funds. | Our procedures included:<br><br>– **Control operation**: Evaluating and testing the design and implementation of the controls associated with the valuation of investments.<br><br>– **Our valuation specialist**: We used our own valuation specialists, to assist us in performing independent price checks using various sources of external quotes. We compared our independent market reference prices to those market prices recorded by the Company, and understood differences, above a deminimis level when compared to the range of acceptable prices.<br><br>– **Assessing transparency**: We assessed the adequacy of the disclosures in relation to the valuation of investments and securities.<br><br>**Our findings**<br>We found the resulting estimates in relation to the valuation of investments and securities to be balanced (2018: balanced), with proportionate (2018: proportionate) disclosures of the related assumptions and sensitivities. |

We reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. As a result of developments since the prior year report, including the Company's own preparation, the relative significance of this matter on our audit work has reduced. Accordingly, we no longer consider this a key audit matter.

**3. Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements as a whole was set at £3.2m (2018: £6.0m), determined with reference to a benchmark of net assets, of which it represents 1.8% (2018: 4%). We consider net assets to be the most appropriate benchmark as it provides a more stable measure year-on year than profit before tax. The change in the materiality percentage applied in the current year is due to change in our audit methodology.

In addition, we applied materiality of £324m to the classification of unit-linked assets and liabilities and reinsured balances in the balance sheet, income statement and related notes, determined with reference to a benchmark of total assets, of which it represents 1%. This materiality was applied solely for our work on matters for which a misstatement is likely only to lead a reclassification between line items, in accordance with FRC Practice Note 20 The Audit of Insurers in the United Kingdom.

We agreed to report to the Governance, Audit and Risk Committee any corrected or uncorrected classification misstatements in unit-linked assets and liabilities and reinsured balances exceeding £16m.

We agreed to report to the Governance, Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.16m (2018: £0.30m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's offices in London and Southampton.

**4. We have nothing to report on 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").

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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.

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 evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures

Based on this work, 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.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

**5. We have nothing to report on the strategic report and the 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 those reports;
- in our opinion the information given in the strategic report and the directors' report 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.

**6. We have nothing to report on the other 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 by the Company, 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.

**7. Respective responsibilities**

***Directors' responsibilities***

As explained more fully in their statement set out on page 13, the Directors are responsible for: the preparation of the financial statements including 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 other irregularities (see below), 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, other irregularities 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.

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

*Irregularities - ability to detect*
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the company's licence to operate. We identified the area of regulatory capital as the most likely to have such effect recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

**8. 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 and the terms of our engagement by the company. 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 the further matters we are required to state to them in accordance with the terms agreed with the company, 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 (Restated) £m |
|---|---|---|---|
| **REVENUE** | | | |
| **Investment contracts** | | | |
| Fee income and other income from service activities | 4 | 140.0 | 106.7 |
| **Other revenue** | | | |
| Investment return[1] | 5 | 3,822.1 | (1,573.4) |
| Other income | | 0.8 | 1.3 |
| **TOTAL REVENUE** | | 3,962.9 | (1,465.4) |
| **EXPENSES** | | | |
| **Insurance contract claims** | | | |
| Claims incurred - gross amount | | (0.3) | (0.4) |
| **Other charges** | | | |
| Change in investment contract liabilities[1] | 11 | (3,818.6) | 1,575.3 |
| Commission expenses | 6 | (10.2) | (13.2) |
| Change in contract costs | 10 | (0.1) | (0.5) |
| Administrative expenses | 7 | (85.8) | (82.4) |
| Other expenses | | 0.4 | (0.4) |
| | | (3,914.3) | 1,478.8 |
| **TOTAL EXPENSES** | | (3,914.6) | 1,478.4 |
| **PROFIT BEFORE TAX** | | 48.3 | 13.0 |
| Policyholder tax | 9 | (98.6) | 60.9 |
| (Loss) / Profit after policyholder tax before shareholder tax | | (50.3) | 73.9 |
| Taxation | 9 | (91.5) | 52.7 |
| Less: policyholder tax | | 98.6 | (60.9) |
| Shareholder tax | | 7.1 | (8.2) |
| **(LOSS) / PROFIT FOR THE YEAR** | | (43.2) | 65.7 |
| Attributable to equity holders | | (43.2) | 65.7 |

[1]In prior years, changes in the value of investment return on linked assets and the corresponding change in investment contract liabilities were shown net in investment return in the Income Statement. In 2019, the Company has changed its presentation policy and disclosed each of these separately in the Income Statement. The prior year comparatives have been restated to reflect this presentation change. There is no impact on profit before tax.

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

The notes on pages 23 to 57 are an integral part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

| | 2019 | 2018 |
|---|---|---|
| | £m | £m |
| **(LOSS) / PROFIT FOR THE YEAR** | (43.2) | 65.7 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | |
| All attributable to equity holders | (43.2) | 65.7 |

The notes on pages 23 to 57 are an integral part of these financial statements.

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

| | Share capital £m | Distributable reserves £m | Total equity-holder's funds £m |
|---|---|---|---|
| **Balance at 1 January 2018** | 44.0 | 76.9 | 120.9 |
| Profit for the year | - | 65.7 | 65.7 |
| Issue of share capital | 18.0 | - | 18.0 |
| **Balance at 1 January 2019** | 62.0 | 142.6 | 204.6 |
| Loss for the year | - | (43.2) | (43.2) |
| Issue of share capital | 40.0 | - | 40.0 |
| Dividends paid | - | (20.0) | (20.0) |
| **Balance at 31 December 2019** | 102.0 | 79.4 | 181.4 |

