

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS**

31 December 2020

QUILTER CHEVIOT HOLDINGS LIMITED

Registered in England and Wales No. 08257448

QUILTER CHEVIOT HOLDINGS LIMITED

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QUILTER CHEVIOT HOLDINGS LIMITED

COMPANY INFORMATION

Directors	P P Barnacle A I McGlone
Secretary	Quilter CoSec Services Limited
Independent auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT
Registered office	Senator House 85 Queen Victoria Street London EC4V 4AB Telephone: +44 (0)20 7150 4000 Website: www.quiltercheviot.com Registered number: 08257448

QUILTER CHEVIOT HOLDINGS LIMITED

STRATEGIC REPORT

The Directors present their strategic report for Quilter Cheviot Holdings Limited (the "Company"), for the year ended 31 December 2020.

REVIEW OF THE BUSINESS AND PRINCIPAL ACTIVITY

The principal activity of the Company is to act as an intermediate holding company.

The Company is part of the Quilter plc Group (the "**Group**" or "**Quilter**"). Quilter plc's ordinary shares are listed on the London and Johannesburg Stock Exchanges. Quilter plc provides the Company with strategic and governance oversight. The Company forms part of the Advice and Wealth Management segment.

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. The unbundled, open nature of Quilter's model, offering flexibility to use one, two or all three components, is a key competitive advantage, provides customers and their advisers with choice at every stage and imposes external market discipline on the Group's propositions. 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, investment solutions should be simply packaged, that award-winning service and measurable outcomes for our customers should always offer good value, and that a company's purpose goes beyond making a profit and should focus also on being a responsible business as well as a responsible investor. The Directors believe that the Group's competitive advantage lies in its strong positions in attractive markets and its ability to offer high quality solutions across each element of the value chain at a competitive, transparent and unbundled price. Quilter's strategic objectives include delivering on customer outcomes, Advice and Wealth Management growth, Wealth Platforms growth, and optimisation.

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, as experienced in 2020 with the adverse impact of COVID-19 on equity market levels, but the Group operates in a large and fragmented market that has good long-term growth potential.

There have not been any significant changes in the Company's principal activity in the year under review and no significant change in the Company's principal activity is expected.

The profit for the year, after tax, was £56,991,000 (2019: £36,000,000).

Financial position

Net assets of £210,026,000 at 31 December 2020 were 6% higher than at 31 December 2019. This is due to the issue of £12,000,000 share capital to Old Mutual Wealth Holdings Limited, the Company's immediate parent holding company.

QUILTER CHEVIOT HOLDINGS LIMITED

STRATEGIC REPORT (continued)

PRINCIPAL RISKS

The management of the business and the execution of the Company's strategy is subject to a number of risks. The key risks affecting the business are retention of key staff, transition change, liquidity risk and credit risk.

The Company has adopted the Enterprise Risk Management framework of the Group. This provides the framework for the monitoring, management and governance of risk, as detailed in note 14.

Market risk

Market risk is the risk to a company's financial condition resulting from adverse movements in market variables. This includes traded risks covering general (systematic) market risk and specific risk. By asset type definition, market risks include interest rates, credit spreads, equities, foreign-exchange and commodity risks.

Credit risk

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its obligations.

The Company manages credit risk exposure by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit and escalating risk concentrations to appropriate senior management.

Liquidity risk

Liquidity is the amount of cash and cash equivalents available at any given time to meet future funding requirements. Liquidity risk is the risk that the Company is unable to meet its funding obligations in a timely manner. Failure to adequately manage liquidity risk can be costly and could also lead to insolvency.

Risks associated with Brexit

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 European Union ("EU") after Brexit, 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.

QUILTER CHEVIOT HOLDINGS LIMITED

STRATEGIC REPORT (continued)

SECTION 172 (1) STATEMENT

The Company is a wholly-owned subsidiary of Quilter plc and therefore complies with the policies and practices that are set by the Quilter plc Board and are described in the Quilter plc Annual Report. The following statement should therefore be read in conjunction with the Quilter plc 2020 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. Quilter Corporate Secretariat engage with management 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 stakeholders of the Company 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.

