Registered in England and Wales No. 03087634

Skandia UK Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2019

Contents

COMPANY INFORMATION
for the year ended 31 December 2019

BOARD OF DIRECTORS

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

COMPANY SECRETARY

Quilter CoSec Services Limited

BANKER

National Westminster Bank Plc
135 Bishopsgate
London
EC2M 3UR

REGISTERED OFFICE

Millennium Bridge House
2 Lambeth Hill
London
EC4V 4AJ

REGISTERED NUMBER

England and Wales
No. 03087634

AUDITOR

KPMG LLP
15 Canada Square
London
E14 5GL

STRATEGIC REPORT

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

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES
Skandia UK Limited (the "company") forms part of the Quilter plc group (the "group"). Quilter plc's ordinary shares are listed on the London and Johannesburg Stock Exchanges. Quilter plc provides the company with strategic and governance oversight. The company forms part of the head office function of Quilter plc group.

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

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

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

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

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

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

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

KEY PERFORMANCE INDICATORS (KPIs)
The company's key performance indicator is IFRS profit. The profit for the year, after taxation, amounted to £19,036,000 (2018: profit £31,782,000).

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

Key performance indicators table

	2019 £000	2018 £000
Dividends received	65,280	86,313
Investment in subsidiaries	2,880,936	2,927,024
Return on investment	2.3%	2.9%

The company's KPI in respect of the statement of financial position is net assets, as shown below.

STRATEGIC REPORT

FINANCIAL POSITION AT THE END OF THE YEAR
The company’s net assets have decreased from £589,964,000 to £153,720,000.

On 18 September 2019, the board of Skandia UK Limited approved a dividend payment of £25,280,000 to its immediate parent Quilter plc, which was paid on 30 September 2019.

On 25 September 2019, the board of Skandia UK Limited approved a capital reduction of £584,127,000 reducing its share capital to £1,000 with a corresponding increase in retained earnings. On the same date, the board of Skandia UK Limited also approved a dividend payment of £100,000,000 to its immediate parent, Quilter plc, to be paid by the end of September 2019 and financed by the £100,000,000 partial repayment of a loan receivable from Old Mutual Wealth UK Holding Limited.

On 16 December 2019 the board of Skandia UK Limited approved a dividend payment of £330,000,000 to its immediate parent, Quilter plc, to be paid and financed by the £330,000,000 partial repayment of a loan receivable from Old Mutual Wealth UK Holding Limited. On the same date the board also approved the company repaying £40,000,000 deferred interest to OMF (IOM) Limited.

During the year the company carried out an impairment test on the carrying values of its investments in subsidiaries. The test highlighted a deficit in the fair values of OMF (IOM) Limited, OMFS GGP Limited, Old Mutual Financial Services (UK) Limited and Old Mutual Europe GmbH Limited and therefore impairments of £41,241,000, £3,152,000, £1,304,000 and £391,000 have been recognised in the income statement in respect of these subsidiaries.

The impairments arose as a consequence of the company’s subsidiaries OMF (IOM) Limited, Old Mutual Financial Services (UK) Limited, OMFS GGP Limited and Old Mutual Europe GmbH paying dividends. The paid dividends were greater in value than the respective entities’ profits, which led to a reduction in net asset values below the cost of investment recorded in the financial statements of Skandia UK Limited.

During the year the company received dividends totalling £65,280,000 and paid dividends totalling £455,280,000.

PRINCIPAL RISKS AND UNCERTAINTIES
The principal risks and uncertainties of the company arise from the ability of its group undertakings to distribute dividends to the company, any impairment of the valuation of those group undertakings and the ability of the company to repay its outstanding loan.

SECTION 172 (1) STATEMENT
The company operates within the governance framework, policies and practices set by the board of its ultimate parent company Quilter plc. These are described in the Quilter plc 2019 Annual Report. The following statement should therefore be read in conjunction with the Quilter plc Annual Report.

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

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

By order of the board

M O Satchel
Director
26 May 2020

DIRECTORS' REPORT

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

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

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

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

DIVIDENDS
During the year dividends totalling £455,280,000 were declared and paid (2018: £37,452,000).