Distributable reserves consist of capital contributions and retained earnings. 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 23 to 57 are an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION**
at 31 December 2019

| | Notes | 2019 £m | 2018 £m |
|---|---|---|---|
| **ASSETS** | | | |
| Contract costs | 10 | 4.0 | 4.1 |
| Investments in collective investment schemes | 14 | 11.8 | 3.4 |
| Investments held for the benefit of policyholders | 13 | 31,898.5 | 26,789.3 |
| Other investments | 15 | 2.1 | 40.7 |
| Current tax assets | | 8.7 | 23.3 |
| Deferred tax assets | 20 | - | 5.4 |
| Other receivables | 16 | 81.9 | 88.7 |
| Cash and cash equivalents | 17 | 388.8 | 319.5 |
| **Total assets** | | 32,395.8 | 27,274.4 |
| **EQUITY AND LIABILITIES** | | | |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 18 | 102.0 | 62.0 |
| Capital contributions | | 90.5 | 110.5 |
| Retained earnings | | (11.1) | 32.1 |
| **Total equity attributable to equity holders** | | 181.4 | 204.6 |
| **LIABILITIES** | | | |
| Liabilities for linked investment contracts | 11 | 31,882.2 | 26,812.1 |
| Deferred tax liabilities | 20 | 49.0 | - |
| Contract liabilities | 21 | 0.5 | 0.5 |
| Other provisions | 22 | 1.9 | 2.0 |
| Current tax liabilities | | 0.7 | 5.0 |
| Other payables | 23 | 280.1 | 250.2 |
| **Total liabilities** | | 32,214.4 | 27,069.8 |
| **Total equity and liabilities** | | 32,395.8 | 27,274.4 |

The notes on pages 23 to 57 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: 04163431

**STATEMENT OF CASH FLOWS**
for the year ended 31 December 2019

| | 2019 | 2018 |
|---|---|---|
| | £m | £m |
| **OPERATING ACTIVITIES** | | |
| Cash received from policyholders - investment contracts | 3,858.0 | 5,068.0 |
| Cash paid to policyholders - insurance contracts | (0.3) | (0.4) |
| Cash paid to policyholders - investment contracts | (2,472.8) | (2,089.7) |
| Commissions paid | (10.1) | (12.3) |
| Net cash to service providers, suppliers and employees | (47.0) | (16.1) |
| | 1,327.8 | 2,949.5 |
| **Investments for the benefit of policyholders** | | |
| Investment income on fixed interest securities | 0.7 | 1.2 |
| Investment income on equities and collective investments | 510.5 | 455.7 |
| Net purchases of investments | (1,797.1) | (3,401.6) |
| | (1,285.9) | (2,944.7) |
| Cash generated from operations | 41.9 | 4.8 |
| Taxes paid | (26.7) | (16.2) |
| **Net cash generated from / (used in) operating activities** | 15.2 | (11.4) |
| **INVESTING ACTIVITIES** | | |
| Interest received | 2.7 | 1.6 |
| Net sales / (purchases) of investments | 31.4 | (7.2) |
| **Net cash from / (used in) investing activities** | 34.1 | (5.6) |
| **FINANCING ACTIVITIES** | | |
| Issue of share capital | 40.0 | 18.0 |
| Dividends paid | (20.0) | - |
| **Net cash from financing activities** | 20.0 | 18.0 |
| **Net increase in cash and cash equivalents** | 69.3 | 1.0 |
| Cash and cash equivalents at beginning of the year | 319.5 | 318.5 |
| **Cash and cash equivalents at end of the year** | 388.8 | 319.5 |

The notes on pages 23 to 57 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 Life & Pensions 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 statements**
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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Future standards, amendments to standards, and interpretations not early-adopted in these financial statements**
Certain new standards, interpretations and amendments to existing standards have been published by the IASB that are mandatory for the Company's annual accounting periods beginning on or after 1 January 2020. The Company has not early adopted these standards, amendments and interpretations.

***IFRS 17 Insurance Contracts***
The IASB issued IFRS 17 Insurance Contracts in May 2017. When IFRS 17 is endorsed by the EU, it will replace its interim predecessor, IFRS 4 Insurance Contracts. IFRS 17 is a comprehensive standard which provides a single accounting model for all insurance contracts. IFRS 17 will replace a wide range of different accounting practices previously permitted, improving transparency and enabling investors and regulators to understand and compare the financial position and performance of an insurer, irrespective of where they are based geographically.

*The measurement model*
The use of current estimates at each reporting date and an explicit risk adjustment to measure obligations created by insurance contracts, provides up to date information about cash flows and associated risk and timing. "Day one" profits are deferred and recognised in the income statement through the release of the contractual service margin ("CSM"), which has the effect of recognising revenue as services are provided. This principle is consistent with the treatment in IFRS 15.

*Presentation and disclosure*
Insurers' financial statements will look different under IFRS 17. Insurers will be required to provide information about sources of profit or losses from insurance and investment related services, comprising insurance revenue and insurance service expenses (underwriting activity), as well as finance income or expense (investing activity). New performance metrics and KPIs will be required to explain business results to the investment community. Disclosure requirements focus on amounts recognised in the financial statements, significant judgements and changes in those judgements, as well as information about the nature and extent of risks that arise from insurance contracts.

*Effective date*
The IASB published an exposure draft Amendments to IFRS 17 in June 2019 proposing that the effective date of IFRS 17 be deferred by one year, such that it would apply to entities with annual periods beginning on or after 1 January 2022. The standard is yet to be endorsed by the EU.

**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.

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:

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

| 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. Where credible longer term profit forecasts are available the Company may assess recoverability over a longer period, subject to a higher level of sensitivity testing. | 20 |

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

**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 investment contract liabilities and 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 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. |

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

*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 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 consolidated income statement.

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.

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.

**Financial liabilities and equity**
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. At inception, investment contract liabilities for unit-linked business are designated as financial liabilities and measured at FVTPL. For unit-linked contracts, the fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets in the fund. The FVTPL classification reflects the fact that the matching investment portfolio, that mirrors the unit-linked liabilities, is managed, and its performance evaluated, on a fair value basis. Other financial liabilities, including trade payables, are measured at amortised cost using the effective interest method.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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**
Parent company 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 new impairment model*
The Company applies the ECL model to two main types of financial assets that are measured at amortised cost: – 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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

**Investment contracts**
Investment contracts do not meet the definition of an insurance contract as they do not transfer significant insurance risk from the policyholder to the insurer. Unit-linked investment contracts are separated into two components being an investment management services component and a financial liability. The financial liability component is mandatorily at FVTPL as it is managed on a fair value basis, and its value is directly linked to the market value of the underlying portfolio of assets. The Company does not share in the explicit returns of the assets held by the policyholder, apart from secondary exposure to future annual management fees that the Company expects to receive over the life of the policy.

*"Hybrid" Insurance and investment contracts – unbundling*
Generally, life and pensions contracts allow for a single classification at product class level. For those contracts containing both an insurance component, in the form of a capital protected death benefit, and an investment component, the Company has elected to unbundle these contracts and account for each component separately. Consequently, there are elements of insurance risk in the accounts, however these are currently immaterial and the likelihood of them becoming material is currently viewed as remote. On that basis the company has not presented policies associated with accounting for the insurance component of the contracts within these financial statements.

