Quilter

Annual Report 2018

For the generations of today and tomorrow

Quilter

We are a leading wealth management business, helping to create prosperity for the generations of today and tomorrow.

Financial highlights

Assets under management and administration (AuMA)*

£109.3bn

2017: £114.4bn

Net client cash flow (NCCF)* (excluding Quilter Life Assurance)

£4.7bn

2017: £7.6bn

Adjusted profit* before tax

£233m

2017: £209m

Adjusted diluted earnings per share*[1]

12.3p

2017: 10.7p

IFRS profit before tax (from continuing operations)

£5m

2017: £(5)m

Recommended final dividend per share

3.3p

* See page 204 for alternative performance measure definitions

[1] IFRS diluted EPS in 2018 was 26.5p (2017: 8.6p)

Contents

Alternative Performance Measures ("APMs")

We assess our financial performance using a variety of measures. APMs are not defined by the relevant financial reporting framework (which for the Group is International Financial Reporting Standards ("IFRS")), but we use them to provide greater insight into the financial performance, financial position and cash flows of the Group and the way it is managed.

APMs should be read together with the Group's IFRS consolidated income statement, IFRS consolidated statement of financial position and IFRS consolidated statement of cash flows, which are presented in the financial statements of this report.

All APMs within the Strategic Report are highlighted with an asterisk and definitions for each APM can be found on page 204.

Quilter at a glance

Quilter is a leading UK and cross-border full service wealth manager, providing advice-led investment solutions and investment platforms to over 900,000 customers.
We are listed on the London and Johannesburg stock exchanges.

Employees
4,343
2017: 4,388

Restricted financial planners ("RFPs")
1,621
2017: 1,561

Investment managers ("IMs")
155
2017: 164

Active relationships with third party IFAs
4,000+

Assets under management and administration*
£109.3bn
2017: £114.4bn

UK's second largest adviser-focused platform
£49.9bn
2017: £50.2bn

Total fee revenue[1]
£788m
2017: £728m

Operating margin*
30%
2017: 29%

Quilter is a modern, multi-channel wealth management company. We believe in transparency and customer choice. We service customers either through our restricted financial planners or third-party independent financial advisers by providing investment solutions and platform services.

Quilter operates in one of the largest wealth markets in the world – and one that is growing. With scale and leading positions in our chosen capabilities, we give financial advisers and their clients choice and flexibility in how they access our solutions and services.

Our purpose
To help create prosperity for the generations of today and tomorrow.

We believe:
- in the value of trusted face-to-face advice;
- that better choice doesn't mean more choice;
- that expert 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.

Our journey to date

2017
- Old Mutual plc Managed Separation announced

2018
- Managed Separation completed
- Sale of Single Strategy asset management business to TA Associates
- Listed as Quilter plc on LSE and JSE
- Special dividend: Return of net surplus proceeds from sale of Single Strategy business
- Closure of FCA investigation into Life Assurance book

2019
- Announced Optimisation plans
- Platform Transformation Programme: Migration phases commence

Building a track record with investors as a standalone listed company

Our Group companies operate in two main segments.

Assets under management*

£41.2bn

2017: £41.7bn

Net client cash flow*

£3.5bn

2017: £4.4bn

Adjusted profit* before tax

£102m

2017: £82m

Advice and Wealth Management

Our Advice and Wealth Management segment consists of:

Quilter Financial Planning

Quilter has the second largest advice business in the UK. Through our Network advice business, 1,621 restricted financial planners who operate through their own branded firms, deliver face-to-face financial advice tailored to meet specific needs of customers. We stand behind their advice, and provide them with a panel of selected Quilter and third-party products which they offer their clients. Quilter Private Client Advisers is our rapidly growing high net worth advice business. It is wholly owned with all advisers employed by Quilter. It is closely aligned with Quilter Cheviot, specialising in providing financial advice to affluent clients across the UK.

Quilter Cheviot

Quilter Cheviot is a leading private client wealth manager providing discretionary and advisory wealth management services to private investors and corporate pension funds, trusts and charities.

Quilter Investors

Quilter Investors is a leading provider of multi-asset investment solutions, offering a broad range of solutions for its customers' accumulation and decumulation needs.

Assets under administration*

£80.7bn

2017: £84.8bn

Net client cash flow*[2]

£3.4bn

2017: £5.9bn

Adjusted profit* before tax

£162m

2017: £158m

Wealth Platforms

Our Wealth Platforms segment comprises:

Quilter Wealth Solutions

Quilter Wealth Solutions is the UK's second largest adviser-focused investment platform provider. The platform is available to both Quilter Financial Planning and third party advisers.

Quilter International

Quilter International is a leading investment platform provider of cross-border investment solutions aimed at affluent and high net worth UK residents seeking investment solutions outside of the UK, as well as expatriates and international investors in selected offshore markets.

Quilter Life Assurance

Quilter Life Assurance is the book of legacy UK life insurance, and which includes the institutional life business, that is closed to new business and expected to run-off over the next one to two years. The retail book is also in steady run-off, expected to decline at around 15% per annum.

Following the Listing of Quilter plc, all businesses within the Group will be subject to rebranding to align with the Quilter name. For the purposes of the Annual Report, all businesses have been referenced by their new name – please see the Glossary on page 206 for further details.

Notes:
All figures as at 31 December 2018, unless otherwise stated. Segmental numbers are before eliminations, Head Office and other shareholder assets, which are detailed in the Financial Review on page 26.

* See page 204 for alternative performance measure definitions.
[1] For further information on Total fee revenue, see the Financial review on page 27 and 28.
[2] NCCF Wealth Platforms excludes Quilter Life Assurance net outflow of £2.3 billion (2017: £1.6 billion) as it is a closed-book business.

2018 in pictures

2018 was a momentous year in our journey to creating the UK's leading wealth management business. Key to this is how we become one business with one strategy under one brand.

The Quilter Foundation was launched to provide funding and skills to charitable organisations empowering young people to overcome barriers to prosperity.

Quilter successfully listed on the London and Johannesburg Stock Exchanges.

Southampton to Paris bike ride challenge

A team from Quilter successfully completed a sponsored bike ride from Southampton to Paris in aid of Muscular Dystrophy UK, in remembrance of one of our colleagues.

Quilter is a principal partner of England Rugby and title partner of England Men's and Women's Quilter internationals, known as the 'Quilter Internationals'.

Quilter Investors

Quilter Investors rebranded and launched its first campaign aimed at financial advisers, to help clients realise their ambitions in retirement.

Quilter Kids First

England Rugby

Quilter is the title partner of England RFU's Kids First programme which aims to create a great rugby environment for boys and girls aged under 7 to under 13, as well as upskilling coaches and teachers.

The programme provides a setting in which children learn to play the game at their own pace and develop their skills through our Quilter Kids First Skills Series, as well as our Quilter Kids First Champions programme. This rewards clubs and schools who have shown exceptional quality in delivering the Quilter Kids First programme with training sessions delivered by our Quilter Kids First ambassadors.

Quilter FinancialAdviser School

We remain committed to enhancing the number and quality of financial advisers with the 100th student graduating in 2018.

Building a financially capable generation

Our continued work with financial education charity MyBnk in 2018 helped to equip over 6,000 young people with vital money skills and confidence to help them manage their money effectively.

Quilter PrivateClient Advisers

Quilter Private Client Advisers was the second part of the Group to be rebranded to Quilter as part of their journey to become the premier financial planning firm in the UK.

Carers Trust

We proudly launched a campaign with Carers Trust to give tens of thousands of young carers the chance of a brighter future.

Chairman's statement

Welcome to our first Annual Report.

Glyn Jones
Chairman

I am delighted to introduce Quilter's 2018 Annual Report and Accounts ("Annual Report"), our first as an independent quoted company. Our primary listing on the LSE and secondary listing on the JSE on 25 June 2018 represented a significant milestone for our business. We were pleased to attract a strong, high quality investor base from the shares offered through our IPO as well as enjoying ongoing support from the investors who came to us via the Managed Separation from Old Mutual plc.

Overview

2018 was a year of strong financial performance for the Company. In a year characterised by increasingly challenging markets and weakening investor sentiment, we delivered year-on-year adjusted profit growth of 11% to £233 million and generated net client cash flow ("NCCF") of £4.7 billion (excluding Quilter Life Assurance), each ahead of, or consistent with, our guidance at the time of our IPO.

We achieved a number of milestones during 2018 including the Managed Separation from Old Mutual plc, the Listing of the Company, the sale of our Single Strategy asset management business, as well as successfully integrating a number of small distribution acquisitions. We also ended the year on a strong financial footing, with a prudent balance sheet.

As this is my first Chairman's letter for Quilter, I would like to highlight two important points in respect of where the Company is today. These points are important in terms of understanding the framework for the direction that Quilter will take as we seek to deliver robust returns for our shareholders.

First, capital discipline is very important to us. We have started public life in a prudent fashion with a well capitalised balance sheet. We do not apologise for this as we recognise that at times of market uncertainty, when we face specific business and market risks, having a robust capital position is a source of strength and opportunity. I am pleased that the feedback from our shareholders supports this position. However, the Board has no intention of hoarding excess capital for no good reason and, I believe, the return of the net surplus proceeds from the sale of our Single Strategy asset management business in September 2018 has demonstrated our commitment in this regard. We are excited about our growth potential over the next several years, both organically and through bolt-on acquisitions. If we find ourselves in a position where growth options become unattractive, we will, of course, accelerate the return of capital to shareholders.

Secondly, as our CEO, Paul Feeney, discusses later in this report, the Quilter that we brought to market was not "the finished article". We have more to do to reshape the business and to improve our levels of efficiency. Quilter has been built both organically and by acquisition over the last six years and was then brought to market in line with the timetable set by Old Mutual plc for their Managed Separation into demerged businesses. We see significant scope to optimise our business in terms of delivering efficiency initiatives in both the short and medium term, as well as periodically reviewing the operations within the Group to ensure that they are collectively contributing towards shareholder value creation.

Dividends

Our dividend policy was set out in our Listing documentation (and is described on page 7). Following the special interim dividend of 12.0 pence per share which was paid on 21 September 2018, the Board is pleased to recommend a final dividend of 3.3 pence per Ordinary Share. The dividend will be paid, subject to shareholder approval at our 2019 Annual General Meeting on 20 May 2019, to shareholders on the register on 26 April 2019.

Board

We spent 2017 ensuring that we had a Board that was fit for purpose to take Quilter forward as a public, listed company. We added breadth and depth to our existing expertise during 2018, including welcoming Ruth Markland as our Senior Independent Director at the time of our Listing. Ruth brings considerable FTSE 100 public company experience as a Senior Independent Director. In August 2018 we appointed Paul Matthews and Dr Suresh Kana to our Board. Paul brings relevant UK Wealth Management industry experience and Suresh brings a South African governance and business perspective, which is important given our shareholder register.

Dividend policy

Key elements of our dividend policy are as follows:

Dividend pay-out policy	40-60% of post-tax adjusted profit
Split: **– interim** **– final dividend**	 One third Two thirds

Our first dividend will be the final dividend in respect of 31 December 2018, and will be paid following the approval of the financial statements at the AGM.

Recommended final dividend for 2018

3.3p/share

To be paid on 20 May 2019

Special interim dividend

12.0p/share

As announced on 8 August 2018, we paid a special interim dividend on 21 September 2018 of 12.0 pence per share from the proceeds of the sale of our Single Strategy asset management business. The special interim dividend was equivalent to a return of capital to shareholders of £221 million representing the surplus capital proceeds from the transaction, after repayment of £300 million of debt.

In November 2018 we announced that Mark Satchel would succeed Tim Tookey as Chief Financial Officer in March of this year. I would like to express my thanks to Tim for the huge amount of work that he has done for the Company, first as a Non-executive Director and, over the last two years, as CFO. Tim's prior UK public company experience was critical in ensuring our Listing process went as smoothly as it did. I am also delighted that, in Mark, we are fortunate to have an internal candidate who was ready to step up to the role of CFO. Mark has been ably mentored by Tim over the last two years to help facilitate this transition. Mark was a Board member of Old Mutual Wealth prior to our Listing and so is well known to the Board, to the Executive team and to a number of our major shareholders. As well as supporting Paul Feeney with the development of Quilter over the last six years, Mark was also responsible for leading the sale of our Single Strategy asset management business in 2018, developing our Optimisation plans and was also very involved in the detailed mechanics of our Listing process and debt capital raise. I know that Mark has all the key skills and attributes to build on Tim's legacy and to be a highly effective public company CFO.

Our Board is comprised of a majority of Non-executive Directors and I am confident that it has the right balance of skills and experience to challenge and support the Executive team. More details on the Board and appointments can be found in the corporate governance section on pages 38 to 63.

Corporate governance

The Board philosophy at Quilter is to ensure that the business is well governed with the Directors both supporting the executive and holding them accountable to robustly defined performance metrics. We want to ensure an inclusive, strong and supportive culture with clear lines of accountability throughout the organisation. We will operate in a safe and regulatory compliant manner and ensure that there is sufficient capital and liquidity, with appropriate buffers, to support the business in its day-to-day operations.

At Listing, Quilter became subject to the corporate governance requirements of the UK Listing Authority's Listing Rules, and the UK Corporate Governance Code (the "Code"). In the months leading up to the Listing, much work was carried out to ensure that the Board had constituted appropriate Committees and adopted relevant policies and procedures to support the development of a robust governance structure and our compliance with the Code at Listing. While the King Code IV in South Africa does not strictly apply to Quilter, the Board is satisfied that an appropriate account has also been taken of its approach to South African corporate governance, given our secondary Listing on the JSE.

Our work in applying the code is described more fully in our corporate governance report on pages 38 to 63. The Board is satisfied that we have in place a robust governance structure, which is compliant with the Code and is fit for purpose. We have ensured that our governance arrangements continue to adapt, as appropriate, to achieve compliance with the 2018 version of the UK Corporate Governance Code which has applied to us since 1 January 2019.

Odd-lot offer

As part of our drive for greater efficiency and in line with our desire to act in the best interests of all our shareholders, we are seeking shareholder and other requisite approvals to undertake an "odd-lot offer". An odd-lot offer entails Quilter making an offer to eligible registered shareholders (typically owners of under 100 shares subject to certain exclusions) to repurchase their shares at a modest premium to the market price. Quilter currently has nearly 460,000 shareholders, of which nearly half each hold less than 100 shares. These, principally South African, shareholders were originally granted their shares in Old Mutual plc from their interest as policyholders when that business demutualised in 1999. They have not actively chosen to invest in a UK-domiciled company and have become Quilter shareholders as a result of our Managed Separation from Old Mutual plc. The proposed odd-lot offer will reduce the complexity and cost to Quilter of managing our shareholder base and will allow investors holding small numbers of shares to dispose of their holdings in a timely and cost effective manner. Eligible shareholders can, of course, elect to retain their shareholding in Quilter, if they so choose.

Conclusion

2018 has been a significant year in the Company's history and I feel privileged to be Chairman at this exciting time in Quilter's development. On behalf of the Board, I would like to thank our management team and all of our employees for their continued dedication and hard work.

Glyn P. Jones

Glyn Jones
Chairman

Chief Executive Officer's statement

2018 was a momentous year in the history of Quilter. We are a modern, purpose-built UK wealth management company that has many opportunities ahead of it.

Paul Feeney
Chief Executive Officer

Execution

As our Chairman, Glyn Jones, has noted, 2018 was a landmark year in the history of Quilter. Six years after we set out to build a modern UK wealth management company and after two years of hard work to get the business ready for Listing, on 25 June 2018 we completed the Managed Separation from Old Mutual plc and our shares began trading on the London and Johannesburg Stock Exchanges. I would like to thank all of those who worked tirelessly to deliver this outcome. We were delighted with the level of investor engagement and interest in Quilter from both new and existing investors throughout this process, and we look forward to delivering prosperity for both shareholders and our broader stakeholders.

The Listing of Quilter was the beginning of our journey as an independent company. In that context, we are pleased to deliver a strong set of maiden full year results, with an increase in adjusted profit of 11% to £233 million and a 30% operating margin* (2017: 29%). Our IFRS profit before tax from continuing operations was £5 million (2017: £(5) million).

Given the limited linkages between the Single Strategy asset management business and our retail-focused wealth business, the sale of that business was consistent with our objective of building the UK's leading wealth management company. The full consideration received from the sale of the business to its management team and funds managed by TA Associates, which completed at the end of June 2018, was £583 million. We paid a special interim dividend of 12.0 pence per share from the proceeds of this transaction, equivalent to a £221 million return of capital to shareholders. This represented the net surplus proceeds from this disposal after the repayment of the outstanding £300 million senior unsecured term loan.

Transformation

As I have said on many occasions, we know that Quilter is not the finished article. The task that my team and I are undertaking is nothing less than a multi-year transformation of our business. There are two principal strands to this process: successfully delivering upon our UK Platform Transformation Programme and optimising our business.

Our new UK Platform, once operational, will allow us immediately to widen the product set we currently offer to include SIPP capabilities, Junior ISAs and cash accounts as well as allowing us to hold a broader spectrum of assets on behalf of clients such as ETFs and investment trust shares. This will provide us with the opportunity to target a broader and higher net worth customer segment in the UK market than we are currently reaching. It will significantly enhance our position in the UK platform market by providing us with a modern, resilient system built on current technology rather than legacy code as is the case with the current platform.

We see four key stages to the successful completion and delivery of our new platform:

First, the core system completion enabled us to commence the soft launch phase in early February 2019. Soft launch was deliberately structured to be on a limited basis and this valuable phase is being used to verify core system functionality, processes and controls in a live environment and it continues to progress well.

Secondly, the final platform system, which will incorporate full adviser functionality, is in the last stages of development and, given the critical nature of this, is undergoing rigorous testing. Subject to these testing results, we are targeting this to be completed by early Summer.

The third key stage is migration planning and this is at an advanced stage. We will undertake a phased, controlled migration of our existing book. We aim to migrate an initial c.10% of assets under administration from our existing platform, representing the assets from around 100 adviser firms, in early Autumn. Once we have incorporated feedback from this into our processes, we will continue migration of the remainder of the book in appropriate phases considering, amongst other things, the time of year and market conditions.

Finally, our overriding principle is that high quality delivery is of the utmost importance and we are enhancing our detailed plans to ensure customers and advisers are well supported throughout the transition period. This, together with the challenges imposed by the need to train a large number of advisers on a new system, are key issues which have been highlighted in our reviews of a number of problematic high profile platform transitions across the UK financial services industry in recent years. As a result, we are considering adding additional adviser/customer call centre capacity and/or taking a more gradual approach to migration, which could extend the project timeframe slightly.

Our strategic priorities

We have a strong track record in terms of growth and delivering against our promises. We are well placed to grow sustainably, providing we simplify and unify our business. Post-Listing our strategic priorities over the next few years are as follows:

1 **Delivering on customer outcomes**
Ensure we deliver good customer outcomes, strong investment returns and quality customer service.

2 **Advice and Wealth Management growth**
Grow our advice business by adding financial advisers and investment managers, supporting them to improve their individual productivity. We will also complete the build out of our Quilter Investors team.

3 **Wealth Platforms growth**
Deliver our UK Platform Transformation Programme which will bring benefits including greater capability and functionality.

4 **Optimisation**
We will grow our business by enhancing our scale and efficiency whilst reducing unnecessary cost and complexity.

For detail on performance towards our strategic objectives, see pages 19 to 23.

As at 31 December 2018, we had incurred costs of £79 million since the programme commenced in May 2017. If migration is completed by the end of 2019, we would expect total programme costs towards the upper end of our £120 – £160 million guidance range. Should we decide that it is in the best interests of both customers and advisers that programme completion is extended into the first half of 2020, we would expect modest additional programme costs, largely reflecting the incremental potential initiatives referenced above and a longer period of dual system running than originally planned.

Turning now to Optimisation. Optimisation means making Quilter the best version of ourselves that we can be. We want to eliminate the inefficiencies in our operational processes.

First, we see an opportunity to deliver an improvement in operational performance and efficiency of middle and back office activities. Business areas which are involved in the new UK Platform Transformation Programme will be ring-fenced and largely protected until that project is complete to avoid any risk of disrupting the programme delivery timetable.

In addition to those Optimisation savings which have already been achieved through cost avoidance during 2018, we believe that the potential benefits from running our existing businesses better can deliver around a two percentage point uplift to our 2020 operating margin target of 30%. This is despite ongoing investment in distribution which has a negative short-term impact on our operating margin. We also expect a further two percentage point improvement in 2021. This increases our previous 2020 guidance to around 32% and our 2021 guidance to around 34%, although, given that the outcome here is a function of income and costs, this target assumes broadly normal market performance from around current levels together with steady net flows. The uplift will be achieved from cost savings with an expected cost to achieve of c.£75 million (inclusive of identified IT spend) to deliver the programme over the next three years.

Once the UK Platform Transformation Programme is complete, we will then be able to consider further efficiency initiatives from those areas previously ring-fenced until the UK Platform Transformation Programme has completed. Our goal will be to transition towards a simpler, higher-growth business, over time.

Operational performance

Good customer outcomes remain central to everything we do. Delivering this starts with trusted advice. Client confidence in our proposition is demonstrated through the strength of our integrated business model and is shown by our net client cash flow ("NCCF") and the resilience of integrated flows which have held up well despite more challenging conditions in the second half of the year. Integrated flows were down just 10% to £4.7 billion in the year.

Despite the significantly less buoyant market conditions in the second half of the year and more cautious investor sentiment, we delivered NCCF of £4.7 billion in 2018, excluding Quilter Life Assurance. This represents 5% of opening Assets under Management and Administration* ("AuMA") in line with our medium-term target. Overall NCCF of £2.7 billion was down 57% on prior year (2017: £6.3 billion) with this largely due to the pre-announced run-off of the low margin institutional life book within our Quilter Life Assurance (or Heritage) business and the natural attrition of the rest of that book.

We have also demonstrated resilience in AuMA (excluding Quilter Life Assurance) which declined by just 2% over the year. This contrasts with an overall decline in AuM across the industry of 6% during 2018, according to the Investment Association.

We added to our distribution capabilities within our Private Client Adviser business through 14 small acquisitions during the year, with a corresponding total consideration of up to c.£12 million that may be paid, with just over half of this subject to performance conditions being attained. This provides us with the potential to build our base of client assets over time.

Across our appointed representative firms, we achieved satisfactory growth of 4% in adviser numbers, and finished the year with 1,621 restricted financial planners ("RFPs"). This is below our historic growth rate of 5% and reflects a disappointing rate of growth in the first half and so this was an area of particular focus in the second half of the year when the majority of this growth was achieved.

On 14 February 2019, we purchased the remaining shares in Charles Derby Group that we did not already own. This business will be positioned as part of our national advice business instead of being an appointed representative firm within our network. We see significant opportunity from broadening the existing Quilter Private Client Advisers business model into the affluent

* See page 204 for alternative performance measure definitions.

market instead of solely servicing high net worth clients. The acquisition and repositioning of Charles Derby Group will provide us with meaningful scale and strong market positioning to serve customers in the affluent and mass affluent segment and will complement Quilter Private Client Advisers which focuses on high net worth customers. We will continue to consider acquisitions in advice and distribution capacity on a selective and targeted basis but only where quality and culture are a good fit with Quilter as well as offering a strong business and financial case.

As part of our commitment to advice we have developed the Quilter Financial Adviser School, which has been in operation since 2016. The School has contributed to growth in financial advisers across the industry with an average student age of 29 years and with 33% female participation. During 2018, the 100th student graduated, and currently we have 94 students enrolled on courses which cover all stages of financial advice; of these, 46 are potential RFPs. In light of the success to date we are increasing our investment to expand the capacity of the School to deliver a higher level of new RFPs to Quilter. At current capacity we can accommodate around 100 students per annum. The focused RFP programme takes 14 months to complete and so we expect to see this start to contribute to growth in our adviser numbers later this year.

Quilter Cheviot NCCF slowed over the course of the year mirroring the broader market trends. Whilst disappointing, this reflected lower levels of gross inflow and broadly stable outflows. We expect the first half of 2019 flows to be impacted by the loss of a c.£0.2 billion client where notice has been given and with the funds expected to move early in the year. The near institutional-type mandate of this portfolio means that we expect the loss to have minimal impact on 2019 profitability.

During the last 18 months we have been investing in the Quilter Cheviot investment team with Investment Manager ("IM") headcount increasing to 168 by mid-2018. Following Listing we saw a small number of resignations from a particular cohort of IMs. As a result, IM headcount fell to 155 by year-end and, while we have mitigation plans in place to reduce potential client departures, we are expecting this could lead to higher than trend outflows for Quilter Cheviot in the second half of 2019 and early 2020. Growing our IM count is a key focus for 2019 and recruitment is ongoing with a number of new starters in the pipeline.

Quilter Wealth Solutions achieved net inflows of £3.1 billion, down 31% on prior year. Gross sales of £7.7 billion (2017: £8.9 billion) were down £1.2 billion as a result of the slower trading environment seen in the second half of the year as well as reduced transfers of defined benefit ("DB") schemes to defined contribution ("DC") schemes, which were down 24% to £1.6 billion. We believe that this was driven by the impact of increased FCA scrutiny and resultant impact on the availability and affordability of IFA professional indemnity insurance. Overall, our pension propositions continue to perform well, with gross sales of £4.7 billion, representing 60% of total Quilter Wealth Solutions gross sales (2017: £5.4 billion representing 61% of 2017 gross sales).

We continue to reposition our International business and inflows have been particularly weak in 2018. Our strategy is to focus our international geographic footprint and maintain the quality and value of new business. We have deliberately taken an early adopter strategy to the shifting of the regulatory environment and, as previously reported, this has had an impact on new business flow but we believe this is the right approach for both customers and Quilter.

Quilter Life Assurance had net outflows of £2.3 billion, up from £1.6 billion in 2017, principally due to the closure of the institutional life book of business announced in 2017. The remainder of the Quilter Life Assurance book ran off at a rate of c.14% which is broadly in line with expectations.

Investment performance

2018 was a challenging year for investors. Most major asset classes declined, and the broad nature of the decline, particularly in the fourth quarter, made it difficult to achieve positive outcomes from Quilter Investor's diversified solutions.

Whilst we are conscious that short term performance in certain portfolios was disappointing, our multi-asset solutions are aligned to the advice process, led by well-regarded portfolio managers, with good long term records. We remain particularly pleased with the medium and longer term performance of our biggest ranges, Cirilium and Wealth Select as delivering to these goals here is how the products are positioned in the market.

Our largest multi-asset range, the £8.3 billion Cirilium active, had a disappointing first half of 2018, but, I am pleased to say, it has started this year strongly. Over the three, five and 10 year periods the performance continues to be strong. The £6.0 billion Managed Portfolio Service compares well against its peer group and met its investment objectives in 2018, defending well in the last quarter of the year. It hit its fifth anniversary in good shape.

Turning now to Quilter Cheviot, overall performance remained consistently good across all time periods relative to ARC benchmarks to the end of September. This is the most recent quarter for which we have the detailed ARC comparisons which are available as a benchmark.

Stewardship

We monitor employee engagement on a quarterly basis and are delighted that it has remained at a consistently high level despite the significant work pressures that arose through the Listing process.

Building an environment where our people can thrive is important to me. One of the principal benefits of Quilter being a standalone business is the reinforcement of our identity, and strengthening of the ties that bind our people in their delivery of our purpose. Virtually all of our staff were awarded shares in Quilter on Listing and so have a direct stake in the outcomes of their efforts as we build the UK's leading wealth management company.

We believe that an organisation needs to have a broader moral compass than merely profit maximisation. Our Shared Prosperity Plan, which is part of our Responsible Business strategy, seeks to improve financial capability across the UK population. By equipping people to make better financial decisions, we enable them to have a secure financial future and we aim to protect customer assets over the long-term through inclusive and responsible investment.

We were delighted to launch The Quilter Foundation at Listing. As a registered charity, the Foundation's mission is to tackle the barriers to prosperity in our society. The Foundation's first step is to work in partnership with charities that support young carers in the UK to help overcome the challenges they face such as isolation, mental health issues and poor outcomes in education and employment.

We also continue to make good progress in undertaking our voluntary redress for customers within Quilter Life Assurance who were subject to the terms of the FCA's thematic review into the fair treatment of long-standing customers. We, of course, welcomed the FCA's decision to close their investigation without any sanction on the

Paul Feeney visiting a carers centre in Camden, London.
"The Carers campaign makes me incredibly proud and humbled. I'm so thankful we're in a position to support these amazing young people."

Company. Of the £69 million provision taken in 2017 relating to our voluntary redress of historic business written, we have paid out £27 million and we remain confident that the remaining provision will be sufficient to meet the costs that were identified from our review process.

Outlook

The UK wealth management industry continues to offer strong secular growth potential notwithstanding the short-term headwinds. As it became apparent in the second half of 2018 that global macro and geopolitical uncertainty was impacting flows and market sentiment, we increased our focus on cost management and accelerated some of the benefits we expected to deliver from our first stage Optimisation initiatives.

As most of the decline in markets came late in the year, the impact on our 2018 revenues was relatively muted. Closing AuMA of £109.3 billion was £5.4 billion less than the average AuMA* for 2018 of £114.7 billion. Lower average asset values, if sustained, would impact revenue generation in the current year. While we cannot avoid external headwinds, we aim to keep 2019 costs broadly flat on 2018 (excluding acquisition activity), through Optimisation and other initiatives, to partially offset the anticipated tougher revenue environment.

We remain resolutely focused on growing our business and supporting our clients towards achieving their savings and investment goals. During 2019 we plan to increase adviser numbers, expand our national advice business including through the recently announced acquisitions, add Investment Managers in Quilter Cheviot, finish the build out of our Quilter Investors operation and complete, or substantially complete, the safe delivery of our new UK platform.

2019 will throw up other challenges for Quilter. Brexit and market uncertainty are having an impact upon investors' appetite to put new money to work. In addition, we anticipate that the migration of advisers to our new platform may contribute to a slowdown in the flow of new money into our platform services as advisers familiarise themselves with, and are migrated to, the new platform. As a result of both of these factors, while we remain confident in a target of 5% growth for NCCF on a medium-term basis, we may undershoot this target during calendar year 2019.

Early 2019 has seen a partial recovery in markets. By the end of February 2019 our AuMA had increased to c.£113 billion up from £109.3 billion at year-end. While this recovery in markets has been ahead of our expectations, the trend in net client cash flows has remained subdued. Brexit and market uncertainty continue to temper momentum in year-to-date flows and therefore we remain cautious on net flows going into 2019. However, as we set out in our Prospectus ahead of Listing, we are confident in our strategic path and growth prospects. We are a modern, purpose-built UK wealth management company that has many opportunities ahead of it. Our focus remains on embedding last year's cost successes into our 2019 performance, delivering organic growth and executing upon our transformation plans. I am hugely excited about the journey ahead and look forward to continuing to deliver on our promises.

Paul Feeney
Chief Executive Officer

* See page 204 for alternative performance measure definitions.

Responsible business

We are committed to growing Quilter responsibly for the long-term, recognising that we must earn the trust of our stakeholders.

Jane Goodland
Corporate Affairs Director

Our shared values

We are Pioneering
Leading change and driving growth from the front, positively challenging industry convention to create new and rewarding opportunities for our customers and ourselves.

We are Dependable
Using our expertise, care and judgement to guide us and our customers through complex and challenging times, determined to take people to a better place in their financial future.

We are Stronger together
Using our diversity and our relationships – learning from each other – to create one business with better opportunities for our people and better outcomes for our customers.

Our core purpose is to help create prosperity for the generations of today and tomorrow. That doesn't just mean growing economic wealth, it means enabling people and their families to thrive and achieve their own life goals.

It goes further than our customers; we also strive to create long-term, sustainable value for colleagues, business partners, shareholders and society more broadly. This is 'shared prosperity'.

This also means playing our part in rebuilding trust in financial services, and creating a better future by understanding that our value goes beyond making a profit.

Our Shared Prosperity Plan sets out our approach to responsible business. It is informed and shaped by our engagement with our stakeholders and reflects external socio-economic trends affecting our customers, our society and our business.

These trends include the ageing UK population and rising social care costs, the shift of responsibility to individuals for retirement savings, the lack of financial capability, insufficient financial advice and the widespread lack of long-term savings. More broadly, the drive for sustainable economic development and the role of technology continue to be important themes shaping economies.

Our Shared Prosperity Plan

In light of external trends and our strategic business priorities, our Shared Prosperity Plan focuses on three long-term goals and nine commitments which are most material to our customers and our business. These goals and commitments will guide our responsible business activity to 2025.

Goal 1: To enhance financial capability
Our goal is to help people develop the skills, knowledge and confidence to fully engage in their financial lives, to be financially secure and pursue their financial goals.

Financial capability commitments
- Enable all our colleagues to feel money confident.
- Improve access to financial guidance and advice for customers and consumers more widely.
- Empower young people to manage their money well for life.

Goal 2: To enable secure futures
Our goal is to support people to have a more secure future by empowering customers to be more engaged in their financial future and by creating opportunities for people to access and thrive in work.

Secure futures commitments
- Enable all colleagues to thrive in work and fulfil their potential.
- Empower customers to be more engaged in their financial future.
- Help people in the community overcome barriers to prosperity.

Goal 3: To promote responsible investment
Our goal is to invest responsibly, create an inclusive culture and reduce our environmental intensity as a business and investor.

Responsible investment commitments
- Create an inclusive culture at work that embraces diversity.
- Embed responsible investment principles across our business.
- Reduce the environmental intensity of our activities.

Quilter colleagues 2018 vs 2017
As at 31 December 2018

Total number of colleagues[1]

4,343
2017: 4,388

Total split by gender
% (number)

52% (2,258) | 48% (2,085)

2017: 54% (2,355) | 46% (2,033)

Quilter plc Board split by gender
% (number)

64% (7) | 36% (4)

2017: 64% (7) | 36% (4)

Executive Committee split by gender
% (number)

79% (11) | 21% (3)

2017: 92% (12) | 8% (1)

Senior management split by gender[2]
% (number)

66% (70) | 34% (36)

2017: 71% (66) | 29% (27)

■ Male ■ Female

1 Additional employee data is provided in Note 11(b) on page 134 which shows the average position during the year.
2 Senior management defined as Executive Committee and their direct reports, excluding administrative staff.

The Right Honourable Philip Hammond MP at a KickStart Money session at Lyne and Longcross School in Chertsey

Quilter founded and continues to co-chair this collaborative industry initiative that unites 20 leading investment and savings firms to co-fund financial education targeted at primary school children aged 7 to 11. Launched in 2017, KickStart Money is on target to reach over 18,000 primary school aged children with financial education by 2021. The coalition of firms is also engaging with the Government to call for financial education to be included on the national primary curriculum.

Our progress

We launched the Shared Prosperity Plan in 2018 and have made nine commitments which guide our activity to 2025. Our progress against these commitments is shown fully in our Responsible Business Report, with some highlights included below:

Commitment: Improve access to financial guidance and advice for customers and consumers

To bridge the financial advice gap in the UK we launched the Quilter Financial Adviser School in 2016 which, on a not-for-profit basis, helps students achieve the qualifications, skills and professionalism required to have a successful career as a financial adviser. By 2025, the school aims to have trained over 1,000 new financial planners.

Commitment: Empower young people to manage their money well for life

Through our partnership with leading financial education charity MyBnk, we have reached over 13,000 young people over the last three years in schools and youth groups helping them develop money skills for life. In addition we also co-chair a collaborative industry initiative, KickStart Money (see case study on the left).

Commitment: Enable all colleagues to thrive in work and fulfil their potential

Our ability to attract, develop and retain the best talent is critical to our business. We strive for an engaged colleague community and collegiate culture. Cathy Turner is the designated Board member with responsibility for ensuring the Board understands the views of colleagues to enable their interests to be taken into account. At least annually, Cathy will meet with Quilter's employee forums, which are consultative bodies to represent colleagues.

In addition, the views of colleagues are sought through our regular culture survey to identify where we are doing well and where there is scope to improve. In 2018 we achieved a 71% response rate and our engagement score was 7.7 out of 10 compared to 7.6 in 2017.

We have a full communication plan in place across all of our business areas. This is designed to ensure that colleagues are fully briefed on a range of topics including Company strategy, performance and results, external social, financial and economic factors impacting our business, our community and responsible business activities, and matters directly impacting individuals such as mental and physical well being initiatives.

Thrive ambassadors

In 2018 we launched the Thrive wellbeing initiative which provides our colleagues with tools, information and services to enhance their health and wellbeing. This is supported by over 120 Thrive ambassadors and 12 trained mental health first aiders. In July 2018 Quilter signed the Time to Change Pledge to demonstrate our commitment to change attitudes, behaviour and remove the stigma associated with mental health in the workplace.

We have an active learning and development programme and in 2017 launched our mentoring programme, which by the end of 2018 included 49 mentoring relationships.

Commitment: Create an inclusive culture at work that embraces diversity

We firmly believe our industry will be stronger and deliver better outcomes if it fosters a more inclusive and diverse culture. We are committed to ensuring that everyone at Quilter has the opportunity to fulfil their full potential regardless of diversity characteristics. We recognise we're not alone in this challenge, which is why we are working collaboratively with other companies through the Diversity Project to address systemic barriers to inclusion within the investment industry.

We have also signed the HM Treasury Women in Finance Charter and have adopted a target to reach 35-40% women in senior management by the end of 2020. As at 31 December 2018 the female composition of our senior management community (the Executive Committee and their direct reports, excluding administrative staff) was 34%, compared to 32% in the prior year.

The imbalance of men and women in our senior management community and revenue generating roles is a key driver of the Gender Pay Gap, which we are committed to reducing over the coming years.

Gender Pay Gap
As at 05 April 2018/2017

	Mean		Median	
	2018	2017	2018	2017
Hourly pay gap	35%	39%	29%	29%
Bonus gap	70%	70%	39%	41%
Women receiving bonuses	85%	85%	86%	85%
Men receiving bonuses	85%	83%	85%	83%

Proportion of men and women by pay quartile
The bars below show the proportion of men and women in each pay quartile from the first (highest pay) to the fourth (lowest pay).

First quartile
%
72 | 28
2017: 75 | 25

Second quartile
%
52 | 48
2017: 48 | 52

Third quartile
%
42 | 58
2017: 43 | 57

Fourth quartile
%
41 | 59
2017: 41 | 59

■ Male ■ Female

Greenhouse gas emissions 2018[1]

	TCO_2e 2018	TCO_2e 2017
Scope 1	636	556
Scope 2	3,037	3,289
Scope 2 – market-based	1,976	3,079
Total – Scopes 1 and 2	**3,672**	**3,845**
Tonnes of CO_2e/average number of colleagues	**0.83**	**0.91**

[1] Our emissions are calculated and reported in accordance with the GHG Protocol Corporate Standard. Please refer to the Glossary on page 206 for definitions of the GHG emissions categories shown in the above table.

Quilter's Gender Pay Gap figures are shown on the left. We have seen the mean hourly pay gap reduce since 2017 and we anticipate, that over the long term, this trend will continue as we seek to create more gender balance within our senior management community.

This is an ongoing process which will take time to embed, and as such we recognise that a substantial reduction in our Gender Pay Gap figures may take some years to achieve.

Commitment: Reduce the environmental intensity of our activities
We have been formalising our environmental management activities, in particularly to reduce the energy consumption of our buildings through planned refurbishment activity and switching to renewable energy where possible. Over 10 of our buildings are now on renewable energy tariffs which account for 57% of our total workforce.

With regard to greenhouse gas (GHG) emissions, we support the Carbon Disclosure Project and aim to publish our science-based reduction targets for GHG emissions in 2019.

We also recognise that our investment portfolios have indirect impacts on the environment and this is an area we will assess and measure more fully in future, through our commitment to embed responsible investment principles across our business.