In overseeing the Company's business during the year, the Board has paid due regard to its duty to promote the success of the Company for the benefit of Quilter plc, its ultimate parent company, in the long-term, by supporting the delivery of the Group's strategic priorities.

The Directors of Quilter Cheviot Limited, the Company's wholly-owned subsidiary, are responsible for the oversight and management of the Quilter Cheviot business and details of how they have discharged their duties under section 172 (1) of the Companies Act 2006 are set out in the Quilter Cheviot Limited Annual Report 2020.

Approved by the Board and signed on its behalf by



A I McGlone
Director
9 March 2021

QUILTER CHEVIOT HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the Company for the year ended 31 December 2020.

The review of the business, including future outlook and principal risks and uncertainties are set out in the strategic report.

FUTURE DEVELOPMENTS

The Directors expect there to be no change in the activity of the Company.

DIRECTORS

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

P P Barnacle
A I McGlone

The Company Secretary during the year was Quilter CoSec Services Limited.

DIRECTORS' THIRD PARTY INDEMNITY PROVISIONS

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 2020 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.

POLITICAL DONATIONS

No political donations were made during the year (2019: £nil).

DIVIDENDS

During the year dividends of £57,000,000 were paid to the holders of the ordinary shares (2019: £36,000,000). The Directors do not propose a final dividend.

STATEMENT OF GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 14 and 15 to the financial statements describe the Company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Company has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

QUILTER CHEVIOT HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

BUSINESS RELATIONSHIPS STATEMENT

The Company forms part of the Quilter Group, with Quilter plc providing strategic and governance oversight to each of its subsidiaries. During the course of their decision-making the Board of the Company, together with the Board of Quilter plc, have considered their duties to stakeholders, including the need to foster business relationships.

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 Quilter's 2020 Annual Report, which does not form part of this report.

EMPLOYEES

The Company is committed to the development of policies to promote an inclusive culture and equal opportunities in employment for all its employees and ensuring that everyone has the opportunity to fulfil their full potential regardless of diversity characteristics. It continues to support employees under the Equality Act 2010 by making reasonable adjustments to their work environment and the nature of their work.

As part of the Quilter Group governance framework, the Company relies upon Group practices and processes in order to support employees. Monitoring and oversight is described in full in Quilter's 2020 Annual Report. In 2020, the Quilter Group took additional measures to monitor colleagues' wellbeing and support them from the impact of the global pandemic. Measures included mobilising remote working capabilities and reconfiguring our offices in line with UK Government guidelines to enable modest numbers of staff, where appropriate, to operate in a socially-distanced manner.

An explanation of how the Quilter plc Board has carried out these responsibilities has been set out in Quilter's 2020 Annual Report, which does not form part of this report.

CLIMATE CHANGE

Another key development during the year was the formalisation of Quilter's climate change strategy which sets out an approach to measure, manage and reduce the Quilter Group's contribution to climate change both as a business and an investor. Quilter has committed to becoming 'net-zero' in its operations, achieved through continued transition to renewable energy sources, reduced travel and the highest standard carbon-offsets where required. Quilter recognises the Financial Stability Board's Taskforce for Climate-related Financial Disclosures ("**TCFD**") as the leading framework for climate-related disclosures and is in the process of aligning fully with the TCFD by the end of 2021.

STREAMLINED ENERGY AND CARBON REPORTING

The Group is committed to managing its environmental impact and supports the CDP (Carbon Disclosure Project), a globally recognised initiative for companies to measure, manage, disclose and reduce their environmental impacts. A full explanation of how the Directors have had regard to the impact on the environment is contained within the Quilter plc Annual Report 2020, as per the requirements of Streamlined Energy and Carbon Reporting. The Company is exempt from reporting company specific information as it is a subsidiary of the Group.

FINANCIAL INSTRUMENTS

The financial risk management objectives and policies of the Company are disclosed in note 14.