**Other investments**
Other investments comprise UK Government fixed interest securities backing the deferred tax liability, held as shareholder investments. All investments are classified as 'designated at fair value through profit or loss' at initial recognition and are stated at quoted bid prices which equates to fair value, with any resultant gain or loss recognised in the income statement.

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

**Investments held for the benefit of policyholders**
Investments held for the benefit of policyholders are stated mandatorily at fair value through the profit or loss and reported on a separate line in the statement of financial position.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The assets are classified using the fair value through the profit or loss at initial recognition option with any resultant gain or loss recognised in the income statement. The changes in value are disclosed in note 13.

Investments held for the benefit of policyholders are valued at market prices on the last business day of the year.

The valuation bases at the reporting date were as follows:
– Fixed interest and index-linked securities are valued at quoted bid prices;
– Equities and investment trusts are valued at quoted bid prices;
– Unit trusts are valued at quoted bid prices;
– Open Ended Investment Company (OEIC) assets are single priced funds and are valued at the quoted net asset value per share.

**Investments in collective investment schemes**

Investments in collective investment schemes are designated at FVTPL at initial recognition and are stated at fair value, with any resultant gain or loss recognised in the income statement. Investments in collective investment schemes comprise seed investment in Quilter investment funds and the Company's short term holdings as a result of daily transactions between the Company and its clients via the 'manager's box'. These transactions will result in either too many units being held (long positions) or too few units being held (short positions).

Holdings in unit trusts are valued at quoted bid price for long positions and quoted offer price for short positions. OEIC assets are single priced funds and are valued at the quoted net asset value per share.

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

**Contract costs**
Incremental costs, including fee and commission expenses, that are directly attributable to securing unit-linked investment contracts are deferred and recognised as a 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.

**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.

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

**Fee income**
Fee income and other income from service activities represents the fair value of services provided, net of value-added tax. The table below summarises the types of fee and commission income generated by the Company:

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

| Type of fee | Description |
|---|---|
| Premium based fees | This relates to non-refundable initial fees taken on receipt of clients' investments and recognised on receipt over the life of the contract, in line with the performance obligation associated with the contract in respect of the administration of the underlying client records and client benefits, and results in the recognition of a contract liability on the statement of financial position. |
| Fund based fees | This is periodic fee income 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. |
| Fixed fees | This is periodic fee income which is fixed in value according to underlying contract terms and relate to the provision of services and transactional dealing fees. These are recognised on provision of the transaction. |
| Other fee income | Other fee income consists primarily of charges taken from unit-linked funds to meet future policyholder tax liabilities. Depending on the nature of the tax liability, the charges are either recognised at the point a transaction occurs on the unit-linked fund, or annually. |

Where fees are received upfront, either at inception or over an initial period for services not yet provided, the income is deferred and recognised as contract liabilities on the statement of financial position and released to the income statement as services are provided over the lifetime of the contract.

The adoption of IFRS 15 in 2018 did not result in changes to the Company's significant accounting policies.

**Contract liabilities**
The bi-annual fixed investor charge is received in cash in advance and deferred through the creation of a contract liability, reported on the statement of financial position and released to income as the services are provided equally over the six months.

**Premiums**
Premiums for insurance contracts are recognised as revenue when they become payable by the policyholder.

**Investment gains and losses**
Realised investment gains and losses represent the difference between the net sales proceeds and the cost of the investment or value at the start of the year. The movement in unrealised investment gains and losses represents the difference between the carrying value of investments at the reporting date 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 investments 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.

**Unit trust rebates**
Rebates received from unit trust managers are accounted for on an accruals basis.

**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 contributions.

**Administrative expenses and other expenses**
All expenses are recognised in the income statement as a cost when incurred.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

*Policyholder tax*
Certain products are subject to tax on policyholder's investment returns. This 'policyholder tax' is an element of tax expense. To make the tax expense more meaningful, tax attributable to policyholder returns and tax attributable to shareholder profits is shown separately.

The tax attributable to policyholder returns is the amount payable in the year plus the movement of amounts expected to be payable in future years. The remainder of the tax expense is attributed to shareholders as tax attributable to shareholder profits.

**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 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:

**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, whereby a change in the value of or income from any particular asset is not matched by an equal change in the value of the corresponding liability within the portfolio. 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, where the market value of assets and liabilities within the portfolio are not precisely matched. The Company's asset and liability management process employed for matching within the portfolio keeps the impacts of this risk within acceptable limits.

The Company has adopted the Group 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.

The sensitivity of future earnings to the values of and income from investments is regularly monitored through sensitivity analysis performed for business planning purposes.

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

***Equity and property price risk***
In accordance with the market risk policy, the Company does not invest shareholder assets in equity or property or related collective investments, except where the exposure arises due to:

- temporary, short term holding of collectives in respect of fees due from clients and mismatches between policyholder unitised fund assets and liabilities. These mismatches are permitted, subject to maximum limits, to avoid excessive dealing costs. For this reason and because the dealing mismatches contain both long and short positions, the overall exposure to these mismatches is not considered to be material; and
- seed capital investments. Seed capital is invested within new unit-linked funds at the time these funds are launched. The seed capital is then withdrawn from the funds as policyholders invest in the funds. The seed capital exposure is not material.

## 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

Excluding the above, equity assets are all held indirectly through collective investments to back unit-linked liabilities.

The Company derives revenues (e.g. rebates of fund management charges on collectives held for the benefit of policyholders) and incurs costs (e.g. financial adviser fund based renewal commissions) which are linked to the performance of the underlying assets. Therefore future earnings will be affected by equity and property market performance.

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

In conclusion, the equity risk is directly correlated to the size of the Assets under Administration (AuA).

***Interest rate risk***
Interest rate risk arises primarily from exposure to movements in the value of fixed interest securities, which are held indirectly (through collective investments) for the benefit of policyholders, and movements in interest earned on company cash deposits.

UK government fixed interest securities are held to match nature, duration and timing of liabilities. For example in the case of deferred tax liabilities, tax payments will arise over a 7 year period. These securities are matched to liabilities by duration and so the exposure to interest rates is not material.

A rise in interest rates would cause an immediate fall in the value of investments in fixed income securities within unit-linked funds, resulting in a fall in fund based fees.