Greater transparency and disclosure of climate-related risks by companies is critical for investors on the transition to a lower carbon economy. As such we welcome the work of the Financial Stability Board's Task Force on Climate-related Financial Disclosure ("TCFD"). In 2017 the TCFD launched its voluntary framework for disclosure of climate-related information around four main themes: governance, strategy, risk management, and metrics and targets. As we formalise our approach to managing climate-related risk we aim to work towards full compliance with the TCFD disclosures.

Stakeholder engagement
We recognise the importance of engaging with a range of stakeholders to ensure we understand their expectations and views of us and share information about our approach and performance. Our stakeholders are wide ranging and include colleagues, customers, financial advisers, investors, suppliers, regulators, media, NGOs and other special interest groups. During the year we reviewed and enhanced our stakeholder engagement framework which includes surveys, interviews and research amongst our stakeholder community so we can better understand their perspective and their expectations of us.

Responsible business governance
Our responsible business approach contributes to the management of our strategic and business risks, particularly brand and reputation, people and culture, and conduct risk. For more information about our principal risks and uncertainties, see pages 32 to 37.

To ensure we have appropriate oversight and control of our responsible business activity we have introduced a governance framework involving the Board and executive management. Quilter CEO, Paul Feeney, has overall accountability for ensuring we do business in the right way. The Board receives regular updates on responsible business matters and formal oversight of responsible business and wider stakeholder interests is formally the remit of the Board's Corporate Governance and Nominations Committee, chaired by the Group Chairman.

At an executive management level the Responsible Business Forum provides oversight, direction and challenge with respect to Quilter's approach to responsible business. The Forum meets quarterly and comprises members from across the business and is chaired by the Corporate Affairs Director.

In addition to these oversight and management groups, our responsible business governance framework comprises policies, codes and standards. For example, these include the Quilter code of conduct, the supplier code of conduct, and policies on the environment, human rights, community investment, and responsible investment and stewardship.

We are committed to maintaining the highest standards of integrity and complying with all relevant laws. Our code of conduct sets out the duties and expectations of all colleagues covering the prevention of financial crime, treating customers fairly, conflicts of interest, use of Company assets, market conduct, working with regulators and Governments, and information, data and communications. We also have policies explicitly focused on anti-money laundering, anti-bribery and corruption, fraud prevention, and market abuse.

Community investment

£1.1m

This includes all direct corporate donations, employee fundraising and investments made by the Quilter Foundation

Non-financial information statement

This section (pages 12 to 15) provides information as required by regulation in relation to:

- environmental matters;
- our employees;
- social matters;
- human rights; and
- corruption and bribery.

In addition other related information can be found as follows:

- business model – page 18;
- principal risks and how they are managed – pages 32 to 37; and
- non-financial key performance indicators – pages 24 and 25.

SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals were defined by the United Nations in 2015 to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. We support the goals and our responsible business agenda responds to those which are most relevant for our business. See our Responsible Business Report for more information.

We have zero tolerance of any form of harassment, abuse, discrimination or bullying of colleagues, contractors, suppliers or anyone we deal with. All colleagues are required to behave in a way that supports an inclusive culture, embracing all forms of diversity. We respect human rights and reject any form of modern slavery and in accordance with the UK Modern Slavery Act, we publish our Modern Slavery Statement on our website. We are also an accredited national living wage employer, ensuring all employees are paid accordingly and we require our suppliers who provide on-site services to do the same.

We want a culture where people can speak up and share their concerns. Colleagues are made aware of our whistleblowing policy and ethics hotline and we have appointed the Chair of the Board Audit Committee, George Reid, as Quilter's whistleblowing champion. All such reports and disclosures are fully investigated by management whilst protecting the confidentiality of those who make reports.

Colleagues are required to undertake annual mandatory training to ensure they fully understand what is required of them. This includes training on the code of conduct, whistleblowing, human rights, and financial crime (which includes anti-corruption and anti-bribery). During 2018 over 4,000 of our people completed this training.

Tax strategy

As a responsible business, we are committed to full compliance with our tax obligations, paying the right amount of tax at the right time. We have zero tolerance for tax evasion and we do not promote tax avoidance or aggressive tax planning arrangements to our customers or to other parties.

More information about our tax strategy can be found on our website.

The Quilter Foundation

Anchored in our purpose to help create prosperity for the generations of today and tomorrow, this year we launched The Quilter Foundation to act as the focal point of our investment in the community. It has a clear mission to help young people overcome barriers that may prevent them to fulfil their potential, thrive and prosper, particularly concerning education, employment and mental health.

The Foundation has formed a small number of key strategic charity partnerships focused on improving educational outcomes, employment prospects and young people's health and wellbeing.

Shani Brathwaite,
Young Carer Support Worker

The Quilter Foundation and Carers Trust

Through the Quilter Foundation, we have launched a £1.5 million campaign to give young carers the chance of a brighter future. Our aim is to provide support for those who need it, to help them to fulfil their potential in education and employment, and support their mental health and wellbeing. The campaign also raises awareness of the incredible contribution carers make to our society.

In addition to the financial education programmes mentioned earlier, in 2018 we launched our Young Carers campaign which brings together the Carers Trust and The Mix, both of which are leading charities in their field. We know that this group of young people are more likely to fall behind at school, suffer with mental health issues and may struggle to fulfil their potential. Through the campaign the Foundation is giving small grants, respite and a range of expert and peer to peer support for young carers. Over the next three years we aim to support tens of thousands of young carers, helping them to have a brighter future.

Jane Goodland
Corporate Affairs Director

See the Quilter Responsible Business Report for more details on our Shared Prosperity Plan.

Market growth drivers

Our chosen markets are experiencing secular growth in the demand for wealth management services, while at the same time facing constrained supply of financial advisers.

Demand

Shift of savings responsibility to the individual The ongoing shift in responsibility for ensuring sufficient long-term savings and retirement provision to individuals increasingly means that customers need to make their own financial plans.	**58%** Percentage of adult population who think they have insufficient understanding of pensions to save for their retirement Source: Wealth & Assets Survey 2017, ONS
Pension reform driving increased need for retirement solutions Pension freedom increases the flexibility for guidelines to manage their long-term savings. To support this, wealth managers need to be ready to advise on and manage customers' funds beyond the savings phase well into the retirement phase.	**38pp** Forecasted growth in "Solutions" share of global asset management 2016-2020 Source: BCG Global Asset Management 2016
Demographics: ageing population, inter-generational wealth transfer Demographic changes and the savings gap, create an increasing demand for wealth solutions, supported by the existing Government's policy to pass responsibility to the individual. A shift from opaque, traditional life saving products to more modern, transparent solutions held via platforms means that the UK Wealth market is ideally positioned to benefit from these structural growth trends.	Population over 65 years old will increase from 600 million today to 2.1 billion in 2050 Source: World Economic Forum
Complexity driving increased need for advice alongside digital solutions Pension freedom introduced in the UK has resulted in increased choice, and accordingly, complexity for individuals to plan for their future. While self-directed and robo-advice will be an important constituent of the wealth management sector, we continue to see a significant opportunity for adviser-led investment solutions.	**30%** Percentage of the UK population who are likely to require financial advice Source: FCA Financial Advice Market Review 2017

↓5,000

Reduction in financial advisers from 2011 to 2017

Source: FCA Financial Advice Market Review Baseline Report 2017

Withdrawal of financial advisers post retail distribution review (RDR)

In terms of supply, RDR in 2013 triggered a reduction in the number of financial advisers despite growing needs, so demand for investment advice exceeds supply.

↓70%

Decrease in annuity sales since UK pension reforms in 2015

Source: ABI

Shift away from traditional insurance-based investment products

Investment platforms offer a wider choice of investments tailored to individual needs, and are combined with easy-to-access digital services.

14%

2014-2018 compound annual growth rate in UK platforms' AuA

Source: Fundscape

Post RDR value chain and increasing regulatory costs placing pressure on smaller firms

RDR and MiFID II have resulted in greater compliance and administrative burdens on financial advisers and their firms, making smaller firms less economically viable. The Quilter business model, where firms become restricted and benefit from our support and buying power to provide high quality, cost effective solutions for their clients, alleviates this burden.

"In some sectors, including pensions and retirement income… some older consumers' financial services needs are not being fully met, resulting in exclusion, poor customer outcomes and potential harm."

Source: FCA 2018/19 Business Plan, Priorities

Increased focus on industry professionalism, transparency and customer outcomes

Segments of the wealth industry have been increasingly scrutinised by the FCA including life insurance products, platforms and advice quality leading to declines in supply from smaller players. Many sole traders decided to leave the industry given the uncertainty created and the requirement to achieve higher levels of qualification.

Supply

Business model

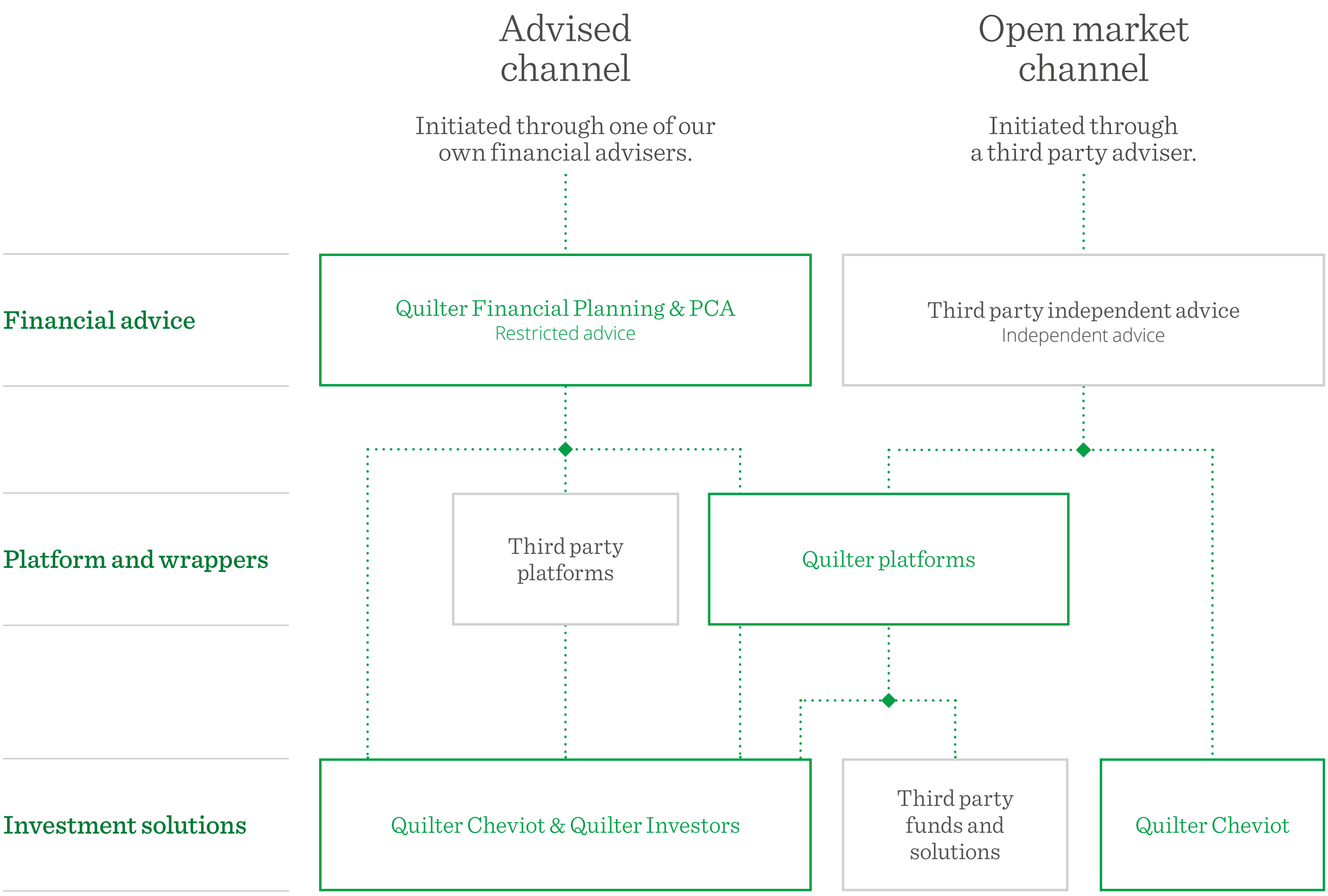
Our full-service model enables us to support the changing needs of our customers throughout their life cycle.

A potential Quilter customer looking to manage their wealth needs three things: professional financial advice, investment solutions to achieve their financial goals, and a platform to hold their investment either directly or through a tax-efficient product wrapper. We earn revenues from the assets under our management or administration as a result of providing advice-led investment solutions and our platform to customers across the UK and in select international markets.

Quilter has a multi-channel access model, where customers can come to us through both our advisers or their own, independent adviser. When we support a customer to manage their wealth in more than one area, and therefore earn more than one revenue stream from them, we refer to it as an integrated flow. The unbundled, open nature of our model, offering flexibility to use one, two or all three components, is a key competitive advantage and provides customers and their advisers with choice at every stage.

For Quilter, our model provides greater market breadth, customer and adviser choice, which supports long-term customer relationships. Our scale and leading market positions in each of our business segments enables us to benefit from strong structural growth dynamics and capture an increased share of the market.

There are two ways customers can choose to use our services:



Our strategy

We aim to be the leading UK wealth manager by continuing to focus on delivering good outcomes for our customers.

With the UK having one of the largest savings gaps in Europe and pension reforms making individuals increasingly responsible for managing their financial futures, the need for financial advice, relevant investment solutions and modern platform technology is growing at pace.

Quilter's strategy will enable us to respond to these market needs by:

- becoming the largest provider of insightful, trusted financial advice;
- providing outcome-based diversified investment solutions, focused on meeting the real needs of our customers;
- enabling easy and simple access to manage investments on one platform; and
- ensuring customers only pay for the services they take from us.

Key performance indicators ("KPIs")
For details of how we measure our strategic and operational performance, see pages 24 and 25.

Our strategic priorities

By focusing on our four strategic priorities, we aim to become the "go to" business for the affluent and mass affluent segments.

4 Optimisation

2018 achievements
- Phase 1 planning complete
- Early savings achieved through cost management

Focus in 2019
- Mobilise Phase 1 initiatives
- Protect PTP-related areas

3 Wealth Platforms growth

2018 achievements
- Strong underlying UK Platform growth
- PTP progress leading to soft launch in early 2019

Focus in 2019
- UK platform migration
- Supporting advisers and customers

2 Advice and Wealth Management growth

2018 achievements
- Strong profit growth
- Resilient integrated flows

Focus in 2019
- Growth in RFPs/PCA – embed and leverage acquisitions
- Growth in IMs in Quilter Cheviot

1 Delivering on customer outcomes

2018 achievements
- Stable asset retention
- Low levels of upheld complaints

Focus in 2019
- Drive investment performance
- Launch full-service SIPP

1. Deliver on customer outcomes

Our strategy is focused on ensuring good customer outcomes and strong investment returns while delivering quality service to our customers. Developing appropriate investment propositions and solutions is a key part of delivering on this strategic objective.

KPIs
- Integrated net flows

Other performance indicators
- Investment performance
- Levels of upheld complaints

2018 performance

Integrated flows*

£4.7bn
2017: £5.2bn

Asset retention*

91%
2017: 90%

* See page 204 for alternative performance measure definitions.

2018 Performance

Good customer outcomes are central to everything we do. Delivering that starts with trusted advice. In a period where Brexit and other geopolitical issues were weighing on investor sentiment, maintaining discipline to remain committed to a financial plan to build long-term savings and to generate sufficient pension provision for later life can be daunting for customers. In such times Advisers demonstrate their value. Our advice-centric model means advisers were on hand to support and guide clients through periods of market volatility and uncertainty.

Client confidence in our proposition is demonstrated through the strength of our integrated business model and is shown by our NCCF and the resilience of integrated flows. The latter held up well during 2018 despite challenging market conditions. While net retail flows in the UK market were down 85% year-on-year (source: The Investment Association), our integrated flows were down just 10%. Less flow was available but what flow there was touched more of parts of Quilter.

Asset retention (excluding Quilter Life Assurance) improved one percentage point in 2018 to 91%, as a result of our strong product and proposition offering, and high customer service standards. Complaints remained low and levels of upheld complaints remained below the industry average.

Awards

During the year we were pleased to continue to receive recognition for our customer service and investment propositions through a number of industry awards. Among others, we were delighted to receive three awards at the Financial Adviser Service Awards, to achieve Defaqto's "5 Diamond" rating for seven Quilter Investor funds, and for Quilter Cheviot to win "Best Wealth Manager – Cautious Portfolio" and "Best International Clients Team" at the Wealth Adviser Awards 2018.

Investment performance

2018 was a challenging year to deliver performance for investors. In the first three quarters of the year, most stock markets outside the US delivered lacklustre performance. Moreover, US market performance during this period was driven by stock leadership from a narrow range of tech-related companies. In the latter part of the year, a number of these stocks retrenched significantly which coincided with a synchronised broad retrenchment across most major asset classes, particularly in the fourth quarter. This made it difficult to achieve positive outcomes from Quilter Investor's diversified investment solutions.

While we are conscious that these unusual market conditions meant that short-term performance in certain portfolios was disappointing, our multi-asset solutions are aligned to our advice process. We remain particularly pleased with the medium and longer-term performance of our largest ranges, Cirilium and Wealth Select, as the ability to deliver over a longer-term timeframe is how the products are positioned in the market.

Quilter Cheviot's overall performance remained consistently good across all time periods relative to ARC benchmarks (to the end of September 2018 – the most recent quarter for which the detailed ARC comparisons are available as a benchmark). Notably, performance remains top quartile on a 10 year horizon. Since Quilter's 2018 Interim Results, the five year performance in ARC Balance Asset and ARC Steady Growth categories declined from first to second quartile. This was a function of a particularly strong quarter dropping out of the five year rolling period and being replaced by a quarter of more normal performance.

Developing innovative investment solutions that give customers the confidence to invest for their future, is a key focus for Quilter Investors.

Hinesh Patel
Portfolio Manager
Quilter Investors

2. Advice and Wealth Management growth

We will grow our Advice business by adding advisers through recruitment and acquisitions, embedding recently acquired firms and supporting the Financial Adviser School intake and graduates as well as supporting our advisers to improve their individual productivity. We will continue to develop our national advice business including through selective targeted acquisitions. We will add to our discretionary investment managers to support the growth of our investment and discretionary fund management businesses.

KPIs
- NCCF/Opening AuMA
- Integrated net flows
- Adjusted profit before tax
- Restricted financial planners
- Investment managers

2018 performance

Growth in adjusted profit*

24%

2017: 39%

Stable Quilter Cheviot, Quilter Investors and Quilter Financial Planning total AuM* despite challenging market environment

£41.2bn

2017: £41.7bn

Growth in RFPs

4%

2017: 10%

Growth in investment managers

(5%)

2017: 4%

* See page 204 for alternative performance measure definitions.

2018 Performance

We are growing our advice and wealth management businesses through recruiting, training and retaining advisers and investment managers.

Advice:

In today's increasingly complex world, it is difficult for a one-or-two person independent financial adviser operation to offer whole-of-market advice. Quilter offers the support to allow advisers to focus on what they do best: providing high quality advice and an appropriate level of choice to their customers. Essentially we remove distractions and give to them the tools they need. This is an attractive proposition for recruiting and retaining advisers.

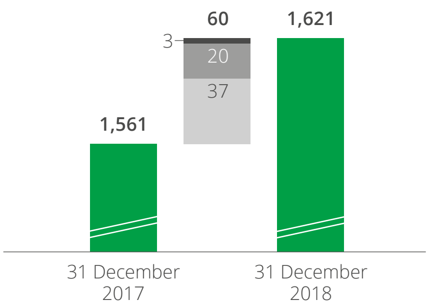
We are committed to enhancing the number and quality of financial advisers across the industry. Our financial adviser school is designed to train the financial advisers of tomorrow. In September we were delighted to announce, alongside its rebranding to Quilter Financial Adviser School, the expansion of the school's offering. As well as now giving students the opportunity to obtain their Advanced Diploma, Quilter will fully fund training programmes for anyone who wishes to become an RFP within the Quilter advice network. The School aims to substantially increase the number of people entering the advice profession and we expect to retain an increasing proportion of those graduates within Quilter.

During the year we added to our advice capabilities within PCA, completing 14 small bolt-on acquisitions. A key part of our strategy has been to integrate and embed these newly acquired firms and to support our advisers to improve their individual productivity.

Wealth Management:

We are a leading provider of investment solutions in a growing market with a robust and structured investment process, we believe Quilter Investors to be a very scaleable business. In 2018 we built out the technology and employee infrastructure supporting Quilter Investors and its investment managers as it prepared to separate from our Single Strategy asset management business. We added 35 employees to the team in 2018 and expect to welcome a further c.20 people in 2019.

Growth of RFPs



■ Acquisition
■ Transfer independent to restricted
■ Net organic recruitment

We have continued to invest in growing the number of managers in the Quilter Cheviot investment team, increasing the headcount to 168 by June 2018. Following Listing we saw a small number of resignations from a particular cohort of IMs, with the headcount falling to 155 by year-end as a result. Growing our IM headcount is a key strategic objective – recruitment is ongoing, with a number of new starters in the pipeline.

The Financial Adviser School: Gabriela's Story

"The School has been the ideal training ground for the early stages of my career in financial services. It has provided me with support for my exams, training as well as shadowing a qualified adviser. As a result I'm delighted to have achieved my DipFA level 4 qualification, which is the industry benchmark financial adviser qualification, and I'm looking ahead to Chartership."

3. Wealth Platforms growth

Our principal objective for 2019 is to safely deliver our UK Platform Transformation Programme with high quality support for customers and advisers throughout the migration process. Once implemented, we will realise the benefits of the more modern platform with an enhanced proposition for advisers. We will maintain the focus of Quilter International's geographic footprint and ensure a high quality and value of new business. Lastly, we will seek to manage the cost base of Quilter Life Assurance down in line with revenues as the book runs off.

KPIs
- NCCF/Opening AuMA
- Integrated net flows
- Adjusted profit before tax

2018 performance

Adjusted profit* growth

3%

2017: (5%)

AuA* in Wealth Platforms

£80.7bn

2017: £84.8bn

* See page 204 for alternative performance measure definitions.

2018 performance

Wealth Solutions:

We continue to implement the UK Platform Transformation Programme in our UK Platform business. Core system completion in 2018 enabled the soft launch phase of the programme to commence in early February 2019 which continues to progress well.

For further details on the UK Platform Transformation Programme's progress through its four key stages to completion, see the Chief Executive Officer's statement, pages 8 to 11.

The new platform is intended to support our own and third-party advisers and customers. It will build on our key strengths, fill proposition gaps and allow us to continue to innovate. It will offer a wider product and investment range to our customers as described in the diagram to the right, and will significantly improve the online customer portal, providing greater accessibility and functionality.

For advisers, we will ensure we retain key experience differentiators such as the ease of use of our online portals, the level of our technical support and quality of our service. We will also add and enhance the offering in areas important to advisers such as improved back office integration to adviser systems, enhanced discretionary fund management functionality and improved client data reporting.

New UK Platform functionality

Building on our key strengths and filling proposition gaps.

	Current platform	New platform
General Investment Accounts	✓	✓
ISA	✓	✓
Personal pension	✓	✓
Onshore bond	✓	✓
Discretionary fund management	✓ (limited)	✓
Cash account		✓
Investment trusts		✓
Exchange-traded funds ("ETFs")		✓
Self-invested pension plan ("SIPP")		✓
Junior ISAs		✓
Adviser back office integration	✓ (limited)	✓

International:

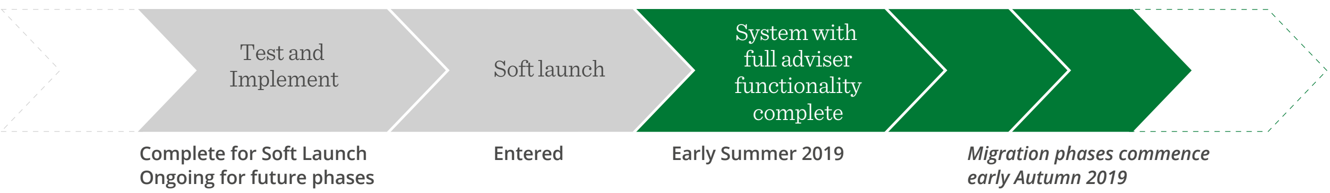
Over the past two years Quilter International has withdrawn from over 80 overseas markets, placed renewed emphasis on best practice, and targeted higher quality new business. These changes have put the more focused business in a stronger position for long-term success and positioned it well for regulatory change in the overseas markets in which it operates. This has affected its performance in the short term, with NCCF down 79% year on year.

Life Assurance:

As disclosed at Listing, the institutional book of business in Quilter Life Assurance is expected to run-off over the next one to two years. The remaining retail book is expected to run-off at c.15% net outflow per annum. In 2018, the business performed broadly in line with guidance.

UK Platform Transformation Programme delivery timeline

Costs expected to be towards the upper end of £120 to £160 million guidance range.



4. Optimisation

We will focus on driving operational leverage through building enhanced scale and delivering efficiency. Our Optimisation programme will take a phased, multi-year approach and will be measured against the improvement in our operating margin achieved.

KPIs
- Operating margin
- Adjusted profit before tax

Other performance indicators
- Achievement of target operating margin
- Control of costs to deliver the programme

2018 performance

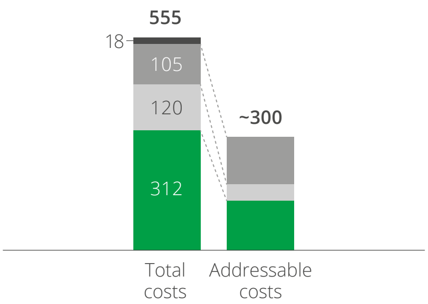
Optimisation means making Quilter the best version of ourselves that we can be: to eliminate the inefficiencies in our operational processes.

While our phased, multi-year approach to the programme was detailed to shareholders and the analyst community at our Preliminary 2018 Results announcement in March 2019, early Optimisation efficiencies were captured in 2018. These early savings were largely achieved through cost discipline, reducing the cost base by approximately £11 million during the year. Total costs to deliver the programme are expected to be c.£75 million, £7 million of which was incurred in 2018.

Throughout 2019 we will mobilise the efficiency initiatives as planned, with the aim of delivering improvements in operational performance. Examples of these initiatives include delayering and streamlining the business; automating more of the advice process to make case file checking less manual while improving our control environment; and implementing a new single general ledger system across the business, integrating the business onto one common system. In phase one we will protect and ring-fence business areas involved in the UK Platform Transformation Programme until completion of the project in order not to jeopardise the quality and safety of its delivery.

For further details on Optimisation see the Chief Executive Officer's statement, page 8 to 11.

Optimisation focused on addressable cost base (£m)



- Front office & operations
- IT & Development
- Support functions
- Other

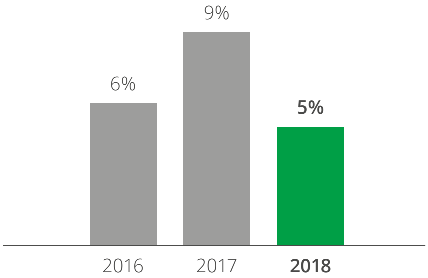
Key performance indicators

Quilter has identified the key performance indicators it believes are useful in assessing the Group's performance against its strategic priorities. They encompass both financial and non-financial measures, as set out below.

NCCF/opening assets under management and administration ("AuMA")*

Definition
Total net flows as a percentage of opening AuMA (excluding Quilter Life Assurance). This measure evaluates the level of flows during the period in relation to the asset base, discretely from market movements.

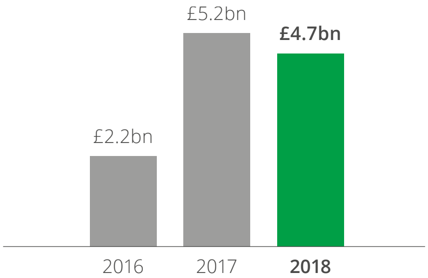
Performance
NCCF as a percentage of opening AuMA of 5%, which demonstrates the robustness of our business model in a difficult environment, and is in line with our 5% medium-term target. The 5% compares to 9% in the prior year when markets were more stable and investor sentiment considerably more buoyant.



Integrated flows*

Definition
Total NCCF (excluding Quilter Life Assurance) that has flowed through two or more businesses within Quilter. It is a lead indicator of revenue generation driven by an integrated business model.

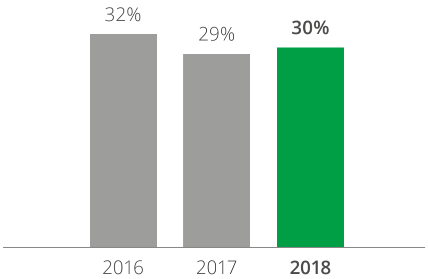
Performance
Integrated flows remained resilient at £4.7 billion, in a year of challenging markets as investors remained cautious following Brexit and other geopolitical concerns, particularly in the latter part of the year.



Operating margin*

Definition
Represents adjusted profit before tax from continuing operations divided by total fee revenue, including life tax contributions and adviser fees. Operating margin excludes financing costs. This is an efficiency measure that reflects the percentage of net revenues that become adjusted profit.

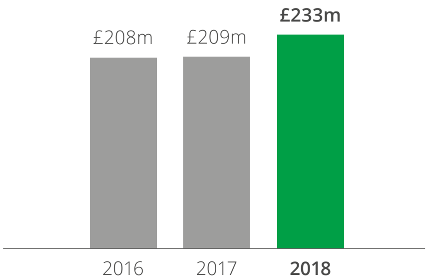
Performance
The operating margin in 2018 increased to 30% reflecting both the increase in revenue and a strengthened cost discipline.



Adjusted profit* before tax

Definition
Represents the underlying operating profit of the Group. It therefore adjusts IFRS profits for key adjusting items such as goodwill impairment and amortisation of intangibles, business transformation costs, debt interest and life tax contributions, excluding non-core operations, as detailed in note 7 in the financial statements.

Performance
Adjusted profit before tax was £233 million, up 11% from 2017, driven by higher average AuMA and increased revenue, and strengthened cost discipline.



* See page 204 for alternative performance measure definitions.

R This KPI is linked to Remuneration. See Remuneration report on page 64 for more information.

Total shareholder return ("TSR") R

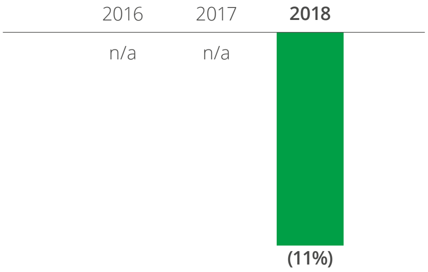
Definition

The difference between the opening and closing share price[1] over the period, plus any dividends paid during that period.

[1] Performance shown for QLT as traded on the London Stock Exchange.

Performance

Quilter listed on 25 June 2018 at a price of 145 pence and closed the year at 118 pence, having paid a special interim dividend of 12.0 pence per share during the period. Share price weakness was seen across the industry sector in the second half of 2018 as the effect of Brexit and other geopolitical issues weighed on sentiment and outlooks of the Diversified Financial stocks more generally.



IFRS profit before tax R

Definition

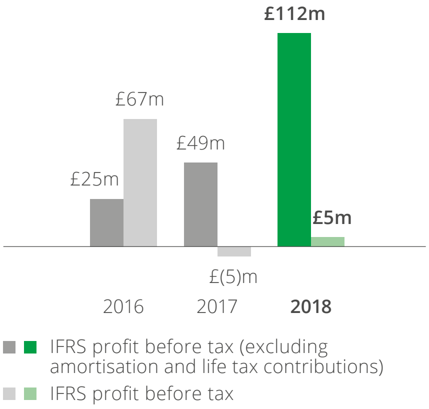
IFRS profit before tax from continuing operations prepared in accordance with International Financial Reporting Standards.

For remuneration purposes IFRS profit before tax excludes amortisation of intangible assets and life tax contributions.

Performance

IFRS profit before tax from continuing operations in 2018 is £5 million, which has increased from a loss of £(5) million primarily due to the reasons outlined below and the life tax contributions of £101 million in 2018.

IFRS profit before tax from continuing operations, excluding amortisation and life tax contributions of £112 million, in 2018 is £63 million higher than 2017 primarily due to higher adjusted profit, lower one-off Managed Separation costs, lower finance costs and non-repetition of the £69 million voluntary customer remediation costs recognised in 2017.



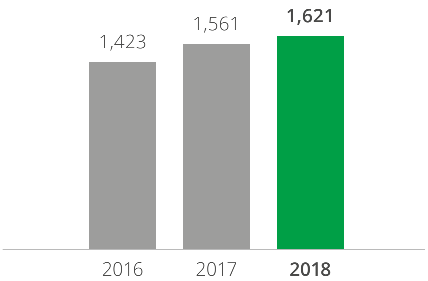
Restricted financial planners ("RFPs")

Definition

Number of advisers licensed to advise clients across Pension, Investment and Protection solutions, but only permitted to recommend products and solutions from providers on the Quilter Financial Planning Restricted Panel.

Performance

We achieved solid growth of 4% in RFPs in 2018. We were disappointed with the rate of growth in the first half of the year and consequently it was an area of particular focus in the second half, when the majority of this growth was achieved.



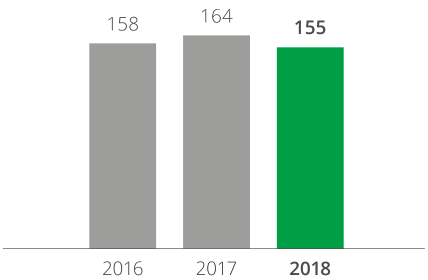
Investment managers ("IMs")

Definition

Number of individuals who provide investment management services to private clients of Quilter Cheviot in line with individual circumstances and investment objectives.

Performance

During the last 18 months, we have been investing in the Quilter Cheviot investment team with IM headcount increasing to 168 by June 2018. Following Listing, we saw a small number of resignations from a particular cohort of IMs, with the headcount falling to 155 by year-end as a result. Growing our IM numbers is a key focus for 2019.



Financial review

Strong adjusted profit growth despite challenging market conditions in the fourth quarter.

Tim Tookey
Chief Financial Officer

Review of financial performance

Overview

Our financial performance in 2018 demonstrates a strong set of results despite investor uncertainty arising from Brexit and other geopolitical issues which dominated over the course of the year, in particular in the fourth quarter. Despite the challenging external environment, Net Client Cash Flow ("NCCF") for the Group, excluding Quilter Life Assurance, was £4.7 billion, representing 5% of opening Assets under Management and Administration ("AuMA"), in line with our medium-term target. AuMA decreased by 4% to £109.3 billion as a result of negative market movements, partly offset by positive NCCF. Adjusted profit before tax grew strongly in the year, up 11% to £233 million.

NCCF

NCCF performance was solid at £2.7 billion, in a year where investor sentiment progressively weakened, in part due to Brexit uncertainties and the market declines experienced late in the year. There was a market-wide reduction of 85% year-on-year in net retail flows as reported by the Investment Association. In comparison, 2017 NCCF of £6.3 billion was achieved when markets were more stable and investor sentiment considerably more buoyant. NCCF as a percentage of opening AuMA (excluding Quilter Life Assurance) was 5%, in line with our medium-term target, which demonstrates the robustness of our business model in a difficult environment. Excluding Quilter Life Assurance, the Group's NCCF was £4.7 billion (2017: £7.6 billion), down 38%, representing weaker flows across all businesses. Quilter International experienced particular headwinds due to previously disclosed changes in the regulatory environment which impacted distribution.

Integrated flows (excluding Quilter Life Assurance) were £4.7 billion, down 10% from 2017 (£5.2 billion), due to investor uncertainty arising from Brexit and other geopolitical issues which dominated over the course of the year, particularly in the fourth quarter. Quilter Wealth Solutions experienced a decline in flows as a result of the anticipated slowdown in transfers from Defined Benefit ("DB") schemes. The restricted channel of Quilter Financial Planning accounted for £2.4 billion, 86% of Quilter Investors' net flows (2017: £2.5 billion, 76%), and £1.1 billion, 35% of Quilter Wealth Solutions net flows (2017: £1.2 billion, 27%). Integrated flows from Quilter Financial Planning and Quilter Private Client Advisers into Quilter Cheviot amounted to £300 million (2017: £238 million) of which £122 million (2017: £129 million) was through Quilter Private Client Advisers. The Group's total direct flows (excl. Quilter Life Assurance) were £2.2 billion, down 57% (2017: £5.1 billion) primarily driven by both the challenging trading environment and reduced transfers of DB to Defined Contribution ("DC") pension plans within the Independent Financial Adviser ("IFA") channel. This also influenced a reduction in Quilter Wealth Solutions direct flows to £2.0 billion (2017: £3.3 billion). The changing regulatory environment in Quilter International impacted direct flows in this market, where we recorded a reduction in net flows from £1.4 billion in 2017 to £0.3 billion in 2018.

Integrated flows (excluding Quilter Life Assurance) (£bn)	2018	2017	% Change
Total integrated flows	4.7	5.2	(10%)
Direct flows from third party distribution	2.2	5.1	(57%)
Eliminations	(2.2)	(2.7)	19%
Total Quilter plc NCCF (excluding Quilter Life Assurance)	4.7	7.6	(38%)

NCCF for the Advice and Wealth Management segment was £3.5 billion, down 20% from 2017 (£4.4 billion), reflecting a slower second half of the year, particularly within Quilter Investors where net flows declined by 15% for the year to £2.8 billion (2017: £3.3 billion). Net flows of £2.4 billion (2017: £2.5 billion) were from the restricted channel, of which £1.1 billion (2017: £1.1 billion) were from third party platforms and £1.3 billion (2017: £1.4 billion) from our own platform, Quilter Wealth Solutions. Independent third party net flows through Quilter Wealth Solutions to Quilter Investors were £0.8 billion for the year (2017: £1.3 billion). Quilter Cheviot experienced slower net flows in the second half of the year, with net flows for the full year of £0.7 billion compared to £1.1 billion in 2017.

The Wealth Platforms segment contributed NCCF of £1.1 billion (2017: £4.3 billion). Quilter Wealth Solutions had net flows of £3.1 billion, down 31% on prior year. Gross sales of £7.7 billion (2017: £8.9 billion) were down £1.2 billion as a result of the difficult trading environment experienced in the second half of the year, reduced transfers of DB schemes to DC schemes, which were down 24% to £1.6 billion, reflecting the impact of increased FCA scrutiny and resultant impact on IFA PII ("Professional Indemnity Insurance") availability and affordability. Overall, our pension propositions continue to perform well, with gross sales of £4.7 billion, representing 60% of total Quilter Wealth Solutions gross sales (2017: £5.4 billion representing 61% of 2017 gross sales). Quilter International had net inflows of £0.3 billion, down 79% on prior year (2017: £1.4 billion, following a very strong final quarter in 2017). International markets remain challenging, particularly given the changing regulatory environment and the Insurance Distribution Directive covering European and UK territories, which came into effect on 1 October 2018. The reduction in International flows also reflects the Group's strategy to reduce its offshore geographic footprint and focus on the quality of new business. Quilter Life Assurance had net outflows of £2.3 billion, up from £1.6 billion of net outflows in 2017, with the increase

Key financial highlights

Year ended 31 December 2018 Continuing operations only	Advice & Wealth Management	Wealth Platforms	Head Office & Eliminations	Total Group
Gross sales (£bn)	8.0	10.1	(3.4)	**14.7**
Gross outflows (£bn)	(4.5)	(9.0)	1.5	**(12.0)**
NCCF (£bn)	3.5	1.1	(1.9)	**2.7**
NCCF (excluding Quilter Life Assurance) (£bn)	3.5	3.4	(2.2)	**4.7**
Integrated flows (excluding Quilter Life Assurance) (£bn)	3.6	1.1	–	**4.7**
AuMA (£bn)	41.2	80.7	(12.6)	**109.3**
NCCF/opening AuMA (excluding Quilter Life Assurance) (%)	8%	5%	n/a	**5%**
Asset retention (excluding Quilter Life Assurance) (%)	89%	91%	n/a	**91%**

Year ended 31 December 2017 Continuing operations only	Advice & Wealth Management	Wealth Platforms	Head Office & Eliminations	Total Group
Gross sales (£bn)	8.1	12.8	(3.6)	17.3
Gross outflows (£bn)	(3.7)	(8.5)	1.2	(11.0)
NCCF (£bn)	4.4	4.3	(2.4)	6.3
NCCF (excluding Quilter Life Assurance) (£bn)	4.4	5.9	(2.7)	7.6
Integrated flows (excluding Quilter Life Assurance) (£bn)	4.0	1.2	–	5.2
AuMA (£bn)	41.7	84.8	(12.1)	114.4
NCCF/opening AuMA (excluding Quilter Life Assurance) (%)	13%	10%	n/a	9%
Asset retention (excluding Quilter Life Assurance) (%)	89%	90%	n/a	90%

primarily due to the closure of the institutional life book of business announced in 2017 which had net outflows of £1.3 billion in 2018.