QUILTER CHEVIOT HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP has been appointed by the Company to hold office in accordance with section 485 of the Companies Act 2006.

Statement as to disclosure of information to the auditors

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that they ought to have taken as a Director in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the Board and signed on its behalf by



A I McGlone
Director
9 March 2021

QUILTER CHEVIOT HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 the financial statements, the Directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- (c) make judgements and accounting estimates that are reasonable and prudent; and
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUILTER CHEVIOT HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Quilter Cheviot Holdings Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "**Annual Report**"), which comprise: the statement of financial position as at 31 December 2020; the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("**ISAs (UK)**") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUILTER CHEVIOT HOLDINGS LIMITED (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also 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.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUILTER CHEVIOT HOLDINGS LIMITED (continued)

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to increase revenue of the Company. Audit procedures performed included:

- Discussions with the Board of Directors and with management (Finance, Internal Audit, Legal, Risk and Compliance), including consideration of their process for identifying and responding to the risk of fraud, and any known or suspected instances of fraud or non compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board of Directors and the Audit Committee;
- Identifying and testing journal entries, including any journal entries created and approved by the same person, posted with unexpected account combinations against revenue, large revenue amounts, posted by unexpected persons and containing unusual account descriptions, where any such journal entries were identified;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUILTER CHEVIOT HOLDINGS LIMITED (continued)

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Shujaat Khan (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

9 March 2021

QUILTER CHEVIOT HOLDINGS LIMITED

STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Other expense	4	(9)	-
Dividend income	8	57,000	36,000
PROFIT BEFORE INCOME TAX		<u>56,991</u>	<u>36,000</u>
Income tax expense	6	-	-
PROFIT FOR THE YEAR		<u>56,991</u>	<u>36,000</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>56,991</u>	<u>36,000</u>

All operations were continuing in the current and prior year.

The notes on pages 17 to 35 form an integral part of the financial statements.

QUILTER CHEVIOT HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

2020	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020		44,513	146,258	7,355	198,126
Profit for the year		-	-	56,991	56,991
Total comprehensive income		-	-	56,991	56,991
Transactions with owners:					
- Dividends to equity holders of the Company	11	-	-	(57,000)	(57,000)
- Issue of share capital	10	12,000	-	-	12,000
- Transfers to other group entities	7	-	-	(91)	(91)
Balance at 31 December 2020	10	<u>56,513</u>	<u>146,258</u>	<u>7,255</u>	<u>210,026</u>
2019					
Balance at 1 January 2019		44,513	146,258	7,355	198,126
Profit for the year		-	-	36,000	36,000
Total comprehensive income		-	-	36,000	36,000
Transactions with owners:					
- Dividends to equity holders of the Company	11	-	-	(36,000)	(36,000)
Balance at 31 December 2019	10	<u>44,513</u>	<u>146,258</u>	<u>7,355</u>	<u>198,126</u>

The notes on pages 17 to 35 form an integral part of the financial statements.

QUILTER CHEVIOT HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION As at 31 December 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Investments in subsidiaries	8	210,026	198,026
Cash and cash equivalents	12	-	100
TOTAL ASSETS		<u>210,026</u>	<u>198,126</u>
EQUITY			
Share capital	10	56,513	44,513
Share premium	10	146,258	146,258
Retained earnings		<u>7,255</u>	<u>7,355</u>
TOTAL EQUITY		<u>210,026</u>	<u>198,126</u>
TOTAL LIABILITIES AND EQUITY		<u>210,026</u>	<u>198,126</u>

The financial statements on pages 13 to 16 were approved by the Board of Directors on 9 March 2021 and signed on its behalf by



P P Barnacle
Director

Company Registered Number: 08257448

The notes on pages 17 to 35 form an integral part of the financial statements.