However, assuming that the in-force business continues to grow, a rise in interest rates would enable a higher return on new investments, which in turn would cause unit-linked asset values to grow more quickly and so fund based fees may be higher in the longer term.

A rise in interest rates would also result in higher interest earned on company cash deposits.

The sensitivity of profit to changes in interest rates is given in the sensitivity analysis.

***Interest rates applicable to interest bearing financial instruments***

| | 2019 Fixed | 2019 Variable | 2018 Fixed | 2018 Variable |
|---|---|---|---|---|
| Assets: | | | | |
| Bonds | 3.32% | - | 3.32% | - |
| Deposits with credit institutions | - | 0.70% | - | 0.69% |

***Currency risk***
The Company is not exposed to direct currency risk and holds no foreign currency balances. However, the Company is exposed to currency risk indirectly through fund based fees derived from unit-linked funds that 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.

**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.

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)**

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 Company has collateral against the credit risk exposure.

The credit risk exposures of the Company 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).

There is no direct exposure to Eurozone sovereign debt (outside of the UK) within the Company's shareholder investments.

The Company has no significant concentrations of credit risk exposure.

***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.

***Spread risk***
Similar to equity risk, spread risk reflects the potential loss of future revenue resulting from adverse movements in credit spreads, negatively affecting the market value of corporate bonds, held indirectly through collective investments backing unit-linked liabilities.

The AuA contain corporate bonds. When the spread on these bonds widen, the value of these bonds fall, decreasing the fund based future revenue.

The spread risk is directly related to the size of the Company's bond holdings.

***Other credit risks***
The risk of default by financial advisers is managed through monthly monitoring of 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.

Details of the credit quality of debt securities can be found in note 15.

***Impact of credit risk on fair value***

## 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

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***
Credit ratings for financial instruments are included in the relevant notes. The Company's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the accounts.

**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 Company 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.

Information on the nature of the investments and securities held is given in notes 13, 14, 15.

***Maturity schedule***
The maturity dates of financial liabilities are shown below.

## 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

| | <3 months | 3-12 mths | 1-5 years | >5 years | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **2019:** | | | | | |
| Liabilities for linked investment contracts | 31,882.2 | - | - | - | 31,882.2 |
| Other payables | 280.1 | - | - | - | 280.1 |
| | 32,162.3 | - | - | - | 32,162.3 |
| **2018:** | | | | | |
| Liabilities for linked investment contracts | 26,812.1 | - | - | - | 26,812.1 |
| Other payables | 250.2 | - | - | - | 250.2 |
| | 27,062.3 | - | - | - | 27,062.3 |

Liabilities for linked investment contracts are classified as less than three months maturity; whilst the Company does not expect all liabilities to be settled within this period, the terms of the contracts allow the policyholders to redeem their policies at any time.

**Insurance risk**
The Company assumes insurance risk by providing life assurance cover to customers within the Collective Investment Bond product, where customers have selected the capital protected death benefit option. Under this option the death benefit is the higher of a return of premiums paid, less any withdrawals taken to date, and the fund value.

Insurance risk arises through exposure to variable claims experience on life assurance, exposure to variable operating experience in respect of factors such as persistency levels and management expenses.

Unfavourable experience in respect of persistency, and expenses, relative to the actuarial assumptions made in the pricing process, may result in profit margins reducing below the target levels included in the pricing process.

The Company has adopted the Group Insurance Risk Policy, which sets out the requirements for the management, measurement, monitoring and reporting of insurance risks. The Group has implemented three standards to support the insurance risk policy, as follows:

- underwriting and claims standard;
- reinsurance standard; and
- technical provisions standard.

The sensitivity of the Company’s earnings and capital position to insurance risks is monitored through the Group’s capital management processes.

The Company manages its insurance risks through the following mechanisms:

- management of expense levels relative to approved budgets;
- pricing of insurance contracts utilising analysis of persistency and expense experience; and
- reinsurance, which is used to transfer mortality risk exposure.

***Mortality***
Mortality risk is the risk that death claims experience is higher than the rates assumed when pricing contracts. Mortality risk is not material as the Company does not provide material mortality benefits on its products and mortality benefits are reinsured.

A risk charge is applied to meet the expected cost of the insured benefit (in excess of the unit value).

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)**

***Persistency***
Persistency risk is the risk that the level of surrenders or withdrawals occurs at levels that are different to the levels assumed in the pricing process and relative to the levels assumed in the determination of technical provisions.

The surrender value is never more than the current reported value of the contract liability.

Persistency risk is managed through focusing on providing good customer service to our customers and advisers, ensuring our proposition is competitive in the market and maintaining a high standard of business conduct to protect our reputation.

Persistency statistics are monitored monthly and a detailed persistency analysis at a product level is carried out on an annual basis.

***Expenses***
Expense risk is the risk that actual expenses and expense inflation differ from the levels expected and allowed for within the pricing process.

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

Some product structures include the single investor charge. This charge is reviewed annually in light of changes in maintenance expense levels and the market rate of inflation. This review can trigger changes to the single investor charge levels.

Sensitivity of profit to changes in management expenses is illustrated later in this section.

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

Operational risk includes all risks resulting from operational activities, 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 judgement 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.

**Risk and capital management**

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

## 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

The potential impacts of risks on the capital resources and future profits of the Company are assessed regularly in order to assess the financial resilience of the business. Market and insurance risks are assessed through stress and scenario tests applied relative to business plan financial projections and the assumptions used to value statement of financial position liabilities. Operational risks are assessed using scenario-based risk assessments, constructed using expert judgement 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 amount of capital that is retained.

Capital is managed to the Company's solvency target which is set to ensure that the Company can maintain its own funds above the Solvency Capital Requirement under plausible but severe stresses. In addition, the Company maintains working capital to provide for fluctuations in experience and to meet strategic objectives. The Company has met the regulatory requirement for capital throughout 2019. The Company has own funds (on a Solvency II basis) which exceeds its internal solvency target.

The Own Risk and Solvency Assessment (ORSA) process is used to assess the level of capital which should be retained by the Company. This process 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 assessment and scenario testing results are used to inform strategic decisions such as allocation of development budgets between initiatives to generate new business and to manage risk in respect of existing business.

The Company uses a variety of metrics to monitor its capital position including IFRS capital and reserves, which are £181.4m as at 31 December 2019 (2018: £204.6m).