Productivity for Quilter Financial Planning remained broadly stable at £1.7 million per RFP (2017: £1.8 million per RFP) with a moderate reduction in the second half of the year reflective of broader market challenges that influenced investor confidence. The underlying trend remains positive with growth in total flows from our employed advice distribution model within Quilter Private Clients and benefits from the full integration and adoption of our investment proposition by RFPs that joined as part of the Caerus acquisition in June 2017. RFP headcount of 1,621 represents net growth of 60 (increase of 4%) in 2018, driven by a combination of organic growth within existing, and the recruitment of new, appointed representative firms. We also continue to support IFAs converting to adopt our restricted advice proposition. New RFP appointments have been partially offset by natural attrition of advisers, with turnover levels within our appointed representative firms staying relatively stable year on year. We expect further growth in RFP numbers in 2019 following the repurposing of our Financial Adviser School, which we announced in September 2018. The newly rebranded Quilter Financial Adviser School will fully fund training programmes for anyone who wishes to become an RFP within the Quilter advice network.

Asset retention (excl. Quilter Life Assurance) has improved marginally to 91%, as a result of our comprehensive product and proposition offering, high customer service standards, and our continued focus on good customer outcomes.

AuMA

Year-end AuMA (including Quilter Life Assurance) was £109.3 billion, down 4% in the year, driven by negative market performance of £7.8 billion which was primarily experienced in the fourth quarter. This was partially offset by positive NCCF of £2.7 billion.

Quilter Investors' AuM was £17.8 billion, up 5% (2017: £16.9 billion). The Cirilium fund range remained stable at £9.0 billion of AuM and the WealthSelect fund range increased by 15% to £5.5 billion. Quilter Cheviot AuM of £22.4 billion decreased by 5% in the year primarily as a result of negative market movements. Quilter Wealth Solutions' AuA decreased by 1% to £49.9 billion, which comprised primarily of £23.2 billion within pension propositions (of which £3.0 billion has been generated from the restricted channel and £20.2 billion from third party advisers) and £14.5 billion of ISA products.

Adjusted profit before tax

Adjusted profit reflects the Directors' view of the underlying performance of the Group and is used for management decision making and internal performance management. Adjusted profit is a non-GAAP measure which adjusts IFRS profit for specific agreed items, as detailed in note 7(a) in the consolidated financial statements, and is the profit measure presented in the Group's segmental reporting. Adjusted profit before tax for 2018 was £233 million, 11% higher than the prior year (2017: £209 million), due to higher revenue, partially offset by higher costs.

Net management fee* in 2018 of £647 million was 9% higher than the £591 million in 2017. Net management fee revenue is primarily influenced by the value of the assets that we manage and administer, with different parts of the business employing different valuation points for charging the management fees. Average AuMA for 2018 was £114.7 billion compared to £106.1 billion for 2017, an increase of 9%, in line with our income growth.

Financial performance (from continuing operations only) 2018 (£m)	Advice & Wealth Management	Wealth Platforms	Head Office	Total Group
Net management fee*	276	371	–	**647**
Other revenue*	97	43	1	**141**
Total fee revenue	**373**	**414**	**1**	**788**
Expenses	(271)	(252)	(32)	**(555)**
Adjusted profit before tax	**102**	**162**	**(31)**	**233**
Tax				**(6)**
Adjusted profit after tax				**227**
Operating margin* (%)	27%	39%		**30%**
Revenue margin* (bps)	65	45		**57**

Financial performance (from continuing operations only) 2017 (£m)	Advice & Wealth Management	Wealth Platforms	Head Office	Total Group
Net management fee	234	357	–	591
Other revenue	82	54	1	137
Total fee revenue	316	411	1	728
Expenses	(234)	(253)	(32)	(519)
Adjusted profit before tax	82	158	(31)	209
Tax				(14)
Adjusted profit after tax				195
Operating margin (%)	26%	38%		29%
Revenue margin (bps)	63	46		56

* See page 204 for alternative performance measure definitions.

Other revenue* for 2018 was £141 million, 3% up on 2017 (£137 million) primarily as a result of growth in advice fees of 13% in Quilter Financial Planning with the increase in the number of RFPs, partially offset by higher claims experience and actuarial assumption changes in Quilter Life Assurance.

Expenses increased 7% from £519 million to £555 million during the year. Increases include investment in the business, the expected higher costs of being a standalone listed company, and the incremental costs in relation to the Long-Term Incentive Plan ("LTIP"), as well as the impact of inflation. The Group's overall operating margin increased to 30% (2017: 29%) which is ahead of previous guidance as a result of an increased focus on costs and early savings achieved through Optimisation.

Total fee revenue

The Group's total fee revenue increased by 8% to £788 million due to higher average AuMA, primarily driven by more favourable market conditions through to September 2018 despite weakening net flows throughout the year. Net management fee revenue, which principally comprises asset-based revenues including fixed fees, increased by £56 million to £647 million during the year, accounting for 82% of total fee revenue. Other revenue for the Group increased 3% to £141 million, primarily within Quilter Financial Planning, as a result of the growth in advice fees with the increase in the number of RFPs.

Total fee revenue for the Advice and Wealth Management segment grew by 18% to £373 million, with average assets increasing 15% during the year, with higher net management fees primarily from Quilter Investors. Other revenue increased by £15 million to £97 million, principally due to the growth in advice fees in Quilter Financial Planning, driven in part by the continued acquisitions in this part of the business.

Total fee revenue for the Wealth Platforms segment in 2018 was broadly flat at £414 million (2017: £411 million), due to higher fund-based revenue offset by a decline in other revenue. Other revenue decreased due to higher claims experience within the protection book of business, actuarial assumption changes and lower protection product volumes. Net management fee revenue for Quilter Wealth Solutions increased by 8% to £168 million as a result of increased average AuA from £45.9 billion to £51.5 billion, and Quilter International benefitted from foreign exchange rate effects and improved interest-related margins during the year. Net management fees for Quilter Life Assurance increased by £2 million year on year, where lower underlying fund-based revenue from both the retail and institutional book run-off were more than offset by one-off benefits from provision releases related to the earlier introduction of capped exit fees on certain pension products and other benefits from the movement in life charge provision.

The Group's blended revenue margin of 57 basis points ("bps") was a slight improvement upon the prior year (2017: 56 bps), with a mixture of greater integrated assets (where we generate revenues for more than one service provision), a favourable impact from asset, and fund selection mix as well as benefits from adjustments relating to life tax contributions.

The revenue margin* for Advice and Wealth Management of 65 bps was 2 bps higher compared to the prior year, due to an increase in the revenue margin for Quilter Investors of 8 bps to 59 bps, reflecting a change in the overall mix of AuM towards investment in products which earn a higher margin, and additional revenue now recognised from the WealthSelect funds. Quilter Cheviot's revenue margin remained in line with the prior year at 72 bps.

The revenue margin for Wealth Platforms decreased by 1 bp from the prior year to 45 bps. This decline was driven by lower margin gross sales for Quilter Wealth Solutions and gross outflows of higher margin products for Quilter International. The revenue margin for Quilter Life Assurance increased by 9 bps to 69 bps, reflecting the product mix change benefit from the continued run-off of the very low margin institutional life book and benefits from adjustments relating to life tax contributions.

Expenses

Expenses increased by £36 million, up 7% to £555 million (2017: £519 million) in the year, which was driven by increased costs for Quilter Investors as the functionality for the business is built out to be standalone, the inclusion of the full run rate costs for Caerus, which was acquired on 1 June 2017, and the continued expansion of the Quilter Private Client Advisers business, which has undertaken 14 small acquisitions over the past 12 months. Expenses also increased due to the expected higher costs of being a standalone listed company, and the incremental costs in relation to the LTIP, as well as the impact of inflation. The overall impact of these increases is lower than originally anticipated due to strengthened cost disciplines across the business and early savings achieved through Optimisation.

Expense split (£m)	2018	2017
Front office and operations	312	293
IT and development	120	120
Support functions	105	89
Other	18	17
Expenses	555	519

Front office and operations expenses increased by 6% to £312 million during the year (2017: £293 million), primarily due to the investment in the business with the acquisitions for Quilter Private Client Advisers, the inclusion of the full run rate of expenses for Caerus acquired on 1 June 2017 and increased cost of being a standalone listed company.

IT and development costs remained flat year on year at £120 million, mainly due to increased IT run costs to facilitate growth in the business and regulatory change, and the increased costs of being a standalone listed company, offset by a reduction in development costs.

Support function expenses relate to middle and back office expenses which have increased by 18% to £105 million (2017: £89 million), driven primarily by the increased cost of being a standalone listed company.

Other costs include PII, charges for regulation, and licencing fees, which remained broadly in line with 2017 levels, primarily due to 2018 reflecting nine months of the FCA regulatory fees compared to twelve months in 2017. As noted at the half year results, the FCA changed the period to which regulatory charges are applied during 2018, and these are recognised in full at the point the charge is levied.

Taxation

The effective tax rate ("ETR") on adjusted profit was 3% (2017: 7%). The Group's ETR is lower than the UK corporation tax rate of 19%, principally due to profits from Quilter International being taxed at lower rates than the UK and utilisation of brought forward capital losses. The ETR is expected to normalise to 12%-14% within a couple of years, however this will be dependent upon a number of factors including the level of Quilter International profits, the utilisation of capital losses which can be volatile, as well as the UK corporation tax rate which is due to reduce to 17% from April 2020.

Earnings Per Share ("EPS")

Basic EPS was 26.6 pence, compared to 8.6 pence in 2017. During the year, the number of shares in issue increased to 1,902 million following completion of the share capital restructure as part of the separation from Old Mutual plc. The shares in issue for the basic EPS calculation were 1,832 million (after deduction of shares in treasury of 70 million which are held in respect of staff share schemes within employee benefit trusts). Comparative EPS has been restated accordingly. Adjusted diluted EPS increased by 15% to 12.3 pence (2017: 10.7 pence) as a result of increased adjusted profit and a lower ETR on adjusted profit. The shares in issue for the basis of the adjusted diluted EPS calculation was 1,839 million (following inclusion of the dilutive effect of shares and options awarded to employees under share-based payment arrangements – potential ordinary shares, of 7 million). Shares in Treasury are expected to vest over the next two years at which point future share awards are anticipated to be satisfied through the purchase of shares from the market.

Optimisation

We have maintained strong cost discipline during the year supplemented by the first phase of our Optimisation programme, which predominantly focuses on improving our operational efficiency within middle and back office activities in the near to medium-term. We expect the programme to deliver a 2 percentage point increase in operating margin in 2020, and a further 2 percentage point increase by the end of 2021. This increases our previous 2020 guidance to 32% operating margin. Given operating margin is a function of income and costs, this target assumes broadly normal market performance from around current levels together with steady net flows. The one-off costs to deliver Optimisation are anticipated to be c. £75 million over a three-year period, of which £7 million were incurred in 2018.

Reconciliation of adjusted profit to IFRS profit

IFRS profit after tax from continuing operations was £174 million for 2018, compared to £(46) million in 2017 and has increased due to a higher level of adjusted profit, lower finance costs and £69 million of voluntary customer remediation costs incurred in 2017. The table below reconciles the Group's adjusted profit to the IFRS results in 2018 and 2017.

Adjusted profit reflects the profit from the Group's core operations, and is calculated by making certain adjustments to IFRS profit to reflect the Directors' view of the Group's underlying performance. Details of these adjustments are provided in note 7(a) of the consolidated financial statements and, in respect of tax, in note 13(c).

Business transformation costs of £84 million in 2018 (2017: £89 million) included £58 million incurred on the UK Platform Transformation Programme, £19 million of one-off costs associated with the separation of Quilter Investors as a result of the sale of the Single Strategy asset management business in June, and £7 million of costs in relation to the Optimisation programme. In 2017, the costs associated with the UK Platform Transformation Programme included £21 million relating to the new programme with FNZ and £53 million relating to the previous programme, including the contracts with IFDS, which came to an end by mutual agreement with effect from 2 May 2017.

Managed Separation costs were £24 million (2017: £32 million), reflecting costs associated with our successful separation from Old Mutual plc and Listing in June. Remaining future costs of Managed Separation of approximately £12 million, principally in respect of rebrand and residual systems activity which are in line with previous cost guidance, are expected to be incurred in 2019.

Finance costs were £13 million (2017: £39 million). The prior year includes the cost of interest and finance charges on the Group's borrowings from Old Mutual plc. As previously reported, these were converted into equity or repaid in February 2018.

Policyholder tax adjustments of £101 million in 2018 (2017: £17 million) relate to the removal of distortions arising from the decline in markets in the fourth quarter of 2018 that can, in turn, lead to volatility in the policyholder tax charge between periods.

Reconciliation of adjusted profit to profit after tax For the year ended 31 December 2018 (£m)	2018	2017	% change
Adjusted profit before tax			
Advice and Wealth Management	102	82	24%
Wealth Platforms	162	158	3%
Head Office	(31)	(31)	–
Adjusted profit before tax	**233**	209	11%
Reconciliation of adjusted profit to profit after tax			
Adjusting for the following:			
Goodwill impairment and impact of acquisition accounting	(50)	(54)	7%
Profit on the acquisition and re-measurement of subsidiaries	–	3	
Business transformation costs	(84)	(89)	6%
Managed Separation costs	(24)	(32)	25%
Finance costs	(13)	(39)	67%
Voluntary customer remediation provision	–	(69)	
Policyholder tax adjustments	101	17	494%
Total adjusting items before tax	**(70)**	(263)	73%
Profit/(Loss) before tax attributable to equity profits	**163**	(54)	402%
Income tax (expense)/credit attributable to policyholder returns	(158)	49	(422%)
Profit/(Loss) before tax from continuing operations	**5**	(5)	200%
Income tax credit/(expense) on continuing operations	169	(41)	512%
Profit/(Loss) after tax from continuing operations	**174**	(46)	478%
Profit after tax from discontinued operations	314	203	55%
Profit after tax for the year	**488**	157	211%

Cash generation*

Cash generation measures the proportion of adjusted profit that is recognised in the form of cash generated from operations.

Cash generated from operations is calculated by removing non-cash generative items from adjusted profit, such as deferrals required under IFRS to spread fee income and acquisition costs over the lives of the underlying contracts with customers. It is stated after deducting an allowance for net cash required to support the capital requirements generated by new business offset by a release of capital from the in-force book.

The Group (excluding the now disposed Single Strategy asset management business) achieved a cash generation rate of 88% of adjusted profit over 2018. This is ahead of the 80% conversion guidance provided at the time of IPO. The 2018 cash generation rate reflects improvements to the attribution of changes in capital requirements to underlying drivers such as new business and the capital released from the in-force book.

* See page 204 for alternative performance measure definitions.

Review of Financial Position

Capital and liquidity

The Group aims to maintain a strong solvency and liquidity position through disciplined management of capital resources and risks. This is important given the security and peace of mind that it affords customers and advisers.

The Group maintains a disciplined approach to capital, in order to balance its current and anticipated liquidity, regulatory capital and investment needs, with a view to returning excess capital to shareholders as appropriate. As part of its disciplined approach to capital, the Group has a prudent capital management and liquidity policy.

On 28 February 2018, the Group fully drew down on a £300 million senior unsecured term loan facility with a number of relationship banks. This term loan was fully repaid on 29 June 2018 from the proceeds of the sale of the Single Strategy asset management business.

Also on 28 February 2018, the Group entered into a £125 million revolving credit facility, which remains undrawn, and issued a £200 million subordinated debt security. The subordinated debt security was issued in the form of a 10-year Tier 2 bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478% per annum. The debt security is listed on the London Stock Exchange and has a Fitch instrument rating of BBB-. On 13 April 2018, the debt security was sold by J.P. Morgan Securities plc to traditional debt capital market investors. Including the amortisation of set-up costs, financing costs of approximately £10 million per year are incurred in respect of this security.

The subordinated debt security and the revolving credit facility are in place to ensure that the Group has sufficient capital and liquidity to maintain strong capital ratios and free cash balances to withstand severe but plausible stress scenarios. The full amount of the subordinated debt security remains outstanding as at 31 December 2018, representing a leverage ratio of 12% (defined as the ratio of debt to debt plus the consolidated IFRS equity after deducting intangible assets) before the payment of the recommended final dividend.

Solvency II

The Group Solvency II surplus is £1,058 million at 31 December 2018 (2017: £651 million), representing a Solvency II ratio of 190% (2017: 154%) calculated under the standard formula. The Solvency II information in this results disclosure has not been audited.

Group regulatory capital (£m)	At 31 December 2018[1]	At 31 December 2017[2]
Own funds[3]	**2,237**	1,849
Solvency capital requirement ("SCR")	**1,179**	1,198
Solvency II surplus	**1,058**	651
Solvency II coverage ratio	**190%**	154%

1 Based on preliminary estimates. Formal annual filing due to the PRA by 3 June 2019.
2 As represented within the Annual 2017 Solvency II submission of the Old Mutual plc group, the group Quilter plc previously formed part of, to the Prudential Regulation Authority (PRA). Own funds include a £566 million subordinated loan from the parent company. This subordinated loan was effectively converted to equity during H1 2018, following the acquisition of the entity holding the loan.
3 Group own funds are stated after allowing for the impact of the recommended final dividend payment relating to 2018 of £61 million.

The 36% increase in the Group Solvency II ratio is primarily due to corporate activity in the year with the two main contributors being the issuance of the Tier 2 bond in February 2018 as described above and the sale of Single Strategy asset management business in June 2018, partly offset by the special interim dividend paid to shareholders in September 2018 and the recommended final dividend payment relating to 2018.

The Board believes that the Group Solvency II surplus includes sufficient free cash and capital to complete all committed strategic investments (including the UK Platform Transformation Programme). The impact of this prudent policy is that Quilter expects to continue to maintain a solvency position in excess of its target in the near term.

Composition of qualifying Solvency II capital

The Group own funds for Solvency II purposes reflect the resources of the underlying businesses after excluding the recommended final dividend of £61 million. The Group own funds include the Quilter plc issued subordinated debt security which qualifies as capital under Solvency II. The composition of own funds by tier is presented in the table below.

Group own funds (£m)	At 31 December 2018
Tier 1[1]	**2,036**
Tier 2[2]	**201**
Total Group Solvency II own funds	**2,237**

1 All Tier 1 capital is unrestricted for tiering purposes.
2 Comprises a Solvency II compliant subordinated debt security in the form of a Tier 2 bond, which was issued at £200 million in February 2018.

The Group's Solvency Capital Requirements ("SCR") is covered by Tier 1 capital, which represents 173% of the Group SCR of £1,179 million. Tier 1 capital represents 91% of Group Solvency II own funds. Tier 2 capital represents 9% of Group Solvency II own funds and 19% of the Group surplus.

Net Asset Value ("NAV")

The NAV of the Group was £2.0 billion at 31 December 2018 (31 December 2017: £1.1 billion). The increase reflects the conversion of previous loans from Old Mutual plc into equity in February 2018, the increased resources following the gain of £292 million on the sale of the Single Strategy business and is after the £221 million special interim dividend paid in September 2018. The NAV at 31 December 2018 is stated before the recommended final dividend of £61 million.

Dividend

The Board has recommended a final dividend of 3.3 pence per share, in line with our dividend policy. A special interim dividend of 12.0 pence per share was paid on 21 September 2018, returning £221 million to shareholders from the surplus proceeds from the sale of the Single Strategy asset management business. Subject to shareholder approval, the recommended final dividend will be paid on 20 May 2019 to shareholders on the UK and South African share registers on 26 April 2019. For Shareholders on our South African share register a dividend of 61.92028 South African cents per share will be paid on 20 May 2019, using an exchange rate of 18.76372.

Return on Equity ("RoE")*

Adjusted RoE for the period ended 31 December 2018, calculated as adjusted profit after tax divided by average equity, was 12.9%. This remained broadly stable with the adjusted RoE of 12.7% for the full year ended 31 December 2017 (after adjusting equity for the acquisition of Skandia UK Limited from Old Mutual plc as part of Managed Separation and equity allocated to the discontinued operations).

* See page 204 for alternative performance measure definitions.

Holding company cash

The holding company cash statement includes cash flows generated by the three holding companies within the business: Quilter plc, Old Mutual Wealth Holdings Limited and Old Mutual Wealth UK Holding Limited. The flows associated with these companies will differ markedly from those disclosed in the statutory statement of cash flows, which comprises flows from the entire Quilter plc group.

The holding company cash statement illustrates cash received from the key trading entities within the business units together with other cash receipts, and cash paid out in respect of corporate costs and capital servicing (including interest and dividends). Other capital movements, including those in respect of acquisitions and disposals, together with funding to business units, are also included. It is an un-audited non-GAAP analysis and aims to give a more illustrative view of business cash flows as they relate to the Group's holding companies compared to the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7 which includes co-mingling of policyholder related flows.

£m	2018
Opening cash at holding companies at 1 January	**36**
Short-term loan and Tier 2 bond proceeds	**500**
Loans repaid to Old Mutual plc	**(200)**
Single Strategy asset management business sale – cash proceeds	**576**
Short-term loan repayment	**(300)**
Costs of disposal and external financing fees	**(19)**
Special interim dividend	**(221)**
Net capital movements	**336**
Managed Separation and Head Office costs	**(54)**
External debt interest	**(6)**
Net operational movements	**(60)**
Cash remittances from subsidiaries	**167**
Net capital contributions and investments	**(65)**
Other	**2**
Internal capital and strategic investments	**104**
Closing cash at holding companies at 31 December	**416**

Net capital movements

Net capital movements relate principally to transactions in respect of establishing a strong opening balance sheet in preparation for Listing. On 28 February 2018, borrowings totalling £500 million were incurred to ensure sufficient capital and liquidity to withstand severe but plausible stress scenarios. The borrowings consisted of a £200 million Tier 2 bond which raised £197 million net of external fees of £3 million (shown within the costs of disposal and external financing fees line above) and a £300 million senior unsecured term loan (plus external fees of £1 million) which was subsequently repaid.

The Single Strategy asset management business sale in June 2018 generated £576 million of cash proceeds (£15 million of costs incurred in relation to the sale are shown in the costs of disposal and external financing fees figure of £19 million) and includes a pre-completion dividend receipt of £36 million.

The main outflows relate to repayment of the £200 million loan from Old Mutual plc in February 2018 and repayment of the £300 million senior unsecured term loan following the sale of the Single Strategy business in June 2018. The £300 million senior unsecured term loan was required to bridge the period from Listing until such time as the cash consideration from the sale of the Single Strategy asset management business was received.

Following Managed Separation, a special interim dividend totalling £221 million was paid on 21 September 2018 to shareholders. This represented the net surplus proceeds from this disposal after the repayment of the outstanding £300 million senior unsecured term loan following the sale of the Single Strategy asset management business.

Net operational movements

Net operational movements for the holding companies of the Group were £60 million for the period. This was predominantly comprised of £54 million of corporate and transformation costs, which includes one-off Managed Separation and Listing costs and implementation costs for Optimisation. Interest paid of £6 million includes initial fees paid on the Tier 2 bond and establishment costs for the revolving credit facility. Interest on the Tier 2 bond is paid every six months in February and August each year.

Internal capital and strategic investments

The main inflow relates to cash remittances from the trading businesses totalling £167 million, partially offset by capital contributions of £47 million to support business unit operational activities, the Platform Transformation Programme, and to fund strategic acquisitions within Quilter Financial Planning and Quilter Private Client Advisers. The level of dividends paid to the holding companies is, where relevant, after funds have been set aside in those businesses for the Platform Transformation Programme and the voluntary client redress programme.

London property relocation

Due to the expiry of property leases in 2020 which are not able to be extended, we are planning to consolidate our London office requirements at a new location. We have a number of options under advanced consideration. The relocation will likely result in a one-off cash cost associated with the fit-out of the new premises later in 2019 and 2020, and in higher run-rate expenses which we will update the market on in due course.

Tim Tookey
Chief Financial Officer

Risk review

Quilter has a strong solvency and liquidity position and is operating within its chosen risk appetite.

Effectiveness stems from nurturing a culture where our people think and apply risk management in line with our corporate values.

Iain Wright
Chief Risk Officer

The strength of the balance sheet is tested through stress and scenario testing which shows that the solvency position is resilient to severe stress scenarios.

We consider risks that may impact our customers and risks to our business, brand and reputation as well as to our financial position.

Overview and values

2018 was a pivotal year for Quilter. In 2017 and 2018, leading up to Listing we developed our risk management framework and capabilities in preparation for our new status as a standalone listed company. We have continued to enhance our risk governance, risk processes and risk infrastructure to ensure our management of risk, both existing and emerging challenges.

We operate principally in the UK, with some overseas operations, and have businesses spanning advice, investment platform, discretionary fund management, multi-asset management and life assurance. As such we face a range of diverse risks, including risks specific to our businesses, industry risks, and a number of external threats.

Taking risk is an integral part of doing business, but this is done carefully and within a risk appetite and framework agreed with the Board. We endeavour to only take risks we understand, have the expertise to manage and where we assess that potential benefits outweigh the risks. Our risk management framework sets out the approach we take to the identification, measurement, assessment, management, monitoring and reporting of risks. Our Board sets risk appetite and regularly reviews performance against appetite.

Having a good risk management framework is not adequate by itself; its operation depends on a culture where our people act in accordance with our corporate values. We do this by ensuring an appropriate tone from the top with clear management accountability for the risks we face. This tone, reinforced by our code of conduct, influences the behaviour of our employees throughout the Group and drives a consistent consideration of risk as a natural part of decision making.

Our customers, advisers, shareholders and other stakeholders expect us to be resilient. We perform stress and scenario analysis which helps us define our management responses to stresses and ensure we have sufficient financial strength to weather unexpected severe events. Where risk exposures move or have the potential to move outside risk appetite, management takes proactive steps to ensure we continue to operate safely.

Risk profile

Our strategy is a key driver of risks within the organisation. Our external environment remains volatile, predominantly due to Brexit and market uncertainties. As a result, the risk outlook for Quilter in 2019 and beyond remains challenging. The outcome of Brexit and our current assessment is that the direct impacts are manageable given our largely UK-based business model. However, we are conscious that this position could change, resulting in significant second order impacts such as a general loss of investor confidence.

There are a number of risks that arise from our strategic priorities or that are inherent in our business model. In our day-to-day business, we are exposed to market risks, such as equity risk, arising through market movement impacts on our assets under management and administration and hence our asset-based fees. We also face conduct risk including the risks arising from providing financial advice, and insurance liability risk. In delivering an integrated business approach and enhancing our customers' value for money and experience, there are potential conflicts of interest which are identified and resolved. The transformational change from delivering our strategic initiatives heightens our operational risk exposures and we continue to manage the risks relating to the volume and complexity of this change. The delivery of the UK Platform Transformation Programme is a key objective in 2019 and our IT and business resilience will continue to be developed and tested to ensure a smooth launch. We are also actively tracking other continually evolving risks including cyber threats, regulatory change, third party risk, talent development and retention.

Principal risks and uncertainties

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. Our principal risks and uncertainties are described in the table on the following pages. These are consistent with those set out in our Listing Prospectus. The relationship between these risks and our strategic priorities set out on pages 19 to 23 is also referenced. The Board requires management to put in place actions to mitigate these risks, and controls to maintain risk exposures within acceptable levels defined by Quilter's risk appetite. Regular monitoring and reporting of risks enables continuous review and challenge of risks and actions.

Principal risks and uncertainties

The principal risks and uncertainties that could impact the Group are summarised below. As a UK-based financial services firm, the implications and economic impact of several scenarios of the UK leaving the EU in relation to financial services will influence the degree to which these risks act upon Quilter, particularly with regards to strategy, market, legal and regulatory, and third party risks, including potential disruption to Quilter's business operations and supply chain. In addition, recent quarters have seen reduced levels of investor confidence and this could deteriorate further, potentially materially further, under various scenarios related to the UK leaving the EU. A Group-wide Brexit programme is in place to actively monitor these risks and a number of actions are already in place to mitigate any implications to our business and customers including for example, establishing a regulated asset management company in Ireland.

Strategic risks

The risk that the strategy is unsound due to poor decision making, incorrect information or assumptions, or that the activities supporting the delivery of the strategy are inadequate or poorly designed.

Strategy

If Quilter's strategy does not yield the anticipated benefits, for example, through inaccurate prediction of the type of products and the level of advice required by its target customer base or inability to price such products and services competitively, this may have a material adverse effect on the Group's business, financial condition, results of operations and prospects, and reputation.

Linked to strategic priorities 1, 2, 3, 4

Key management actions

- Strategic and business planning process
- Monitoring of key performance indicators
- Robust strategic initiative programme management
- Risk oversight and assurance activity
- Clear accountabilities

Reputation and brand

Quilter is dependent on the strength of its reputation and its brands, which are vulnerable to adverse market perception or negative publicity, and the Company may face challenges with regard to its ongoing rebranding initiative.

Linked to strategic priorities 1, 2, 3

Key management actions

- Employee engagement on responsible business, responsible investment and business code of conduct compliance
- Understanding potential impacts on reputation through our risk framework and policies
- Brand use policy and standards
- Crisis management plans and procedures

Competitive pressure

Quilter's business is conducted in a competitive environment and,if Quilter is not successful in anticipating and responding to competitive change, adviser or customer preferences or demographic trends in a timely and cost effective manner, its business, financial condition, results of operations and prospects could be materially adversely affected.

Linked to strategic priorities 1, 2, 3

Key management actions

- Differentiated service and product offerings
- Competitor activity monitoring
- Disruptive technologies and non-traditional competition monitoring

People and culture

Quilter may fail to attract and retain talented advisers, investment managers, portfolio managers, senior management and other key employees. This would present a risk to the delivery of Quilter's overall strategy, in particular during this period of significant change across the Group. Additionally this could have a material adverse effect on Quilter's business, financial and operational performance, prospects, and reputation.

Linked to strategic priorities 1, 2, 3, 4

Key management actions

- Risk adjusted remuneration
- Performance appraisals and monitoring
- Culture and employee engagement surveys
- Employee wellbeing initiatives
- Compliance with the code of conduct and human resources policies and standards

Market risks

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

Market risks

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

Linked to strategic priorities 1, 2, 3

Key management actions

- Financial risk limits
- Stress and scenario analysis and stress testing
- Economic environment monitoring
- Financial risk policies and standards
- Maintain strong balance sheet

Business risks

The risk that business initiatives supporting the delivery of the strategy are not implemented correctly or in full, or that the business performance fails to meet expectations across one or more key deliverables, resulting in an adverse impact to the achievement of the Group's business plan objectives.

Conduct risk

Conduct risk is the risk that decisions and behaviours made by Quilter, its employees, its advisers and appointed representatives lead to customers being treated unfairly or otherwise result in detrimental customer outcomes and damage to our reputation. Conduct risk may arise where Quilter fails to design, implement or adhere to appropriate policies and procedures, offer products, services or other propositions that do not meet the needs of customers or fails to perform in accordance with its intended design, fails to communicate appropriately with customers, fails to deal with complaints effectively, sells or recommends unsuitable products or solutions to customers, fails to provide them with adequate information to make informed decisions or provide unsuitable investment for financial planning advice to customers, or fails to do any of the foregoing on an ongoing basis after initial sales, amongst other things. This risk may also arise as a result of employee (mis)conduct.

Linked to strategic priorities 1, 2, 3

Key management actions

- Business code of conduct and mandatory training
- Defined and measured customer outcomes
- Customer outcomes governance
- Quilter policy suite compliance including responsible business conduct, financial crime and customer policies

Conflicts of interest

Quilter faces significant potential and actual conflicts of interest, including those which result from Quilter's advised distribution channel. If the Group fails to manage conflicts of interest between its advice channel and other businesses across the Group, it could result in reputational damage, regulatory liability or customer restitution, which could have a material adverse impact on Quilter's business, financial condition, results of operations and prospects, and reputation.

Linked to strategic priorities 1, 2, 3

Key management actions

- Conflicts of interest register and monitoring
- Conflicts identification and management training
- Conflicts of interest policy compliance

Investment performance

An important factor in Quilter's ability to maintain and grow its customer base and its network of advisers is the investment performance of the customer assets that Quilter manages. Actual or perceived underperformance of customer assets that are managed by Quilter could have a material adverse effect on Quilter's business, financial condition, results of operations and prospects, and reputation.

Linked to strategic priorities 1, 2

Key management actions

- Investment strategy
- Investment risk policy and standards compliance
- Investment performance monitoring

Insurance risks

The risk of a reduction in Own Funds from adverse experience or change in assumptions relating to claims, policyholder behaviours, mortality, morbidity, longevity or expenses, resulting in an adverse impact to earnings or reduced solvency.

Insurance risks

Quilter has exposure to mortality risk (risk of higher than expected rate of death claims on life protection business) and morbidity risk (risk of higher than expected rate of claims on critical illness protection business) from its life assurance business, which issues policies that carry certain guaranteed benefits upon the death, or defined illness, of the policyholder. These risks could be aggravated by any potential failure in underwriting processes and controls designed to identify sub-standard lives at the new business stage.

Linked to strategic priorities 1, 3

Key management actions

- Underwriting standards and processes
- Claims investigations and pricing reviews
- Reinsurance
- Budgeting and expense management

Operational risks

The risk of loss (or unintended 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.

Adviser and customer proposition

Failure by Quilter to offer products, services and platforms that meet adviser and customer needs and which are considered suitable, or failure to fairly and honestly communicate with advisers and customers, could result in advisers ceasing to recommend Quilter's products or services, or recommending fewer of Quilter's products or services, and declining persistency of Quilter's products.

The asset classes or investment strategies underlying the portfolios managed by Quilter may become less attractive to customers or their advisers, which could reduce demand for Quilter's products and have a material adverse impact on Quilter's business, financial condition, results of operations and prospects, and reputation.

Linked to strategic priorities 1, 2, 4

Key management actions

- Ongoing adviser training
- Customer communication programme
- Suitability reviews
- Product and customer-related policies and standards
- Product and proposition governance

Information technology

Quilter uses computer systems to conduct its business, which involves managing and administering assets on behalf of customers in its wealth portfolios and on its platforms. Quilter's business is highly dependent on its ability to access these systems to perform necessary business functions and to provide adviser and customer support, administer products, make changes to existing policies, file and pay claims, manage customer's investment portfolios and produce financial statements and regulatory returns. Failure to manage this risk could have a material adverse impact on Quilter's business, financial condition, results of operations and prospects, and reputation.

Linked to strategic priorities 1, 2, 3, 4

Key management actions

- IT estate enhancement programmes
- Active systems monitoring
- Resilience plans
- IT policies and standards compliance

Data information and cyber threats

Quilter's business, by its nature, requires it to store, retrieve, evaluate and utilise customer and Company data and information, which is highly sensitive. Quilter is subject to the risk of IT security breaches from parties with criminal or malicious intent (including cyber crime). Should Quilter's intrusion detection and anti-penetration software not anticipate, prevent or mitigate a network failure or disruption, or should an incident occur to a system for which there is no duplication, it may have a material adverse effect on Quilter's customers, business, financial condition, results of operations and prospects, and reputation.

Linked to strategic priorities 1, 2, 3, 4

Key management actions

- Cyber threat defences and monitoring Resilience and continuity plans
- Data governance arrangements
- Information security and data protection policy and standards compliance

Third party risk

Quilter outsources and procures certain functions and services to third parties and may increase its use of outsourcing in the future. If Quilter does not effectively develop and implement its outsourcing strategies and its internal capability to manage such strategies, third party providers do not perform as anticipated, or Quilter experiences technological or other problems with a transition, it may not realise productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and loss of business, and damage to its reputation.

Linked to strategic priorities 1, 2, 3, 4

Key management actions

- Third party criticality assessments, due diligence and monitoring
- Resilience plans and exit planning
- Third party risk management policy and standards including supplier management practices compliance

Legal and regulatory risks

The risk of failing to comply with existing or new regulatory and legislative requirements including standards, principles and practices, or an increased level of regulatory intervention resulting in sanctions or a capital add-on being imposed or a temporary restriction on our ability to operate.

Legal and regulatory risk

Quilter's regulated businesses are subject to extensive regulation both in the UK (by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA") and internationally, and Quilter faces risks associated with compliance with these regulations. Quilter's businesses are subject to the risk of adverse changes in laws, regulations and regulatory requirements in the markets in which they operate. Regulatory reform initiatives could also lead to increased compliance costs or other adverse consequences for firms within the financial services industry, including Quilter. Failure to manage these risks could have a material adverse impact on Quilter's business, financial condition, results of operations and prospects, and reputation.

Linked to strategic priorities 1, 2, 3, 4

Key management actions

- Compliance advice and assurance programme
- Legislative and regulatory horizon scanning
- Training and staff awareness programme
- Compliance policy and standards compliance

Financial crime

Quilter is required to comply with all applicable financial crime laws and regulations (including anti-money laundering, anti-terrorism, sanctions, anti-fraud, anti-bribery and corruption and insider dealing) in the jurisdictions in which it operates. Where Quilter is unable to comply with applicable laws, regulations and expectations, regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties, including requiring a complete review of business systems, day-to-day supervision by external consultants and ultimately the revocation of regulatory authorisations and licences. Failure to manage these risks could have a material adverse impact on Quilter's business, financial condition, results of operations and prospects, and reputation.

Linked to strategic priorities 1, 2, 3

Key management actions

- Mandatory staff training
- Numerous controls including due diligence, politically exposed persons assessment, and sanctions screening
- Financial crime policies and standards

Emerging risks and our regulatory landscape

Quilter is a long-term business and as such we monitor risks which are less certain in terms of time, velocity and impact. The identification of these risks contributes to our stress and scenario testing which feeds into our strategic planning process and informs our capital calculations. The following are the emerging risks we feel are the most significant.

Key emerging risks

– Changes in tax policies affecting our products	– Developments in the nature of cyber threats
– De-globalisation	– Disruptive technologies
– Stability of the UK Government	– UK pension reform
– Economic downturn	– International regulatory change
– Changes in the competitive environment	– Climate change
– Talent shortfall across financial services	

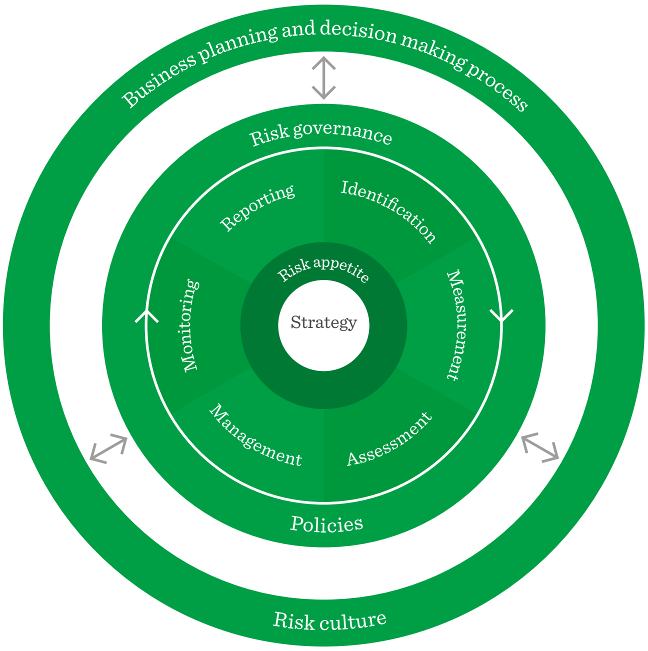
Case study of risk management in action

Preparing for the General Data Protection Regulations ("GDPR")

In readiness for the go-live date on 25 May 2018, our existing systems and processes were such that we were at risk of not achieving compliance with a small number of the requirements, potentially leading to a breach of our regulatory risk appetite.