QUILTER CHEVIOT HOLDINGS LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Profit before tax		56,991	36,000
<i>Adjustments for:</i>			
Net gains from investment in subsidiary	8	<u>(57,000)</u>	<u>(36,000)</u>
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(9)	-
INVESTING ACTIVITIES			
Transfer of cash to other group entities	7	(91)	-
Purchase of share capital of subsidiary	8	(12,000)	-
Dividends received	8	<u>57,000</u>	<u>36,000</u>
NET CASH FLOWS GENERATED FROM INVESTING ACTIVITIES		44,909	36,000
FINANCING ACTIVITIES			
Issue of ordinary share capital	10	12,000	-
Dividends paid to equity holders of the Company	11	<u>(57,000)</u>	<u>(36,000)</u>
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(45,000)	(36,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(100)</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		100	100
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	<u><u>-</u></u>	<u><u>100</u></u>

The notes on pages 17 to 35 form an integral part of the financial statements.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. GENERAL INFORMATION

Quilter Cheviot Holdings Limited is a private limited company, and is incorporated, domiciled and registered in England and Wales. The address of its registered office is disclosed in the company information section on page 1. The principal activity of the Company is disclosed in the strategic report.

2. BASIS OF PREPARATION

The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The results of the Company and its subsidiaries are included within the consolidated financial statements of Quilter plc, a company registered in England and Wales.

Statement of compliance

The Company has prepared its annual financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The primary financial statements in this document are presented in accordance with IAS 1 '*Presentation of financial statements*'.

Standards, amendments to standards, and interpretations adopted in these financial statements

The following amendments to the accounting standards, issued by the International Accounting Standards Board ("**IASB**") have been adopted by the Company from 1 January 2020, with no material impact on the Company's results, financial position or disclosures:

- Amendments to References to the Conceptual Framework in International Financial Reporting Standards ("**IFRSs**")
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform

Future standards, amendments to standards, and interpretations not early-adopted in these financial statements

At the date of authorisation of these financial statements, there were no standards and interpretations relevant to the Company's operations that were issued by the IASB that are mandatory for the Company's annual accounting periods beginning after 1 January 2021.

Basis of measurement

The financial statements of the Company are prepared under the historical cost convention.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

2. BASIS OF PREPARATION (continued)

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Review of the business and Principal risks sections of the strategic report on pages 2 to 4. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Directors believe that the Company has sufficient capital and sufficient liquidity to meet its liabilities as they fall due and have therefore continued to adopt the going concern basis for preparation of the financial statements. There are no future plans to change the way the business is run.

Critical accounting estimates and judgements

The preparation of financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The Company believes that the estimates utilised in preparing the financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates. The Company does not have any critical accounting judgements, which would have a material impact on the financial statements when applying its significant accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in pounds sterling, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements and strategic report are rounded to the nearest thousand pounds sterling.

b. Financial instruments

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

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

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition.

Subsequent measurement

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

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

Amortised cost

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

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial investments

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

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

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 all 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. Financial liabilities are measured at amortised cost using the effective interest method.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Investments in subsidiaries

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

Impairment of financial assets

The impairment model applies to financial assets measured at amortised cost, but not to investments in equity instruments. Financial assets at amortised cost include trade receivables, cash and cash equivalents and corporate debt securities.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Performing financial assets:

Stage 1

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

Stage 2

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

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

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.

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

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

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit-impaired financial assets

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

Presentation of impairment

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

c. Fair value of financial instruments

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

d. Fair value hierarchy

Fair values are determined according to the following hierarchy.

Description of hierarchy	Types of instruments classified in the respective levels
Level 1 - quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.	Listed equity securities, government securities and other listed debt securities and similar instruments, actively traded pooled investments, certain quoted derivative assets and liabilities, listed borrowed funds, reinsurance share of policyholder liabilities and investment contract liabilities directly linked to other Level 1 financial assets.
Level 2 - valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets and financial assets and liabilities valued using models where all significant inputs are observable.	Unlisted equity and debt securities where the valuation is based on models involving no significant unobservable data, with a majority determined with reference to observable prices. Certain loans and advances, certain privately placed debt instruments, third-party interests in consolidated funds and amounts owed to bank depositors.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of hierarchy	Types of instruments classified in the respective levels
Level 3 - valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.	Unlisted equity and debt securities with significant unobservable inputs, securities where the market is not considered sufficiently active, including certain inactive pooled investments, and derivatives embedded in certain portfolios of insurance contracts where the derivative is not closely related to the host contract and the valuation contains significant unobservable inputs.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value for determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

The majority of valuation techniques employ only observable data and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs.