**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 rates**
The impact of an increase and decrease in market interest rates 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 and movements in the market value of UK government bonds. The sensitivity of both profit and shareholder's equity to interest rates is provided.

A 1% rise in interest rates would impact the value of linked funds and therefore impact the fee income that is based on the market value of the investments held for the policyholders. The linked funds would move by around 1.7% as a shift of 1% in gilt yields moves gilt market values by 5.6%, but only 29.5% of linked policyholder assets are fixed interest assets such as bonds and gilts.

An increase in interest rates of 1% would have increased the profit and increased shareholder's equity by £1.9m after tax (2018: £1.2m). An equal change in the opposite direction would have decreased the profit and decreased shareholder's equity by £1.0m after tax (2018: £0.4m). The reduction 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 deposits with credit institutions currently attracting interest of 0.7% therefore interest rates can only be reduced by 0.7%.

**Equity/property**
A movement in equity and property prices would impact the fee income that is based on the market value of the investments held for the benefit policyholders. Any impact on the market value of the investments held for the benefit of policyholders would result

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)**

in an equal and opposite impact on the value of liabilities for unit-linked investment contracts. In this analysis, all linked renewal commission is assumed to be fund based. The sensitivity is applied as an instantaneous shock to equity and property prices at the start of the year.

An increase in equity and property prices of 10% would have increased the profit by £7.1m after tax (2018: £6.5m). An equal change in the opposite direction would have reduced the profit by £7.1m after tax (2018: £6.5m).

**Expenses**

The increase in expenses is assumed to apply to the costs associated with the maintenance and acquisition of contracts. The only administrative expenses that are deferrable are sales bonuses but as new business volumes are unchanged in this sensitivity, sales bonuses and the associated deferrals have not been increased, therefore there are no impacts on the statement of financial position balances. It is assumed that these expenses are increased by 10% from the start of the year, so is applied as an expense shock rather than a gradual increase. Administrative expenses have been allocated equally between life and pensions.

An increase in expenses of 10% would have reduced the profit by £6.9m after tax (2018: £6.7m).

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

## 4 FEE INCOME

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| **Investment contracts** | | |
| Premium based fees | 0.1 | 0.3 |
| Fund based fees | 98.0 | 93.0 |
| Fixed fees | 2.1 | 2.5 |
| Other fee income | 39.8 | 10.9 |
| | 140.0 | 106.7 |

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

## 5 INVESTMENT RETURN

| | | 2019<br>£m | 2018<br>(Restated)<br>£m |
|---|---|---|---|
| **Investment income and realised gains** | | | |
| Interest on fixed interest securities | (designated at FVTPL) | 0.3 | 1.2 |
| Interest on short term bank deposits | (amortised cost) | 2.7 | 1.7 |
| Dividend income | (mandatorily at FVTPL) | 510.5 | 455.7 |
| Realised gains on fixed interest securities, net | (designated at FVTPL) | 0.1 | - |
| Realised gains on collective investment schemes | (mandatorily at FVTPL) | 0.3 | - |
| | | 513.9 | 458.6 |
| **Unrealised losses** | | | |
| Unrealised losses on fixed interest securities | (designated at FVTPL) | (0.2) | (1.0) |
| **Unrealised gains** | | | |
| Unrealised gains / (losses) on collective investment schemes | (mandatorily at FVTPL) | 3,308.4 | (2,031.0) |
| | | 3,308.2 | (2,032.0) |
| | | 3,822.1 | (1,573.4) |

The above investment returns arise on both shareholder and non-linked investments. The investment returns reflect gains or losses on financial assets that are designated as fair value through the income statement or amortised cost.

In prior years, changes in the value of investment return on linked assets and the corresponding change in investment contract liabilities were shown net in investment return in the Income Statement. In 2019, the Company has changed its presentation policy and disclosed each of these separately in the Income Statement. The prior year comparatives have been restated to reflect this presentation change. There is no impact on profit before tax.

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

## 6 COMMISSION EXPENSES

| | 2019 £m | 2018 £m |
|---|---|---|
| Initial commission | - | 0.1 |
| Renewal commission | 10.2 | 13.1 |
| | 10.2 | 13.2 |

## 7 ADMINISTRATIVE EXPENSES

| | 2019 £m | 2018 £m |
|---|---|---|
| Administrative expenses | 85.8 | 82.4 |
| Administrative expenses include: | | |
| Management fees paid to fellow group undertakings (see note 25) | 85.1 | 82.0 |
| **Of which:** | | |
| Auditor's remuneration: services paid to KPMG LLP | 0.2 | 0.2 |

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

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<br>£m | 2018<br>£m |
|---|---|---|
| **Aggregate directors' emoluments** | | |
| Aggregate emoluments excluding pension contributions | 0.7 | 0.5 |
| Aggregate share based payments | 0.5 | 0.3 |

3 directors had money paid to money purchase schemes during the year (2018: 4).

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: 5). 3 directors (2018: 3) 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<br>£m | 2018<br>£m |
|---|---|---|
| **Emoluments of the highest paid director** | | |
| Aggregate emoluments excluding pension contributions | 0.3 | 0.2 |

The highest paid director did (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 |
|---|---|---|
| **Shareholder taxation** | | |
| UK corporation tax at 19.00% (2018: 19.00%) | (9.9) | 4.0 |
| Overseas tax | 3.0 | 3.0 |
| Deferred tax | 0.4 | (1.0) |
| | (6.5) | 6.0 |
| Prior years: | | |
| Corporation tax payable underprovided | (0.6) | 2.2 |
| | (7.1) | 8.2 |
| **Policyholder taxation** | | |
| UK corporation tax at 19.00% (2018: 19.00%) | 44.6 | - |
| Deferred tax | 54.0 | (48.3) |
| | 98.6 | (48.3) |
| Prior years: | | |
| Corporation tax payable overprovided | - | (12.6) |
| | 98.6 | (60.9) |
| Tax on profit for the year | 91.5 | (52.7) |

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

| | 2019 £m | 2018 £m |
|---|---|---|
| Pre-tax profit | 48.3 | 13.0 |
| Tax on profit at the applicable tax rate, 19.00% (2018: 19.00%) | 9.2 | 2.5 |
| Effect of: | | |
| Tax pertaining to previous years | - | 1.6 |
| Non-taxable revenues | - | (7.4) |
| Utilisation of previously unrecognised deferred tax | (0.1) | - |
| Policyholder taxes deductible in computing shareholder tax | (18.7) | 9.2 |
| Impact of reduction in shareholder tax rate | 0.1 | (0.1) |
| Policyholder tax | 98.6 | (60.9) |
| Overseas tax | 2.4 | 2.4 |
| | 91.5 | (52.7) |

The main rate of corporation tax is 19% with effect from 1 April 2017. It will reduce to 17% with effect from 1 April 2020.