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

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

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

BUSINESS RELATIONSHIPS STATEMENT
From the perspective of the board, and as a result of the group governance structure whereby the entity board is embedded within the group, the matters that it is responsible for carrying out in respect of the company's other stakeholders have been considered to an appropriate extent by both the Quilter 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 Quilter group annual report, which does not form part of this report.

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

DISCLOSURE OF INFORMATION TO THE AUDITOR
Each of the persons who is a director at the date of approval of this report confirms that:

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

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

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

By order of the board

M O Satchel
Director

26 May 2020

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKANDIA UK LIMITED

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Going concern

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion: adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

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

We have nothing to report in these respects.

Directors' responsibilities

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SKANDIA UK LIMITED

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

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

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

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

26 May 2020

INCOME STATEMENT
for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Revenue			
Investment return	2	95,036	117,523
Total revenue		95,036	117,523
Expenses			
Finance cost	3	(114,293)	(114,083)
Impairment of investments in subsidiaries	5	(46,088)	(56,011)
Total expenses		(160,381)	(170,094)
Loss before taxation		(65,345)	(52,571)
Income tax	4	84,381	84,353
Profit for the year after taxation		19,036	31,782

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

The notes on pages 13 to 23 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	2019	2018
	£000	£000
Profit for the year	19,036	31,782
Total comprehensive income for the year	19,036	31,782

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

The notes on pages 13 to 23 are an integral part of these financial statements.

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

	Notes	Share capital £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2019		584,128	5,836	589,964
Profit for the financial year		-	19,036	19,036
Share capital reduction	12	(584,127)	584,127	-
Dividends paid	13	-	(455,280)	(455,280)
Balance at 31 December 2019		1	153,719	153,720

	Notes	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018		594,128	1,506	595,634
Profit for the financial year		-	31,782	31,782
Share capital reduction	12	(10,000)	10,000	-
Dividends paid	13	-	(37,452)	(37,452)
Balance at 31 December 2018		584,128	5,836	589,964

The notes on pages 13 to 23 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
at 31 December 2019

	Notes	2019 £000	2018 £000
Assets			
Investments in subsidiaries	5	2,880,936	2,927,024
Loans and advances	6	136,216	566,216
Other receivables	7	6,498	7,953
Current tax assets	8	21,920	22,043
Deferred tax assets	9	1,321	1,476
Total assets		**3,046,891**	**3,524,712**
Equity and liabilities			
Equity			
Share capital	12	1	584,128
Retained earnings		153,719	5,836
Total equity		**153,720**	**589,964**
Liabilities			
Interest bearing liabilities	10	2,824,124	2,872,099
Other payables	11	69,047	62,649
Total liabilities		**2,893,171**	**2,934,748**
Total equity and liabilities		**3,046,891**	**3,524,712**

These financial statements were approved by the board of directors on 26 May 2020.

Signed on behalf of the board of directors:

M O Satchel
Director

Company registered number: 03087634

The notes on pages 13 to 23 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	2019	2018
	£000	£000
Cash flows from operating activities		
Loss before tax:	(65,345)	(52,571)
Adjusted for:		
Impairment of investment in subsidiaries	46,088	56,011
Interest movements in profit before tax	84,536	82,873
Reallocated dividend income to investing activities	(65,280)	(86,313)
Taxation paid	84,659	60,834
Total net cash flows from operating activities	84,658	60,834
Cash flows from investing activities		
Dividends received from associated undertakings	65,280	86,313
Interest received	31,210	23,257
Total net cash from investing activities	96,490	109,570
Cash flows from financing activities		
Dividends paid	(455,280)	(37,452)
Finance costs on external borrowings	(115,868)	(82,952)
Proceeds from repayment of debt	430,000	-
Subordinated and other debt repaid	(40,000)	(50,000)
Total net cash used in financing activities	(181,148)	(170,404)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	-	-
Cash and cash equivalents at end of the year	**-**	**-**

The notes on pages 13 to 23 are an integral part of these financial statements.

1 ACCOUNTING POLICIES

Skandia UK Limited is a limited company incorporated in England and Wales. The address of its registered office is disclosed in the company information section on page 1. The principal activities of the company are disclosed in the strategic report.