The Executive Committee reviewed the regulatory gaps and prioritised effort to ensure our customers were protected and regulatory requirements met. Training for key staff was arranged and people with a good understanding of our business and the regulations were placed into senior roles such as the Group Data Protection Officer and Data Guardians. Nine 'at risk' deliverables were prioritised and risk assessed for impact on customers and operations. A robust risk assessment process was co-ordinated with both risk owners and the risk oversight function, ensuring safe and timely decisions to meet the delivery timetable. As a result, the business was GDPR-ready when the regulations came into effect and our customers and employees data were adequately protected.

Our Enterprise Risk Management Framework



We continue to develop a well-defined, positive risk culture that is understood across Quilter, as well as a risk and control framework with clear articulation of the responsibilities between the three lines of defence.

Our Group is regulated by the PRA under Solvency II and by the FCA under Capital Requirement Directive regulations. To meet these regulations, we operate a consistent approach to risk management across Quilter. As such, we have integrated the Own Risk and Solvency Assessment ("ORSA") and Internal Capital Adequacy Assessment Process ("ICAAP") into our risk management framework. Quilter's ORSA and ICAAP are comprehensive risk processes which set out how risks are managed and how risks might change over time, as we roll out our strategy and in response to developing situations. We analyse the capital required to protect the sustainability of the Group, and how those capital requirements might develop over our planning period.

The assessments include a range of stress and scenario testing covering a broad range of scenarios, including market shocks, new business growth scenarios and operational risk events. These tests are in addition to the regulatory solvency capital requirements, which allow for severe and extreme scenarios and stresses (1 in 200-year risk events). Critical to our process is preparing management action plans should adverse events occur. This helps us take comfort that we are both well capitalised and prepared to take necessary action in order to maintain our resilience to adverse conditions.

Viability statement

The viability statement can be found in the Directors' report on page 200.

Risk appetite

Our risk appetite is the amount of risk we are willing to take on in the pursuit of our strategic priorities and is defined by the Board. Culturally, it sets the tone regarding our attitude towards risk-taking. Risk appetite also plays a central role in informing decision making across the Group; protecting and enhancing the return on capital invested. This risk appetite approach is applied consistently across the Group.

To support the strategic decision making process we apply risk preferences which provide guidelines for striking the appropriate balance of risk and reward when setting our business strategy.

Strategic Risk Appetite Principles

A set of Strategic Risk Appetite Principles has been set by the Board. These principles, set out below, provide the top-of-the-house guidance on our attitude toward key areas of risk for the Group and support the ongoing management and oversight of risk.

Customer The Group will ensure fair customer outcomes	**Liquidity** The Group will ensure that it has sufficient liquidity to meet its financial and funding obligations
Capital The Group will hold or have access to sufficient capital to maintain own capital needs	**Control environment** The Group will at all times operate a robust control environment

The Group's position against these principles is measured on a regular basis. These principles are communicated and applied to all employees through a series of more granular risk appetite statements and measures, policies and standards and key risk indicators.

Policies supporting the system of internal control

The Group Governance Manual ("GGM") and policies form an integral part of our governance and risk management framework, ensuring an appropriate system of internal control. Together they form the basis of clear delegated authorities and accountabilities, ensuring there is appropriate Board oversight and control of important decisions, and efficient and effective management of day-to-day business. The GGM and policies are approved and adopted by the Board.

Risk management culture

Undoubtedly the most important element to risk management is a good culture of risk informed decision making. We believe that a good risk culture enables effective management of risk. We link risk management to performance and development, as well as to the Group's remuneration and reward schemes. An open and transparent working environment which encourages our people to embrace risk management is critical to the achievement of our strategic priorities.

Iain Wright
Chief Risk Officer

Governance

Governance

An introduction to our Board of Directors, executive management team, and our approach to corporate governance and remuneration.

Board of Directors

A robust governance framework, overseen by a skilled and experienced Board is absolutely critical.

Chairman and Executive Directors

Glyn Jones N RE
Chairman
Appointed November 2016

Skills and experience: Glyn Jones is an experienced chairman and non-executive director, having served as chairman of Aldermore Group plc, Hermes Fund Managers, BT Pension Scheme Management and Towry, a financial planning and wealth advice business. He has also served as Senior Independent Director at Direct Line Insurance Group. Glyn has significant UK and international financial services consultancy experience, having specialised in the sector while at PwC's predecessor firm, Deloitte, Haskins & Sells, before moving on to run Standard Chartered's international private banking business in Hong Kong. Glyn has also served as CEO of Coutts Group and Gartmore Investment Management.

Glyn is a Fellow of the Institute of Chartered Accountants in England and Wales.

Other appointments: Glyn chaired Aspen Insurance Holdings, a New York Listed international speciality insurance business, from 2007 until February 2019.

Paul Feeney
Chief Executive Officer
Appointed August 2012

Skills and experience: Paul Feeney is responsible for creating and developing the vision and strategy of the Group. His extensive knowledge of the asset and wealth management industry derives from experience gained in his roles as CEO of NatWest Private Bank and of NatWest Investments USA, Group Managing Director and Head of Distribution for Gartmore Investment Management and Global Head of Distribution at BNY Mellon Asset Management International.

Other appointments: Paul is a member of the FCA Practitioner Panel and a Non-executive Trustee of Sense International.

Tim Tookey
Chief Financial Officer
Appointed to the Board February 2017 and as Chief Financial Officer from August 2017 until 13 March 2019

Skills and experience: Tim Tookey has over 20 years' experience working at board level in financial services and has been responsible for managing a large number of significant business transformations and strategic projects. He began his career at KPMG, specialising in audit and corporate finance advisory work. Tim has held positions as Finance Director (UK and Europe) at Prudential plc, Group Finance Director of what is now Lloyds Banking Group plc and CFO of Friends Life Group.

Tim is a member of the Institute of Chartered Accountants in England and Wales.

Other appointments: Tim is a Non-executive Director of Nationwide Building Society, where he chairs the Board Risk Committee.

Independent Non-executive Directors

Board and Committee Membership key

- ● Committee Chair
- A Board Audit Committee
- N Board Corporate Governance and Nominations Committee
- I Board IT Committee
- RE Board Remuneration Committee
- RI Board Risk Committee
- S Major subsidiary board membership – Please refer to page 83 for more information

Ruth Markland A N RE S
Senior Independent Director
Appointed June 2018

Skills and experience: Ruth Markland brings a wealth of FTSE 100 Board experience, having spent 12 years on the board of Standard Chartered plc and over 10 years on the board of Sage Group plc. In both companies, Ruth served as Senior Independent Director and Chair of the Remuneration Committee. In her various board roles, Ruth has had extensive board committee experience including audit, risk, remuneration, nominations and financial crime risk committees.

Ruth headed the commercial practice of Freshfields Bruckhaus Deringer in London for a number of years and then became the Managing Partner of the Asia business, based in Hong Kong.

Other appointments: Ruth is a member of the Supervisory Board of Arcadis NV and an Independent Non-executive for Deloitte LLP.

Paul Matthews RI S
Appointed August 2018

Skills and experience: Paul Matthews is a highly experienced FTSE 100 plc board director who has over four decades' worth of knowledge of the savings and pensions industry. Until he retired from full-time executive roles, Paul worked at Standard Life undertaking various roles between 1989 and 2017, including as a Group Executive Director, Chief Executive Officer UK & Europe and Chairman of Standard Life Wealth. Paul has been a member of the FCA Practitioner Panel, a Board Member of the Association of British Insurers and a Member of the Faculty of the Chartered Insurance Institute.

Other appointments: Paul is currently an Executive Mentor at Merryck & Co.

George Reid A I RI S
Appointed February 2017

Skills and experience: George Reid has a wealth of experience in finance having spent over 20 years in the accounting profession. He served the first 12 years of his career at PwC, returning to the accounting profession in 2006 with Ernst & Young LLP latterly as managing partner and head of financial services for Scotland and UK regions, and serving as a member of the UK Firm's Financial Services Board. Prior to that, George spent seven years in various senior executive roles at Standard Life.

George is a Fellow of the Institute of Chartered Accountants in England and Wales.

Other appointments: George is Chairman of the Children's Hospice Association Scotland.

Independent Non-executive Directors

Rosie Harris A I RI S
Appointed April 2017

Skills and experience: Rosie Harris has extensive knowledge and experience of risk management within financial services. She has served as Chief Operating Officer (UK and Europe) at Prudential plc, Group Risk Director at Old Mutual plc and Chief Risk Officer (Insurance) and Managing Director for General Insurance at Lloyds Banking Group plc. From 2012 to 2015, Rosie was the Group Chief Risk Officer at Friends Life plc and, following Aviva's acquisition of Friends Life plc, was appointed Chief Risk Officer for UK Life at Aviva plc until her retirement in 2017. Rosie is a member of the Institute of Chartered Accountants in England and Wales.

Other appointments: Rosie is a Non-executive Director of Tokio Marine Kiln's Insurance and Syndicates businesses and chairs its Risk Committee.

Suresh Kana A N
Appointed August 2018

Skills and experience: Dr Suresh Kana is a highly experienced South African businessman who has spent over three decades working in various roles at PwC, most recently as Chief Executive Officer and territory Senior Partner of PwC Africa. He has a wealth of South African business, public company and corporate governance experience and served as Chairman of Imperial Holdings Limited until its de-merger in November 2018. Suresh is a Chartered Accountant and Fellow of the Institute of Directors.

Other appointments: Suresh is Chairman of Murray & Robert Holdings Limited and an independent Non-executive Director of JSE Limited and a member of its Audit, Risk and SRO Committees. He is Chairman of the Financial Reporting Standards Council in South Africa, Deputy Chair of the Integrated Reporting Committee of South Africa and Trustee of the International Financial Reporting Standards Foundation. He is also a Member of the Illovo Sugar Limited Advisory Panel and Chairman of South Africa's King Committee on Corporate Governance.

Moira Kilcoyne I RI
Appointed December 2016

Skills and experience: Moira Kilcoyne brings over 25 years of technology and cyber security leadership and has spent much of her career working in senior technology roles in both London and New York, predominantly with Morgan Stanley and Merrill Lynch. Moira recently retired from Morgan Stanley having held the role of Managing Director and Co-Chief Information Officer for global technology and data at Morgan Stanley since 2013.

Other appointments: Moira is a director of Citrix Systems Inc where she is also a member of its Audit Committee. She is also a Trustee of the board of Manhattan College.

Jon Little RE S
Appointed May 2017

Skills and experience: Jon Little has over 30 years' experience in the investment management business internationally. Jon has worked at Fidelity, JP Morgan Investment Management and held various senior executive roles at BNY Mellon – latterly as Vice Chairman responsible for the international asset management business. He has served as Chairman of The Dreyfus Corporation in New York and Insight Investment Management. Jon has also served on various asset management boards, including Newton, Walter Scott, Pareto and Alcentra, and as a Non-executive Director of Jupiter Fund Management plc.

Other appointments: Jon is a founder and managing partner at Northill Capital since November 2010 and is Chairman of the Oxford Brookes Endowment Investment Committee.

Cathy Turner N RE S
Appointed December 2016

Skills and experience: Cathy Turner is an experienced non-executive director with significant industry knowledge of HR and remuneration matters, having served as group HR Director at Barclays plc where she was also a member of the group executive committee. At various times, her responsibilities also included group strategy and investor relations. Her most recent executive role was as Chief Administration Officer at Lloyds Banking Group plc where she was responsible for a number of corporate functions.

Other appointments: Cathy serves as a Non-executive Director and Chair of the Remuneration Committees at Countrywide and Aldermore Group. She is also a partner at the senior advisory organisation, Manchester Square Partners.

Company Secretary

Patrick Gonsalves
Company Secretary
Appointed January 2017

Patrick Gonsalves is an experienced Company Secretary with broad experience across the financial services industry gained with Lloyds Bank, NatWest Bank and, up until December 2016, as Deputy Secretary of Barclays plc.

Patrick was appointed Company Secretary of Old Mutual Wealth Management Limited in January 2017 and is a Fellow of the Institute of Chartered Secretaries and Administrators.

Appointed post year-end

Mark Satchel
Chief Financial Officer Designate
Appointed effective from 13 March 2019

Mark Satchel, who has been appointed as Chief Financial Officer with effect from 13 March 2019, has over 20 years' financial and business experience within the industry. Mark previously served as CFO of the business from 2010 to August 2017 and as Corporate Finance Director for the 17-month period to March 2019.

Mark joined Old Mutual in the UK in January 2000 and held numerous leadership positions within the finance function and businesses at Old Mutual plc. Mark played a lead role in the acquisitions of Intrinsic and Quilter Cheviot and was instrumental in implementing the Group's successful business model. Mark is qualified as a Chartered Accountant in South Africa, and worked for KPMG in both South Africa and Canada prior to moving to the UK.

Executive management team

The Board has delegated the day-to-day running of Quilter to Paul Feeney, as Chief Executive Officer. Paul exercises these powers through the Quilter Executive Committee, the membership of which comprises the Chief Executive Officers of each of Quilter's businesses and key function heads. The Executive Committee meets regularly to ensure the effective implementation of the business strategy, our customer strategy, the financial performance of the business against our business plan and the culture and risk management of our business.

Paul Feeney
Chief Executive Officer

For full biography, see page 40.

Tim Tookey
Chief Financial Officer

For full biography, see page 40.

Mark Satchel
Chief Financial Officer Designate

For full biography, see page 41.

Michelle Andrews
Chief Marketing Officer

Michelle has over 25 years' experience in financial services, having joined the business in 1997, initially to drive the international strategy. She has extensive commercial experience, and has held key roles across international distribution, UK and international product development and marketing.

Michelle has a successful track record in leading major change, most latterly in brand and proposition. She has built significant strategic expertise in marketing as well as in customer proposition development.

Matt Burton
Chief Internal Auditor

Matt has over twenty five years' of internal audit experience across financial services. Prior to joining Old Mutual Wealth in April 2016 he was a partner in PricewaterhouseCoopers' (now PwC) Financial Services Practice, where he was responsible for leading their Internal Audit offering within the Insurance and Investment Management sector. He began his career with Deloitte and has held senior roles at Credit Suisse, and Deutsche Bank.

Matt is a member of the Institute of Chartered Accountants in England and Wales.

Karin Cook
Chief Operating Officer

Karin, who joined Quilter in January 2019, has over 27 years' experience in financial services, with previous roles at Lloyds Banking Group, Goldman Sachs, Morgan Stanley and HSBC. At HSBC she served as Global Chief Operating Officer for its Private Bank. Prior to that, Karin served as HSBC's Global Head of OTC Derivative Operations, which included overseeing and managing operational support of equity, interest rate, currency, credit and emerging markets derivatives.

Jane Goodland
Corporate Affairs Director

Jane joined Quilter in August 2015 and has over 20 years' experience in institutional asset management, investment consulting and wealth management gained at Willis Towers Watson, HSBC and Janus Henderson. At Willis Towers Watson, Jane founded a new consulting business and research function focused on sustainable investment for institutional investors. Jane is a Non-executive Director of The Tax Incentivised Savings Association (TISA) and chairs an Old Mutual Wealth Pension Scheme. She is a Trustee of the Quilter Foundation.

Paul Hucknall
Human Resources Director

Paul has over 20 years' experience working in financial services and joined the business as Human Resources Director in January 2018. Prior to this, Paul was People Director, Centres of Excellence at Lloyds Banking Group, where he was responsible for the design and delivery of the Group's overall HR strategy. Paul has held various senior roles working at board level in publicly listed financial services companies such as Bank of America and ING.

Peter Kenny
Chief Executive Officer, Old Mutual International

Peter joined Old Mutual International in August 2016 as Managing Director. Peter has over 30 years' experience in financial services, having previously held senior roles including chief operating officer and managing director of fund management and distribution companies. Prior to that, Peter worked for Zurich International Life where he held various positions, including that of strategic alliances and client services director.

Peter is Chair of the Manx Insurance Association.

Steven Levin
Chief Executive Officer, UK Platform and Heritage

Steven has extensive experience in developing and distributing financial products, as well as in asset management and investments, and has been in his current role since October 2015. Prior roles include Global Head of Distribution and Managing Director of Skandia International (now Old Mutual International). He also served as Product & Proposition Director for Old Mutual in South Africa and globally for Old Mutual plc. Steven is a qualified Actuary and a Chartered Financial Analyst.

Andy McGlone
Chief Executive Officer, Quilter Cheviot

Andy has over 20 years' experience in investment management having worked at Quilter Cheviot for his entire career, beginning at Quilter Goodison in 1994 as a Trainee Investment Manager. He worked his way up through the private client department before becoming joint head of the newly merged Quilter and Cheviot London front offices in late 2013. Prior to becoming Chief Executive Officer, Andy served as Managing Director. Andy is a Chartered Fellow of the Chartered Institute for Securities and Investments.

Paul Simpson
Chief Executive Officer, Quilter Investors

Paul has extensive experience in capital markets and was appointed Chief Executive Officer of Quilter Investors in January 2018. He began his career in risk management at Deutsche Bank and UBS before moving into investment management at De Putron Fund Management Ltd, where he later focused on statistical arbitrage. Paul joined Old Mutual in 2006 and was appointed Head of Alternatives at Old Mutual Global Investors ("OMGI") in 2009 before being made Investment Director in January 2015.

Andy Thompson
Chief Executive Officer, Intrinsic

Andy, who was appointed Chief Executive Officer of Intrinsic in December 2015, has over 20 years' experience in financial advice and distribution. Having been a financial adviser, Andy began his own successful advice business in 2003, which was subsequently acquired by Intrinsic in 2012, at which point Andy also joined the Business. Andy has built a successful distribution business and led many acquisitions including those of Caerus and Positive Solutions.

Iain Wright
Chief Risk Officer

Iain has over 20 years' experience in financial markets and risk management and became Chief Risk Officer in February 2016. Prior to this, he held various senior risk and supervisory roles within Sun Life Financial, Prudential and the FSA. Iain trained as a Chartered Accountant with Deloitte, and later served as Head of Equity and Debt Markets at the London Stock Exchange. Iain is a member of the Board of the Institute of Risk Management.

Chairman's introduction on corporate governance

Glyn Jones
Chairman

> *We believe that outstanding corporate governance adds value for all of our stakeholders. That conviction has guided the design of our governance framework.*

The table below shows the Board meetings held during 2018:

	Scheduled Board meetings	Ad hoc Board and Board Committee meetings
Glyn Jones	10/10	5/6
Paul Feeney	10/10	7/7
Rosie Harris	10/10	5/6
Moira Kilcoyne	10/10	0/1
Jon Little	9/10	1/1
Ruth Markland (Appointed 25/06/2018)	4/4	N/A
George Reid	10/10	6/6
Tim Tookey	10/10	8/8
Cathy Turner	9/10	0/1
Suresh Kana (Appointed 08/08/2018)	2/3	N/A
Paul Matthews (Appointed 08/08/2018)	3/3	N/A
Bruce Hemphill (Resigned 19/04/2018)	3/4	1/1
Ingrid Johnson (Resigned 19/04/2018)	3/4	0/1
Mark Satchel (Resigned 19/04/2018)	4/4	4/4

The ad hoc Board and Board Committee meetings reported above related to the oversight of Managed Separation, the Listing of the business and the sale of the Single Strategy asset management business. Meetings were often arranged at short notice.

Board activity

Dear Shareholder,

An effective system of corporate governance, with appropriate checks and balances to assess, manage and mitigate risks, is important in any organisation to enable it to anticipate and adapt to changing internal and external circumstances. For a young, newly standalone, listed company operating in a fast growing but highly regulated environment a robust governance framework, overseen by a skilled and experienced Board, is absolutely critical. We believe that outstanding corporate governance adds value for all of our stakeholders. That conviction has guided the design of our governance framework.

My first priority on being appointed Chairman was to assemble a strong Board of Directors and to work with my Board colleagues and our Company Secretary to design and implement a governance structure tailored for our transition from a subsidiary company through to a standalone listed company. We also conducted a review of the skills and experience available within our executive leadership team to ensure that it too was equipped for this transition and the delivery of the strategy approved by the Board. The executive team has continued to evolve during 2018 with some key hires that were supported by the Board. Your Board and the Quilter leadership team was, and continues to be, fully prepared therefore to guide and oversee the delivery of the exciting opportunities that exist in our business in a safe and considered way that gives due consideration to the duties we owe to our shareholders, employees, regulators, customers and the wider communities in which we operate.

The Managed Separation of Quilter from Old Mutual plc involved considerable work to enable our business to be standalone. This involved clearly defining the perimeter of the business, establishing new functions such as treasury and investor relations that were previously provided to us, and transferring certain systems to our control. The most significant issue was to determine a Day 1 balance sheet that ensured we had the right amount, structure and quality of capital, debt and liquidity to stand alone in a robust and prudent manner. Within a clearly defined conflicts of interest framework, we and the Old Mutual plc executive and board worked well together to execute our Managed Separation and Listing. I would like to thank our ex-colleagues at Old Mutual plc for their professionalism and teamwork.

In preparation for our Listings in London and Johannesburg, the Board reviewed and approved the Prospectus prepared in connection with the admission of our shares to trading. In doing so, the Board thoroughly reviewed our readiness for Listing including in relation to our compliance with the UK Corporate Governance Code 2016. We were pleased to be fully compliant with that Code on Listing and have applied the UK Corporate Governance Code 2018 since 1 January 2019.

In reviewing and challenging the strategies of the business, the Board concluded in 2017, and after discussion with the relevant management teams that our single strategy asset management business was not core to our business and our customers' needs. Considerable effort went into separating and selling this business (now branded Merian Global Investors) in a competitive sale process to obtain the best value for our shareholders. The sale closed shortly after our Listing and, after the repayment of the outstanding £300 million senior unsecured term loan, we distributed the surplus proceeds to shareholders via a special interim dividend in September 2018.

In launching Quilter as a standalone business, we were cognisant of the need to design and build a resilient business with a strong balance sheet. That resilience has enabled the Board to continue to plan for profitable growth despite the uncertainties created by increasing political and economic clouds. Brexit, growing tensions in global trade, the increasing likelihood of a slowdown in the global economy and the possible end to the long bull equity market are all challenges that our business is robust enough to face with confidence because of the prudence of decisions taken as part of our planning to become a standalone listed company.

Glyn Jones
Chairman

11 March 2019

The role of your Board and our corporate governance framework

The Quilter Board is responsible to our shareholders for creating and delivering sustainable shareholder value through the effective oversight and direction of the Group's businesses. The Board therefore determines the objectives and policies of Quilter that we believe will deliver long-term value, providing overall strategic direction within a framework of rewards, incentives and controls. The Board ensures that management strike an appropriate balance between promoting long-term growth and delivering on short-term objectives.

As noted, Quilter was compliant with the 2016 UK Corporate Governance Code (the "2016 Code") when we listed the business on 25 June 2018 but that does not tell the full story. For example, in addition to the Board Committees recommended by the Code, we also created a Board IT Committee. Moira Kilcoyne, the Chair of the Board IT Committee provides a description of the Committee's role and activities on pages 62 and 63. Our creation of a Board IT Committee emphasises the significant role that technology plays in how we run our business and how we serve our customers. In particular, that Committee has exercised close oversight of our critical UK Platform Transformation Programme.

To ensure there is clarity in both the roles we expect our Directors to discharge and the behaviours we expect them to exemplify we have adopted a Board Charter that is available at **quilter.com**. To ensure that the Quilter Board is as effective as possible, early in 2019 we commenced our first Board effectiveness review as a listed company. The review is being facilitated by Professor Rob Goffee, Emeritus Professor of Organisational Behaviour at London Business School, who has considerable experience of undertaking such reviews. The scope and design of the review has been approved by our Board Corporate Governance and Nominations Committee. The Board Effectiveness Review comprises a detailed questionnaire to be completed by each Director covering the performance of the Board and the Board Committees which is followed by in depth interviews between Professor Goffee and each Director and a number of senior Quilter executives. The results of the Board Effectiveness Review will then be reported to the Board and the Board Committees, as appropriate. Professor Goffee has no other relationship with Quilter beyond the conduct of the Board review.

Where your Board has focused its time in 2018

In undertaking its duties in 2018 your Board has continued to be mindful of the need to appropriately balance the interests and expectations of our shareholders, our people, our customers, our regulators and the wider communities in which we operate.

For our shareholders

Delivering on strategic priorities – Having approved the strategy of our business that was communicated in our Prospectus and Showcase presentations, the Board received quarterly updates on the key non-financial deliverables that support the delivery of the strategy and challenged management when there were areas of concern, and particularly as the external environment became more challenging. In addition to the work of the Board IT Committee, the Board has also remained close to the progress on our UK Platform Transformation Programme receiving regular reports from management and also meeting with the chief executive of FNZ, the main supplier involved, to hear his perspective on the progress of the programme.

Maintaining sustainable financial performance – Having approved the business plan for 2018, the Board has reviewed a comprehensive suite of financial information and analysis at each regular Board meeting. That enabled the Board to ensure that financial performance is in line with the plan and other external commitments made, or, if not, to review the corrective actions proposed. The Board gave regular feedback to management on the form of the management information and key performance indicators required to allow the Board to better track the delivery of key financial and performance priorities. As the equity market environment became more challenging in the second half of 2018, the Board supported management in taking the required action to manage costs to ensure that in year performance would meet expectations without taking actions that would cause damage to our business long term or undermine the delivery of our strategy.

Business plan 2019–2021 – The business plan approved by your Board for 2019 to 2021 reflects the increasing challenges that will face our business in 2019 onwards. The plan has been considered at a series of Board meetings from September to the early part of 2019 and is reflective of the greater political, economic and market uncertainty experienced at the end of 2018 and positions our business well to respond to a more uncertain world.

Reshaping our business – We made it clear, as part of our Listing, that Quilter is not yet the finished article and consequently we have continued to oversee the reshaping of our business. During 2018 the Board has overseen the completion of the sale of the Single Strategy asset management business, continued to make small distribution acquisitions to support the growth in Private Client Advisers and scrutinised the build out of Quilter Investors. The work to optimise our business to enhance long-term returns for shareholders has received significant Board attention. Appropriately pacing and timing the delivery of this programme of work has been an area of intense discussion, given the other strategic priorities for the business in 2019, especially our UK Platform Transformation Programme. Our Optimisation programme is designed to drive out the synergies available from simplifying and unifying processes across our Group where appropriate whilst not materially distracting those who directly serve our customers from their primary purpose. This is especially important in a period of uncertainty when we need more than ever to stay close to our customers and deliver on organic growth and the UK Platform Transformation Programme.

For our people

The Quilter leadership team have developed a culture dashboard that allows management and the Board to track the levels of engagement amongst our people and the actions that are being taken to address areas where deeper engagement is desired. This reporting will be further developed to allow the Board to understand the level of alignment between our strategy and the culture of our business. To ensure that the voice of our people is heard clearly at our Board, Cathy Turner, an independent Non-executive Director, has been appointed to act as a point of contact for our people and she will be working with the employee forums that already exist across our business to provide an important link between the Board and our people. These changes have positioned us well for the new requirements of the Code. We have more to do in this area but we have made a good start.

For our customers

Investment performance – Quilter can only succeed if the investment performance delivered for customers represents good value. The Quilter Board therefore receives quarterly reports on investment performance delivered by Quilter Cheviot and Quilter Investors. That performance is assessed against both market benchmarks and the risk-based expectations of customers.

Customer outcomes – The Board has also received regular updates on the work of our Customer Outcomes Forum. The Forum, which includes external representation, provides valuable insights to identify areas where we can better serve our customers.

Customer reporting – In addition to the reporting to the Board on customer outcomes, work is also under way to enhance the more granular reporting the Board receives on customer issues more generally. We want to ensure that our customer service and the quality of advice we provide continue to be strong differentiators for our businesses.

For our regulators

Building and maintaining open, constructive and respectful relationships with our regulators is essential and the Board and the executive have worked hard to ensure this is achieved. In addition to the reporting from the executive on key regulatory issues, I and my Board Committee Chairs meet regularly to brief our regulators on important new developments in our business and to listen to their perspectives on our business and any concerns they may have. At the start of 2018, and having considered the matter alongside the Board of Old Mutual Wealth Life Assurance Limited, the Quilter Board concluded that a voluntary customer redress scheme should be initiated to address historic issues relating to the fair treatment of long-standing customers in the life insurance sector. This was well ahead of the conclusion of the FCA's investigations into fair treatment of long-standing customers in the life insurance sector. In September 2018, the FCA announced the closure of their investigation and confirmed that the conduct of Old Mutual Wealth Life Assurance Limited did not warrant enforcement action. The pace of regulatory change continues unabated and significant management and Board time has been taken up during 2018 in planning for and implementing regulatory changes such as the new General Data Protection Regulation, MiFID II and the application of the Senior Managers and Certification Regime to certain parts of our business as well as addressing other requests from regulators. Preparations for Brexit have also intensified these requests.

For the wider community

Our Board Corporate Governance and Nominations Committee has taken on the responsibility of overseeing our Responsible Business agenda and the Shared Prosperity Plan which is described in more detail on pages 12 to 15.

Governance in action

The Managed Separation and Listing of Quilter plc was a major activity during the year that was overseen by the Board and its Committees but involved many of our people at all levels and we are grateful for the strong support we have received. Set out below are some of the main activities overseen by the Board.

Preparing our business for Listing

Transforming our business from being a subsidiary of a global organisation into a standalone company listed on the London and Johannesburg Stock Exchanges involved a significant amount of work by the Quilter executive team, with close oversight from the Board of Quilter and its Committees.
Early on in the process it was agreed that the Board would focus on overseeing the Managed Separation from Old Mutual plc and the strategy to be articulated in the Prospectus and other investor materials. Appropriate Board Committees were then asked to focus their energies on other parts of the Prospectus and the other documentation that supported our Listing.
Our Board Risk Committee focused on completing the build out of our risk management framework and reviewed and challenged the risk factors in our Prospectus. The Board Remuneration Committee designed our remuneration policies for a public company environment and oversaw the necessary remuneration disclosures. The Board Audit Committee focused on the Historical Financial Information and the Operating and Financial Review and the Board Corporate Governance and Nominations Committee focused on completing the recruitment for the Board and designing our corporate governance framework. Taken together, this was a great example of teamwork in action.

Overseeing Managed Separation

The Managed Separation of Quilter from Old Mutual plc was a complex and far reaching project that involved every part of our business and all of our central functions. This was a multi-year project successfully delivered in time to List Quilter on 25 June 2018.

The Investor Showcases

We committed significant time to overseeing the development of the Quilter Showcase materials that were the markets' first view of Quilter as a standalone business. An off site strategy session in August 2017 was used to agree the strategic priorities for the business and further Board sessions refined, challenged and tested the investment story that supported the Listing of Quilter. The Board also ensured that the due diligence and verification to support the Showcase materials and the Prospectus that followed it was thorough and effective.

The Quilter Day 1 balance sheet

The Quilter Board were particularly mindful of the need to launch Quilter as a standalone listed company with a resilient balance sheet that prepared it for most eventualities given the increasing likelihood of more challenging trading conditions. The Board appointed an ad hoc Committee comprising the Chair of the Board, the Board Audit Committee Chair and the Board Risk Committee Chair to oversee the detailed technical analysis.
The Committee was well supported with independent advice from JP Morgan Cazenove and high quality analysis of the structure of the balance sheet, the debt and capital requirements of the business and the risk scenarios that evidenced the resilience of the proposals. The final balance sheet proposals that were approved by the Board included a £125 million revolving credit facility, which remains undrawn, a £200 million subordinated debt security in the form of a 10-year Tier 2 Bond and a £300 million unsecured term loan facility that was fully repaid post-Listing in June 2018 from the proceeds of sale of the single strategy asset management business. The successful issuance of this debt and the prudent approach in building our balance sheet has positioned our business well for the challenges ahead.

Our approach to governance

UK Corporate Governance Code (the "Code")

Quilter plc's Ordinary Shares were admitted to trading on the Main Market of the London Stock Exchange on 25 June 2018, from which date Quilter has been required to apply the principles of the Code as published in 2016 and comply, or explain any non-compliance, with its provisions. The Financial Reporting Council published a revised Code in July 2018 which has applied to Quilter since 1 January 2019. Details of our corporate governance framework are available on our website at **quilter.com/corporategovernance**. For the period 25 June 2018 to 31 December 2018, and at the date of this report, we complied with all relevant provisions of the 2016 Code. We will report on how we have applied the 2018 Code in next year's Annual Report.

Disclosure Guidance and Transparency Rules ("DTRs")

By virtue of the information included in this Governance section of the Annual Report and our Directors' Report on pages 198 to 201 we comply with the corporate governance requirements of the FCA's DTRs. Certain additional information that is required to be disclosed pursuant to DTR 7.2.6 can be found on pages 199 to 200.

Johannesburg Stock Exchange (the "JSE")

Quilter has a secondary listing on the Johannesburg Stock Exchange and is permitted by the JSE Listings Requirements to follow the corporate governance practices of its primary Listing market. Quilter is, however, mindful of the provisions of the King IV Governance principles and the expectations of our South African shareholders.

A. Leadership

The role of the Board

The Board of Directors is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's businesses. We determine the objectives and policies of Quilter with the aim of delivering long-term value, providing overall strategic direction within a framework of rewards, incentives and controls. We seek to ensure that management strikes an appropriate balance between promoting long-term growth and delivering on short-term objectives. The Board's role in fostering the highest standards of corporate governance at Quilter is key to us meeting these wider responsibilities. We lead by example to ensure that good standards of behaviour permeate throughout all levels of Quilter.

Quilter's corporate governance framework

Although our corporate governance framework is relatively new, we believe that it is effective in embedding the right culture, values and standards throughout the Group and we continue to work to embed it further for that purpose.

The Board is responsible for ensuring that management maintains a system of internal control, which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. In carrying out this responsibility, we have regard to what is appropriate for Quilter's customers, business and reputation, the materiality of the financial and other risks inherent in the business and the relative costs and benefits of implementing specific controls.

The Board is also the decision making body for all matters of such importance as to be of significance to Quilter as a whole because of their strategic, financial or reputational implications or consequences. A summary of the matters that are reserved for the Board's decision, which includes Board appointments, Quilter's strategy, financial statements, capital expenditure and any major acquisitions, mergers or disposals, can be found at **quilter.com/corporategovernance.**

Board governance framework

The Board has delegated some of its responsibilities, under the authority contained in our Articles of Association, to five Board Committees which comprise the Board Audit Committee, Board Corporate Governance and Nominations Committee, Board IT Committee, Board Remuneration Committee and Board Risk Committee. Each Committee has specific responsibilities delegated to it by the Board recorded in their Terms of Reference which have been approved by the Board and can be found at **quilter.com/corporategovernance**. Further information on the role of each Committee, their composition and their activities during the year can be found in this report.

From time to time the Board establishes additional ad hoc Board Committees to consider specific matters. An example of this can be found on page 47 where we describe the work of the Day 1 Balance Sheet Committee.

Quilter Board and Board Committees

Quilter plc Board
Responsible for promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society

Board Audit Committee
Examines and challenges Quilter's financial statements and oversees the management of internal controls and the work of our internal and external auditors

Board Corporate Governance and Nominations Committee
Oversees Board and executive succession planning. Has oversight of corporate governance and responsible business activities

Board IT Committee
Oversees Quilter's IT estate and the identification and management of any significant IT risks and major IT change projects

Board Remuneration Committee
Sets overarching principles for remuneration across Quilter and approves individual remuneration for senior executives

Board Risk Committee
Oversees Quilter's risk profile and recommends our risk appetite to the Board

Roles on the Board

It is a principle of UK company law that Executive and Non-executive Directors all have the same duties and are subject to the same constraints. However, in line with the requirements of the Code, there is a clear division of responsibilities at the head of Quilter between the running of the Board and executive responsibility for managing Quilter's business.

Our Chairman is responsible for the leadership of the Board and managing the business of the Board through setting its agenda and taking full account of the issues and concerns of Board members. Our Chief Executive Officer is responsible for the day-to-day running of our business and the leadership of his Group Executive Committee. Further information on the Group Executive Committee can be found on pages 42 and 43.

In early 2018 we undertook an exercise by which we agreed and documented the accountabilities, expectations and competencies required of each role on the Board. This includes the responsibilities of the Directors as a whole, and role profiles of the Chairman, the Senior Independent Director, Committee Chairs, Non-executive Directors and Executive Directors. Performance will be assessed in our annual Board effectiveness review against these expectations. The Board Corporate Governance and Nominations Committee will review the Board Charter annually to ensure it remains relevant and up to date. The Board Charter is published on our website at **quilter.com/corporategovernance** to ensure complete transparency of the standards we set for ourselves.

B. Effectiveness

Board composition

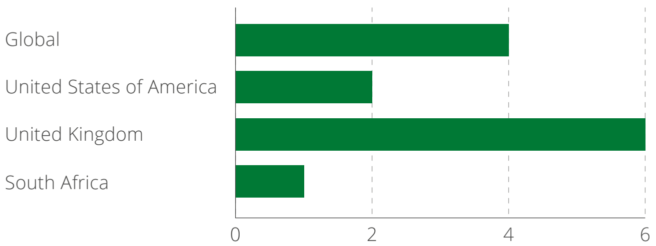
The Board is made up of a majority of independent Non-executive Directors and currently comprises the Chairman, who was independent on appointment, two Executive Directors and eight independent Non-executive Directors. The independence of each Non-executive Director is assessed on an annual basis against the criteria set out in the Code. Through our Board effectiveness review, performance against the behaviours set out in the Board Charter will also be assessed.

With the exception of our Chief Executive Officer, the Board has been entirely refreshed over the past two years in order to ensure the presence of the knowledge, skills and experience required to, firstly, see Quilter through Managed Separation and Listing, and now to ensure that we make a success of being a standalone listed company, delivering the strategy and growth targets that we have debated and agreed as a Board.

Board skills

The Board Corporate Governance and Nominations Committee is responsible for overseeing the composition of the Board and its Committees and ensuring that it is an appropriate size and that there is an appropriate balance of diversity in skills, experience, independence and knowledge. Biographies containing details of Directors' relevant skills and experience, Committee membership and other principal appointments are set out on pages 40 and 41.

Geographical experience



The Board is currently undertaking an independently facilitated evaluation covering the 15-month period from 1 January 2018. This is described in more detail on page 45. We intend to undertake an annual assessment of the Board's performance and that of its Committees and individual Directors.

Service contracts for the Executive Directors and appointment letters for the Chairman and Non-executive Directors are available for inspection at our registered office.

Board induction

All Directors receive a full, tailored induction upon joining the Board, which is designed to enable them to quickly understand Quilter and each of our component businesses, including our opportunities, challenges and risks. Inductions are usually completed within the first few months of joining the Board, after which new Directors are in a position to contribute to key strategic and oversight discussions.

Ruth Markland, Paul Matthews and Suresh Kana all received inductions upon joining the Board in 2018. These included meetings with members of the Quilter Executive Committee and the Company Secretary.