**Policyholder tax**
Certain products are subject to tax on policyholders' investment returns. This 'policyholder tax' is an element of total tax expense. To make the tax expense more meaningful, policyholder and shareholder tax are shown separately in the income statement.

Policyholder tax is the amount payable in the year plus the movement of amounts expected to be payable in future years. The remainder of the tax expense is attributed to shareholders.

The Company's income tax expense was £91.5m for the year ended 31 December 2019, compared to a credit of £(52.7)m for the prior year. This income tax expense/(credit) can vary significantly period on period as a result of market volatility and the impact this has on policyholder tax. The recognition of the income received from policyholders (which is included within revenue) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding policyholder tax expense, creating volatility to the Company's IFRS profit before tax.

Significant market volatility during the year ended 31 December 2018 led to large investment losses that have reversed in 2019, resulting in investment gains of £414m on products subject to policyholder tax. The gain is a component of the total 'investment return' gain of £3,822.1m shown in the income statement. The impact of the £414m investment return gain is the primary reason for the £98.6m policyholder tax charge for the year ended 31 December 2019 (2018: £(60.9)m).

## 10 CONTRACT COSTS

| | 2019 £m | 2018 £m |
|---|---|---|
| Opening balance | 4.1 | 4.6 |
| Capitalisation of contract costs | 1.4 | 1.2 |
| Amortisation of contract costs | (1.5) | (1.7) |
| Change in contract costs | (0.1) | (0.5) |
| Closing balance | 4.0 | 4.1 |
| Current | 1.5 | 1.4 |
| Non-current | 2.5 | 2.7 |
| | 4.0 | 4.1 |

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.

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

## 11 LIABILITIES FOR UNIT-LINKED INVESTMENT CONTRACTS

| | 2019<br>Gross<br>£m | 2018<br>Gross<br>£m |
|---|---|---|
| **At fair value through profit or loss** | | |
| Unit-linked liabilities | 31,882.2 | 26,812.1 |

**Analysis of change in liabilities for linked investment contracts**

| | 2019<br>Gross<br>£m | 2018<br>Gross<br>£m |
|---|---|---|
| Opening balance | 26,812.1 | 25,406.1 |
| Fair value movements | 3,308.1 | (2,031.0) |
| Investment income | 510.5 | 455.7 |
| Movements arising from investment return | 3,818.6 | (1,575.3) |
| Contributions received | 3,732.2 | 5,053.3 |
| Maturities | (86.6) | (111.1) |
| Withdrawals and surrenders | (2,362.3) | (1,922.9) |
| Claims and benefits | (31.8) | (38.0) |
| **Closing Balance** | 31,882.2 | 26,812.1 |

The benefits offered under the unit-linked investment contracts are based on the risk appetite of policyholders and the return on their selected collective fund investments whose underlying investments include equities, debt securities, property and derivatives. This investment mix is unique to individual policyholders.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

**Assumptions**
For unit-linked business, the unit liabilities are determined as the value of units credited to policyholders. Since these liabilities are determined on a retrospective basis no assumptions for future experience are required. Assumptions for future experience are required for unit-linked business in assessing whether the total of the contract costs asset is greater than the present value of future profits expected to arise on the relevant blocks of business (the 'recoverability test'). If this is the case, then the contract costs asset is restricted to the recoverable amount. For linked contracts, the assumptions are on a best estimate basis.

All liabilities are current because policyholders can redeem at any time.

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

## 12 INVESTMENTS IN SUBSIDIARIES

Old Mutual Wealth Life & Pensions Limited acquired the ordinary share of Quilter Pension Trustees Limited from Quilter Business Services Limited (formerly Old Mutual Wealth Business Services Limited) on 4 July 2019. The investment is valued at original cost of £1 (2018: £1) and due to materiality it is not shown separately on the statement of financial position.

Quilter Pension Trustees Limited is incorporated in England & Wales and its registered office address is: Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ.

Its principal activity will be to act as trustee for the Personal Pension Scheme, established by the Company, following the planned addition of new features to the scheme.

## 13 INVESTMENTS HELD FOR THE BENEFIT OF POLICYHOLDERS

| | 2019<br>Cost<br>£m | 2019<br>Fair value<br>£m | 2018<br>Cost<br>£m | 2018<br>Fair value<br>£m |
|---|---|---|---|---|
| **At FVTPL** | | | | |
| Pooled investments | 29,208.0 | 31,898.5 | 26,805.0 | 26,789.3 |

These assets are held to cover the liabilities for linked investment contracts as shown in note 11. All amounts are current and are collectible within 12 months of the reporting date. They are recognised mandatorily at FVTPL.

The difference between linked assets and linked liabilities is principally due to short term timing differences between policyholder premiums being received and invested, and withdrawals awaiting settlement into underlying funds.

## 14 INVESTMENTS IN COLLECTIVE INVESTMENT SCHEMES

| | 2019 £m | 2018 £m |
|---|---|---|
| **At FVTPL** | | |
| Investments in collective investment schemes (designated at FVTPL) | 4.6 | 3.4 |
| Investment in collective investment schemes (mandatorily at FVTPL) | 7.2 | - |
| | 11.8 | 3.4 |

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 gain on these investments is included in the income statement within other income.

## 15 OTHER INVESTMENTS

| | | 2019 Cost £m | 2019 Fair value £m | 2018 Cost £m | 2018 Fair value £m |
|---|---|---|---|---|---|
| **At FVTPL** | | | | | |
| Bonds and other fixed income securities | (designated at FVTPL) | 2.2 | 2.1 | 42.6 | 40.7 |

Bonds and other fixed income securities comprise UK government stocks with a AA rating (2018: AA).

£1.3m (2018: £8.0m) of bonds and other fixed income securities are due to mature within 12 months and £0.8m (2018: £32.7m) are classified as non-current.