Basis of preparation
The financial statements have been prepared and approved by the directors in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements have been prepared on the historical cost basis, have been prepared in sterling and are rounded into thousands. These are separate financial statements as the company has elected under IFRS 10 paragraph 4 not to prepare consolidated financial statements.

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

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

Critical accounting estimates and judgements
The preparation of financial statements requires management to exercise judgement in applying accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Critical accounting estimates and judgements are those that involve the most complex or subjective assessments and assumptions. Management uses its knowledge of current facts and circumstances and applies estimation and assumption setting techniques that are aligned with relevant accounting guidance to make predictions about future actions and events. Actual results may differ significantly from those estimates.

The areas where judgements and estimates have the most significant effect on the amounts recognised in these financial statements are summarised below:

Area	Critical accounting judgements	Note
Uncertain tax position	Due to the complexity of tax law, the tax treatment of specific transactions may be uncertain. In assessing uncertain tax positions, the company considers the likelihood that the tax authority may take a different view to that reached by management. In that regard, the company has exercised judgement in assessing the accounting tax position in relation to transactions undertaken as part of the demerger from Old Mutual plc in 2018.	9

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

Area	Critical accounting estimates	Note
Deferred tax – measurement	The recognition of deferred tax assets is subject to the estimation of future taxable profits, which is based on the Quilter plc group annual business planning process and in particular on estimated levels of assets under management, which are subject to a large number of factors including worldwide stock market movements and related movements in foreign exchange rates, together with estimates of net client cash flow, expenses and other charges. Tax planning is undertaken on a group-wide basis and he business plan, adjusted for known and estimated tax sensitivities, is used to determine the extent to which deferred tax assets are recognised. In general the group assesses recoverability based on estimated taxable profits over a 3 year planning horizon. Sensitivity analysis demonstrates significant headroom in the recoverable amount of the deferred tax asset over the taxable profits contained within the Quilter plc group 3 year planning horizon. The impact of a 20% decrease in group profitability over that period has been assessed and would not result in any impact over recoverability of deferred tax assets.	9

Standards, amendments to standards, and interpretations adopted in the 2019 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:

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

Future standards, amendments to standards, and interpretations not early-adopted in the 2019 annual financial statements
Certain new standards, interpretations and amendments to existing standards have been published by the IASB that are mandatory for the company's annual accounting periods beginning after 1 January 2020. The company has not early adopted these standards, amendments and interpretations. The following standard has been issued by the International Accounting Standards Board, and is not applicable or not expected to be applicable for the company:
- IFRS 17 *Insurance Contracts* (yet to be endorsed by the European Union)

Financial instruments
Financial instruments cover a wide range of financial assets, including financial investments, trade receivables and cash and cash equivalents and financial liabilities including, trade payables and borrowings. Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. The company derecognises a financial asset when the contractual rights to receive cash flows have expired or been forfeited by the company. A financial liability is derecognised when the liability is extinguished.

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

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

Measurement
The classification of financial assets depends on (i) the purpose for which they were acquired, (ii) the business model in which a financial asset is managed, and (iii) its contractual cash flow characteristics. The standard has four categories, of which one is applicable to the company: amortised cost. This classification determines the subsequent measurement basis. The following accounting policy applies 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 designated at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding on specified dates.

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

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

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

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

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

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

Impairment of financial assets
The impairment model applies to financial assets measured at amortised cost. Financial assets at amortised cost include other receivables, cash and cash equivalents.

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

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

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

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

Impaired financial assets:

Stage 3
When a financial asset is considered to be credit-impaired, the allowance for credit losses ("ACL") continues to represent lifetime expected credit losses, however, interest income is calculated based on the amortised cost of the asset, net of the loss allowance, rather than its gross carrying amount.

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

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

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

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

Credit-impaired financial assets

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

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

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

Dividend income
Dividends receivable from group companies are recognised in the period in which the dividends are declared and approved at the general meeting.

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

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

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

Interest expense
Interest expense reflects the underlying cost of borrowing as incurred, based on the effective interest method.

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.

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

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

Deferred tax
Deferred taxes are calculated according to the statement of financial position method, based on temporary differences between reported and tax values of assets and liabilities. 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 liabilities are not discounted.

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

Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

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

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

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

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

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

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

The company is exposed to credit and counterparty risk primarily arising from the investment of its shareholder funds.