Board training and development

We recognise that we all have development needs and that we operate in a fast-moving business whereby the market, risk, legal and regulatory environments evolve on a continuous basis. Directors are therefore regularly provided with opportunities to undertake training or development. As part of Directors' annual performance reviews the Chairman discusses any particular development needs that can be met either through formal training or meeting with a particular senior executive.

The Chairman and Company Secretary have organised formal training events during the year, covering both Board and Board Committee training requirements, to ensure that our insight into Quilter's businesses and awareness of the external environment in which we operate continues after our formal induction schedules have been completed.

During 2018, Directors attended briefings on the following subjects:
- Financial risk;
- The UK Platform Transformation Programme;
- Advances in technology;
- Cyber security;
- Internal Capital Allocation Assessment Process; and
- Listing responsibilities.

These briefings were supplemented by written materials.

Information provided to the Board

The Chairman is responsible, as set out in the Board Charter, for ensuring that members of the Board receive accurate, timely and high quality supporting information. This covers the Company's performance to enable us to take sound decisions, monitor effectively and provide advice to promote the success of the Company. Working in collaboration with the Chairman, the Company Secretary is responsible for ensuring good governance and consults Directors to ensure that good information flows exist and that the Board receives the information it requires to be effective.

Conflicts of interest

In accordance with the Companies Act 2006 and the Company's Articles of Association, the Board may authorise conflicts of interest. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of Quilter. The Company Secretary maintains a conflicts register which is reviewed by the Board and the Board Corporate Governance and Nominations Committee.

In accordance with the new recommendation of the 2018 UK Corporate Governance Code, the Board Corporate Governance and Nominations Committee is required to pre-approve any new external appointments that a Director wishes to adopt. Accordingly the Board Corporate Governance and Nominations Committee has agreed formal principles governing the approval of new external appointments, taking account of legal, regulatory and best practice requirements.

C. Accountability

Risk management and internal control

The Directors are responsible for ensuring that management maintains an effective system of risk management and internal control and for assessing its effectiveness. Such a system is designed to identify, evaluate and manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Quilter is committed to operating within a strong system of internal control that enables business to be transacted and risk taken without exposing itself to unacceptable potential losses or reputational damage. The Quilter Group Governance Manual sets out the Group's approach to internal governance and establishes the mechanisms and processes by which management implements the strategy set by the Board to direct the organisation, through setting the tone and expectations from the top, delegating its authority and assessing compliance.

Quilter's principles of internal control are to maintain:
- clearly defined delegated authorities;
- clearly defined lines of responsibility;
- robust recording and reporting of transactions to support the financial statements;
- financial reporting controls procedures and systems which are regularly reviewed;
- protection of assets; and
- financial crime prevention and detection.

The Enterprise Risk Management Framework aims to align strategy, capital, processes, people, technology and knowledge in order to evaluate and manage business opportunities and threats in a structured, disciplined manner. The principal risks are set out on pages 33 to 36.

The Board Audit Committee regularly reviews the system of internal control on behalf of the Board. The Board Risk Committee oversees the risk management framework. In addition, the Board Audit Committee receives regular reports from management, Internal Audit and the Finance, Compliance and Legal functions covering, in particular, financial controls, compliance and other operational controls. Throughout the year ended 31 December 2018 and to date, the Group has operated a system of internal control that provides reasonable assurance of effective operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the principal risks facing the Group in accordance with the *'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'* published by the Financial Reporting Council.

Internal control over financial reporting

Management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and issued by the International Accounting Standards Board ("IASB"). Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorisations of management and the respective Directors; and provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Assurance that these controls are adequate and operating effectively is obtained through monthly control self assessments and regular independent assurance activity undertaken by first line management and Internal Audit respectively. Conclusions are reported to the Board Audit Committee which examines the conclusions and provides further challenge. Finally, the Board scrutinises and approves results announcements and the Annual Report, and ensures that appropriate disclosures have been made. This governance process ensures that both management and the Board are given sufficient opportunity to debate and challenge the Group's financial statements and other significant disclosures before they are made public.

Management has assessed the internal controls over financial reporting as of 31 December 2018 and concluded that, based on its assessment, the internal controls over financial reporting were effective as of 31 December 2018. The Board Audit Committee has reviewed these assessments as part of its review of the internal controls over financial reporting. The Chair of the Board Audit Committee reports on the review of controls over financial reporting on page 57.

D. Remuneration

The Board has delegated responsibility for the consideration and approval of the remuneration arrangements for the Chairman, Executive Directors and other senior executives to the Board Remuneration Committee. Fees paid to the Non-executive Directors are considered annually by the Board as a whole, with Non-executive Directors not participating. Information on the activities of the Board Remuneration Committee in 2018 can be found in the Remuneration Report on pages 64 to 85, which forms part of the corporate governance report.

E. Relations with shareholders

The Board is committed to ensuring effective engagement with, and encourages participation from, both our shareholders and our wider stakeholders. We have in place a comprehensive Investor Relations engagement programme with our investors. More information on how we do this and our activities in 2018 is set out below. Details of our private shareholder relations engagement are outlined below and our approach to wider stakeholder engagement can be found in the Responsible business section.

In the lead up to, and in the period after Listing, our Executive Directors and senior management conducted nearly 300 meetings with 200 institutional shareholders in London, Johannesburg, Cape Town, Paris, Frankfurt, Amsterdam, Rotterdam, Zurich, Geneva, and New York. This was in addition to the two Showcase events prior to Listing held to present the Quilter investment case to prospective investors. Meetings focused on Quilter's growth profile and the expansion of our advice and investment management businesses, progress with the UK Platform Transformation Programme, revenue margin trends, management of our cost base, operating leverage, uses of cash and capital, the broader industry's growth outlook, and the impact of regulation and politics.

The Board regularly receives feedback on shareholder sentiment and sell-side analysts' views of the Group and the wider industry. In January 2019, the Chairman met with our largest shareholders during a roadshow in Johannesburg and Cape Town. The Chairman welcomed the opportunity to listen to those shareholders in Quilter and hear their views on corporate governance and related matters.

The Investor Relations team and management have frequent contact with the nine equity research analysts who follow Quilter, and regularly conduct presentations with the sales desks at their institutions.

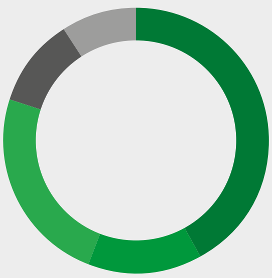
Board Corporate Governance and Nominations Committee report

Glyn Jones
Chairman

The table below shows the members of the Committee and their attendance at the Committee's meetings during 2018:

Membership of the Committee	Scheduled Committee meetings	Ad hoc meetings
Glyn Jones	3/3	1/1
Suresh Kana (appointed 08/08/18)	1/1	N/A
Ruth Markland (appointed 25/06/18)	2/2	1/1
Cathy Turner	3/3	1/1
Bruce Hemphill (resigned 19/04/18)	1/1	1/1

Committee activity



Managed Separation and Listing	42%
Board Effectiveness	14%
Succession Planning	24%
Legal and Regulatory Requirements	11%
Responsible Business	9%

Dear Shareholder,

The Quilter Board Corporate Governance and Nominations Committee has three key responsibilities:

A nominations role, as set out in the UK Corporate Governance Code, which focuses on the processes for establishing and maintaining a Board that is fit for purpose for a public company and the promotion of the long-term sustainable success of the Company in the interests of all its stakeholders;

A governance role, to establish and maintain a robust corporate governance framework, including standards and practices, both for the Company and its main subsidiaries; and

A responsible business role, overseeing the development and delivery of the Quilter responsible business agenda.

I received strong support in discharging these roles during the year from Cathy Turner and the Committee was further strengthened by the appointment of Ruth Markland, our Senior Independent Director who brings deep experience of UK corporate governance, and Suresh Kana who brings a wealth of knowledge of corporate governance in the South African market.

The Committee discharged the functions described above, as follows.

Nominations

- identifying and monitoring the skills, experience and knowledge required for appointment to the Quilter Board. The Committee oversaw the profiles used to identify and assess the candidates for each Board appointment and at the end of the year the Committee analysed the Board's skills mix against our ongoing requirements to determine whether our Board is sufficiently strong in the relevant areas or whether additional skills are needed;
- overseeing the process followed for each appointment. This included assessing the rigour of the search process, the use of external search firms, the development of a strong and diverse pool of candidates and assessment of the identified candidates against the search profile and consideration of their independence and any potential conflicts of interest. We used Egon Zehnder in the UK and Spencer Stuart in South Africa as our external search agents. Neither Quilter nor any of its Directors have any relationship with Spencer Stuart in South Africa. Egon Zehnder have previously provided recruitment and executive assessment support and in 2017 conducted a limited scope Board effectiveness review;
- overseeing the Director induction process to ensure that new Directors are able to rapidly make a strong contribution to the work of the Board. A comprehensive induction plan has been agreed that all Directors complete as a minimum but additional activities are organised according to the needs and interests of each Director;
- evaluating potential Executive Director succession candidates and being closely involved in the Chief Financial Officer succession planning process that resulted in a recommendation to the Board of the appointment of Mark Satchel as Chief Financial Officer with effect from 13 March 2019. The Committee has also overseen

the process utilised for the recruitment of other new members of the Executive Committee; and
- reviewing the succession arrangements for Non-executive Directors. This has been addressed in the first quarter of 2019 when the Committee agreed the emergency succession plans for the Chair role and the Chairs of each Board Committee should the need arise.

Governance

- adopting a Board Charter that sets out the roles and responsibilities of all those on the Board and the exemplar behaviours expected. You can find a copy of our Board Charter on the Quilter website at **quilter.com/corporategovernance**;
- developing and approving the Quilter Group Governance Manual that sets out the Quilter corporate governance framework, as appropriate for a standalone listed company. A fuller description of the Group Governance Manual can be found at **quilter.com/corporategovernance**;
- developing and approving a Subsidiary Governance Manual that sets out the minimum standards required of the Quilter subsidiary boards and overseeing the recruitment of Independent Non-executive Directors to those boards. Those appointments were effected using selection processes that were aligned to those used for similar appointments to the Quilter Board;
- assessing the Quilter corporate governance framework to confirm that Quilter has been compliant with the UK Corporate Governance Code from its Listing on 25 June 2018;
- considering any potential conflicts of interest that have arisen during the year and agreeing the process by which those potential conflicts have been managed and mitigated;
- agreeing the process and scope of a Board and Committee effectiveness review and selecting Professor Rob Goffee to facilitate the review which is currently being conducted; and
- reviewing and approving the action plan to ensure that Quilter will comply with the 2018 UK Corporate Governance Code that applies to all premium listed companies for accounting periods beginning on or after 1 January 2019. This work included ensuring that Quilter would be ready to comply with the new reporting requirements relating to Section 172 Companies Act 2006 on Director's duties.

Responsible business

- endorsing Quilter's approach to responsible business and approving the responsible business strategy that is primarily delivered by the "Shared Prosperity Plan"; and
- reviewing and approving the disclosures on responsible business in this Annual Report.

Glyn P. Jones

Glyn Jones
Chairman

Shareholder engagement

The Chairman has met regularly with shareholders on a range of topics, including briefing them on Quilter's approach to corporate governance and hearing their views. This has included discussions on how shareholders would wish to engage with the Chairs of the Quilter Board Committees as recommended by the 2018 Corporate Governance Code.

More information on our engagement with shareholders can be found on page 51.

Subsidiary governance

Quilter has implemented a subsidiary corporate governance framework that sets minimum governance standards for all Quilter subsidiaries. In addition to increasing the independent representation on major subsidiary boards, going beyond what is required either by law or by regulation, the framework also requires strong linkages between the Quilter Board and its subsidiary Boards. One Non-executive Director from the Quilter Board sits on each of the major subsidiary boards to encourage communication between the Group and subsidiaries. This additional governance provides comfort that all of our businesses are governed to a consistently high standard and supplements the work of the Quilter Board.

Diversity

We believe that diversity brings benefits for our customers, our business and our people. The Quilter Board has set a target of having a minimum gender diversity target of 33% which is in line with the Hampton-Alexander Review recommendations. I am pleased that the current Quilter Board meets and exceeds that target, with a gender split of 36% female and 64% male, as at 31 December 2018, and in particular that four of our five Board Committees are chaired by women and our Senior Independent Director role is also held by a woman. We have more to do to increase the number of women in senior leadership roles below Board level. More broadly, we believe that all colleagues should have the opportunity to reach their full potential regardless of their age, gender, ethnicity, disability, religion, sexual orientation, educational, social or cultural background. We have published our Inclusion and Diversity Statement on our website at **quilter.com**. In recruitment, Quilter has adopted a diverse short list policy which means that we will strive to ensure that all short lists have different genders or ethnicities represented. We are also targeting new recruitment channels which will attract diverse talent. Please see further details on pages 13 and 14.

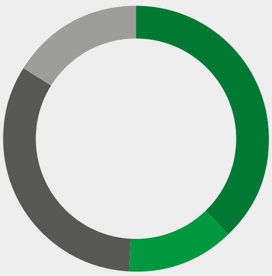
Board Audit Committee report

George Reid
Chair of the Board Audit Committee

The table below shows the Committee membership and members' attendance at meetings in 2018:

Membership of the Committee	Scheduled Committee meetings	Ad hoc meetings
George Reid (Chair)	9/9	1/1
Rosie Harris	9/9	1/1
Ruth Markland (appointed 25/06/2018)	4/5	N/A
Suresh Kana (appointed 08/08/2018)	3/3	N/A
Ingrid Johnson (resigned 19/04/2018)	1/3	0/1

Committee activity



Integrity of the Financial Statements	38%
Internal Controls	13%
Internal and External Auditors	33%
Managed Separation/ Listing	16%

Dear Shareholder,

I am pleased to have this opportunity to set out how the Board Audit Committee has undertaken its duties for the year ended 31 December 2018. Throughout the year the Committee has focused clearly on its key responsibilities of assisting the Board in monitoring the Group's control environment, providing robust governance over the Group's financial reporting and challenging the judgements made by management and the estimates and assumptions on which they are based, whilst ensuring appropriate disclosures.

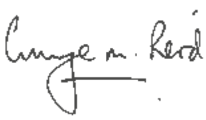
A major role for the Committee in the final months of 2017 and early in 2018, related to the Managed Separation of our business from Old Mutual plc and its Listing on the London and Johannesburg Stock Exchanges.

As part of the preparations for Listing, the Committee agreed the Basis of Preparation and the Accounting Policies that would be applied for Quilter as a standalone listed company, and reviewed the financial information (including the Historical Financial Information), the Reporting Accountant's Opinion, the Operating and Financial Review and the Proforma Statement and Statement of Capitalisation and Indebtedness included within the Prospectus and other documents relating to the Listing of the business. The Committee's overriding objective in this work was to ensure that these important documents were compliant with the relevant reporting requirements, fair, balanced and understandable, recognising the complexity of the information provided. This thorough process ensured that the Committee could confidently recommend these important disclosures for inclusion in the Quilter Prospectus.

Post Listing, the Committee oversaw the issue of Quilter's first Interim Results as a standalone listed company and the preparations for the production of Quilter's first Annual Report and Accounts.

During the year the Committee also:
- received regular reports from internal audit and external audit covering all aspects of their respective work;
- received reports on compliance with the Financial Conduct Authority's Client Assets Sourcebook ("CASS") rules in the Group's permissioned regulated subsidiaries;
- reviewed the Solvency and Financial Condition Reports relating to the Old Mutual Wealth businesses for inclusion in the wider reporting of the Old Mutual Group;
- monitored the Group's whistleblowing procedures and results; and
- considered the possibility of tendering the external audit of Quilter plc.

There is further information on how the Committee has discharged its role in the coming pages. Our report to you is structured in four parts:
- Governance;
- Report on activities for the year;
- External Audit; and
- Internal Audit.



George Reid
Chair of the Board Audit Committee

Governance

Since the Listing of the Company in June 2018, the Committee has comprised independent Non-executive Directors. Set out above are tables showing the composition of the Committee and the members' attendance at meetings. During the year, I was delighted to welcome Ruth Markland and Suresh Kana as members of the Committee in June and August 2018 respectively.

I would draw your attention to the biographical information on each member set out on pages 40 to 41. You will see that the Committee Chairman and other Committee members have recent and relevant financial experience and the Committee as a whole has competence relevant to the business sectors that Quilter operates within. The Terms of Reference of the Board Audit Committee can be found on the Quilter website at **quilter.com/corporategovernance**.

In some of the Committee's areas of responsibility, including the oversight of the UK Platform Transformation Programme and the approval of the internal audit plan, the Committee has worked collaboratively and effectively with other Board Committees, particularly the Board IT Committee and the Board Risk Committee. The Committee holds regular private sessions with the leadership of both the internal and external auditors. The Committee Chair also meets separately and regularly with the Chief Internal Auditor and the KPMG lead audit partner.

The following section shows, in summary, how the Committee has spent its time for the year ended 31 December 2018.

Glyn Jones, Chairman of Quilter, has mentioned elsewhere that we are in the process of conducting a Board effectiveness review. The Board Audit Committee will be part of that review with specific feedback being sought from those who serve on the Committee, other Board members and other key contributors on how effectively the Committee has discharged its responsibilities. Any issues raised by the review will of course be acted on, and I will report further on this review in our 2019 Annual Report.

Report on activities for the year

The Committee agreed at the start of 2018 its forward agenda of business for the year. That rolling agenda comprises recurring business, cyclical business and other business. As recurring business the Committee reviews and discusses:
- updates from the finance team on significant financial reporting matters and accounting policies;
- updates on significant accounting judgements and estimates that will impact the financial statements;
- updates on the status of the internal controls over financial reporting;
- findings from internal audit reports and how quickly audit findings are being resolved by management;
- regular updates and refreshes of the internal audit plan;
- reports from the Chairs of the subsidiary audit committees;
- updates on the work of the external auditors including approval of KPMG's engagement letters, annual audit plans and representation letters; and
- details of non-audit services requested of the external auditors in accordance with the non-audit services policy.

Cyclical items reviewed by the Committee include:
- reports on compliance with The Financial Conduct Authority CASS rules across the Group;
- reports on the Group's whistleblowing arrangements and details of how any whistleblowing incidents have been resolved; and
- Solvency II and other prudential reporting.

Details of work conducted in 2018

In addition to the work relating to the Managed Separation and Listing of Quilter plc described above, the Committee also focused on the following areas of work.

Financial reporting

Quilter's accounts are prepared in accordance with International Financial Reporting Standards. Certain Alternative Performance Measures ("APMs") are used to add insight for our shareholders on the performance of the business, aligned with how the business is managed. The use of APMs has been an area of close attention for the Committee, as discussed later in this section.

The Committee has reviewed the Accounting Policies and confirmed that they are appropriate to be used for the 2018 Quilter financial statements. Detailed discussions have been held at Board Audit Committee meetings on the adoption of IFRS 9 (financial instruments), IFRS 15 (revenue recognition) and IFRS 16 (leases) as well as a preliminary discussion of IFRS 17 (insurance contracts).

The Committee has also reviewed the basis of accounting, the appropriateness of adopting the going concern basis of preparation of the Group's financial statements and the Group's viability statement. In doing so, the Committee considered:

- the Group's three-year Business Plan which includes consideration of the economic, regulatory, competitive and risk environment;
- the latest Group own risk and solvency statement, and internal capital adequacy assessment process, which cover current and future risk profile and solvency positions based on a series of core assumptions, stress tests and scenario analysis; and
- the work performed for the Day 1 balance sheet of the business ahead of Listing and the Working Capital Report.

The form of the viability statement and period covered by the statement were considered by the Committee. The Committee was satisfied with the content of the viability statement and supported the time period of the statement which aligns with the three-year internal financial planning cycle.

The Committee reviewed and challenged the Interim Results for 2018 and the Annual Report and Accounts for 2018. The Committee's reviews were supported by analysis and discussion provided by the finance and actuarial teams, reports from the second line on the solvency position and the reports of the external auditors. Having considered these inputs and the Committee's own independent judgements, the Committee recommended to the Board the approval of each of these financial statements.

Accounting judgements and estimates

The Board Audit Committee has received good support from the Quilter finance team which has enabled it to consider in advance of the end of each reporting period the approach that it would wish to take on the key areas of judgement and estimates that impact the financial results.

Key judgements and estimates deliberated by the Committee during 2018 included the treatment of:

Areas of focus	Issue/role of the Committee
Group accounting including the impact of acquisitions and disposals	The Committee considered and challenged the complex impacts on the financial statements of Managed Separation from Old Mutual plc and the treatment of other acquisitions and disposals (including the sale of the Single Strategy asset management business referred to below). In addition, the Committee has reviewed the appropriateness of accounting for structured entities, including investment funds.
Sale of the Single Strategy business	The Committee reviewed the accounting and disclosure of the sale of the Single Strategy asset management business, which was disclosed in our 2017 financial statements as Held for Sale, with the sale completing and being recognised in our financial statements in 2018. The Committee has considered carefully the costs of the transaction, warranties provided and the costs associated with the build out of the Quilter Investors business following the sale, including the estimates of future costs.
Goodwill and intangibles	Goodwill and intangibles were reviewed in detail to ensure that the amounts recorded in our balance sheet are well supported and based on thorough analysis and testing of the models and assumptions utilised. We considered the sensitivity of the goodwill calculation to various different assumptions. We also examined and agreed the impact on goodwill and intangibles of the sale of the single strategy asset management business.
Provisions and contingent liabilities, including voluntary customer redress	The assessment and approval of the provisions taken for voluntary customer redress and other provisions were regularly considered by the Committee, as work progressed, ensuring compliance with International Accounting Standard 37. This work involved a number of judgements which were carefully tested.
Deferred tax assets	The Committee has reviewed the approach to the recognition of deferred tax assets, challenging management's assumptions and considering compliance with International Accounting Standard 12 on income taxes.
Valuation of level 3 financial investments	The level 3 financial assets disclosed in our financial statements chiefly relate to policyholder funds in our life company subsidiaries where there is a matching investment contract liability. These assets can be difficult to value and the Committee has taken an appropriately sceptical approach in reviewing such valuations, whilst encouraging management's efforts to enhance procedures to minimise the valuation risks.
Classification and valuation of long-term business insurance policy holder liabilities	This judgemental and technical area has been reviewed by the Committee supported by reports from the Group's Chief Actuary. The Committee challenged the Group's compliance with the relevant Technical Actuarial Standards. The Committee has monitored the enhancement of the processes that support the assumptions and methodology that underpins the calculation of these liabilities. The Committee also paid particular attention to areas of possible optimism and caution within the valuation, and concluded that the valuation is appropriate.

In addition, the key performance indicators to be included in the Operating and Financial Review were approved by the Committee and the Committee is content that they were appropriately disclosed. The Committee also reviewed the level of disclosures around the risks and uncertainties of the UK leaving the EU and the potential implications to the business and customers and were satisfied that these were appropriate. Many of the above key areas of judgement and estimates for the Committee are also commented on by KPMG in their Audit Report on pages 89 to 95. The Committee has reviewed carefully the contents of KPMG's opinion and considers that KPMG's views on these areas are aligned with those of the Committee.

Fair, balanced and understandable

There has been a comprehensive review process to support the Board in reaching its conclusion that the 2018 Annual Report is fair, balanced and understandable and whether it provides the necessary information for shareholders to assess the Group's performance, business model and strategy.

The process which enabled the Committee to reach this conclusion included:

- the production of the 2018 Annual Report and Accounts, managed closely by the Chief Financial Officer, with overall governance and co-ordination provided by a cross-functional team of senior management;
- cross-functional support to drafting the 2018 Annual Report and Accounts which included input from Finance, Risk, Investor Relations, Corporate Secretariat, HR and wider business leaders;
- a robust review process of inputs into the 2018 Annual Report and Accounts by all contributors, to ensure disclosures were balanced, accurate and verified, with further comprehensive reviews by senior management;
- a review by the Company Secretary of all Board and Board Committee minutes to ensure all material matters considered at Board level meetings have been disclosed in the 2018 Annual Report and Accounts;
- a specific management paper detailing the 2018 year-end assessment of fair, balanced and understandable;
- a formal review by the Board Audit Committee of the draft 2018 Annual Report and Accounts in advance of final sign-off; and
- a final review by the Quilter Board of Directors.

Having carefully reviewed and considered all relevant information, the Committee is satisfied that, taken as a whole, the 2018 Annual Report and Accounts are fair, balanced and understandable and has confirmed that to the Quilter Board. This process was also undertaken in respect of the Group's 2018 Interim Results to ensure that, taken as a whole, based on the information supplied to it and challenged by the Committee, they were fair, balanced and understandable, and the Committee advised the Board to that effect.

Controls over financial reporting

A key challenge for the business ahead of Listing was to report its own and the financial results of its principal subsidiaries to a much earlier timetable than had previously been required. This required investments to be made in our people and enhanced processes in certain business locations, particularly our International business. The Committee has scrutinised the internal financial controls and governance framework that underpins our financial reporting and has determined areas where efficiency and overall effectiveness may be further enhanced. We have been overseeing progress on delivering those further enhancements and we are content with the clear progress made to date. We expect further progress in 2019. As part of the process to review and challenge the 2018 financial statements, the Committee again considered the processes and controls in place to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements. I have reported to the Board on this area.

Alternative performance measures

A key area of discussion during the year has been consideration of the use of APMs to ensure that shareholders and other stakeholders have a clear understanding of the underlying performance of the business and can also see clearly the financial performance and financial position of the business on a statutory reporting basis. The Committee has challenged management to provide clarity for readers of our financial statements on the core IFRS financial statements whilst enabling shareholders to understand the items that are excluded when APMs are used and why those exclusions are helpful in understanding the underlying performance of the business. See pages 204 and 205.

CASS reporting

In addition to reviewing the CASS Reports produced by the external auditors, the Committee has reviewed the programmes of work under way in each of the regulated businesses to maintain appropriate CASS controls. This has extended to ensuring that the business' CASS arrangements are well prepared for the impact of new developments such as the sale of the single strategy asset management business and our UK Platform Transformation Programme.

Whistleblowing

The Chair of the Board Audit Committee is the Whistleblowing Champion for Quilter. The Committee has reviewed the whistleblowing processes in place across the Group, assessing their effectiveness and benchmarking the level of whistleblowing against global data from the provider of our confidential whistleblowing reporting line. It is important that whistleblowing arrangements are not only effective in practice but are seen by all staff as being fair, rigorous and effective in resolving concerns. The Committee has challenged management to continue to enhance how our whistleblowing arrangements are communicated to our staff.

External audit

It is crucial that Quilter benefits from a robust, high quality external audit conducted by an independent and professional audit firm. To this end, the Committee has received regular and detailed reports from our external auditors throughout the period, covering all aspects of their work. We have also assessed management's response to KPMG's internal control findings. In advance of each Board Audit Committee meeting, I, as Chair of the Board Audit Committee, meet separately with KPMG's lead audit partner, Jon Mills, to ensure the discussions at our Committee meetings are appropriately focused, challenging the conclusions reached by management as well as the audit work performed thereon. Jon Mills has been the audit partner for Quilter plc and its predecessor group, Old Mutual Wealth, since the year ended 31 December 2016. Therefore, 2018 is his third year in this role.

In addition to receiving KPMG's regular confirmations of their independence, we have received quarterly reports from management on the level of audit and non-audit fees paid to KPMG. The level of non-audit fees paid to KPMG in 2018 (see chart below) at £2.3 million is above our policy guidance of 25% of the audit and audit-related fee which totalled £4.5 million. The Committee is satisfied that this is appropriate and justified given that 71% of the non-audit fees related to the work KPMG conducted in relation to the Listing of Quilter plc. This is work that is almost always conducted by the firm's statutory auditors given the knowledge and understanding they already have and the benefits to shareholders of that knowledge and understanding. KPMG has recently informed us that, as a matter of policy, they will be restricting the range of non-audit work that they will perform for their audit clients.

Auditors' remuneration	2018 £m	2017 £m
Audit fees	3.3	2.5
Audit-related assurance services	1.2	0.5
Non-audit fees	2.3	1.1
Total Group auditors' remuneration – continuing operations	6.8	4.1
Total Group auditors' remuneration – discontinued operations	0.1	0.8
Total Group auditor's remuneration	6.9	4.9

KPMG partners and staff have attended all of the meetings of the Committee in 2018 withdrawing only when their attendance would be inappropriate, such as when we were discussing conducting an audit tender. KPMG have contributed strongly to discussions on the Quilter financial statements, our financial reporting processes and key accounting and reporting judgements. In the lead up to the Listing of Quilter, KPMG clearly highlighted areas where management needed to enhance our financial reporting capabilities, as we moved from being a subsidiary to being a standalone listed company. In November 2018 a survey was conducted by our Company Secretary of management's assessment of KPMG across a range of criteria including; independence, objectivity, industry knowledge, efficiency and, crucially, Audit quality. That survey and the Committee's own assessment concluded that KPMG are delivering an effective audit. A number of areas were highlighted for improvement through this review, including a need for enhanced planning and bringing to bear the full value of their industry knowledge. That feedback has been provided to KPMG.

The Board Audit Committee has monitored closely the recent debate on the future of the audit industry and will continue to do so. Audit quality is a theme that the Committee takes very seriously, and as you would expect, we have discussed with KPMG the 2017/18 report of the Financial Reporting Council's Audit Quality Review Team and the actions that KPMG propose to address its findings. We met with KPMG's UK leadership and were reassured that KPMG take the findings of the report very seriously and are well advanced in addressing its findings. To ensure clarity of expectations, I have also met separately with KPMG's Engagement Quality Control Review Partner, who provides additional review and challenge to Jon Mills and his audit team.

The Committee has recommended to the Board that KPMG should be re-appointed as auditors of Quilter plc at the AGM on 16 May 2019. That recommendation has been endorsed by the Board.

We have recently announced that Quilter will be conducting an external audit tender. KPMG has audited the financial statements of Quilter plc since 2008. Quilter plc, as a newly standalone, listed company, has not previously put its audit to tender (although Old Mutual plc last conducted a tender in 2014 when KPMG were re-appointed) but it is sensible now that we take this opportunity to assess the external audit support that will be needed as the business progresses to the next stage in its development. Because of the length of KPMG's tenure, together with the fact that KPMG could only continue as our auditor until 2023 at the latest, the Board Audit Committee has concluded that KPMG should not be part of the upcoming audit tender process. The audit tender will be launched in March 2019 with a view to the selected firm auditing the financial statements for the year ending 31 December 2020. In the coming weeks, we will seek the views of shareholders regarding the audit tender process.

Internal audit

Our shareholders and customers can take comfort that the Quilter internal audit function is mature, appropriately focused and is functioning efficiently and effectively. I am delighted that they have received external recognition of this by being voted the outstanding team in the financial services sector, at the Audit & Risk Awards of the Chartered Institute of Internal Auditors ("IIA").

At the end of 2017 the Committee approved the internal audit plan that was delivered during 2018. In May 2018 the Committee approved the Internal Audit Charter that was put in place for the Listing of the business in June 2018. We approved the minor variations to the plan made during the year. In December 2018, the Committee approved a risk-based internal audit plan for 2019 focused on the most critical areas for the Quilter business, the successful delivery of the UK Platform Transformation Programme and the strategy development processes for our business. The Head of Internal Audit has confirmed that he has the necessary resources to deliver the 2019 internal audit plan, including having access to third party specialist support when required.

PwC conducted an External Quality Assessment of the Internal Audit function in 2017. The assessment concluded that internal audit was "top quartile" assessed against its peers and identified some areas for the function to focus on. An updated External Quality Assessment was conducted in February 2018 which confirmed that the function conforms to IIA Standards. The Head of Internal Audit attends all meetings of the Committee and has reported in detail on the work conducted by Internal Audit including key statistical analysis on the results of their work, the pace at which management is addressing any issues raised and the extent to which management has already identified the issues being raised by internal audit. This is an important indicator of the maturity of our control framework, and we track this measure closely. The Committee has regular meetings with the Chief Internal Auditor without management present, in accordance with best practice.

The future

The Board Audit Committee has covered a significant amount of work in 2018. Many of the Committee's areas of focus will continue into 2019, as the business develops and the Group delivers on its plans for the future.

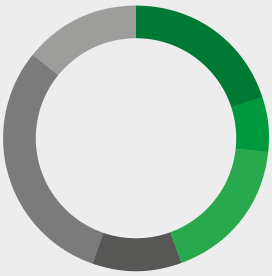
Board Risk Committee report

Rosie Harris
Chair of the
Board Risk Committee

The table below shows the Committee members and their attendance at Committee meetings during 2018:

Membership of the Committee	Scheduled Committee meetings	Ad hoc meeting
Rosie Harris	8/8	1/1
Moira Kilcoyne	8/8	1/1
George Reid	8/8	1/1
Paul Matthews (appointed 08/08/2018)	2/2	N/A

Committee activity



ORSA/ICAAP	20%
Strategic Risk Appetite	7%
CRO Report	18%
Emerging Risks	11%
Regulatory Change/ Update	30%
Managed Separation/ Listing	14%

Dear Shareholder,

2018 has been a transformative year for Quilter and I am pleased to share with you my thoughts on how the Board Risk Committee has contributed to the Company's success in 2018 and give you an indication of the challenges we face as we move forward. The Company has gone through a period of significant change, including the Managed Separation from Old Mutual plc, the Listing of our shares in London and Johannesburg on 25 June 2018 and the disposal of our Single Strategy asset management business. Whilst we were on this journey we remained vigilant to the external environment, where we continue to see a high degree of regulatory change coupled with political and economic risk given the backdrop of Brexit and tougher trading conditions in the UK and beyond.

Central to our role is how we hold management to account in maintaining our ambition of putting the customer at the heart of what we do in delivering our strategic priorities. The Committee has played a core role in challenging management to deliver the programme of voluntary customer remediation following the FCA's work on the fair treatment of long-standing customers in the life insurance sector and will continue to monitor progress.

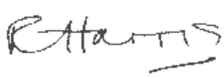
The Committee's primary purpose is to:
- consider and recommend to the Board Quilter's risk appetite;
- review Quilter's risk profile; and
- commission, receive and consider reports on key financial, operational and other risk issues.

You can read the full Committee Terms of Reference at **quilter.com/corporategovernance**.

The Committee also has joint responsibility with the Board Audit Committee for the oversight of the effectiveness of the internal control framework across Quilter and operational risks in respect of capital and reputation. Further detail on the work performed in each of these areas is set out below.

I was fortunate to be supported during the year by George Reid and Moira Kilcoyne, who bring significant experience and diverse expertise enabling the Committee to identify the risks and challenge management. In August 2018, the Committee composition was further strengthened by the appointment of Paul Matthews who brings complementary business experience. The Directors' biographies are on pages 40 and 41. You can see how the Committee is composed and members' attendance opposite.

The performance of the Committee is being assessed as part of the Board evaluation process the Chairman describes on page 45 and I will report on the outcome of that review in the next Annual Report.



Rosie Harris
Chair of the Board Risk Committee

Report on key issues

Preparation for Listing

The Committee spent a significant amount of time in the first half of the year ensuring that the Company would be ready for Managed Separation and Listing. As part of that work, alongside the Board Audit Committee, we reviewed and challenged the Company's Day 1 balance sheet to ensure we had sufficient capital as a standalone legal entity. We actively engaged with the risk function and management to ensure we were comfortable with preparations. We approved the stress scenarios which may impact the Company, to provide comfort that the Day 1 balance sheet was prudent and our Company would be resilient.

In addition to ensuring the Company's capital position was appropriate, an important task for the Committee in preparation for Listing was reviewing, challenging and recommending to the Board Quilter's Strategic Risk Appetite Principles and debating and challenging the principal risk disclosures in the Prospectus. You can find out more about the Committee's role in preparing for Listing on page 47 and the assessment of our principal risks and uncertainties on pages 32 to 37.

Establishing and embedding a control framework

In line with the three lines of defence model for risk management, we received a report from the CEO each quarter on his assessment of key risks for our business and what actions are being taken to mitigate these. We also received a quarterly report from the Chief Risk Officer on his opinion of how the identified risks were being managed.

A substantial portion of our time has been spent reviewing reports in relation to the Group's own risk and solvency assessment, which is required by the Prudential Regulation Authority, and internal capital adequacy assessment process, which is required by the Financial Conduct Authority, for recommendation to the Board. We have welcomed and benefited from the challenge of our major subsidiary boards and their Board Governance, Audit and Risk Committees which reviewed these reports alongside us. We have further reviewed the risk and capital profiles across the Group entities to ensure that these remain appropriate.

We have worked collaboratively with the Board Audit Committee to ensure that the internal control framework was appropriate for the organisation and we have reviewed together the risk and regulatory team's annual plans and the Group Compliance Monitoring programme. The Committees also met jointly to oversee the implementation of the new Quilter policy suite and revisions to the policy attestation process.

Management have been challenged to set and manage against appropriate operational risk appetites and the Committee believe more work is needed to further embed operational risk management within the business. Where operational risk issues have occurred we have challenged management to enhance controls and apply the lessons Quilter wide.

As a matter of routine, we have heard from the risk and internal audit functions on how they have challenged management's approach.

Operating in a rapidly changing external environment

Over the year we have also seen an improvement in the horizon scanning performed to help identify emerging risks and managing future change, which may impact the Company's risk profile and impact on our risk appetite. As part of this activity, the Committee held a deep dive on the approach to the management of third party suppliers and we continue to closely monitor progress in this area. In addition, the Committee has asked management to assess emerging risks arising as a result of the ongoing Brexit negotiations, and the possibility of a hard Brexit, and this remains a key area of focus in 2019.

The Committee also asked for updates on the transitional services arrangements following the sale of our single strategy asset management business to TA Associates and the build out of our Quilter Investors business. We made recommendations and were given comfort around the mitigants that had been put in place to manage the risks of separation resulting from the disposal of this business. More broadly, the Committee has heard from management on their view of top risks, shared our advice with management and tested their assessments.

As Chair of the Board Risk Committee, I have met with our regulators as a matter of routine and over the year the Committee has received regular updates on the delivery of our response to regulatory change, with the implementation of Markets in Financial Instruments Directive, General Data Protection Regulation and Senior Managers Certification Regime for our business. The scale and impact of these changes, along with the uncertainty due to the ongoing Brexit discussions, are risks we are very focused on managing. During the year we have also reviewed customer metrics ahead of submission to the Board and heard from our Customers Solutions team on their work to put our customers at the heart of our business.

Looking ahead

The Committee has approved a calendar of business, and during 2019 we will carry out a series of focused deep dives on particular risk areas. These will include updates from our businesses and other areas of focus, including customer experience, and will include reviews by the first line business risk owners as well as the risk team. This will enable us to examine the risk profile in more depth.

We will also continue to examine the Strategic Risk Appetite Principles and review top and emerging risks. We will continue to challenge and analyse the risks from the macroeconomic outlook and conditions in financial markets, together with geopolitical, legislative and regulatory change risks that may impact the Group's businesses, and risks associated with the implementation of the Group's strategy.

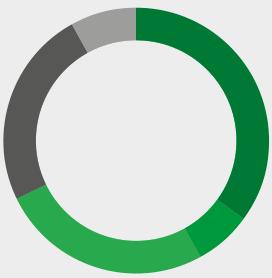
Board IT Committee report

Moira Kilcoyne
Chair of the
Board IT Committee

The table below shows the Committee members and the attendance at Committee meetings during 2018:

Membership of the Committee	Scheduled Committee meetings	Ad hoc meetings
Moira Kilcoyne	7/7	2/2
Rosie Harris	7/7	2/2
George Reid	7/7	2/2

Committee activity



Strategic Change Programmes	**35%**
Strategy	**7%**
Cyber, IT and Resilience	**26%**
Risk	**24%**
Managed Separation	**8%**

Dear Shareholder,

2018 has been a busy and exciting year for Quilter and the Committee has met and carried out its responsibilities during a year of significant change, as we separated from Old Mutual plc and became a listed company.