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

## 16 OTHER RECEIVABLES

| | 2019 | 2018 (Restated) |
|---|---|---|
| | £m | £m |
| **Arising out of direct insurance operations** | | |
| Intermediaries | 2.2 | 2.1 |
| | 2.2 | 2.1 |
| **Other** | | |
| Due from group undertakings (see note 25) | 16.0 | 3.4 |
| Other taxes and social security | 9.3 | 15.9 |
| Accrued interest | 0.3 | 0.6 |
| Contract assets | 3.4 | 2.9 |
| Investment settlements outstanding | 50.7 | 63.8 |
| | 79.7 | 86.6 |
| | 81.9 | 88.7 |
| To be recovered within 12 months | 81.9 | 88.7 |

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 a renegotiation of terms.

All amounts due from group companies are unsecured and are settled quarterly, except for group relief balances which are settled on demand. All amounts are current, short term and interest free, recognised at amortised cost, with their carrying amount approximating to fair value.

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.

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

## 17 CASH AND CASH EQUIVALENTS

| | 2019 £m | 2018 £m |
|---|---|---|
| Bank balances | 16.8 | 54.1 |
| Money market OEIC investments | 372.0 | 265.4 |
| Cash and cash equivalents | 388.8 | 319.5 |

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 credit rated AA.

Bank overdrafts are used to fulfil short term liquidity needs and are repayable on demand. The company has a gross overdraft facility of £15.0m (2018: £15.0m) for individual bank accounts subject to the aggregate balance across all accounts being at least zero.

## 18 SHARE CAPITAL

| | 2019 £m | 2018 £m |
|---|---|---|
| Allotted, called up and fully paid | | |
| 102,000,001 (2018: 62,000,001) ordinary shares of £1 each | 102.0 | 62.0 |

In 2019 the company issued the following number of ordinary shares of nominal value of £1.00 each: the issue of 25,000,000 ordinary shares approved on 24 June 2019 and 15,000,000 ordinary shares approved on 19 December 2019.

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

## 19 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).

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

Assets - investments held for the benefit of the policyholders, investments in collective investment schemes and other investments.

Liabilities - liabilities for linked investment contracts.

| **2019** | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial assets mandatorily recognised at fair value through profit or loss** | | | | |
| - Investments and securities | 31,706.3 | - | 192.2 | 31,898.5 |
| - Holdings in collective investment schemes | 7.2 | - | - | 7.2 |
| - Money market OEIC investments | 372.0 | - | - | 372.0 |
| | 32,085.5 | - | 192.2 | 32,277.7 |
| **Financial assets designated at fair value through profit or loss** | | | | |
| - Holdings in collective investment schemes | 4.6 | - | - | 4.6 |
| - Bonds and other fixed income securities | 2.1 | - | - | 2.1 |
| **Total assets recognised at fair value through profit or loss** | 32,092.2 | - | 192.2 | 32,284.4 |
| **Financial liabilities mandatorily recognised at fair value through profit or loss** | | | | |
| - Long term business policyholder liabilities | 31,690.0 | - | 192.2 | 31,882.2 |
| | 31,690.0 | - | 192.2 | 31,882.2 |

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

## 19 FINANCIAL INSTRUMENTS AT FAIR VALUE (continued)

| 2018 | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
|---|---|---|---|---|
| **Financial assets mandatorily recognised at fair value through profit or loss** | | | | |
| - Investments and securities | 26,786.3 | - | 3.0 | 26,789.3 |
| - Money market OEIC investments | 265.4 | - | - | 265.4 |
| | 27,051.7 | - | 3.0 | 27,054.7 |
| **Financial assets designated at fair value through profit or loss** | | | | |
| - Holdings in collective investment schemes | 3.4 | - | - | 3.4 |
| - Bonds and other fixed income securities | 40.7 | - | - | 40.7 |
| **Total assets recognised at fair value through profit or loss** | 27,095.8 | - | 3.0 | 27,098.8 |
| | | | | |
| **Financial liabilities mandatorily recognised at fair value through profit or loss** | | | | |
| - Long term business policyholder liabilities | 26,809.1 | - | 3.0 | 26,812.1 |
| | 26,809.1 | - | 3.0 | 26,812.1 |

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

**Reconciliation of Level 3 fair value measurements of financial assets:**
Level 3 assets comprise linked policyholder investments in suspended funds.

| Fair value through profit or loss | 2019<br>£m | 2018<br>£m |
|---|---|---|
| **Investments and securities:** | | |
| Opening balance | 3.0 | 0.2 |
| Gains recognised in income | 0.1 | - |
| Disposals | (2.9) | - |
| Transfers into level 3 | 192.0 | 2.8 |
| Closing balance | 192.2 | 3.0 |

**Level 3 Fair value hierarchy disclosure**
The level 3 assets reported represent suspended funds. Prices are available daily for these funds, however, since they cannot be actively traded they are given a level 3 status.

These assets are held within linked policy funds. This means that the investment risk associated with these assets is borne by policyholders and that the value of these assets is exactly matched by a corresponding liability due to policyholders. The Company bears no risk from a change in the market value of these assets except to the extent that it has an impact on management fees earned.

**Reconciliation of Level 3 fair value measurements of financial liabilities:**
Level 3 liabilities comprise linked long term business policyholder liabilities matching policyholders' investments in suspended funds.

## 19 FINANCIAL INSTRUMENTS AT FAIR VALUE (continued)

| | 2019 £m | 2018 £m |
|---|---|---|
| **Long term business policyholders liabilities:** | | |
| Opening balance | 3.0 | 0.2 |
| Gains recognised in income | 0.1 | - |
| Disposals | (2.9) | - |
| Transfers into level 3 | 192.0 | 2.8 |
| Closing balance | 192.2 | 3.0 |

**Structured entities**

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

| ***Type of structured entity*** | ***Nature*** | ***Purpose*** | ***Interest held by the company*** |
|---|---|---|---|
| Investments in collective investment schemes | Manage company funds through the investment of assets | Generate fees from managing company assets | Investments in units issued by the fund |
| Investments held for the benefit of policyholders | Manage client funds through the investment in assets | Generate fees on behalf of third-party investors | Investments in units issued by the fund |

**Investments in unconsolidated structured entities**

The table below sets out the 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, which are purchased to match the liabilities to clients in respect of their linked fund investment choices. The maximum exposure to losses is equal to the carrying amount of assets held, except for the investments held for the benefit of policyholders, where these are offset by the equivalent liabilities to clients in respect of linked investment contracts.