In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an "arm's-length" transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable data may be attributable to observable inputs. Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

e. 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.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. OTHER EXPENSE

During the year, the Company incurred £9,000 of administrative expenses in relation to the Quilter Cheviot Employee Benefit Trust (2019: £nil).

Audit fees of £10,474 (2019: £9,500) have been borne by a subsidiary company, Quilter Cheviot Limited. No fees were paid to PricewaterhouseCoopers LLP or their affiliates for non-audit services in both the current or prior year.

The Company employed no staff during the year (2019: None).

5. DIRECTORS' REMUNERATION

The Directors did not receive any remuneration for their services to the Company during the year (2019: £nil). The below is the remuneration the Directors have received for the services they provide to the subsidiary undertakings.

	2020 £'000	2019 £'000
Total emoluments of all directors:		
Aggregate emoluments	583	980
Share-based payments	427	497
Contributions to pension scheme	16	11
	<u>1,026</u>	<u>1,488</u>
Disclosures in respect of the highest paid director:		
Aggregate emoluments	360	529
Share-based payments	351	282
Contributions to pension scheme	6	10
	<u>717</u>	<u>821</u>

Directors' emoluments have been calculated as the sum of cash, bonuses, and benefits in kind.

The value of assets awarded under long-term incentive schemes has been included in the above disclosures when the awards are granted.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

5. DIRECTORS' REMUNERATION (continued)

Two Directors, including the highest paid Director, received or were due to receive shares or share options under long-term incentive schemes (2019: four). Two Directors, including the highest paid director exercised options during the year (2019: one).

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.

As at 31 December 2020, there were two Directors to whom retirement benefits were accruing under a money purchase scheme (2019: two).

6. INCOME TAX EXPENSE

	2020 £'000	2019 £'000
Current tax expense		
Current year	-	-
Income tax expense	<u>-</u>	<u>-</u>

Reconciliation of effective tax rate

The current year income tax expense is lower than that resulting from applying the average standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The main differences are explained below:

	2020 £'000	2019 £'000
Profit before income tax	56,991	36,000
Income tax using the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	10,828	6,840
Impact on tax of:		
Dividends received non taxable	(10,828)	(6,840)
Current tax expense in the statement of comprehensive income	<u>-</u>	<u>-</u>

The main rate of corporation tax is 19%. The reduction to 17% due to come into effect from 1 April 2020 was cancelled.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

7. QUILTER CHEVIOT EMPLOYEE BENEFIT TRUST

The Company was the principal company of the Quilter Cheviot Employee Benefit Trust ("EBT"). At the end of 2019, the Quilter Cheviot EBT held only a cash balance to cover professional fees and charges. On 27 May 2020, the remaining cash held in the Quilter Cheviot EBT was transferred to the Quilter EBT, another employee benefit trust within the Group.

	2020 £'000	2019 £'000
At January	100	100
Professional fees and charges	(9)	-
Transfer to Quilter EBT	(91)	-
At 31 December	<u>-</u>	<u>100</u>

8. INVESTMENTS IN SUBSIDIARIES

The movement in the Company's investments in its subsidiaries is as follows:

	2020 £'000	2019 £'000
Cost and net book value		
At 1 January	198,026	198,026
Additions	12,000	-
At 31 December	<u>210,026</u>	<u>198,026</u>

No impairment provisions were made against investments during the year, and therefore, cost of investments is equal to net book value.

During the year, the Company recognised an increase in investment in its subsidiary, QCL, of £12,000,000.