During 2018, the Board IT Committee has been focused on ensuring that our Group IT strategy is effective for our business. At the heart of our IT strategy is our desire to protect and serve our customers. At a time of increasing demands placed on IT, with sophisticated cyber attacks on companies and genuine and widespread concerns about data privacy and IT security, our systems need to be resilient and any enhancements sustainable and appropriate. In my report below, you can find out more about what we have been doing to support our goal and how we have challenged, supported and advised management on a range of IT, cyber security and data issues. We have been extremely focused on ensuring the resilience of our current IT systems whilst planning and preparing for our new business investment platforms. You can read more about our approach to the important work the Committee is doing on overseeing the planning and implementation for the new investment platforms, both standalone and jointly with the Quilter Board, Board Audit Committee and Board Risk Committee, opposite.

The detailed role of the Committee is set out in the Terms of Reference which are available at **quilter.com/corporategovernance** but the role of the Committee can be summarised as to oversee:

- the Group's IT estate; and
- the identification and management of any IT matters that pose a significant risk to the Group, including Information and Data Security.

Over the year, the Committee has received reports from business and IT leaders and I have spent time in our London Head Office and in Southampton, which is one of our main customer centres and where the majority of our people focused on IT are based, discussing these critical issues with management. I am heartened by the diligence and professionalism of the IT professionals I have met and I am grateful to them for their efforts. I am further grateful to my fellow Committee members, Rosie Harris and George Reid, who chair the Board Risk Committee and Board Audit Committee respectively. Their expertise and experience enables us to identify and analyse risks, provide guidance and challenge management effectively. By holding Combined Committee meetings, the Chairman of the Board and other Non-executive Directors have been able to scrutinise this important topic efficiently. You can see how the Committee is composed and members' attendance in the adjacent tables. You can also see more about how frequently we met, and what we focused our time on.

Moira Kilcoyne
Chair of the Board IT Committee

Report on key issues

Set out below are the key issues that the Committee has spent its time on in 2018.

Development of the IT Strategy

In preparation for the Managed Separation of Quilter from Old Mutual plc, the Committee has overseen the development by management of an IT strategy appropriate for Quilter plc as a standalone listed company with an increasingly integrated business model.

We have received and questioned regular updates from management on the maturity of the IT function as the function's target operating model develops and have been supportive of the enhancements presented. In particular, we have welcomed the investment in new talent and expertise in the function that ensures that we are building sustainable IT solutions. The Committee has had the opportunity to hear directly from senior business leaders on the risks and challenges they are managing and how these risks are mitigated. We have set strategic priorities and challenged management to prioritise their activities appropriately under a centralised team for greater control and efficiency.

We are driving simplification through the IT estate, and the Committee has been pleased with progress on enhancing the resilience of our existing investment platform. We recognise that there is much more to do as our legacy systems are complex and they are not as efficient or cost effective as we would like them to be. Management have been open in their commitment to invest in the Company's IT to ensure that it is appropriate for a business of this scale and complexity, but it takes time and diligence to address historic issues.

Cyber, information management, IT security and resilience

We recognise how important it is for our customers' data to be maintained securely and, along with the Board Audit Committee and Board Risk Committee, we have reviewed and questioned new and enhanced policies in relation to information management and IT security and have ensured the appropriate focus was given to their implementation. We have challenged management to develop key metrics to enable them to baseline performance across the Quilter wide IT estate with a view to increasing efficiency and ensuring appropriate standards are implemented Quilter wide. In line with the Group's approach to risk management, this base data will enable us to focus further the Committee's attention in 2019. Given the importance of this issue to the whole Quilter Board, in August we received a briefing on cyber security from a leading external expert in this area. When necessary we have asked management to implement enhancements more swiftly and we will continue to monitor the effectiveness of the solutions implemented during the year.

As a matter of routine we have received, analysed and queried regular updates from the risk and internal audit teams to hear their views and to ensure that any thematic issues and lessons learnt can be applied across all our businesses.

Preparing for Managed Separation and Listing

The Board IT Committee met jointly with the Board Audit and Board Risk Committee to consider and challenge the risk factors in relation to IT. You can read more about this on page 47.

Committee effectiveness

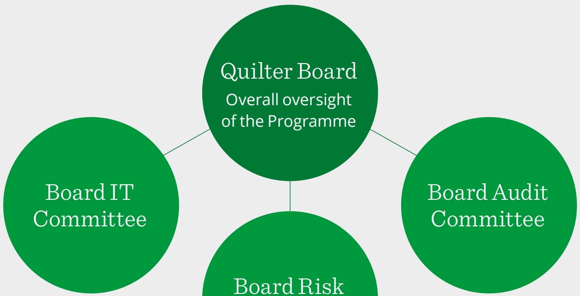
The performance of the Committee is being assessed as part of the Board evaluation process the Chairman describes on page 45 and I look forward to reporting on what actions we have taken as a result of that review in the next Annual Report.

Governance in action

UK Platform Transformation Programme

The Committee has been extremely focused during the latter half of 2018 on ensuring that Quilter's new investment platform is delivered well. That level of focus will only increase into 2019 as the programme moves into the delivery phase. Given the strategic importance to Quilter of the programme, we have met as a combined Committee to ensure that there is appropriate oversight and the governance is efficient for management and the Board. Reporting to the Quilter Board, the Board IT Committee has led the work in partnership with the Board Audit Committee and the Board Risk Committee to oversee the delivery of the UK Platform Transformation Programme. In March 2018 we also held a workshop with management to work through in more detail the programme and ensure the Committee were fully briefed on the key issues.

There is an understandably high degree of scrutiny around the programme from our investors and regulators and we maintain an open dialogue with shareholders and regulators regarding progress. We are working in partnership with FNZ to deliver the programme and, given the importance of the project to Quilter, there has been senior engagement between our Board and their CEO. The Committee has received regular updates from the programme team on the plan and the timetable. We have further considered lessons learnt from other investment platform migrations where appropriate. Quilter is working in partnership with Deloitte on the programme plan and testing and the Committee has received direct input and support from them. The Committee have heard, challenged and advised as to how the business integration for the new system will be managed. We have challenged management as to how they will measure customer impact from these changes.



- Detailed oversight on the Programme plan and implementation timetable
- Detailed review of the go/no-go criteria

- Overall consideration of the impact of the Programme on Quilter's overall risk appetite and risk profile

- Consideration and assurance around the operation and robustness of the Company's financial reporting processes
- Oversight for the appropriateness of the protections for Client Assets

Remuneration report

Annual statement from the Chair of the Board Remuneration Committee

Cathy Turner
Chair of the Board Remuneration Committee

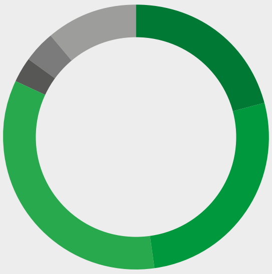
In preparation for Listing, the Committee developed a remuneration policy to align executive reward with business performance and the long-term, sustainable success of the Company, in the best interests of all stakeholders.

The table below shows the members and attendees of the Committee during 2018:

Membership of the Committee	Scheduled Committee meetings	Ad hoc meetings
Cathy Turner (Chair)	5/5	1/1
Glyn Jones	5/5	1/1
Jon Little	4/5	1/1
Ruth Markland (appointed 25/06/2018)	2/2	1/1
Ingrid Johnson (resigned 19/04/2018)	1/2	N/A

The CEO and other senior members of Quilter's senior management team may attend by invitation but will not be present when their own remuneration is discussed. The meetings are also attended by an independent Committee adviser.

Committee's time allocation



Group Remuneration Policy	21%
Specific Remuneration Arrangements	27%
Remuneration Schemes	34%
Shareholding Policy	3%
Governance	4%
Managed Separation/ Listing	11%

Dear Shareholder,

As Chair of the Board Remuneration Committee (the "Committee"), I am pleased to present on behalf of the Board the remuneration report in respect of the year ended 31 December 2018, the Company's first financial year-end as a listed company.

This statement and the accompanying report aims to ensure high levels of disclosure around pay policy and transparency around remuneration decision making which meet the standards of a listed company.

The Committee addressed a number of legacy arrangements from the period prior to Listing, to ensure that Quilter plc had a coherent and consistent policy from the point of Listing, in accordance with best practice. The Directors' Remuneration Policy (the "Policy") presented is in line with the principles set out in the IPO Prospectus, and has been further enhanced to reflect developments in good corporate governance.

I set out below a summary of the objectives of the Policy, the performance outcomes in respect of the 2018 financial year, and how we intend to operate the Policy in 2019.

Role of the Board Remuneration Committee

The Committee's primary purpose is to exercise competent and independent judgement on remuneration policies and practices for the Executive Directors and certain other members of senior management.

The Committee's full Terms of Reference may be viewed on **quilter.com/corporategovernance**.

Remuneration Policy overview

- The proposed Policy, subject to the shareholders' vote at the 2019 AGM, will become formally effective from the date of the AGM, and is intended to remain in effect for three years.
- Underpinning the Policy, the Committee's objective is to ensure remuneration encourages, reinforces and rewards the growth of shareholder value and promotes the long-term sustainable success of the Company.
- The Policy explains the purpose and principles underlying the structure of remuneration, and how the Policy links remuneration to the achievement of sustained, high performance.
- Overall, remuneration is structured and set at levels to enable Quilter to recruit and retain high calibre colleagues, necessary for business success, whilst ensuring that:
  - our reward structure, performance measures and mix between fixed and variable elements support our business strategy;
  - principles of best practice and good corporate governance are reflected;
  - reward structures do not incentivise excessive risk-taking;
  - rewards are aligned to strategic business aims and the long-term interests of our shareholders; and
  - the approach is simple to communicate to participants and shareholders.

Key performance highlights

- During 2018 we successfully completed Managed Separation from Old Mutual plc and Listed on the London and Johannesburg Stock Exchanges, on 25 June 2018.
- There was also good progress in strategic priorities, including the completion of the sale of the Single Strategy asset management business to TA Associates on 29 June 2018, and build-out of Quilter Investors, providing diversified long-term multi-asset investment solutions for retail investors.
- Overall, and with specific reference to key remuneration drivers, 2018 has been a year of very strong performance relative to key annual financial and non-financial targets, including adjusted profit of £233 million, 11% higher than the prior year.
- During the year we have continued to put significant focus on the improvement of our customer outcomes, though the level of customer maturity varies across the business and there is a need to develop further consistency in our approach to customer service. This reinforces the strategic importance of the Optimisation programme we have embarked on as detailed on page 9 in the Chief Executive Officer's statement, which will be a key area of focus for management in 2019.
- Risk management has been further strengthened through the embedding of our risk management framework in the lead up to and since Listing, contributing to the development of an effective risk management culture.

Remuneration outcomes

- This robust business performance combined with the strong performance against personal objectives resulted in a short-term incentive ("STI") award of 92.5% of maximum potential for the Chief Executive Officer, and 94.2% of maximum potential for the Chief Financial Officer. 50% of the awards will be deferred into an award of conditional shares under the Share Reward Plan ("SRP"), and will vest annually in equal tranches over three years.
- Reward outcomes are aligned with overall Company performance. No discretion was exercised to override performance or variable pay outcomes.

Changes to the management team

- Mark Satchel, Quilter's Corporate Finance Director, was an Executive Director for the period up to the 19 April 2018. His 2018 remuneration for the period served as a Director is included in the Single Figure Remuneration Table.
- As announced on 1 November 2018, Tim Tookey, Chief Financial Officer, will step down from the Board with effect from 13 March 2019. The leaving arrangements for Tim are included in this report.
- Tim will be succeeded by Mark Satchel from 13 March 2019. Mark's remuneration package as Chief Financial Officer is also included in this report. His pension allowance has been set at 10% of base salary, rather than the 30% of base salary which applied to Tim Tookey, in line with our Policy to consistently align pension provision.

Considerations for the year ahead

Looking forward, we continue to monitor executive remuneration developments within the industry and the regulatory landscape, and ensure that remuneration supports the alignment of executive with shareholder interests and is consistent with the prudent risk management of the business.

The Committee considered the overall remuneration arrangements for the Executive Directors for 2019 in accordance with the Policy. Key points are as follows:

- there will be no increase to the Executive Directors' salaries at the 1 April 2019 review date;
- the structure, performance metrics and maximum award level of the 2019 STI awards will remain unchanged. STI for on-target performance is set at 50% of maximum;
- the structure, performance metrics and maximum award opportunity of the 2019 LTI, including the maximum level of awards, will also be unchanged; and
- there will be no increase in fees to the Board Chairman for 2019; and the Board has concluded that there will also be no increase to Non-executive Directors' fees for 2019.

Corporate Governance Code and updated shareholder guidelines

The Committee has considered the remuneration changes in the UK Corporate Governance Code, and recent changes to shareholder guidelines on remuneration. A number of these new features are already incorporated into our Directors' Remuneration Policy:

- a two-year post-vesting holding period, in addition to the three-year vesting period, applies to the long-term incentive;
- malus and clawback provisions apply to short and long-term incentive plans, including a range of potential 'trigger events';
- alignment of pension arrangements to the wider workforce, with pension provisions for new Executive Director appointments set at 10% of base salary. Quilter's intention is to standardise pension provisions at this level for new hires across the wider UK workforce and develop a transition plan for existing employees; and
- Quilter already has some existing arrangements for post-employment shareholding, applicable to good leavers; any shares that they are permitted to retain will normally continue to vest over the three-year vesting period and remain subject to any applicable performance conditions, and will be subject to any post-vesting holding period. The Committee will consider this post-employment shareholding policy in further detail during 2019, and include more information on this in the Remuneration Report for 2019.

The ratio of CEO total pay to the median, lower quartile and upper quartile of UK employees will be reported in the Remuneration Report for 2019, in accordance with the new regulations.

Consideration of shareholders' views

The Committee actively engages with shareholders and investor bodies, and welcomes the opportunity to discuss their views on relevant remuneration issues. Institutional Shareholder Services' feedback regarding the Quilter plc Performance Share Plan prior to Listing was taken into account. The plan rules were subsequently amended to include maximum award limits in accordance with those set in the Remuneration Policy.

The 2019 AGM will be the first occasion on which shareholders will vote on the Director's Remuneration Policy and Remuneration Report. The Committee will ensure that it considers all the feedback which it receives from its shareholders during this process.

Inclusion, diversity and the Gender Pay Gap

Diversity in the workforce and a commitment to building a more inclusive culture is central to our success and remains a key priority for the Company. We are striving to improve diversity across all levels of our organisation and our Gender Pay Gap figures for 2018, as summarised in our Responsible Business Report, demonstrate that we are making progress against this commitment. Our mean pay gap has reduced by 4 percentage points from 39% in 2017 to 35% in 2018, and our median bonus gap has reduced by 2 percentage points from 41% in 2017 to 39% in 2018. The proportion of females in our top pay quartile has also increased by 3 percentage points from 25% in 2017 to 28% in 2018. We recognise that there is still much to do to address gender imbalance in the industry as a whole, and some of the actions we are taking to tackle this can be seen in our Responsible Business Report on pages 13 and 14.

Employee Voice in the Boardroom

Finally, I am personally delighted to assume Non-executive responsibility for conveying the views and opinions of our employees to the Board from 2019 onwards, which will be collected primarily via our employee forums and culture surveys, both of which have been established within Quilter for some time. This will provide powerful insight into Board discussion and decision making, on a wide range of issues.

Cathy Turner

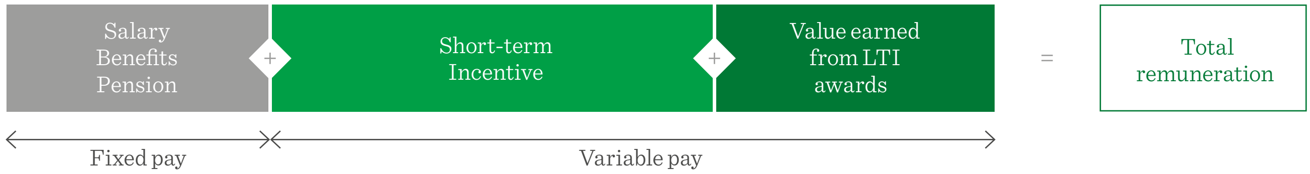
Cathy Turner
Chair of the Board Remuneration Committee

This report has been prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended by The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Directors' Remuneration Reporting Regulations ("DRRR")), the Companies Act 2006 (CA2006) as amended by the Enterprise and Regulatory Reform Act 2013, FCA listing rules where applicable.

Remuneration at a glance

The following pages provide detail around remuneration paid to our Executive Directors and our Policy. These two pages summarise the key elements.

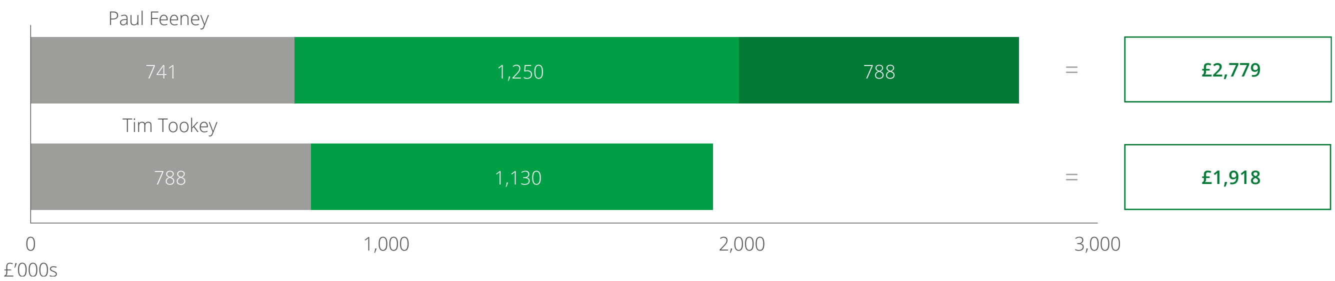
Components of remuneration



How much our Executive Directors earned in 2018

Single total figure of remuneration – Executive Directors

The following chart sets out the aggregate emoluments earned by the Directors in the year ended 31 December 2018.



Link between remuneration and business strategy

	Business drivers	Performance indicators	Metrics in the executive remuneration	2018 Achievement	2020
Short-term Incentive	Profit	IFRS profit before tax	60% of 2018 STI awards	100% of max	
	Non-financial	Risk management	10% of 2018 STI awards	75% of max	
		Customer Outcomes	10% of 2018 STI awards	50% of max	
Long-term Incentive	EPS growth	EPS CAGR	70% of 2018 PSP awards	Results in 2020 →	
	Shareholder value	Total shareholder return (Relative to peers)	30% of 2018 PSP awards	Results in 2020 →	

Shareholding

	Ownership as % 2018 base salary[1]	Minimum Shareholding required (after 5 years)[2]
Paul Feeney	188%	300%
Tim Tookey	181%	300%

[1] Includes the estimated net value of unvested share awards which are not subject to performance conditions.
[2] Executive Directors normally have five years from the Company's Listing date, or date of appointment, to meet the shareholding requirement.

Summary of the key elements of our remuneration policy and how we will implement it in 2019

The table below provides a high-level summary of the key remuneration elements under our Directors' Remuneration Policy, which will be presented for approval at our 2019 AGM. It also shows how the policy will be implemented in relation to awards granted in 2019. Full details of the proposed Policy, subject to shareholder approval, are set out in pages 68-76.

	2019	2020	2021	2022	2023	Implementation for 2019
Fixed remuneration						• Normally reviewed annually with effect from 1 April. – Paul Feeney – £675,000 – Mark Satchel – £450,000
Short-Term Incentive		1/3	1/3	1/3		Total incentive award in respect of Company and individual performance. **Key performance measures and weighting:** • IFRS profit (60%) • Customer/Risk measures (20%) • Personal objectives (20%) Paul Feeney • Maximum opportunity 200% of salary Mark Satchel • Maximum opportunity 200% of salary Cash element of incentive outcome (50% of the whole award) is paid in Q1 following the end of the performance year. Deferred element of incentive outcome (50% of the whole award) is granted in shares and vests in three equal tranches in Q1 2021, Q1 2022 and Q1 2023 subject to the plan rules.
Long-Term Incentive						Awards subject to three-year performance period ending 31 Dec 2021. **Key performance measures and weightings:** • EPS Compound Annual Growth Rate ("CAGR") (70%) • Total Shareholder Return ("TSR") Ranking relative to FTSE 250 excluding investment trusts (30%) Paul Feeney • Maximum opportunity 200% of salary Mark Satchel • Maximum opportunity 200% of salary Award vests in Q1 following end of the performance period and subject to further two-year holding period.

Key

Performance period   Vesting period   Additional hold period

As announced, Tim Tookey will step down and Mark Satchel will be appointed to the Board of Quilter plc on 13 March 2019.

Directors' Remuneration Policy

The key drivers of our Remuneration Policy:

Alignment to culture
- to align the interests of the Executive Directors, senior executives and employees with the long-term interests of shareholders and strategic objectives of the Company;
- to incorporate incentives that are aligned with and support the Group's business strategy and align executives to the creation of long-term shareholder value, within a framework that is sufficiently flexible to adapt as our strategy evolves;
- to reinforce a strong performance culture, across a wide range of individual performance measures, including behaviours, risk management, customer outcomes and the development of the Company's culture in line with its values over the short and long-term; and
- to align management and shareholder interests through building material share ownership over time.

Clarity
- to clearly communicate our Remuneration Policy and reward outcomes to all stakeholders.

Simplicity
- to ensure that our Remuneration Policy is transparent and easily understood; and
- to operate simple and clear remuneration structures across the Company.

Risk
- to provide a balanced package between fixed and variable pay, and long and short-term elements, to align with the Company's strategic goals and time horizons whilst encouraging prudent risk management; and
- to ensure reward processes are compliant with applicable regulations, legislation and market practice, and are operated within the bounds of the Board's risk appetite.

Predictability
- to set robust and stretching performance targets which reward exceptional performance; and
- to set remuneration within the limits established under the Remuneration Policy.

Proportionality
- to attract, retain and motivate the Executive Directors and senior employees by providing total reward opportunities which, subject to individual and Group performance, are competitive within our defined markets both in terms of quantum and structure for the responsibilities of the role;
- to ensure that remuneration practices are consistent with and encourage the principles of equality, inclusion and diversity; and
- to consider wider employee pay when determining that of our Executive Directors.

Remuneration Policy for Executive Directors
The table below summarises the key components of Executive Director remuneration arrangements, which will form part of the remuneration policy subject to formal approval by shareholders at the 2019 AGM. It is intended that this policy will apply for three years from that date.

Remuneration element	Base salary
Purpose and link to strategy	Essential to attract and retain Executive Directors with the calibre, personal skills and attributes to develop, lead and deliver the Group's strategy.
Operation	Base salaries are paid in 12 equal monthly instalments during the year and normally are reviewed annually with increases effective 1 April. In reviewing base salaries the Committee takes into account a number of factors, including: • Group and individual performance; • the skills, experience and level of responsibilities of the Executive Director and his/her market value; • the scope, nature and size of the role; • levels of increase across the wider employee population; and • affordability, economic factors, external market data, business and personal performance. The Committee considers the direct and indirect impacts of any base salary increases on total remuneration.
Maximum opportunity	There are no prescribed maximum salary levels, but any salary increases will normally be in line with percentage increases across the wider employee population. In specific circumstances, the Committee may award increases above this level, for example: • where the base salary for a new recruit or promoted Executive Director has been set to allow the individual to progress into the role over time; • to reflect a material increase in the size or scope of an individual's role or responsibilities; • where a change is deemed necessary to reflect changes in the regulatory environment; and • where the size, value or complexity of the Group warrants a higher salary positioning.
Performance metrics	Individual and Company performance will be taken into account in determining any salary increases.

Proposed changes for 2019
No change in approach.

Remuneration element	Benefits
Purpose and link to strategy	Benefits are provided to Executive Directors to attract and retain the best talent for the business and to ensure that the total package is competitive in the market.
Operation	The Committee's policy is to provide Executive Directors with a market competitive level of benefits taking into consideration benefits offered to other senior employees in the UK. Benefits currently provided to Executive Directors include: • private medical insurance; • life assurance; • income protection; and • personal accident insurance. Specific benefit provisions may be subject to change from time to time. In line with other Quilter employees, Executive Directors can access discounted Company products and are eligible to participate in the Company's voluntary benefits which they fund themselves, sometimes through salary sacrifice. Executive Directors are eligible for other benefits that are introduced for the wider workforce on broadly similar terms. They are eligible to participate in the UK all-employee share plans on the same terms as other employees, including the Company's Share Incentive Plan and Sharesave Plan Where the Committee considers it appropriate, other benefits may be provided on recruitment or relocation for a defined period. Any reasonable business-related expenses (including tax thereon if determined to be a taxable benefit) can be reimbursed.
Maximum opportunity	In line with other UK employees, there is no maximum monetary level for benefits as this is dependent on the individual's circumstances, market practice and the cost to the Company.
Performance metrics	There are no performance conditions.

Proposed changes for 2019

No change in approach. The approach to benefit provisions for Executive Directors is the same as that operated for senior managers in the rest of the UK organisation.

Remuneration element	Pension
Purpose and link to strategy	To provide a market-competitive contribution towards retirement benefits that helps to attract and retain the best talent for the business.
Operation	Executive Directors are eligible to receive employer contributions to the Company's pension plan (which is a defined contribution plan) or a cash allowance in lieu of pension benefits, or a combination. Contributions and/or cash alternative are paid monthly.
Maximum opportunity	10% of base salary per annum. This takes account of the pension provision for the wider workforce. Quilter's intention is to standardise provisions at this level for new hires across the wider UK workforce and develop a transition plan for existing employees. *Tim Tookey, who is leaving the business in 2019, is entitled to a pension contribution of 30% of base salary per annum under exceptional arrangements agreed at the time of his appointment prior to Listing.*
Performance metrics	There are no performance conditions.

Proposed changes for 2019

No change in approach.

Remuneration element	Short-Term Incentives ("STI")
Purpose and link to strategy	The STI plan is designed to align remuneration with performance against financial and strategic business plan targets and personal predetermined goals, within the Group's risk appetite and taking into consideration the Company's culture and values, on an annual basis. A portion of any award is deferred and delivered in shares to aid retention, encourage long-term shareholding, discourage excessive risk taking and align the executive and shareholder interests.
Operation	Performance targets and weightings are reviewed and set annually by the Committee taking into account business plans and the Company's risk appetite. STI awards are funded from the overall Group bonus pool which is approved each year by the Committee. STI payout for on-target performance is set at 50% of maximum. *For Tim Tookey, who is leaving the business in 2019, STI on-target performance is set at 60% of maximum under exceptional arrangements agreed at the time of his appointment prior to Listing.* Overall pool funding is also subject to risk adjustment after the Committee's consideration of a comprehensive report from the Chief Risk Officer and recommendations from the Board Risk Committee in relation to the nature and incidence of risk events and an overall assessment of risk management relative to the Board's risk appetite. 50% of any STI awarded to an Executive Director is normally deferred in the form of Conditional Awards under the Share Reward Plan ("SRP"), which vest annually in equal annual instalments over a three-year period subject to the rules of the SRP. Dividend equivalents may accrue on deferred awards during the deferral period and are paid in the form of shares or, exceptionally, cash to the Executive Directors upon vesting. Malus and clawback provisions apply to both cash and deferred portions of the STI awards as described in further detail in 'Risk adjustments, malus and clawback' on page 73.
Maximum opportunity	The maximum STI opportunity for Executive Directors is set at 200% of base salary for stretch performance.
Performance metrics	The STI plan uses a balanced scorecard of Group and individual performance measures, which are aligned with the key strategic priorities of the Group and designed to deliver sustainable shareholder value. Performance is measured based on a mix of financial, strategic and personal targets. The splits between the performance measures and relative weighting of the targets are reviewed by the Committee at the start of each year and set out in the Annual Report on Remuneration. The majority of any annual bonus is subject to challenging financial measures, with at least 50% of the scorecard reflecting financial performance. When determining the outcome of the performance measures, the Committee will seek the advice of the Chief Risk Officer and the Board Risk Committee to ensure all relevant risk factors are identified and the bonus pool and/or individual awards adjusted accordingly. Specific measures, targets and weightings will be set by the Committee annually and disclosed on a retrospective basis.

Proposed changes for 2019

No change in approach.

Remuneration element	Long-Term Incentives ("LTI")
Purpose and link to strategy	To incentivise and reward Executive Directors for achieving superior long-term business performance that creates shareholder value and maximises sustainable shareholder returns.
Operation	Long-Term Incentive awards are made under the Quilter plc Performance Share Plan ("PSP"). Awards are normally granted annually as nil cost options, which are subject to performance conditions. Awards normally vest after three years subject to the achievement of performance conditions and continued employment. Financial performance targets are set annually by the Committee prior to the beginning of the relevant performance period to provide alignment with the Company's strategic priority of delivering sustainable returns to shareholders over the long-term. The targets may be subject to review and possible amendment for future plan cycles. Vested awards: • are subject to a post-vesting holding period of two years during which the net-of-tax number of shares may not normally be exercised or sold; and • must be exercised within 10 years of the grant date. Dividend equivalents accrue during the vesting period and are released on the vesting date, or date of exercise of the vested option. These will normally be delivered in the form of shares on an assumed reinvested basis. LTI awards are subject to malus and clawback provisions as described in further detail in 'Risk adjustments, malus and clawback' on page 73.
Maximum opportunity	The maximum annual value of a PSP award for any Executive Director is an award over Company shares with a face value of 200% of base salary at the date of grant. If the Committee deems that there are exceptional circumstances, such as the recruitment of a key individual or a significant strategic initiative, the maximum PSP award may be increased up to 400% of the Executive's base salary.
Performance metrics	Performance measures are selected by the Committee for the relevant plan cycle prior to the beginning of the relevant performance period. Measures are designed to align with the Group's strategic priority of delivering sustainable returns to shareholders over the long-term. Performance measures currently include an adjusted profit-based EPS CAGR (adjusted profit pre-tax, pre-dividend excluding amortisation and goodwill) and TSR Ranking relative to the FTSE 250 excluding investment trusts. The Committee may introduce or re-weight performance measures so that they are directly aligned with the Company's strategic objectives for the performance period. For each performance metric, a threshold and stretch level of performance is set. At threshold, 25% of the relevant element vests rising on a straight-line basis to 100% for attainment of levels of performance between threshold and maximum targets. When determining the outcome of the performance measures, the Committee will seek the advice of the Chief Risk Officer and the Board Risk Committee to ensure all relevant risk factors are identified and the award outcomes adjusted accordingly. The Committee also has discretion to reduce award outcomes to nil if required, via a risk management assessment based on a report of risk exposures; or to reflect financial underperformance not adequately reflected in the financial measures.

Proposed changes for 2019

It is not proposed to change the existing LTIP construct, however the Committee does propose to adopt an earnings growth performance condition for 2019 based on Adjusted EPS CAGR (pre-dividend excluding amortisation and goodwill), compared to an Adjusted Profit-based EPS CAGR (pre-tax, pre-dividend excluding amortisation and goodwill) used in the 2018 LTIP.

Remuneration element	Shareholding requirement
Purpose and link to strategy	To align Executive Directors' interests with those of shareholders.
Operation	The Group operates a mandatory shareholding under which Executive Directors are required to build up and maintain a shareholding in the Company with a value at least equal to 300% of base salary. Executive Directors are expected to meet the requirement within five years of Admission or, for newly appointed Executive Directors, within five years of appointment if later. At least 50% of any shares vesting under Quilter share plans (on a net-of-tax basis) are expected to be retained until the shareholding requirements are met.

Proposed changes for 2019

No change in approach.

In accordance with changes to the UK Corporate Governance Code, the Committee is developing a post-employment shareholding policy taking into account emerging market practice and shareholder guidance. In addition, for any good leaver, all unvested share awards that are permitted to be retained continue to the original vesting date(s) and remain subject to post-vesting holding periods post-termination.

Committee scope for discretion

The Committee will operate the STI plan and the PSP according to their respective rules (the terms of which were summarised for Shareholders in the Company's IPO Prospectus) and the policy set out above. The Committee, consistent with market practice, retains discretion in a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following:

- who participates in the plans;
- the timing of award grants and/or payments;
- the size of an award and/or a payment (within the limits set out in the policy table above);
- the choice and weighting of performance metrics (in accordance with the statements made in the policy table above);
- in exceptional circumstances, determining that any share-based award (or any dividend equivalent) shall be settled (in full or in part) in cash;
- discretion relating to the measurement of performance in the event of a change of control or restructuring;
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment in such circumstances;
- determining the extent of payment or vesting of an award based on the assessment of any performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a good leaver or on the occurrence of a corporate event) and whether (and to what extent) pro-rating shall apply in such circumstances;
- whether (and to what extent) malus and/or clawback shall apply to any award;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends); and
- the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose whilst being no less stretching.

Legacy arrangements

Executive Directors may be eligible to receive any relevant payment from any award or other remuneration arrangements made prior to the approval of the Remuneration Policy (such as the vesting of share awards made prior to IPO, or prior to appointment to the Board). Details of any such payments will be set out in the Annual Report on Remuneration as they arise as required.

Payment of statutory entitlements and settlement of claims

The Company may pay any statutory entitlements, to which a director is entitled, or settle or compromise any claims made in connection with the employment of a director where the Committee considers such claims to have a reasonable prospect of success and that it is in the best interests of the Company to do so.

Performance measures

The performance measures selected for the STI plan and PSP have been chosen by the Committee to align with the Group's strategic priorities and are consistent with the key performance indicators in relation to the operation of the business. Targets are set annually taking into account a number of internal and external reference points including: the level of performance that is achievable over a sustained period of time; historic performance and internal forecasts of future performance; market expectations and any guidance provided to the market, and the Company's agreed risk appetite.

Risk adjustments, malus and clawback

All variable pay arrangements operated by the Group are subject to malus and clawback provisions. The Committee may, in its absolute discretion, determine to reduce the number of shares before they are released (malus), impose further conditions on the vesting or exercise of an award or, alternatively, at any time within five years of an award being made, the Committee may require the Executive Director to transfer to the Company a number of shares or a cash amount (clawback).

Malus may be applied where:

- the results or accounts or consolidated accounts of any company, business or undertaking in which the Executive Director worked or works or for which he or she was or is directly or indirectly responsible are found to have been materially incorrect or misleading;
- any material failure of risk management at a Group, or business unit level;
- there is evidence of Executive Director gross misconduct or it is discovered that the Executive Director's employment could have been summarily terminated;
- the behaviour by the Executive Director resulted or is likely to result in serious reputational damage to the Company or is likely to bring, the Company into disrepute in any way; and
- any other circumstances similar in nature to those described above where the Committee consider adjustments should be made.

Clawback may be applicable where:
- there is evidence of Executive Director misbehaviour or material error;
- there is evidence of Executive Director gross misconduct or it is discovered that the Executive Director's employment could have been summarily terminated; or
- there is material failure of risk management at a Group, business area, division or business unit level.

The Committee is supported in this by the Board Risk and Board Audit Committees and the Quilter Risk function.

Remuneration policy for other employees

The general principles of the Remuneration Policy are broadly applied throughout the Group and are designed to support recruitment, motivation and retention as well as to reward high performance in a framework of approved risk management.

The structure of total remuneration packages for the Executive Directors and for the broader employee population is similar, comprising of salary, pension and benefits and eligibility for a discretionary STI award based on a combination of Company and personal performance in the financial year. The level of STI opportunity is determined by role and responsibility.

All employees are subject to the Company's deferral policy, which applies above a certain threshold of annual incentive award or such other amount as may be required in accordance with regulatory requirements. Deferred bonuses are granted in the form of a conditional award of shares in Quilter plc under the Share Reward Plan ("SRP"), or for portfolio managers in Quilter Investors in their own funds and vest no faster than annually, over three years in equal parts.

Executive Directors and other selected senior executives participate in the PSP to aid retention and motivate the delivery of long-term growth in shareholder value and to align their interests with those of shareholders.

Annual base pay increases for the Executive Directors are normally limited to the average base pay increase for the wider employee population unless there are exceptional circumstances such as a change in role or salary progression for a newly appointed director.

The provision of pension contributions for the Executive Directors is broadly consistent with that operated for other senior managers across the business and the intention is to align the wider employee population to the same contribution level in the future.

Recruitment policy

The remuneration package for a new director will be established in accordance with the Company's approved Policy subject to such modifications as set out below.

Salary and pension levels for Executive Directors will be set in accordance with the Remuneration Policy, considering the experience and calibre of the individual and his or her existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will be limited to those outlined in the Remuneration Policy, with relocation assistance provided where appropriate. Where provided, relocation assistance will normally be for a capped amount and/or limited time.

The structure of variable elements will be in accordance with the Company's approved Policy detailed above. The maximum variable pay opportunity will be set out in the remuneration table. Different performance measures may be set initially during the year of joining to take into account the responsibilities of the individual and the point when he or she joined the Board. An LTI award can be made shortly following an appointment (assuming the Company is not in a closed period).

The Committee may buy out incentive awards a new hire has forfeited on joining the Group, if it considers the cost can be justified and is in the best interests of the Company. Any buy-out award would take into account timing and expected value (e.g. likelihood of meeting any performance criteria) of the forfeited awards and be structured, to the extent possible, to take into account other key terms (e.g. vesting schedules and performance conditions) of the awards which are being replaced. The Committee retains the discretion to rely on the exemption under LR 9.4.2 of the Listing Rules to make such an award, or to utilise any other incentive plan operated by the Group. The aim of any such award would be to ensure that as far as possible, the expected value and the structure of the award will be no more generous than the amount forfeited.

Where an Executive Director is appointed from within the Group, any legacy arrangements would be honoured in line with the original terms and conditions as long as these do not cause a material conflict with the Remuneration Policy.

For an overseas appointment, the Committee will have discretion to offer cost effective benefits and pension provisions which reflect local market practice and relevant legislation.

Fees for a new Chair or Non-executive Director will be set in line with the Remuneration Policy.

Executive Directors' service agreements

All Executive Directors enter into service agreements with the Company. The service agreements are of indefinite duration, subject to termination by either party on six months' notice. Where a longer notice period is required to recruit an executive, a notice period of up to 12 months may be offered for an initial period. The agreement contains terms typical for a senior executive, including entitlement to a salary, pension contribution, other core benefits including annual holiday entitlement, and eligibility for consideration of annual short-term and LTI awards in accordance with the Remuneration Policy. The Executive Director is also entitled to reimbursement of reasonable business expenses incurred by him/her in the performance of his/her duties and will be eligible for cover under any director or officer insurance the Company has in place from time to time. Service contracts are available for inspection at the Company's registered office.

Termination of office policy

If the employment of an Executive Director is terminated, any compensation payable will be determined by reference to the terms of the service agreement in force at the time. As variable pay awards are not contractual, treatment of these awards is determined by the relevant plan rules. The Committee may structure any compensation payments beyond the contractual notice provisions in the contract in such a way as it deems appropriate as set out in the table below and taking into account the best interests of the Company.