| | Investment securities £m |
|---|---|
| **As at 31 December 2019:** | |
| Investments in collective investment schemes | 11.8 |
| Investments held for the benefit of policyholders | 31,898.5 |
| Money market funds | 372.0 |
| | 32,282.3 |
| **As at 31 December 2018:** | |
| Investments in collective investment schemes | 3.4 |
| Investments held for the benefit of policyholders | 26,789.3 |
| Money market funds | 265.4 |
| | 27,058.1 |

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

## 20 DEFERRED TAX

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

| | Deferred income & costs £m | Unrealised gain/(loss) on investments £m | Tax losses carried forward £m | Transitional adjustment £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| **Policyholder deferred tax** | | | | | | |
| Liability/(asset) at 1 January 2018 | (7.1) | 56.9 | - | (1.0) | 0.1 | 48.9 |
| Movement in the year | (2.9) | (45.5) | - | 0.1 | - | (48.3) |
| Liability/(asset) at 31 December 2018 | (10.0) | 11.4 | - | (0.9) | 0.1 | 0.6 |
| Movement in the year | 3.8 | 49.9 | | 0.3 | (0.0) | 54.0 |
| Liability/(asset) at 31 December 2019 | (6.2) | 61.3 | - | (0.6) | 0.1 | 54.6 |
| **Shareholder deferred tax** | | | | | | |
| Liability/(asset) at 1 January 2018 | - | - | (6.2) | 1.6 | (0.4) | (5.0) |
| Movement in the year | - | - | (0.7) | (0.3) | - | (1.0) |
| Liability/(asset) at 31 December 2018 | - | - | (6.9) | 1.3 | (0.4) | (6.0) |
| Movement in the year | - | - | 0.7 | (0.3) | - | 0.4 |
| Liability/(asset) at 31 December 2019 | - | - | (6.2) | 1.0 | (0.4) | (5.6) |
| **Total deferred tax liability/(asset)** | | | | | | |
| Liability/(asset) at 31 December 2018 | (10.0) | 11.4 | (6.9) | 0.4 | (0.3) | (5.4) |
| Liability/(asset) at 31 December 2019 | (6.2) | 61.3 | (6.2) | 0.4 | (0.3) | 49.0 |

From 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 value of deferred tax assets not recognised as at 31 December 2019 was £39.2m (2018: £40.8m). This relates to gross capital losses carried forward of £230.4m. A deferred tax asset on losses carried forward is recognised to the extent that there are other taxable temporary differences expected to reverse in the foreseeable future. Any excess has not been recognised as there is sufficient uncertainty to the extent it is probable that there will be future taxable profits to utilise the losses. Unrecognised losses are available to carry forward without expiry subject to the continuation of the business.

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.

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

## 21 CONTRACT LIABILITIES

| | 2019 £m | 2018 £m |
|---|---|---|
| Opening balance | 0.5 | 0.7 |
| Capitalisation of contract liabilities | 2.2 | 2.4 |
| Amortisation of contract liabilities | (2.2) | (2.6) |
| Change in contract liabilities | - | (0.2) |
| Closing balance | 0.5 | 0.5 |
| The entity expects to recognise the above balances as revenue in following years: | | |
| Within one year | 0.5 | 0.5 |
| One to five years | - | - |
| More than 5 years | - | - |
| | 0.5 | 0.5 |

## 22 OTHER PROVISIONS

| | Provisions for rectifications £m |
|---|---|
| **Balance at 1 January 2018** | 2.0 |
| **Balance at 31 December 2018** | 2.0 |
| Additions in the year | 0.2 |
| Change in estimate | (0.3) |
| **Balance at 31 December 2019** | 1.9 |

The provisions for rectifications relate to the estimated cost of correcting deficiencies in policy administration systems including restatements and clawbacks. These represent best estimates based upon management's view of expected outcomes based upon previous experience. Estimates are reviewed annually and adjusted as appropriate for new circumstances.

The majority of the provisions are expected to be utilised in the next 12 months.

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

## 23 OTHER PAYABLES

| | 2019 £m | 2018 £m |
|---|---|---|
| **Arising out of direct insurance operations** | | |
| Investment settlements outstanding | 93.5 | 102.1 |
| Claims outstanding | 125.4 | 34.2 |
| Due to policyholders | 28.7 | 75.4 |
| | 247.6 | 211.7 |
| **Other** | | |
| Due to fellow group undertakings (see note 25) | 28.5 | 34.8 |
| Other taxes and social security costs | 0.1 | - |
| Other | 3.9 | 3.7 |
| | 32.5 | 38.5 |
| | 280.1 | 250.2 |

All amounts are current and short term. Amounts due to group companies are unsecured and are settled monthly.

£3.9m of the total £280.1m is recognised as a non-financial liability. The remaining balance is recognised at amortised cost.

## 24 FINANCIAL AND CAPITAL COMMITMENTS

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

## 25 RELATED PARTY TRANSACTIONS

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

| | 2019 £m | 2018 £m |
|---|---|---|
| Rebates received - passed back to policyholders | 0.3 | 0.3 |
| Rebates received - taken to income | 2.0 | 2.4 |
| Total rebates received from fellow group undertakings | 2.3 | 2.7 |

The Company receives rebates of annual fund management charges from a fellow group undertaking where it acts as introducer.

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.

| | 2019 £m | 2018 £m |
|---|---|---|
| Management fees paid to fellow group undertakings (see note 7) | 85.1 | 82.0 |

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 at cost.

| | 2019 £m | 2018 £m |
|---|---|---|
| **Amounts due from group undertakings (see note 16)** | | |
| Other receivables | 16.0 | 3.4 |
| **Amounts due to group undertakings (see note 23)** | | |
| Other payables | 28.5 | 34.8 |

Amounts due at amortised cost from or to group undertakings and fellow subsidiaries at the reporting date are included in notes 16 and 23 respectively. Balances are settled in cash on a quarterly or monthly basis.

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

## 26 EVENTS AFTER THE REPORTING DATE

On 3 March 2020, the Directors approved a dividend of £20m payable to the company's immediate parent, Old Mutual Wealth UK Holding Limited. The dividend has no impact on the 2019 financial statements.

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

## 27 CONTINGENT LIABILITIES

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

## 28 ULTIMATE PARENT COMPANY

The Company's immediate parent is Old Mutual Wealth UK Holding 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