Dividend income of £57,000,000 from Quilter Cheviot Limited, (2019: £36,000,000) was recognised during the year.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

8. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the investments in subsidiaries of the Company at 31 December 2020 are as follows:

Name of Company	Registered office	Country of incorporation	Type of shares held	Proportion of shares held	Proportion of voting rights held	Nature of business
Cheviot Capital (Nominees) Limited	Senator House 85 Queen Victoria Street London EC4V 4AB	United Kingdom	Ordinary	100% *	100% *	Nominee
C.I.P.M. Nominees Limited	3rd Floor Windward House La Route de la Liberation St Helier JE1 1QJ	Jersey	Ordinary	100% *	100% *	Nominee
Pembroke Quilter (Ireland) Nominees Limited	Hambleden House 19-26 Lower Pembroke Street Dublin 2 D02 WV96	Ireland	Ordinary	100% *	100% *	Nominee
QGCI Nominees Limited	3rd Floor Windward House La Route de la Liberation St Helier JE1 1QJ	Jersey	Ordinary	100% *	100% *	Nominee
Quilter Cheviot Limited	Senator House 85 Queen Victoria Street London EC4V 4AB	United Kingdom	Ordinary	100%	100%	Financial services
Quilter Cheviot Europe Limited	Hambleden House 19-26 Lower Pembroke Street Dublin 2 D02 WV96	Ireland	Ordinary	100% *	100% *	Financial services

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

8. INVESTMENTS IN SUBSIDIARIES (continued)

Name of Company	Registered office	Country of incorporation	Type of shares held	Proportion of shares held	Proportion of voting rights held	Nature of business
Quilter Cheviot International Limited	3rd Floor Windward House La Route de la Liberation St Helier JE1 1QJ	Jersey	Ordinary	100% *	100% *	Dormant
Quilter Nominees Limited	Senator House 85 Queen Victoria Street London EC4V 4AB	United Kingdom	Ordinary	100% *	100% *	Nominee
Quilpep Nominees Limited	Senator House 85 Queen Victoria Street London EC4V 4AB	United Kingdom	Ordinary	100% *	100% *	Nominee
Violet No.2 Limited	Senator House 85 Queen Victoria Street London EC4V 4AB	United Kingdom	Ordinary	100% *	100% *	Dormant

An * denotes shareholdings attributed to the Company which are held by a subsidiary company, Quilter Cheviot Limited, and not held directly by the Company.

9. CONTINGENT LIABILITIES

There are no material contingent liabilities as at 31 December 2020 (2019: £nil).

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

10. EQUITY

Share capital

	2020 £'000	2019 £'000
Allotted, called up and fully paid		
5,651,268,080 (2019: 4,451,268,080) ordinary shares of £0.01 each	<u>56,513</u>	<u>44,513</u>

1,200,000,000 (2019: Nil) ordinary shares were issued during the year for cash consideration.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Reserves

Share premium reserve

The share premium recorded at 31 December 2020 of £146,258,327 (2019: £146,258,327) represents the excess value over share capital acquired of the 151,268,080 ordinary shares of £149,755,300, reduced by the costs associated with the issuance of equity of £3,496,973. No share premium was issued during 2020.

11. DIVIDENDS

The following amounts represent the interim dividends paid in the current and prior year:

	2020 Per share £	2020 Total £'000	2019 Per share £	2019 Total £'000
Dividends on ordinary shares - interim	<u>0.0101</u>	<u>57,000</u>	<u>0.0081</u>	<u>36,000</u>

12. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

	2020 £'000	2019 £'000
Cash at bank	<u>-</u>	<u>100</u>

13. EXPECTED MATURITY OF ASSETS

The Company's financial assets expected maturity dates are disclosed in note 14.

None of the Company's non-financial assets are expected to be recovered more than twelve months after the reporting period (2019: none).