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

Quilter plc has established a 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 is subject to market risk in the following area:

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

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

The company is exposed to limited interest rate risk except in respect of loans to and from group undertakings.

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

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

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

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

An increase in interest rate of 1% would have decreased profit and shareholders equity by £21,772,000 (2018: decrease £18,802,000) after tax; an equal change in the opposite direction would have increased profit by £21,772,000 (2018: increase £18,667,000) after tax. The reduction in profit would however be limited to the amount of interest received.

2 INVESTMENT RETURN

	Note	2019 £000	2018 £000
OMF (IOM) Limited	14	56,426	61,601
Old Mutual Financial Services (UK) Limited	14	851	1,340
Old Mutual Financial Services GGP Limited	14	8,003	12,609
Old Mutual Europe GmbH	14	-	10,763
Dividends received from subsidiaries		65,280	86,313
Old Mutual Wealth UK Holding Limited	14	29,756	31,210
Interest received from fellow group undertakings		29,756	31,210
Total investment return		95,036	117,523

3 FINANCE EXPENSES

	Note	2019 £000	2018 £000
OMF (IOM) Limited	14	103,311	103,354
Old Mutual Financial Services GGP Limited	14	10,982	10,729
Interest paid to subsidiaries		114,293	114,083

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

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

4 TAXATION

	2019 £000	2018 £000
Income tax expense		
Current tax expense		
Current year corporation tax credit	(84,536)	(82,877)
Deferred tax expense		
Deferred tax charge	155	(1,476)
Tax charge on loss on ordinary activities	(84,381)	(84,353)
Factors affecting tax charge for the period		
Loss before taxation	(65,345)	(52,571)
Tax at standard rate of 19% (2018: 19%)	(12,415)	(9,988)
Effects of:		
Non-taxable income	(12,403)	(16,400)
Impairments	8,757	10,642
Group relief at rate differing from corporate tax rate	(68,475)	(67,130)
Recognition of previously unrecognised deferred tax assets	-	(1,476)
Other	155	-
Total taxation for the year	(84,381)	(84,353)

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

5 INVESTMENT IN SUBSIDIARIES

	2019 £000	2018 £000
Carrying value at 1 January		
At the beginning of the year	2,927,024	2,983,035
Impairment	(46,088)	(56,011)
Carrying value at 31 December	2,880,936	2,927,024

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

The 2018 impairment test highlighted a deficit in the fair values of OMF (IOM) Limited and Old Mutual Europe GmbH Limited and therefore impairments of £44,992,000 and £11,019,000 were recognised in the income statement respectively.

The 2019 impairment test highlighted a deficit in the fair values of OMF (IOM) Limited, OMFS GGP Limited, Old Mutual Financial Services (UK) Limited and Old Mutual Europe GmbH Limited and therefore impairments of £41,241,000, £3,152,000, £1,304,000 and £391,000 have been recognised in the income statement respectively.

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

At 31 December 2019, the company held direct interests in the following entities, which are wholly owned:

Name	Nature of business	Country of residence	Registered Office address
Old Mutual Financial Services (UK) Limited	Holding company	England & Wales	Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ
OMFS (GGP) Limited	Holding company	England & Wales	Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ
OMLA Holdings Limited	Holding company	England & Wales	Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ
OMF (IOM) Limited	Financing company	Isle of Man	King Edward Bay House, King Edward Road, Onchan, Isle of Man, IM99 INU
Old Mutual Europe GmbH	Holding company	Germany	Thurn-und-Taxis-Platz 6, 60313, Frankfurt am Main, Germany
Skandia Retail Europe Holding GmbH	Holding company	Germany	Thurn-und-Taxis-Platz 6, 60313, Frankfurt am Main, Germany

6 LOANS AND ADVANCES

	Note	2019 £000	2018 £000
Old Mutual Wealth UK Holding Limited	14	136,216	566,216

The company has a loan with Old Mutual Wealth UK Holding Limited, which repaid £430,000,000 during 2019 to reduce the outstanding loan to £136,216,000. Interest is charged on the basis of 5.512% per annum on the loan which is held at amortised cost. The carrying amount approximates to fair value which is valued as the principal amount repayable.