Policy element	Details
Notice	
Normally six months' notice	• In certain cases, Executive Directors will not be required to work their notice period and may be put on garden leave or granted pay in lieu of all or part of their notice period ("PILON"). PILON may be paid monthly or in a lump sum depending on circumstances • Holiday does not accrue when PILON is paid. During a period of garden leave holiday that has accrued is deemed to have been taken during the garden leave • Executive Directors will be subject to annual re-election at the AGM
Treatment of annual incentive awards	
• Annual incentive awards will be made to good leavers (see below) based on an overall assessment of corporate and personal performance and (normally) pro-rated for the period worked in the performance year of termination	• Delivered in line with normal Remuneration Policy and timeline, including the application of deferral into shares
Treatment of unvested legacy LTI and deferred annual incentive share awards	
All awards lapse except for good leavers	• LTI awards continue to the normal vesting date for good leavers[1] unless (exceptionally) the Committee applies discretion to accelerate the vesting to the termination date. In each case, the number of shares released shall be based on the achievement of performance conditions over the performance period (or curtailed performance period, if applicable). The number of shares that vest would typically be calculated on a pro rata basis, based on time served during the vesting period • Deferred annual incentive share awards for good leavers[1] continue to the normal vesting date unless the Committee applies discretion to accelerate the vesting to the termination date
Compensation for loss of office	
Settlement agreements may provide for, as appropriate: • Incidental costs related to the termination, such as legal fees for advice on the settlement agreement • Provision of outplacement services • Payment in lieu of accrued, but untaken, holiday entitlements • Exit payments in relation to any legal obligation or damages arising from such obligation • Settlement of any claim arising from the termination • Continuation or payment in lieu of other incidental benefits • In the case of redundancy, in line with the Company operated enhanced redundancy policy	• Terms are subject to the signing of a settlement agreement

1 Subject to further adjustments which may be applied to discretionary good leavers. An executive will be treated as good leaver under certain circumstances such as death, illness, injury, disability, redundancy, retirement, their employing company ceasing to be a Group company or any other circumstances at the discretion of the Committee.

Prior arrangements

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the terms of the Remuneration Policy where the terms of the payment were agreed:

- before the Policy set out above came into effect; or
- at a time when the relevant individual was not a director of the Company and the payment was not in consideration for the individual becoming a director of the Company.

Change of control Policy

STI awards may continue to be paid in respect of the full financial year pre and post change of control, or a pro-rated STI award may be paid in respect of the portion of the year that has elapsed at the point of change of control. Exceptionally the Committee may exercise its discretion to waive pro-rating.

All the Company's employee share plans contain provisions relating to a change of control. In the event of a change of control, outstanding awards and options may be lapsed and replaced with equivalent awards over shares in the new company, subject to Committee discretion. Alternatively, outstanding awards and options may vest and become exercisable on a change of control, subject where appropriate to the assessment of performance at that time and pro-rating of awards.

External appointments

Subject to prior clearance by the Board, an Executive Director is permitted to hold one external non-executive directorship of a listed company and is entitled to retain any fees paid for doing so.

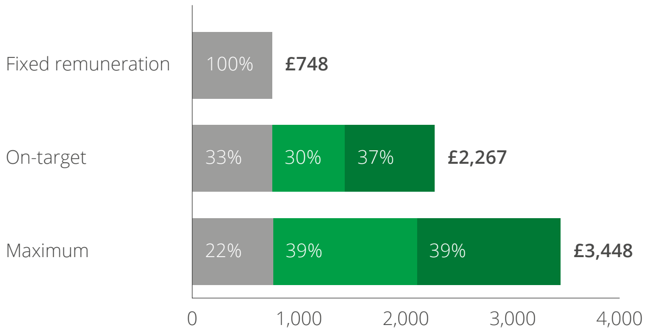
Compliance with regulatory requirements

The Remuneration Policy is compliant with current regulatory requirements, namely the PRA and FCA Remuneration Codes that apply to the Company. Remuneration arrangements will operate in line with the PRA and FCA Remuneration Codes, as amended from time to time.

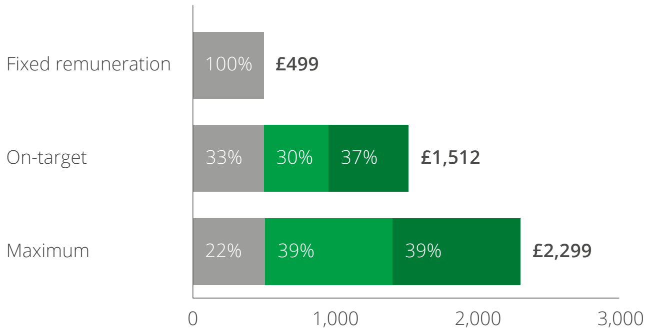
Illustrations of the application of the Remuneration Policy

Our aim is to ensure that superior rewards are only paid for exceptional performance, with a substantial proportion of Executive Directors' remuneration payable in the form of variable, performance-related pay. The graphics below illustrate the Executive Directors' fixed remuneration and how much they could earn for target and maximum performance for 2019.

Chief Executive Officer (£'000)



Chief Financial Officer (£'000)



- Fixed remuneration
- Annual variable element
- Long-Term element

In developing the scenarios, the following assumptions have been made:

Fixed remuneration	Consists of 2019 base salary plus the value of benefits in 2018 and a 10% pension contribution or allowance.
On-target	Based on value of fixed remuneration plus the potential value that the Executive Director could earn for on-target performance: • annual variable element paying out at 50% of maximum; and • long-term incentive element (under PSP) paying out at 62.5% of maximum. The assumptions noted for 'on-target' performance are provided for illustration purposes only.
Maximum	In addition to fixed remuneration, includes the potential value under the SRP and PSP that the Executive Director could earn for maximum performance.
Share price growth	Assuming share price growth of 50% to the maximum long-term incentive award would result in: • Chief Executive Officer: a long-term incentive vesting of £2,025,000 and a total remuneration of £4,123,000; and • Chief Financial Officer: a long-term incentive vesting of £1,350,000 and a total remuneration of £2,749,000.

How the views of employees are taken into account

Pay and employment conditions generally in the Group will be considered when setting Executive Directors' remuneration. Reflecting standard practice, the Company does not consult with employees specifically in determining the Executive Director remuneration nor in drawing up the Company's Annual Report on Remuneration. However, the Committee will receive regular updates on overall pay and conditions in the Group, including (but not limited to) changes in base pay and the incentive schemes in operation. The Committee also has oversight of the all-employee share plans which Executive Directors and all other Group employees can participate in on the same terms and conditions. The Committee receives regular updates regarding wider employee pay.

In addition, as stated in the Chair's statement, from 2019 the Committee Chair will take on responsibility as the designated Non-executive Director for conveying the Employee Voice to the Boardroom. This role extends to a range of issues that matter to employees and will include inputs from annual employee engagement and culture surveys, meetings with Employee Forums/ representatives and a report to the Board.

Statement of consideration of shareholder views

In developing the Policy the Committee has considered the guidelines from shareholder bodies and the views of major shareholders.

Non-executive Directors

The following table sets out the key elements of remuneration and policy for Non-executive Directors:

Approach and link to strategy	Fees for the Chairman and Non-executive Directors are set at an appropriate level to attract individuals of the highest calibre with relevant commercial and other experience to develop, monitor and oversee the Group's strategy. Fee levels take into account: • the time commitment required to fulfil the role; • the duties and responsibilities associated with the role; and • external fee reference points and typical practice from relevant FTSE and other comparable competitor organisations.
Operation	The Chairman receives an all-inclusive annual fee which is reviewed periodically by the Committee. All Non-executive Directors receive a basic annual fee. Additional fees may be payable to: • the Senior Independent Director; • the Chairs of the Board Audit, Risk, Remuneration, IT and Corporate Governance and Nominations Committees[1]; and • other members of the Board Audit, Risk, Remuneration, IT and Corporate Governance and Nominations Committees. Additional fees to reflect the extra responsibilities and additional time commitment required from Non-executive Directors of chairmanship or membership of subsidiary boards may be introduced. If there is a temporary yet material increase in the time commitments for Non-executive Directors, the Board may pay extra fees on a pro rata basis to recognise the additional workload. Fee levels are reviewed annually by the Chairman and Executive Directors. The Chairman's fee is reviewed annually by the Committee. No individual may participate in the approval of his or her own fees. Neither the Chairman nor other Non-executive Directors are eligible for any performance-related remuneration or a pension contribution. They do not receive any benefits but they may be reimbursed or paid directly by the Company for the cost of any reasonable and properly documented business expenses incurred in carrying out their duties which are deemed taxable by the relevant tax authority (including any personal tax due on such expenses). Details of current fees are set out in the Annual Report on Remuneration.

[1] The Board Corporate Governance and Nominations Committee is currently chaired by the Chairman who receives an all-inclusive annual fee.

Proposed changes for 2019

No change in approach.

Letters of appointment for Non-executive Directors

All Non-executive Directors have letters of appointment with the Company for an initial period of three years, subject to annual reappointment at the AGM. Appointments may be terminated with three months' notice. The appointment letters for the Chairman and Non-executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses. All Directors submit themselves for re-election at the AGM each year. Service contracts and letters of appointment are available for inspection at the Company's registered office. The service contract policy for a new appointment will be on similar terms as existing Executive Directors, with the facility to include a notice period of no more than three months.

Details of the Chairman's and Non-executive Directors' terms of appointment are set out in the table:

Non-executive Director	Effective date of appointment	Initial term	Notice period by Company
Glyn Jones	7 November 2016	3 years	3 months
Rosie Harris	3 April 2017	3 years	3 months
Moira Kilcoyne	31 December 2016	3 years	3 months
Jon Little	5 May 2017	3 years	3 months
George Reid	8 February 2017	3 years	3 months
Cathy Turner	31 December 2016	3 years	3 months
Ruth Markland	25 June 2018	3 years	3 months
Suresh Kana	8 August 2018	3 years	3 months
Paul Matthews	8 August 2018	3 years	3 months

Termination of office policy	Details
Non-executive Directors	
• Three months' notice period • Appointed for an initial three-year term • Normally expected to serve two three-year terms, subject to annual re-election at the AGM • A third term (of up to three years, or longer in exceptional circumstances) may be offered on a year-by-year basis after completion of the first two terms	• Subject to annual re-election at the AGM

Annual Report on Remuneration

Audited
Content within an 'Audited' tab indicates that all the information is audited.

Application of the Policy in 2019
Content within a tinted box indicates that the information is planned for implementation in 2019.

The Annual Report sets out how the Directors' Remuneration Policy of the Company has been applied since Admission and how the Committee intends to apply the policy going forward. An advisory shareholder resolution to approve this report will be proposed at the AGM.

The table below sets out the single figure remuneration for full financial year 2018. Only 2018 data has been included as the Company listed on the Main Market of the London Stock Exchange on 25 June 2018.

Audited

Executive Director	Base salary[1] £'000	Benefits £'000	Pension[2] £'000	STI[3] £'000	LTI[4] £'000	Other[5] £'000	Total £'000
Paul Feeney	618.8	5.2	84.4	1,250.0	788.8	31.7	2,778.9
Tim Tookey	600.0	8.4	180.0	1,130.0	–	–	1,918.4
Mark Satchel – stepped down from the Board on 19 April 2018	121.8	1.2	12.2	233.8	–	14.1	383.1

1 Remuneration is for full calendar year 2018 and hence part of the remuneration relates to the period pre-Admission. Mark Satchel's remuneration is pro-rated for the period served as a Director.
2 Pension includes contributions made under the Group defined contribution pension scheme plus, where applicable, amounts received as a pension allowance.
3 STI includes the full amount awarded in respect of calendar year 2018 (see further details pages 70 to 81 including amounts received in cash and deferred under the Share Reward Plan.
4 LTI includes awards vested for qualifying services during the year under the Joint Share Ownership Plan (see page 81).
5 Other includes Old Mutual plc Sharesave Plan early exercise bonus and dividends on Joint Share Ownership Plan for Paul Feeney and Mark Satchel's grandfathered cash benefit allowance which ceased on the 1 April 2018.

Components of the single figure

Salary

Audited

Name	Annual base salary as at 1 April 2018 £'000	Total base salary paid in 2018 for qualifying services £'000	Total base salary effective 1 April 2019 £'000
Paul Feeney	675	619	675
Tim Tookey	600	600	600
Mark Satchel – stepped down from the Board on 19 April 2018[1]	435	121.8	450

1 Mark Satchel's salary was increased to £450,000 with effect from 1 November 2018.

Benefits

Benefits include life assurance, private medical cover, income protection and personal accident insurance.

Audited

Name	Life assurance £'000	Medical £'000	Income protection £'000	Personal accident insurance £'000
Paul Feeney	2.6	0.95	1.5	0.17
Tim Tookey	4.3	0.95	1.3	0.18
Mark Satchel – stepped down from the Board on 19 April 2018	0.5	0.4	0.2	0.04

Benefits for 2019
Benefits for 2019 to be in line with Policy.

Pension

Pension includes contributions made under the Group defined contribution pension scheme and/or amounts received as cash in lieu of pension contributions due to the impact of HMRC limits.

The contribution rate for the Chief Executive Officer was set at 10% of base salary from 1 April 2018 in line with contribution rates for other senior employees. Prior to this date the contribution rate for the Chief Executive Officer was 30% of base salary.

The Chief Financial Officer, Tim Tookey, was entitled to a pension contribution equal to 30% of salary per annum under arrangements entered into at the time of his appointment.

Audited

Name	Cash in lieu of pension contribution £'000	Contribution to pension scheme £'000	Total contribution £'000
Paul Feeney	84.4	–	84.4
Tim Tookey	180	–	180
Mark Satchel – stepped down from the Board on 19 April 2018	9.2	3	12.2

Pension for 2019

As described in the Policy report, Paul Feeney and Mark Satchel will each receive a pension contribution of 10% of salary.

2018 Short-Term Incentive ("STI") Awards

This reflects the total STI awards to be paid in 2019 based on performance for the year ended 31 December 2018. The value includes both the cash element and the portion deferred into shares (50% of the award).

For the purpose of determining the 2018 STI outcome, the Committee assessed the performance of the business and the individuals by reference to a balanced scorecard of Financial (60%), Customer/Risk (20%) and strategic Personal performance objectives (20%) in line with the Directors' Remuneration Policy.

Group financial achievement

Audited

Group financial performance measures	Weighting as % of total STI opportunity	Threshold	Target	Maximum	Actual	Outcome as % of max
IFRS profit (pre-tax, excluding amortisation of intangibles and goodwill)	60%	£80m	£100m	£120m	£120m	100%

Group Risk and Customer performance achievement

Key Group non-financial objectives represented a maximum of 20% of the total STI opportunity. The risk measure is the success of embedding the Enterprise Risk Management Framework at an overall corporate level. For the Customer element of the scorecard, six main Customer Outcome KPIs (culture, experience, value for money, communications, protection and meeting commitments) were assessed over 2018 to inform a qualitative assessment of overall performance. Performance commentary is given in the table below.

Audited

Customer and Risk Performance measures	Weighting as % of total STI opportunity	Key achievements in the year	Outcome as % of max
Embedding the Enterprise Risk Management Framework	10%	• Overall, against the context of significant corporate activity in 2018 there has been evidence of improving risk maturity with significant engagement, understanding and use of the Risk Management Framework across the business and embedding of the Framework Principles in all key business decisions and activities • The Company had a strong solvency and liquidity position and was operating within risk appetite at the end of 2018 • Risks to which the Company is exposed were understood and managed effectively through the Risk Management Framework, which also identifies changes to the risk profile, and adequate capital was held against these risks • Regulatory relationships have strengthened and the Company met all commitments to the PRA and FCA through the year	75%
Customer Outcomes	10%	• There was a continued focus on customer outcomes in 2018 to ensure quality client experience and customer satisfaction. Clear customer improvement actions were put in place across all business units and there was evidence of a customer-focused culture developing across the Group • The level of customer maturity, however, varies across Quilter and there is progress required to bring the overall Group to a consistent standard. Overall, the Committee considered that customer performance was in line with expectations in 2018	50%

Strategic personal performance – achievement

Personal objectives represented a maximum of 20% of total STI opportunity. A performance commentary is given in the table below.

Audited

Executive Director	Weighting as % of total STI opportunity	Overview	Key achievements in the year	Outcome as %of max
Paul Feeney	20%	For 2018, Paul's objectives focused on a number of key activities, including the Managed Separation of Quilter plc from Old Mutual plc and the smooth transition to a listed environment	• Managed Separation was handled timely and securely, with due consideration of risk and meeting shareholder needs • The Listing process of Quilter plc and IPO was delivered very successfully • Positive engagement with regulators in all matters of the business and regulatory industry agenda • Completion of the disposal of the Single Strategy business, contributing to the strong financial performance of the Company and payment of a special dividend to shareholders shortly after Listing	100%
Tim Tookey	20%	Tim's objectives focused on all financial activities relating to the Listing and IPO of Quilter plc, including delivery of a suitable balance sheet and cost structure for a standalone listed business to meet the needs of existing and future shareholders	• Tim successfully constructed and delivered a sound and sustainable Day 1 balance sheet for the IPO • He led the successful placement of the £200 million Tier 2 bond and subsequent capital raise at a very competitive coupon rate • He has put in place and embedded significantly improved cost control, cash and capital reporting • He played a pivotal role in achieving a successful IPO, delivering high quality documentation including the Prospectus, business showcase and investor engagement	100%
Mark Satchel	20%	Mark's objectives focused on strategic M&A activities relating to the Managed Separation and the disposal of the Single Strategy asset management business	• Mark demonstrated strong leadership and focus on delivery, which resulted in the successful completion of these key projects and contributed significantly to the successful IPO, debt issuance and commercial success of the business • His expertise was crucial in leading the successful sale of the Single Strategy asset management business, contributing to the strong financial performance of the Company in 2018	90%

Risk consideration

As part of the review, the Committee considered whether the overall STI outcomes were appropriate in the context of overall Group performance, business performance and individual strategic/personal objectives, and whether any exceptional risk events occurred which, in the Committee's opinion, may have materially affected the STI outcome. The Committee also considered an annual Risk Report and the recommendations of the Chief Risk Officer and Board Risk Committee in respect of the incidence and materiality of any risk issues arising during the year and an overall assessment of risk management relative to the Board's risk appetite and risk culture across the business. The Committee decided that no discretionary risk-based adjustment was required at either an overall pool or individual level.

Deferral policy

In line with our policy, 50% of the Executive Directors' 2018 STI awards were deferred into a conditional award of Ordinary Shares under the Share Reward Plan ("SRP") and will vest in equal annual instalments over a three-year period, subject to continued employment and malus and clawback provisions in accordance with the rules of the SRP. As Mark Satchel was not an Executive Director for the majority of 2018 and at the time the policy came into effect, the deferred element of his bonus was calculated at a rate of 40% in accordance with the Company policy for all other employees.

Audited

	Total		Deferred bonus[1]		To be paid in cash	
Executive Director	£'000	% of salary	£'000	% of salary	£'000	% of salary
Paul Feeney	1,250	185%	625	93%	625	93%
Tim Tookey	1,130	188%	565	94%	565	94%
Mark Satchel	234	192%	93.5	77%	140	115%

1 A grant of shares equal in value to the deferred bonus will be awarded to each of the Executive Directors. The awards are expected to be granted in late March 2019 on a date determined by the Company, with the number of shares awarded based on the preceding day's closing share price.

Short-Term Incentive ("STI") for 2019

In line with our policy for 2019, both Executive Directors are eligible to receive up to 200% of base salary. Performance will be based on a combination of Group financial performance targets as well as strategic (including customer and risk measures) and personal measures. The percentage weightings will be the same as in 2018. Actual targets have not been disclosed due to commercial sensitivity. Group financial targets will be disclosed in the 2018 Annual Report.

2018 Long-Term Incentive ("LTI") Awards

LTI awards vested during the year under the Joint Share Ownership Plan ("JSOP").

Audited

	2015 (1) JSOP Vested at admission shares	2015 (2) & 2016 JSOP Vested and sold at admission shares to cover tax liability[1]	2015 (2) JSOP Vested December 2018 shares	2016 JSOP Outstanding shares
Paul Feeney	339,508	61,875	180,178	54,415

1 A tax charge on these awards was triggered on the Managed Separation and Listing of the Company.

Legacy arrangements

As disclosed in the IPO Prospectus, the JSOP was implemented for certain key employees of Quilter in 2013, with the final grant of awards in 2016. The plan was designed to reward participants for the achievement of strategic objectives, value creation and other profitability metrics over a three-year period. It provided participants with an interest in the capital growth of the Company by granting joint ownership of shares in Old Mutual Wealth Management Limited (now Quilter plc) with an employee benefit trust ("EBT"), whereby the trust owned the principal value of the shares and the participants owned any growth in value during the vesting period. On the Managed Separation and Listing of Quilter plc, the trust exercised a call option to acquire the participants' interest in the shares based on the growth in value of the Company between grant and Listing, in return for consideration shares in Quilter plc. Some of the shares under the plan vested at this point, some vested in December 2018 and the remaining shares will continue to the original vesting date of July 2019 subject to the rules of the JSOP. The consideration shares for any awards that remain unvested are restricted until the normal vesting date, and attract dividends during that time.

Taking account of his critical role as Corporate Finance Director, in March 2017 Mark Satchel was granted a one-off conditional, deferred award of £1 million. The vesting of this award was subject to the successful Managed Separation and Listing of Quilter plc, and his continued service, and was paid in July 2018. This award was agreed prior to the Company's admission and was put in place as part of the planning for Listing. The award was designed to reflect Mark's extensive knowledge of the business and the criticality of his role in the transaction, and the Board's desire to retain him as a potential successor to the CFO – a position he will assume on 13 March 2019.

Long-Term Incentive ("LTI") Awards granted in 2018

Executive Directors are eligible to participate in the Performance Share Plan ("PSP"), the plan used to grant LTI awards.

The awards granted in 2018 are subject to the following performance conditions:

Audited

Performance condition	Weighting	Threshold[1] (25% vesting)	Maximum[1] (100% vesting)
EPS CAGR (2017-20)[2]	**70%**	**6%**	**10%**
Relative TSR[3]	**30%**	**Median**	**Upper Quartile**

1 Straight line interpolation between points.
2 Adjusted profit-based growth, pre-tax, pre-dividend and excludes amortisation and goodwill.
3 Ranking relative to the FTSE 250 excluding Investment Trusts.

At the end of the three-year performance period, the Committee will critically assess whether the formulaic vesting outcome produced by the matrix is justified. To do this, the Committee will look at a number of factors, including whether the result is reflective of underlying performance and has been achieved within the Company's agreed risk appetite. If such considerations mean that the formulaic outcome of the vesting schedule is not felt to be justified, then the Committee can exercise downward discretion.

Vested awards are subject to a further holding period of two years, such that the minimum period between the date of grant and release is five years.

The following PSP awards were granted in respect of the 2018 performance year:

Audited

Executive Director	Form of award	Date of award	Basis of award (% of salary)	Share price at the date of grant	Nil cost options awarded	Face value of award[1]	% vesting at threshold	Performance period
Paul Feeney	NCOs	25/06/2018	200%	1.45	931,034	1,350,000	25%	2018–2020

1 The number of shares awarded was calculated based on the share price of the Company at Admission on 25 June 2018, being 145 pence per share. The face value of the award figure is calculated by multiplying the number of shares awarded by the share price figure of 145 pence.

Notes

When Tim Tookey commenced employment in 2017, prior to Admission, there was no LTIP in operation and he was granted an equity award at 500% of base salary (covering each of the years 2017, 2018 and 2019) in lieu of any LTI expectation for those years. To reflect this, he was not entitled to be considered for any new LTI award (under the PSP) until 2020 at the earliest and will therefore not receive any LTI award prior to stepping down from the Board and leaving the Company in 2019.

Performance Share Plan ("PSP") 2019

The Committee intends to grant Executive awards over nil cost options with a face value of 200% of base salary.

For the 2019 award, the following performance measures will be used:

Financial metrics	Weighting	Threshold[1] (25% vesting)	Maximum[1] (100% vesting)
EPS CAGR (2018–21)[2]	70%	5%	11%
TSR Ranking[3]	30%	Median	Upper Quartile

1 Straight line interpolation between points.
2 Pre-dividend excl. amortisation and goodwill.
3 Ranking relative to the FTSE 250 excluding Investment Trusts.

All-employee share plans

The Company operates a UK tax advantaged all-employee Share Incentive Plan ("SIP"). The SIP was used in 2018 to make an award of free shares to the value of £2,000 to all UK employees (including Executive Directors) shortly following Admission. The number of shares awarded was calculated based on the mid-market closing price of Quilter plc shares on the day before the Award Date of 26 June 2018, this being 152 pence.

Non-executive Director total remuneration

The total remuneration for the Non-executive Directors is set out in the table below. For 2018, the regular fees were paid at the following rate:

Annual fees (Quilter plc Board)	Current fee
Chairman[1]	£375,000
Basic annual fee[1]	£65,000
Additional fees:	
Senior Independent Director	£20,000
Chairs of Board Audit, Risk, Remuneration and IT Committee	£25,000
Members of the above Committees	£10,500
Members of the Board Corporate Governance and Nominations Committee	£5,500
Fees (Subsidiary Boards):	
Chairman of Subsidiary Boards[2]	£100,000
Board Member of Intrinsic, Quilter Investors Limited ("QI"), Quilter Cheviot Limited ("QC")	£45,000
Members of the Subsidiary Board Committees[3]	£5,000

1 With effect from Listing, the Chairman's fee increased by £50,000 to £375,000 and the basic annual fee for a Non-executive Director increased by £5,000 to £65,000.
2 Chairman of the Old Mutual Wealth Limited ("OMWL"), Old Mutual Wealth Life & Pensions Limited ("OMWLP") and Old Mutual Wealth Life Assurance Limited ("OMWLA") and Chairman of QI – £100,000 for the first year falling to £80,000 thereafter.
3 Governance, Audit and Risk Committee ("GARC") – fee applicable to OMWL, OMWLP, OMWLA and QC only.

Audited

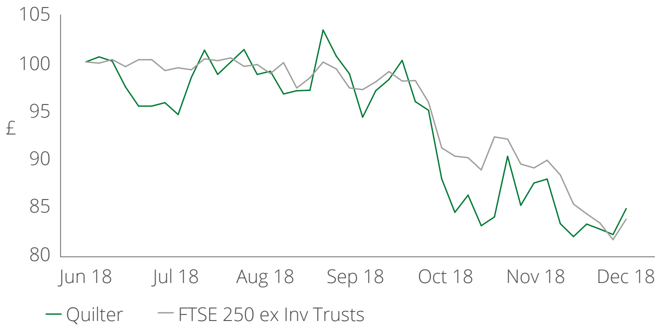
Non-executive Director	Board & Committee membership	Subsidiary Board & Committee membership	Fees for 2018[1] £'000	Subsidiary Board fees £'000	Total for 2018 £'000
Glyn Jones	Chairman, Chair CGN, R		399.0	–	399.0
Rosie Harris	INED, Chair Ri, IT, A	QC and GARC member	132.8	50.0	182.8
Moira Kilcoyne	INED, Chair IT, Ri		122.3	–	122.3
Jon Little[2]	INED, R	Chair QI	85.2	101.1	186.3
George Reid	INED, Chair A, IT, Ri	Chair OMWL, OMWLP, OMWLA, GARC member	132.8	97.8	230.6
Ruth Markland[3]	SID, CGN, A, R		57.6	–	57.6
Cathy Turner	INED, Chair R, CGN	QI	117.3	39.5	156.8
Suresh Kana	INED, A, CGN		32.2	–	32.2
Paul Matthews	INED, Ri	Intrinsic and GARC member	30.0	17.9	47.9

Committee Key:

INED = Independent Non-executive Director
A = Board Audit
R = Board Remuneration
Ri = Board Risk
SID = Senior Independent Non-executive Director
IT = Board Information Technology
CGN = Board Corporate Governance and Nominations

1 To recognise the additional workload associated with preparation for Listing the Non-executive Directors received an additional fee in the lead-up to the Managed Separation and Listing of Quilter plc. This additional fee was £100,000 per annum for the Chairman, £50,000 per annum for the Committee Chairs and £25,000 per annum for the other Non-executive Directors. The additional fee ceased at Admission.
2 Jon Little was also a Board member of Old Mutual Global Investors (UK) Limited, resigned 9 February 2018. Annual fees payable were the same as per the Subsidiary Board member fees disclosed in the table above.
3 Ruth Markland was appointed as a Board member of Old Mutual International Isle of Man Limited on 1 January 2019.

TSR performance graphic over the period since Admission



The graph on the left shows the Company's TSR performance versus the FTSE 250 excluding Investment Trusts over the period since Admission to 31 December 2018. The FTSE 250 has been chosen as the Company is a member of that index.

Group Chief Executive Officer pay

As the Company listed during 2018, there is no disclosure of remuneration relating to prior years.

Financial year	Name	Total remuneration £'000	Annual bonus as % of maximum
2018	Paul Feeney	2,779	92.5%

Percentage change in CEO Remuneration compared to the average employee

As this is the Company's first remuneration report, there is no year-on-year comparison. A comparison of remuneration in 2018 and 2019 will be made in the Remuneration Report for 2019.

Relative importance of spend on pay

The following table sets out the profit, dividends and overall spend on pay in the year ending 31 December 2018:

Operating profit before tax (£m)	233
Dividends (£m)	221
Employee remuneration costs (£m)	311

Executive Directors' shareholding and interests in Quilter Share Schemes

The table below shows the Executive Directors' interests in Group share schemes which will vest in future years subject to performance and/or continued service at 31 December 2018 together with any additional interests in shares held beneficially by the Executive Directors outside of Group share schemes the share price at 31 December 2018 was £1.1832.

Between 31 December 2018 and 4 March 2019 there were no exercises or other dealings in the Company's share awards by the Directors.

Audited

	Scheme interests at 31 December 2018				
	Legally owned (shares)	Subject to legacy JSOP (shares)	Subject to SIP (shares)	Deferred STI awards (shares)	Subject to performance conditions under the LTIP (shares)
Paul Feeney	618,356	54,415	1,428	752,774	931,034
Tim Tookey	65,500	–	1,428	1,603,694	–

Directors' personal holding and beneficial share interests

In line with the Remuneration Policy, each Executive Director is required to acquire and maintain a shareholding equivalent to 300% of base salary (including shares beneficially held by the individual or his/her spouse, and the net of tax value of unvested share interests within Company share plans which are not subject to performance conditions).

As of 31 December 2018, neither Executive Director had satisfied the minimum shareholding requirement but have five years from the date of Admission, or appointment if later, to achieve the minimum. As Tim Tookey will step down from the Board in Q1 2019, less than one year from Admission, he will not be required to the meet the minimum in full.

Audited

Name	Value £	Multiple of base salary
Paul Feeney	1,269,774	188%
Tim Tookey	1,084,859	181%

Includes the estimated net value of unvested share awards which are not subject to performance conditions.
Calculation based on the share price on 31 December 2018, being 118 pence per share.

Shareholding guidelines – Executive and Non-executive Directors

As of the date of Admission and 31 December 2018, the Executive and Non-executive Directors held the following legal and beneficial interests in Ordinary Shares:

Audited

Name	On Admission	31/12/18
Paul Feeney	1,425,545	1,426,973
Tim Tookey	2,314,530	1,670,622
Glyn Jones	537,872	800,000
Cathy Turner	68,965	68,965
Rosie Harris	17,241	17,241
Moira Kilcoyne	34,482	34,482
Jon Little	20,689	20,689
George Reid	20,689	20,689
Ruth Markland	20,689	20,689
Suresh Kana	n/a – appointed 8/08/2018	–
Paul Matthews	n/a – appointed 8/08/2018	30,000

Between 31 December 2018 and 4 March 2019 there were no changes to the interests in shares held by the Directors, as set out in the table above.

Payments within the year to past Directors

There were no payments to past Directors during the year.

Leaving arrangements for Tim Tookey

Although there were no payments for loss of office during the year, a 'good leaver' arrangement for Tim Tookey, who will step down from the Board in Q1 2019, was agreed. Tim's six-month notice period commenced on 31 October 2018. He will continue to work during this notice period to provide a smooth handover to his successor. Under his service contract, Tim will be eligible for a pro-rated STI award in relation to the portion of 2019 that he works. Any STI awarded will be subject to the satisfaction of performance conditions. As a good leaver on termination, his outstanding deferred share awards will be retained, subject to pro-rating for time served in the case of his long-term incentive award. The long-term incentive award was performance assessed at Listing and the Committee determined that the performance conditions had been met in full. This award and Tim's outstanding deferred STI awards will continue to vest on their normal vesting timetable. Post vesting, the long-term incentive award shares are subject to an additional two-year holding period. This represents a substantial level of ongoing post-employment shareholding. In addition, Tim and his immediate family will continue to receive staff terms for services provided by Quilter subsidiaries.

External directorships

The table below sets out external directorships held by the Executive Directors.

Name	External directorships held	Fees received and retained
Executive Directors		
Paul Feeney	None	–
Tim Tookey	Non-executive Director, Nationwide Building Society	£127,500

External advisers

For the first 10 months of 2018, the Committee engaged the services of Deloitte as interim independent remuneration adviser to the Committee, principally to provide relevant guidance and advice covering the period up to the Managed Separation and Listing of the Company in London and Johannesburg. During Q3 2018, the Committee conducted a formal tender process to identify and formally appoint a remuneration adviser. Initially seven external advisers were invited to participate in the process, from which four companies were shortlisted to provide a formal presentation to the Committee. Following the conclusion of that process, Aon was appointed as remuneration adviser to the Committee with effect from 1 November 2018 and attended the November meeting of the Committee in that capacity. From time to time, Aon may provide other services to Quilter plc such as remuneration benchmarking data and insurance broking. However, these do not provide a conflict with the advice received by the Committee, which is provided by Aon's specialist Executive Remuneration practice. This practice is not involved in the marketing of other Aon services and is obliged to abide by the Remuneration Consultant's Code of Conduct. Apart from the above, neither Deloitte nor Aon have any other connection with the Company.

The Committee is satisfied that the advice received from both Deloitte and Aon is objective and independent, and both firms are members of the Remuneration Consultants Group, whose voluntary code of conduct is designed to ensure objective and independent advice is given to Committees.

The total fees paid in respect of remuneration advice during 2018 are as follows:

Firm	Key areas of advice received	Total fees 2018
Deloitte LLP	Remuneration policy, market practice, regulatory and corporate governance developments	£21,050
Aon	Annual remuneration report and policy disclosure, market practice, incentive design	£20,000

Financial statements

Financial statements

Detailed financial information provided within our financial statements and notes.

Statement of Directors' responsibilities

in respect of the Annual Report and Accounts and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company 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 Group and parent 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 Group or the parent 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 parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and parent Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board

Paul Feeney
Chief Executive Officer

Tim Tookey
Chief Financial Officer

11 March 2019

KPMG

Independent auditor's report

to the members of Quilter plc

1: Our opinion is unmodified

We have audited the financial statements of Quilter plc (the "Company") for the year ended 31 December 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, reconciliation of adjusted profit to profit after tax, consolidated statement of changes in equity, consolidated statement of financial position and consolidated of cash flows, Company statements of financial position, cash flows and changes in equity and the related notes, including the accounting policies in note 4.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the Directors in advance of our first audit for the year ended 31 December 2018 prior to the Company becoming a public interest entity. The period of total uninterrupted engagement is for the financial year ended 31 December 2018 as a public-interest entity and 11 years in total. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£11m 4% of normalised profit before tax from continuing operations ("PBTCO")
Coverage	90% of Group profit before tax
Key audit matters	
Event driven	Brexit Uncertainties
Recurring risks of the Group	Valuation of level 3 financial investments
	Valuation of long-term business insurance policyholder liabilities
	Valuation of the voluntary customer remediation provision
	Valuation of goodwill
	Parent Company risk: Valuation of investments in group subsidiaries

Independent auditor's report continued

to the members of Quilter plc

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

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 33 (principal risks), page 200 (viability statement), page 60 (Board Risk Committee Report) and page 54 (Audit Committee Report).	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of level 3 investments and the valuation of goodwill, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance and business model. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	**Our procedures included:** We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge**: We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis**: When addressing the valuation of goodwill and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency**: As well as assessing individual disclosures as part of our procedures on the valuation of level 3 investments and the valuation of goodwill, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our findings** As reported under the valuation of level 3 investments and the valuation of goodwill, we found the resulting estimates and related disclosures of the valuation of level 3 investments, the valuation of goodwill and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Valuation of level 3 financial investments (2018: £1,154m; 2017: £1,169m) Refer to page 107 (accounting policy) and page 147 (financial disclosures)	**Subjective valuation** A subjective estimate exists for financial instruments where an objective external price does not exist, or where such a price is not readily observable, which is principally the case for level 3 financial instruments. There is a significant risk associated with level 3 financial instruments within the Wealth Platforms segment due to the application of valuation techniques which involve judgement and the use of assumptions and estimates. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of level 3 financial investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements note 22 disclose the sensitivity estimated by the Group.	**Our procedures included:** • **Methodology choice:** We critically assessed the valuation methodologies applied by the Group against current market best practice. • **Our sector experience:** We challenged all key inputs and assumptions used by the Group in the applied valuation methodology such as estimated market movements and expected cash flows with reference to our own independent expectations, which were based on similar instruments in the market and our industry knowledge and experience. • **Assessing transparency:** We assessed the adequacy of the disclosures including the description of the fair value measurement process and whether the sensitivity to key inputs appropriately reflects the Group's exposure to financial instruments valuation risk. **Our findings** We found the resulting valuations in relation to the level 3 financial investments to be balanced with proportionate disclosures of the related assumptions and sensitivities.

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

	The risk	Our response
Valuation of long-term business insurance policyholder liabilities (2018: £602m; 2017: £489m) Refer to page 109 (accounting policy) and page 159 (financial disclosures)	**Subjective valuation** Valuation of life insurance contract liabilities within the Wealth Platforms segment involves significant judgement in the choice of assumptions applied in determining the ultimate total settlement value of long-term policyholder liabilities. Economic assumptions, such as discount rates, and operating assumptions, such as mortality and morbidity, persistency and expenses are the key inputs used in the valuation of these long term liabilities. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of long term business insurance policyholder liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements note 29 disclose the sensitivities estimated by the Group.	**Our procedures included:** • **Control design:** We evaluated the controls over the measurement and management of the Group's calculation of insurance liabilities. We challenged Group's own "analysis of change" to assess the explanations provided aligned with our expectations and wider business understanding. We considered the valuation model output for key products to validate that the key drivers of the insurance liabilities are being modelled correctly. • **Our sector experience:** We considered the Group's approach to setting assumptions and assessed whether it is consistent with industry practice and the Group's documented approval process. • **Our actuarial expertise:** We utilised our own actuarial specialists to assist us in assessing and challenging certain assumptions used in the actuarial models and the process for setting and updating these assumptions. This included assessing the data used in the Group's analysis to set assumptions, in the context of our own industry knowledge, external data and our views of experience to date. • **Assessing transparency:** We assessed the adequacy of the disclosures in relation to the long-term policyholder liabilities. **Our findings** We found the valuation of the long-term business insurance policyholder liabilities to be mildly optimistic with proportionate disclosures of the related assumptions and sensitivities.
Valuation of the voluntary customer remediation provision (2018: £38m; 2017: £69m) Refer to page 117 (accounting policy) and page 162 (financial disclosures)	**Subjective estimate** The voluntary customer redress provision relates to payments to the subset of protection plan holders and associated programme costs within the Wealth Platforms segment significant. The risk relates to the uncertainty of the estimates and assumptions used and the methodology employed in determining the amount of provision to be recognised and/ or disclosed under IAS 37 Provisions, contingent liabilities and contingent assets. The key estimates and assumptions in relation to the provision are: • The various assumptions included in the modelled amounts to be repaid, including interest rates, time taken for remediation to commence and plans in scope; • The judgemental overlays established to cover additional uncertainties in respect of known data issues, potential complaints and broader market movements which could impact plan valuations; and • The programme costs of carrying out the remaining remediation activity, in particular how much external support is required in delivering the remediation to policyholders. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the voluntary customer remediation provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements note 30 discloses the sensitivity estimated by the Group.	**Our procedures included:** • **Governance considerations:** We attended recent governance forums to understand the status of programme planning and the Directors' views on the key areas of uncertainty. • **Model interrogation:** We assessed the latest model to determine whether the results produced were in line with the Group's intentions in respect of the approved methodology. • **Our sector experience:** We assessed the application of accounting policies adopted by the Group for the recognition of the provision. We assessed and challenged the Group's methodology and the assumptions applied in arriving at the provision. We considered the appropriateness of adjustments made to the provision to reflect latest expectations. • **Assumptions:** We challenged the assumptions applied in the models and challenged the sensitivity analyses prepared by the Group's actuary in respect of interest rates and timing. We considered the basis for the various overlays established and corroborated assumptions as far as possible in respect of similar past experience. • **Assessing transparency:** We assessed whether the disclosures made in relation to the recognition, estimation uncertainty and presentation of the provision were appropriate. **Our findings** We found the estimates in relation to the valuation of the voluntary client redress provision to be cautious with proportionate disclosures of the related assumptions and sensitivities.