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

14. FINANCIAL RISK MANAGEMENT

Risk Management framework

The Enterprise Risk Management ("**ERM**") framework is defined by Quilter plc has been adopted by the Company. The ERM framework comprises core components such as:

- the corporate governance arrangements which set out the way that the organisation is structured and managed;
- the end-to-end processes involved in the identification, measurement, assessment, management and monitoring of risk, including assignment of risk owners and risk reporting;
- the culture and behaviour that is exhibited and the associated reward mechanisms.

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

Risk is an inherent part of the Company's business activities. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. A key component of our approach to capital management is to ensure that the Company's policies are aligned with the Group's overall strategy, business plans and risk appetite. The Group's Capital Management Forum ("**CMF**") reviews the capital position of each of the regulated businesses on a monthly basis.

The key focus of financial risk management for the Company is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its operations. The material components of financial risk are credit risk, market risk (arising from changes in equity, bond prices, interest and foreign exchange rates) and liquidity risk.

Credit risk

Overall exposure to credit risk

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

The Group has established a credit risk framework that includes a Credit Risk Policy, Credit Risk Standard and Credit Risk Appetite Statement. 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 the Group's 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 Group 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 loss given default;
- The potential recovery which may be made in the event of default;
- The extent of any collateral that the firm has in respect of the exposures; and
- Any second order risks that may arise where the firm has collateral against the credit risk exposure.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

14. FINANCIAL RISK MANAGEMENT (continued)

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 2020, the Company's material credit exposures were to financial institutions (primarily through the investment of shareholder funds) and corporate entities (including external fund managers and reinsurers).

There is no direct exposure to European sovereign debt (outside of the UK) within the shareholder investments.

Investment of shareholder funds

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

- Setting minimum credit rating requirements for counterparties;
- Setting limits and early warning indicators for individual counterparties and counterparty concentrations;
- Monitoring exposures regularly against approved limits; and
- Reviewing counterparties and associated limits on at least an annual basis.

Impact of credit risk on fair value

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

Collateral and other credit enhancements

The amount and type of collateral required by the Company depends on an assessment of the credit risk of the counterparty. Collateral held is managed in accordance with the Company's guidelines and the relevant underlying agreements. The market value of securities received as collateral is monitored on a daily basis and securities received as collateral generally are not recognised on the statement of financial position.

Maximum exposure to credit risk

The table below represents the Company's maximum exposure to credit risk. The Company's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the financial statements. Exposure arising from financial instruments not recognised on the statement of financial position is measured as the maximum amount that the Company would have to pay, which may be significantly greater than the amount that would be recognised as a liability.

The Company does not have any significant exposure arising from items not recognised on the statement of financial position.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

14. FINANCIAL RISK MANAGEMENT (continued)

Credit rating relating to financial assets that are neither past due nor impaired

At 31 December 2020	A	Carrying value
	£'000	£'000
<i>Assets subject to lifetime ECL</i>		
Cash and cash equivalents	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
At 31 December 2019	A	Carrying value
	£'000	£'000
<i>Assets subject to lifetime ECL</i>		
Cash and cash equivalents	100	100
	<hr/>	<hr/>
	100	100
	<hr/>	<hr/>

Impairment allowance

Assets that are measured and classified at amortised cost are monitored for any expected credit loss ("ECL") on either a 12 month or lifetime ECL model. The majority of such assets within the Company are measured on the lifetime ECL model, with the exception of cash and cash equivalents that are on the 12 month ECL model. There has been no impairment allowance assessed in the current or prior year.

Market risk

Market risk is the risk of a financial impact to earnings or value arising from the changes in values of financial assets or financial liabilities from changes in equity, bond and property prices, interest rates and foreign exchange rates, each of which is detailed in the notes below.

The Company has a market risk policy which set out the risk management framework, permitted and prohibited market risk exposures, maximum limits on market risk exposures, management information and stress testing requirements which are used to monitor and manage market risk. Governance and monitoring processes provide oversight of the management of market risk by the individual businesses.