7 OTHER RECEIVABLES

	Note	2019 £000	2018 £000
Old Mutual Wealth UK Holding Limited	14	6,498	7,953

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

8 TAX ASSETS

	2019 £000	2018 £000
Current tax assets	21,920	22,043

All amounts are current.

9 DEFERRED TAX

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

	Tax losses carried forward £000	Other carried forward £000	Total £000
Movement in the year	1,476	-	1,476
Assets at 31 December 2018	1,476	-	1,476
Movement in the year	(155)	-	(155)
Assets at 31 December 2019	1,321	-	1,321

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

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

The value of deferred tax assets not recognised as at 31 December 2019 was nil (2018: £49,794,000). The movement is due to the adoption of IFRIC 23, in respect of uncertain tax positions, from 1 January 2019.

10 INTEREST BEARING LIABILITIES

	Note	2019 £000	2018 £000
OMFS (GGP) Limited [1]	14	742,445	741,999
OMF (IOM) Limited [2]	14	2,081,679	2,130,100
		2,824,124	2,872,099

[1] The company has a term loan of £673,129,000 with OMFS (GGP) Limited that expires on 30 September 2020. Interest is charged at 1.51%.

[1] The company has a £300,000,000 revolving credit facility with OMFS (GGP) Limited. The facility is recallable on demand (31 December 2019: £69,317,000 drawn, 31 December 2018: £68,871,000 drawn). Interest is charged on the facility at LIBOR.

[2] The company has a loan note with OMF (IOM) Limited for £1,844,000,000 and deferred interest on this balance. Interest is LIBOR plus 4.05030% margin and the loan has a maturity date of 29 June 2027.

11 OTHER PAYABLES

	Note	2019 £000	2018 £000
OMLA Holdings Limited	14	46,637	46,637
OMFS (GGP) Limited	14	30	425
OMF (IOM) Limited	14	22,380	15,587
		69,047	62,649

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

12 SHARE CAPITAL

	2019 £000	2018 £000
Issued		
Nil ordinary shares of 0.05p each (2018: 20 shares of £0.05 each)	-	-
1,000 ordinary shares of £1 each (2018: 584,128,332 ordinary shares of £1 each)	1	584,128
	1	584,128

On 26 January 2018 a reduction of 10,000,000 ordinary shares of £1 each was approved by the board.

On 28 September 2019 a reduction of 584,127,332 ordinary shares of £1 each and 20 shares of £0.05 was approved by the board.

13 DIVIDENDS

	2019 £000	2018 £000
Dividends paid		
2018 dividends paid to Old Mutual plc (1.35p per share)	-	7,866
2018 dividends paid to Quilter plc (1.84p per share)	-	10,763
2018 dividends paid to Quilter plc (3.22p per share)	-	18,823
2019 dividends paid to Quilter plc (4.33p per share)	25,280	-
2019 dividends paid to Quilter plc (43,000,000p per share)	430,000	-
Dividends paid to immediate parent	455,280	37,452

14 RELATED PARTY TRANSACTIONS

Details of balances and other transactions with related parties are disclosed in notes 2, 3, 6, 7, 10 and 11.

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

15 FINANCIAL INSTRUMENT RISK

The company complies with group risk policies on the key risks associated with the business. These cover the UK Prudential Regulatory Authority defined risk categories of group, credit, insurance, liquidity, operational and market risk. The policies, approved by the board of the ultimate parent company, Quilter plc, are reviewed annually as part of the risk appetite assessment process. Each component risk is assigned a risk owner at director level who is responsible for the ongoing review, mitigation and execution of appropriate action plans.

The company is exposed to limited liquidity, credit and market risk since the loan balances are with group companies.

16 CAPITAL MANAGEMENT

Total equity attributable to equity holders is managed as capital and there are no externally imposed capital requirements of the company. The company reviews its obligations as an intermediate holding company towards the capital requirements of its subsidiaries, to ensure that the company has sufficient capital to fulfil its purpose as a holding company for the group.

17 FINANCIAL AND CAPITAL COMMITMENTS

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

18 CONTINGENT LIABILITIES

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

19 EVENTS AFTER THE REPORTING DATE

COVID-19

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

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

20 ULTIMATE PARENT UNDERTAKING

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

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