The Company enters into all of its financial asset transactions with other Group companies, where both the Company and the other Group companies are wholly-owned subsidiaries of the same ultimate parent entity, Quilter plc.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

14. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that there are insufficient assets or that assets cannot be realised in order to settle financial obligations as they fall due or that market conditions preclude the ability of the firm to trade in illiquid assets. The Company manages liquidity through:

- i. Maintaining adequate high quality liquid assets and banking facilities, the level of which is informed through appropriate liquidity stress testing;
- ii. Continuously monitoring forecast and actual cash flows; and;
- iii. Through matching the maturity profiles of financial assets and liabilities, where possible.

The Company maintains and manages the liquidity requirements according to the 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 Group framework is applied 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.

The Group maintains contingency funding arrangements to provide liquidity support to businesses in the event of severe liquidity stresses. Contingency Funding Plans are in place for each individual business in order to identify a comprehensive list of contingent funding sources and the order and speed in which they could be utilised in a stress scenario. 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.

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2020. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from those financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

14. FINANCIAL RISK MANAGEMENT (continued)

		Less than one month	Equal to or more than 1 month but less than 1 year	Equal to or more than 1 year but less than 5 years	Equal to or more than 5 years	Total
	On demand	£'000	£'000	£'000	£'000	£'000
31 December 2020						
Financial assets						
Cash and cash equivalents	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-

		Less than one month	Equal to or more than 1 month but less than 1 year	Equal to or more than 1 year but less than 5 years	Equal to or more than 5 years	Total
	On demand	£'000	£'000	£'000	£'000	£'000
31 December 2019						
Financial assets						
Cash and cash equivalents	100	-	-	-	-	100
Total financial assets	100	-	-	-	-	100

15. CAPITAL MANAGEMENT

The Company manages its capital with a focus on capital efficiency and effective risk management. The capital objectives are to maintain the Company's ability to continue as a going concern while supporting the optimisation of return relative to the risks. The Company ensures that it can meet its expected capital and financing needs at all times having regard to the Company's business plans, forecasts and strategic initiatives and regulatory requirements. The Company's overall capital risk appetite is set with reference to the requirements of the relevant stakeholders and seeks to:

- Maintain sufficient, but not excessive, financial strength to support stakeholder requirements
- Retain financial flexibility by maintaining liquidity unutilised committed credit lines

The primary sources of capital used by the Company are equity shareholders' funds. Alternative resources are utilised where appropriate. Risk appetite has been defined for the level of capital, liquidity and debt within the Group. The risk appetite includes long term targets, early warning thresholds and risk appetite limits. The dividend policy sets out the target dividend level in relation to profits.

The Company manages the following items as capital:

	2020	2019
	£'000	£'000
Ordinary share capital	56,513	44,513
Share premium	146,258	146,258
Reserves	7,255	7,355
	<u>210,026</u>	<u>198,126</u>

QUILTER CHEVIOT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

16. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Old Mutual Wealth Holdings Limited, a company registered in England and Wales.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Quilter plc. Quilter plc is registered in England and Wales and copies of its financial statements can be obtained from the Company Secretary, Senator House, 85 Queen Victoria Street, London, EC4V 4AB.

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel includes the Board of Directors of the Company.

Due to the nature of the Company's activities, key management personnel provide minimal services specific to the Company and as a result no compensation is paid to key management personnel in respect of their services to the Company.

Transactions with related parties

The Company enters into transactions with other Group undertakings on an arm's length basis for the purposes of utilising financing and infrastructure services. On 27 May 2020, the remaining cash held in the Quilter Cheviot EBT bank account was transferred to the Quilter EBT, another employee benefit trust within the Group (note 7).

The nature of these relationships along with information about the transactions and outstanding balances is given below.

	2020	2019
	£'000	£'000
Transactions with subsidiaries:		
Dividend income received	57,000	36,000
Investment in subsidiary	12,000	-
	2020	2019
	£'000	£'000
Transactions with parent company:		
Dividend payment	57,000	36,000
Share capital issued	12,000	-

17. EVENTS AFTER THE REPORTING DATE

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