Independent auditor's report continued

to the members of Quilter plc

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

	The risk	Our response
Valuation of goodwill (2018: £314m; 2017: £306m) Refer to page 115 (accounting policy) and page 139 (financial disclosures)	**Forecast-based valuation** Goodwill is significant and the determination of the recoverable amount of each reportable segment is complex and involves a high level of judgement. The significant judgements arise over the discount rate, growth rate and cash flow forecasts which are key inputs in the valuation of goodwill. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements note 16 disclose the sensitivity estimated by the Group.	**Our procedures included:** • **Our sector experience and benchmarking assumptions:** We challenged the cash flow forecasts, including the consistency of forecasts applied across the Group. We utilised our own corporate finance specialists to assist us in challenging the key assumptions and methodologies applied by the Group in the determination of discount rates, with reference to our own independent expectations, which were based on our industry knowledge and experience. • **Comparing valuations and historical assumptions:** We compared forecasts to approved business plans and also previous forecasts to actual results to assess the performance of the business and the accuracy of forecasting. We also considered the appropriateness of the scenarios used in the context of our wider business understanding. • **Sensitivity analysis:** We performed sensitivity analyses on the key assumptions in the Advice and Wealth Management and Wealth Platforms cash generating units. • **Assessing transparency:** We assessed that the adequacy of the disclosures in relation to goodwill appropriately reflect the associated risks and the disclosures in relation to the sensitivity of the goodwill balance to changes in key assumptions. **Our findings** We found the resulting estimate of the recoverable amount of goodwill was balanced with proportionate disclosures of the related assumptions and sensitivities.
Parent Company risk: Valuation of investments in group subsidiaries (2018: £2,663m; 2017: £2,069m) Refer to page 106 (accounting policy) and page 192 (financial disclosures)	**Low risk, high value** The carrying amount of the Parent Company's investments in subsidiaries represents 79% of the Parent Company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area of greatest audit effort in our overall Parent Company audit.	**Our procedures included** • **Tests of detail:** We compared the carrying amount of a sample of the highest value investments, representing 97% of the total investment balance with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount. We assessed the recoverable value for investments, representing 97% of the total investment balance using cash flow forecasts. Procedures performed over cash flow forecasts and the related assumptions are described in the section on valuation of goodwill above. • **Assessing subsidiary audits:** As Group auditors, we assessed the work performed by the subsidiary audit teams on that sample of those subsidiaries and considered the results of that work, on those subsidiaries' profits and net assets. **Our findings** We found the valuation of investments in group subsidiaries to be balanced.

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

Materiality for the group financial statements as a whole was set at £11 million, determined with reference to a benchmark of group profit before tax attributable to equity holders normalised by £116 million to exclude any goodwill impairment and impact of acquisition accounting, business transformation costs and managed separation costs as disclosed in note 7, of which it represents 4%.

Materiality for the parent company financial statements as a whole was set at £9 million, determined with reference to a benchmark of total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.55 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 reporting components, we subjected 8 to full scope audits for group purposes and 1 to the audit of specific account balances. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite.

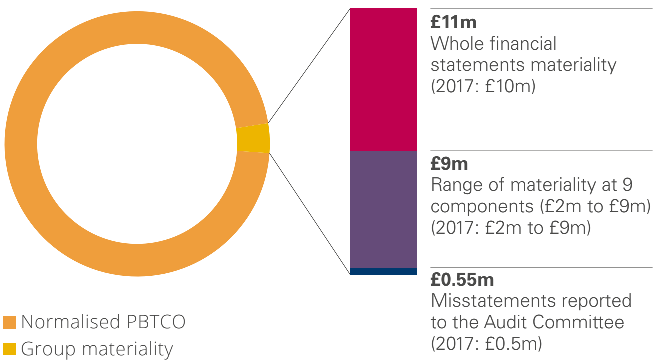
The remaining 4% of total group revenue, 10% of group profit before tax and 1% of total group assets is represented by non-reporting components, none of which individually represented more than 1% of any of total group revenue, group profit before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £2 million to £9 million, having regard to the mix of size and risk profile of the Group across the components. The work on 8 of the 9 components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The group team performed procedures on the normalising adjustments.

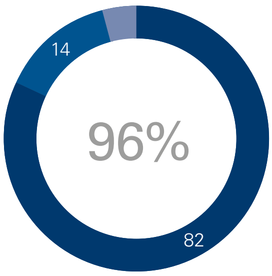
Of the Group's 9 reporting components, 7 components are UK based. For the remaining components, the Group team visited 1 component location in Isle of Man to assess the audit risks and strategy. Video and telephone conference meetings were also held with all component auditors including those that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Normalised PBTCO
£279m

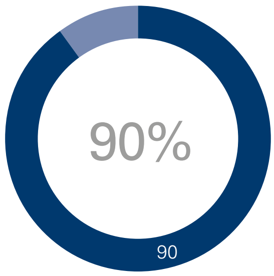
Group Materiality
£11m



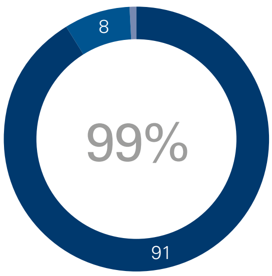
Group revenue



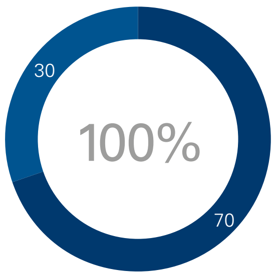
Group profit before tax



Group total assets



Normalised PBTCO



■ Full scope for group audit purposes 2018
■ Specified risk-focused audit procedures 2018
■ Residual components

KPMG

Independent auditor's report continued

to the members of Quilter plc

4: We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Group and 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 102 is materially inconsistent with our audit knowledge.

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

5: We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic report and directors' report

Based solely on our work on the other information:

- 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.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Group's viability statement on page 200 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Group's viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. 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 anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 198, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

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

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

8. The purpose of our audit work and to whom we owe our responsibilities

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

J. M. Mills

Jonathan Mills
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

11 March 2019

KPMG

Consolidated income statement

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Revenue			
Gross earned premiums		148	148
Premiums ceded to reinsurers		(88)	(88)
Net earned premiums		60	60
Fee income and other income from service activities	8(a)	1,046	895
Investment return	8(b)	(3,482)	5,195
Other income		35	13
Total revenue		**(2,341)**	**6,163**
Expenses			
Insurance contract claims and changes in liabilities	29(b)	(33)	(15)
Change in investment contract liabilities	29(d)	3,236	(4,308)
Fee and commission expenses, and other acquisition costs	9(a)	(437)	(320)
Change in third party interest in consolidated funds		369	(673)
Other operating and administrative expenses	9(b)	(772)	(816)
Finance costs	10	(17)	(39)
Total expenses		**2,346**	**(6,171)**
Profit on acquisitions	5(a)	–	3
Profit/(Loss) before tax from continuing operations		**5**	**(5)**
Tax credit/(expense) attributable to policyholder returns		158	(49)
Profit/(Loss) before tax attributable to equity holders		**163**	**(54)**
Income tax credit/(expense)	13(a)	169	(41)
Less: tax (credit)/expense attributable to policyholder returns		(158)	49
Tax credit attributable to equity holders		11	8
Profit/(Loss) after tax from continuing operations		**174**	**(46)**
Profit after tax from discontinued operations	5(c)	314	203
Profit for the period after tax		**488**	**157**
Attributable to:			
Equity holders of Quilter plc		**488**	**157**

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Earnings per Ordinary Share on profit attributable to ordinary shareholders of Quilter plc			
Basic			
From continuing operations (pence)		9.5	(2.5)
From discontinued operations (pence)	5(c)	17.1	11.1
Basic earnings per Ordinary Share (pence)	14(a)	**26.6**	**8.6**
Diluted			
From continuing operations (pence)		9.4	(2.5)
From discontinued operations (pence)	5(c)	17.1	11.1
Diluted earnings per Ordinary Share (pence)	14(b)	**26.5**	**8.6**

The attached notes on pages 102 to 187 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the period after tax		**488**	157
Other comprehensive income:			
Exchange gains on translation of foreign operations[1]		–	3
Items that may be reclassified subsequently to income statement		**–**	**3**
Income tax on items that will not be reclassified subsequently to income statement[2]		–	3
Items that will not be reclassified subsequently to income statement		**–**	**3**
Total other comprehensive income, net of tax[1]		**–**	**6**
Total comprehensive income for the period		**488**	**163**
Attributable to:			
Continuing operations		174	(47)
Discontinued operations	5(d)	314	210
Equity holders of Quilter plc		**488**	**163**

[1] In the year ended 31 December 2017, £3 million previously shown within the consolidated statement of changes in equity as a change in participation in subsidiaries has been reclassified to other comprehensive income, to conform with current year presentation.

[2] In the year ended 31 December 2017, £3 million previously shown within other comprehensive income for the period has been reclassified to income tax on items that will not be reclassified subsequently to income statement, to conform with current year presentation.

The attached notes on pages 102 to 187 form an integral part of these consolidated financial statements.

Reconciliation of adjusted profit to profit after tax

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Adjusted profit before tax			
Advice and Wealth Management		102	82
Wealth Platforms		162	158
Head Office		(31)	(31)
Adjusted profit before tax	6(b)	**233**	**209**
Reconciliation of adjusted profit to Profit after tax			
Adjusting for the following:			
Goodwill impairment and impact of acquisition accounting		(50)	(54)
Profit on business acquisitions and disposals		–	3
Business transformation costs		(84)	(89)
Managed Separation costs		(24)	(32)
Finance costs		(13)	(39)
Policyholder tax adjustments		101	17
Voluntary customer remediation provision		–	(69)
Total adjusting items before tax	7(a)	**(70)**	**(263)**
Profit/(Loss) before tax attributable to equity holders		**163**	**(54)**
Income tax attributable to policyholder returns		(158)	49
Profit/(Loss) before tax from continuing operations		**5**	**(5)**
Income tax credit/(expense) on continuing operations	13(b)	169	(41)
Profit/(Loss) after tax from continuing operations		**174**	**(46)**
Profit after tax from discontinued operations	5(c)	314	203
Profit for the period after tax		**488**	**157**

Adjusted profit after tax attributable to ordinary shareholders of Quilter plc

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Adjusted profit before shareholder tax		**233**	**209**
Shareholder tax on adjusted profit	13(c)	(6)	(14)
Adjusted profit after tax attributable to ordinary shareholders of Quilter plc	14(c)	**227**	**195**
Adjusted weighted average number of Ordinary Shares used to calculate adjusted basic earnings per share (millions)	14(c)	1,832	1,830
Adjusted basic earnings per share (pence)	14(c)	**12.4**	**10.7**
Adjusted weighted average number of Ordinary Shares used to calculate adjusted diluted earnings per share (millions)	14(c)	1,839	1,830
Adjusted diluted earnings per share (pence)	14(c)	**12.3**	**10.7**

Basis of preparation of adjusted profit

Adjusted profit is one of the Group's Alternative Performance Measures and reflects the Directors' view of the underlying performance of the Group. It is used for management decision making and internal performance management and is the profit measure presented in the Group's segmental reporting. Adjusted profit is a non-GAAP measure which adjusts the IFRS profit for specific agreed items as detailed in note 7(a): Adjusted profit adjusting items.

Adjusted profit excludes significant costs or income that are non-operating or one-off in nature, including the impairment of goodwill; amortisation and impairment of other intangibles acquired in business combinations; the profit or loss on business acquisitions and disposals; costs related to business transformation; Managed Separation costs; the effects of interest costs on borrowings; and voluntary customer remediation provisions. Adjusted profit also treats policyholder tax as a pre-tax charge (to offset against the related income collected from policyholders), though adjusted to remove the impact of non-operating tax items.

Adjusted earnings applied in the calculation of adjusted earnings per share is calculated based on adjusted profit after tax. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds.

The Group Audit Committee regularly reviews the use of adjusted profit to confirm that it remains an appropriate basis on which to analyse the operating performance of the business. The Committee assesses refinements to the policy on a case-by-case basis, and where possible the Group seeks to minimise such changes in order to maintain consistency over time.

Consolidated statement of changes in equity

For the year ended 31 December 2018

For the year ended 31 December 2018	Note	Share capital £m	Share premium £m	Merger reserve £m	Share-based payments reserve £m	Other reserves £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2018		**130**	**58**	**–**	**38**	**1**	**872**	**1,099**
Profit for the period		–	–	–	–	–	488	488
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**488**	**488**
Dividends	15	–	–	–	–	–	(221)	(221)
Acquisition of entities due to managed separation restructure[1]	27(b)	–	–	591	–	–	–	591
Issue of share capital	27	3	–	(3)	–	–	–	–
Movement in treasury shares		–	–	–	–	–	5	5
Equity share-based payment transactions[2]		–	–	–	7	–	35	42
Change in participation in subsidiaries		–	–	–	(12)	–	12	–
Aggregate tax effects of items recognised directly in equity		–	–	–	1	–	–	1
Total transactions with the owners of the Company		**3**	**–**	**588**	**(4)**	**–**	**(169)**	**418**
Balance at 31 December 2018		**133**	**58**	**588**	**34**	**1**	**1,191**	**2,005**

[1] Acquisition of the Skandia UK group of entities from Old Mutual plc.
[2] Equity share-based payment transactions include £27 million of IFRS 2 costs and £35 million transfer to retained earnings representing share-based payment schemes that have fully vested. In addition, £15 million previously recognised within liabilities was transferred to equity, including cash awards that have been converted to equity-settled awards.

For the year ended 31 December 2017	Note	Share capital £m	Share premium £m	Share-based payments reserve £m	Other reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2017		**130**	**–**	**75**	**3**	**2**	**782**	**992**
Profit for the period		–	–	–	–	–	157	157
Other comprehensive income		–	–	–	–	–	6	6
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**163**	**163**
Dividends	15	–	–	–	–	–	(210)	(210)
Issue of share capital	27(a)	200	58	–	–	–	–	258
Reduction of share capital	27(a)	(200)	–	–	–	–	200	–
Movement in treasury shares[1]		–	–	–	–	–	(99)	(99)
Equity share-based payment transactions[2]		–	–	(36)	–	–	31	(5)
Change in participation in subsidiaries		–	–	(1)	(2)	(2)	5	–
Total transactions with the owners of the Company		**–**	**58**	**(37)**	**(2)**	**(2)**	**(73)**	**(56)**
Balance at 31 December 2017		**130**	**58**	**38**	**1**	**–**	**872**	**1,099**

[1] Movement in treasury shares includes £99 million of treasury shares within the JSOP Employee Benefit Trust that transferred from Old Mutual plc to the Company during 2017. See note 28(g) for further details.
[2] Equity share-based payment transactions include £18 million of IFRS 2 costs and £31 million transfer to retained earnings representing share-based payment schemes that have fully vested. In addition, £23 million was paid to employee benefit trusts in respect of share-based payment scheme settlements.

The attached notes on pages 102 to 187 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

At 31 December 2018

	Note	At 31 December 2018 £m	At 31 December 2017 £m
Assets			
Goodwill and intangible assets	16	550	574
Property, plant and equipment	17	17	18
Investments in associated undertakings[2]		2	1
Deferred acquisition costs[1]	25(a)	11	611
Contract costs[1]	25(a)	551	–
Contract assets[1]	25(b)	44	–
Loans and advances	18	222	199
Financial investments[2]	19	59,219	64,250
Reinsurers' share of policyholder liabilities	29	2,162	2,908
Deferred tax assets	31	38	22
Current tax receivable	31(c)	47	–
Trade, other receivables and other assets	24	486	497
Derivative assets	20	46	87
Cash and cash equivalents	26(b)	2,395	2,360
Assets of operations classified as held for sale	5(f)	–	446
Total assets		**65,790**	**71,973**
Equity and liabilities			
Equity			
Ordinary Share capital	27(a)	133	130
Ordinary Share premium reserve	27(a)	58	58
Merger reserve	27(b)	588	–
Share-based payments reserve		34	38
Other reserves		1	1
Retained earnings		1,191	872
Total equity		**2,005**	**1,099**
Liabilities			
Long-term business insurance policyholder liabilities	29	602	489
Investment contract liabilities	29	56,450	59,139
Third-party interests in consolidated funds		5,116	7,905
Provisions	30	94	104
Deferred tax liabilities	31	59	190
Current tax payable	31(c)	5	38
Borrowings	32	197	782
Trade, other payables and other liabilities	33	999	1,331
Deferred revenue[1]	34	–	244
Contract liabilities[1]	34	226	–
Derivative liabilities	20	37	433
Liabilities of operations classified as held for sale	5(f)	–	219
Total liabilities		**63,785**	**70,874**
Total equity and liabilities		**65,790**	**71,973**

1 The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. It has applied IFRS 15 using the cumulative effect method, under which the comparative information is not restated. It has also taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements. Refer to note 4(r) for further information.
2 As at 31 December 2017, £2 million has been reclassified from investments in associated undertakings to financial investments to conform with current year presentation.

Approved by the Board on 11 March 2019.

Paul Feeney
Chief Executive Officer

Tim Tookey
Chief Financial Officer

The attached notes on pages 102 to 187 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2018

The cash flows presented in this statement cover all the Group's activities and include flows from both policyholder and shareholder activities. All cash and cash equivalents are available for use by the Group except for cash and cash equivalents in Consolidated Funds.

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017[2] £m
Cash flows from operating activities			
Profit before tax		321	227
Non-cash movements in profit before tax	26(a)	584	3,151
Net changes in working capital[1]	26(a)	(669)	980
Taxation paid		(92)	(9)
Total net cash flows from operating activities		**144**	**4,349**
Cash flows from investing activities			
Net acquisitions of financial investments		(366)	(3,549)
Acquisition of property, plant and equipment		(7)	(8)
Acquisition of intangible assets		(4)	(9)
Acquisition of interests in subsidiaries		(5)	(33)
Cash added within acquisition of Skandia UK Limited	5(a)	25	–
Net proceeds from the disposal of interests in subsidiaries[3]		350	208
Total net cash used in investing activities		**(7)**	**(3,391)**
Cash flows from financing activities			
Dividends paid to ordinary equity holders of the Company		(221)	(210)
Finance costs		(8)	(39)
Proceeds from issue of Ordinary Shares		–	258
Proceeds from issue of subordinated and other debt		497	–
Subordinated and other debt repaid		(516)	(57)
Total net cash used in financing activities	26(c)	**(248)**	**(48)**
Net (decrease)/increase in cash and cash equivalents		(111)	910
Cash and cash equivalents at beginning of the year		2,507	1,595
Effects of exchange rate changes on cash and cash equivalents		(1)	2
Cash and cash equivalents at end of the period	26(b)	**2,395**	**2,507**

Cash flows include both continuing and discontinued operations and cash held for sale.

1 In the year end 31 December 2017, the cash flow statement has been amended to include cash of £147 million that was previously included in assets held for sale in respect of the Single Strategy Asset Management business which has subsequently been sold in 2018.
2 A number of items within the 2017 comparatives have been reclassified to align with the presentation within the 2018 financial statements. There was no impact on cash and cash equivalents resulting from these reclassifications.
3 Net proceeds from the disposal of interests in subsidiaries in 2018 includes the cash consideration on disposal of the Single Strategy Asset Management business of £540 million (see note 5(b)), less cash within the Single Strategy Asset Management business at the point of disposal of £170 million and £20 million transaction costs.

The attached notes on pages 102 to 187 form an integral part of these consolidated financial statements.

Basis of preparation and significant accounting policies

For the year ended 31 December 2018

General Information

Quilter plc (the "Company"), a public limited company incorporated and domiciled in the United Kingdom ("UK"), together with its subsidiary undertakings (collectively, the "Group") offers investment and wealth management services, life assurance and long-term savings, and financial advice through its subsidiaries and associates primarily in the UK with a presence in a number of cross-border markets.

The address of the registered office is Millennium Bridge House, 2 Lambeth Hill, London EC4V 4AJ.

The Company was, until 25 June 2018, a wholly owned subsidiary of Old Mutual plc, a FTSE 100 listed group. The Company formed part of the Old Mutual Wealth division of Old Mutual plc, for which it acted as a holding company and delivered strategic and governance oversight. On 25 June 2018, Quilter plc was listed on the London and the Johannesburg Stock Exchanges and is no longer part of the Old Mutual plc group.

1: Basis of preparation

The consolidated financial statements of Quilter plc for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"), and those parts of the Companies Act 2006 applicable to those reporting under IFRS.

Pursuant to section 435 of the Companies Act, the comparative figures for the financial year ended 31 December 2017 are not the Group's statutory accounts for that financial year. Those accounts were separate financial statements of the Company and have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The comparative figures for the financial year 31 December 2017 are the same as those reported in the Group's Listing Prospectus dated 20 April 2018, which is available on the Group's website.

This is the first set of the Group's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes in significant accounting policies to reflect these new IFRSs are explained in note 4.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Group operates.

The separate financial statements of the Company are on pages 188 to 195. The Company financial statements are prepared in accordance with these accounting policies, other than for investments in subsidiary undertakings, which are stated at cost less impairments in accordance with IAS 27 *Separate Financial Statements*.

Going concern

The Directors have considered the resilience of the Group, taking into account its current financial position, the principal risks facing the business and the effectiveness of the mitigating strategies which are or will be applied. As a result, the Directors believe that the Group is well placed to manage its business risks in the context of the current economic outlook and have sufficient financial resources to continue in business for a period of at least 12 months from the date of approval of these financial statements. They therefore continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The Group's consolidated financial statements incorporate the assets, liabilities and the results of the Company and its subsidiaries. Subsidiaries are those entities, including investment funds, controlled by the Group. More information on how the Group assesses whether it has control is provided in accounting policy 4(a). Subsidiaries are consolidated from the date the Group obtains control and are excluded from consolidation from the date the Group loses control.

Where necessary, adjustments are made to financial statements of subsidiaries to bring the accounting policies used in line with Group policies. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation.

Liquidity analysis of the statement of financial position

The Group's statement of financial position is in order of liquidity as is permitted by IAS 1 *Presentation of Financial Statements*. For each asset and liability line item, those amounts, expected to be recovered or settled after more than 12 months after the reporting date are disclosed separately in the notes to the financial statements.

Acquisitions and disposals

The following acquisitions and disposals have taken place and therefore their financial impacts have been accounted for in the relevant reporting period (further details are included in note 5).

1: Basis of preparation continued

Acquisitions completed in 2018:

- Skandia UK Limited – acquired from Old Mutual plc on 31 January 2018 (this included £566 million of intercompany indebtedness which was replaced with equity in the form of share capital and a merger reserve; further details are included in note 27)
- 14 adviser businesses – acquired during the year to form part of Quilter Private Client Advisers ("QPCA")

Disposals completed in 2018:

- Old Mutual Wealth Single Strategy Asset Management business – sale completed on 29 June 2018

Acquisitions completed in 2017:

- Attivo Investment Management Limited – acquired on 29 March 2017
- Caerus Capital Group Limited – acquired on 1 June 2017
- Commsale 2000 Limited – acquired from Old Mutual plc on 29 September 2017
- Global Edge Technologies (Pty) Limited – acquired from Old Mutual plc on 30 November 2017
- Eight adviser businesses – acquired during the year to form part of QPCA

Disposals completed in 2017:

- Old Mutual Wealth Italy S.p.A – sale completed on 9 January 2017

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 actuarial and accounting guidance to make predictions about future actions and events. Actual results may differ significantly from those estimates.

The Group Audit Committee reviews the reasonableness of judgements and estimates applied and the appropriateness of significant accounting policies adopted in the preparation of these financial statements. 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
Group accounting including the consolidation of investment funds	The Group has undertaken a number of acquisitions and disposals during the year including those as part of Managed Separation and the sale of the Single Strategy Asset Management business. Other than for common control transactions, the Group uses the acquisition method of accounting for business combinations where the cost is measured as the aggregate of the fair values (at the date of exchange) of assets acquired, liabilities incurred, and equity instruments issued for control of the acquirer. Judgement is applied in determining the fair value of the consideration and net assets acquired and also the date at which the Group obtains or cedes control. In addition, the Group's interest in investment funds can fluctuate according to the Group's participation in them as clients' underlying investment choices change. Third-party interests in consolidated funds are classified as a liability rather than a non-controlling interest as they meet the liability classification requirement set out in IAS 32.	4(a)
Insurance contracts – classification	The Group is required to apply judgement in assessing the level of insurance risk transferred to the Group in determining whether a contract should be classified (and accounted for) as an insurance or investment contract. The majority of the contracts written by the Group do not meet the definition of an insurance contract as they do not transfer significant insurance risk and as such are accounted for as an investment contract.	29
Provisions – recognition	In assessing whether a provision should be recognised, the Group evaluates the likelihood of a constructive or legal obligation to settle an event that took place in the past and whether a reliable estimate can be made. Significant provisions have been made in respect of the voluntary client remediation provision and the restructuring provision in respect of the sale of the Single Strategy Asset Management business.	30
Deferred tax – recognition	The timing and recognition of any deferred tax assets have been impacted as the Group has become standalone under Managed Separation. Due to ambiguities in tax law and the complex nature of the separation process, the tax treatment of specific potential tax assets are being discussed with the relevant tax authorities. Where management believe there is a significant risk that the tax authorities may take a different view no asset has been recognised. Management expects discussions with the tax authorities on Managed Separation transactions to be concluded during 2019.	31

Basis of preparation and significant accounting policies continued

For the year ended 31 December 2018

1: Basis of preparation continued

Area	Critical accounting estimates	Note
Insurance contracts – measurement	Measurement involves significant use of assumptions including mortality, morbidity, persistency, expense valuation and interest rates.	29
Provisions – measurement	The amount of provision is calculated based on the Group's estimation of the expenditure required to settle the obligation at the statement of financial position date. The key assumptions in relation to the voluntary customer remediation provision have included the investment return used, the point at which customers are remediated and the timing of remediation. The provision includes estimates of the cost of future claims and programme remediation costs.	30
Deferred tax – measurement	The estimation of future taxable profits is performed as part of the annual business planning process, and is based on estimated levels of assets under management, which are subject to a large number of factors including worldwide stock market movements, related movements in foreign exchange rates and net client cash flow, together with estimates of expenses and other charges.	31
Goodwill and intangible assets	The valuation of goodwill and intangible assets that are recognised as the result of a business combination involves the use of valuation models. These have arisen principally on the acquisition of the Quilter Cheviot business, Intrinsic and on various adviser business acquisitions. In relation to goodwill impairment, the determination of a cash generating unit's ("CGUs") recoverable value is based on the discounted value of the expected future profits of each business. Significant estimates include forecast cash flows, new business growth and discount rates.	16
Valuation of investments	Where quoted market prices are not available, valuation techniques are used to measure financial investments. When valuation techniques use significant unobservable inputs they are subject to estimation uncertainty and are categorised as level 3 in the fair value hierarchy. Matching liabilities are similarly categorised as level 3.	22

2: New standards, amendments to standards, and interpretations adopted by the Group

The Group adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time in 2018. Although significant standards, they did not have a material impact on the Group. The majority of the Group's financial assets and liabilities continue to be measured at fair value through profit or loss ("FVTPL") after the implementation of IFRS 9. In relation to IFRS 15 the Group was already largely compliant in the way it recognises fee and commission income. The impact of adopting these two new standards is outlined in note 4(r): Changes in significant accounting policies.

Other standards:

In addition to IFRS 9 and IFRS 15, 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 Group from 1 January 2018 with no material impact on the Group's consolidated results, financial position or disclosures:

- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions;*
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;*
- Amendments to IAS 40 *Transfers of Investment Property;*
- Amendments to IFRS 1 and IAS 28 Annual improvements to IFRSs 2014–2016 cycle; and
- IFRIC 22 *Foreign currency transactions and advance consideration.*

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

Certain new standards, interpretations and amendments to existing standards have been published by the IASB that are mandatory for the Group's annual accounting periods beginning after 1 January 2019. The Group has not early-adopted these standards, amendments and interpretations. The new standards that will have a significant impact on the Group are summarised below:

- **IFRS 16 *Leases***
  The IASB issued IFRS 16 *Leases* in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 *Leases,* and related interpretations and will be effective for accounting periods beginning on or after 1 January 2019.

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

Under IFRS 16 and at inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess where a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. This is deemed to be when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - it has the right to operate the asset; or
  - it designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

For lessees, IFRS 16 will result in almost all leases being recognised in the statement of financial position as IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- assets (the right to use the leased item) and liabilities (the obligation to pay lease rentals); and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

At transition, lease liabilities will be measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group will apply this approach for all of its property leases.

On transition to IFRS 16, the Group estimates that it will recognise an additional £74 million of right-of-use assets and £83 million of lease liabilities, recognising a reduction in opening retained earnings at 1 January 2019 of £9 million, with no impact to the income statement. In subsequent periods, the Group will recognise a depreciation charge on right-of-use assets and finance interest charges on lease liabilities in the income statement and, over the term of lease contracts, expect a broadly neutral impact to the income statement as the aggregate depreciation charges and finance interest charges replace office lease rental payments. When measuring the lease liabilities, the Group discounts the lease payments using its incremental borrowing rate at 1 January 2019. The rate applied is dependent on the duration of the lease contract and will range from 1.7% to 3.7%.

The Group will use the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- apply a single discount rate to a portfolio of leases with similar characteristics;
- apply the exemption not to recognise right-of-use assets and liabilities for leases for low value items (IASB basis of conclusion is that low value items should be the GBP equivalent of less than USD $5,000) or short term leases (less than 12 months); and
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Accounting for lessors will not change significantly, as IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

- **IFRS 17 *Insurance contracts***

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

Basis of preparation and significant accounting policies continued

For the year ended 31 December 2018

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

The measurement model

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

Presentation and disclosure

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

Effective date

The IASB has recently announced that it has tentatively decided to defer the effective date of IFRS 17 by 1 year to 1 January 2022, with early adoption available. The standard is yet to be endorsed by the EU. Management is currently assessing the impact of this standard on the Group and is establishing a multi-functional project team involving Finance, Actuarial, Risk and IT.

- IFRIC 23 *Uncertainty over income tax treatments*

  The IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments* in June 2017. 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 'accounting tax position') where there is uncertainty over treatment. The Group is concluding on the impact of the adoption of this Interpretation. All tax provisions for the Group are currently calculated consistent with the requirements of IAS 12 *Income taxes*.

Effective date

IFRIC 23 is effective for the Group for the accounting period beginning on 1 January 2019.

4: Significant accounting policies

The Group's significant accounting policies are described below. Any changes to the Group's significant accounting policies as a result of changes in accounting standards during the year are detailed in note 4(r).

4(a): Group accounting

Subsidiaries

Subsidiary undertakings are those entities (investees) controlled by the Group. The Group controls an investee if, and only if, the Group has all of the following three elements of control:

- power over the investee;
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to affect those returns through its power over the investee.

For operating entities this usually arises with a shareholding in the entity of 50% or more. The Group also consolidates certain of its interests in open-ended investment companies ("OEICs"), unit trusts, mutual funds and similar investment vehicles (collectively "investment funds"). Where, as is often the case with investment funds, voting or similar rights are not the dominant factor in deciding who controls the investee, other factors are considered in the control assessment. These are described in more detail below.

The Group continually assesses any changes to facts and circumstances to determine, in the context of the three elements of control listed above, whether it still controls investees and is required to consolidate them.

Investment funds

The Group invests in a wide range of investment funds such as OEICs and unit trusts generally in respect of its unit-linked investment contracts where investments are made to match clients' investment choices. For some of these funds it also acts as fund manager. These funds invest predominantly in equities, bonds, cash and cash equivalents. The Group holds interests in these investment funds mainly through the receipt of fund management fees, in the case where the Group acts as fund manager, which provide a variable return based on the value of the funds under management and other criteria, and in the case of third party funds where fund performance has an impact on fund-based fees within unit-linked investment contracts and other similar client investment products. Where the Group acts as fund manager it may also hold investments in the underlying funds, through acquiring units or shares. Where these investments are held in unit-linked funds, the Group has a secondary exposure to variable returns through the management fees that it deducts from unit-linked policyholders' account balances. The Group's percentage ownership can fluctuate from day to day according to the Group's participation in them as clients' underlying investment choices change.

4: Significant accounting policies continued

4(a): Group accounting continued

When assessing control of investment funds, the Group considers the purpose and design of the fund, scope of its decision making authority, including its ability to direct relevant activities and to govern the operations of a fund so as to obtain variable returns from that fund and its ability to use its power to affect these returns, both from the perspective of an investor and an asset manager. In addition, the Group assesses rights held by other parties including substantive removal ("kick-out" rights) that may affect the Group's ability to direct relevant activities.

On consolidation, the interests of parties other than the Group are assessed to determine whether they should be classified as liabilities or as non-controlling interests ("NCIs") on the statement of financial position. Interests classified as a liability are described as "Third-party interests in consolidated funds". Such interests are not recorded as NCIs as they meet the liability classification requirement set out in IAS 32 *Financial Instruments: Presentation*. These liabilities are regarded as current, as they are repayable on demand, although it is not expected that they will be settled in a short time period.

Business combinations

The Group is required to use the acquisition method of accounting for business combinations. Business combinations are accounted for at the date that control is achieved (the acquisition date). The cost of a business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts. Where provisional amounts are reported these are adjusted during the measurement period which extends up to a maximum of 12 months from the acquisition date. Additional assets or liabilities may also be recognised during this period, to reflect any new information obtained about the facts and circumstances that existed as of the date of acquisition date that, if known, would have affected the amounts recognised on that date.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired entity at the date of acquisition. Acquisition related costs are expensed as incurred.

The difference between the proceeds from the disposal of a subsidiary undertaking and its carrying amount as at the date of disposal, including the cumulative amount of any related exchange differences that are recognised in the foreign currency translation reserve equity, is recognised in the consolidated income statement as the gain or loss on disposal of the subsidiary undertaking.

Common control combinations

Merger accounting is used by the Group for common control combinations, which are transactions between entities that are ultimately controlled by the same party or parties. This method treats the merged entities as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations result in the recognition of a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of any new shares issued by the parent company for the acquisition of the shares of the subsidiary and the subsidiary's Net Asset Value ("NAV"). Such transactions attract merger relief under section 612 of the Companies Act 2006.

4(b): Fair value measurement

The Group uses fair value to measure the majority of its assets and liabilities. Fair value is a market-based measure and is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a financial instrument, the best evidence of fair value at initial recognition is normally the transaction price, which represents the fair value of the consideration given or received.

Where observable market prices in an active market, such as bid or offer (ask) prices are unavailable, fair value is measured using valuation techniques based on the assumptions that market participants would use when pricing the asset or liability. If an asset or a liability measured at fair value has a bid or an offer price, the price within the bid-offer spread that is most representative of fair value is used as the basis of the fair value measurement.

The quality of the fair value measurement for financial instruments is disclosed by way of the fair value hierarchy, whereby level 1 represents a quoted market price for identical financial assets and liabilities, level 2 financial assets and liabilities are valued using inputs other than quoted prices in active markets included in level 1, either directly or indirectly and level 3 whereby financial assets and liabilities are valued using valuation techniques where one or more significant inputs are unobservable.

Classifying financial instruments into the three levels outlined above provides an indication about the reliability of inputs used in determining fair value. More information is provided in note 22.

Basis of preparation and significant accounting policies continued

For the year ended 31 December 2018

4: Significant accounting policies continued

4(c): Product classification

The Group's life assurance contracts are categorised as either insurance contracts or investment contracts, in accordance with the classification criteria set out in the paragraphs below.

Insurance contracts

The Group's insurance contracts include traditional life and health insurance contracts including for the latter standalone critical illness and long term care policies, as well as the unbundled insurance component of unit-linked contracts. Life assurance contracts are categorised as insurance contracts at the inception of the contract only if the contract transfers significant insurance risk. Insurance risk is significant if, and only if, an insured event could cause the Group to make significant additional payments in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. It is possible to reclassify contracts as insurance contracts after inception if insurance risk becomes significant.

IFRS accounting for insurance contracts in UK companies was 'grandfathered' at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice on Accounting for Insurance Business (issued by the Association of British Insurers and subsequently withdrawn from 1 January 2015), adjusted to remove certain regulatory reserves and margins in assumptions.

Investment contracts

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

"Hybrid" Insurance and investment contracts – unbundling

Generally, life and pensions contracts allow for a single classification at product class level. For those contracts containing both an insurance component and an investment component, the Group has elected to unbundle these contracts and account for each component separately. This approach has been applied to a number of the Group's unit-linked assurance business contract types where a significant component of insurance risk exists.

4(d): Fee income and other income from service activities

Fee income and other income from service activities represents the fair value of services provided, net of value-added tax and consists predominantly of fees charged to clients for plan and policy administration, investment management, surrenders and other contract services in relation to the Group's unit-linked business. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. Fee income is recognised as revenue as investment management services are provided to policyholders. Where fees are received upfront, either at inception or over an initial period for services not yet provided, the income is deferred and recognised as a deferred revenue liability on the statement of financial position and released to the income statement as services are provided over the lifetime of the contract. Deferred fee income has been renamed to contract liabilities in 2018 following the adoption of IFRS 15. In addition, this also includes advice income from Quilter Financial Planning.

4(e): Investment return

Investment return comprises two elements: investment income; and realised and unrealised gains and losses on investments held at FVTPL.

Investment income

Investment income includes dividends on equity securities which are recorded as revenue on the ex-dividend date and interest income which is recognised using the effective interest rate method which allocates interest and other finance costs at a constant rate over the expected life of the financial instrument.

Realised and unrealised gains and losses

A gain or loss on a financial investment is only realised on disposal or transfer and represents the difference between the proceeds received, net of transaction costs, and its original cost (or amortised cost). Unrealised gains or losses, arising on investments which have not been disposed or transferred, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value (if this occurs during the year), less the reversal of previously recognised unrealised gains or losses in respect of disposals made during the year.

Gains and losses resulting from changes in both market value and foreign exchange on investments classified at FVTPL are recognised in the consolidated income statement in the period in which they occur.

4: Significant accounting policies continued

4(f): Premiums

Premiums receivable under insurance contracts are shown in the income statement gross of commission and exclude sales-based taxes and levies. For regular (and recurring) premium contracts, receivables are recognised when payments are due. Premiums in respect of other insurance contracts are recognised in the income statement when receivable, apart from premiums received in respect of unit-linked insurance contracts (see below). Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

Premiums received in respect of unit-linked insurance contracts are recognised when the corresponding liability to the policyholder is established. For single premium business, this is the date from which the policy is effective.

4(g): Deferred acquisition costs and Contract costs

Investment contracts

Incremental costs, including fee and commission expenses, that are directly attributable to securing either unit-linked investment contracts or other asset management services are deferred and recognised as a deferred acquisition cost ("DAC") asset if they can be identified separately and measured reliably and it is probable that the costs will be recovered. Deferred acquisition costs have been renamed to contract costs in 2018 following the adoption of IFRS 15. Contract costs are linked to the contractual right to benefit from providing investment management services, they are therefore amortised through the income statement as the related revenue is recognised.

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

Insurance contracts

Incremental costs directly attributable to securing an insurance contract, such as initial commission and the costs of obtaining and processing such business are deferred and a DAC asset recognised, to the extent that they are expected to be recovered out of future margins.

Contract costs and insurance DAC are amortised as an expense on a straight line basis, adjusted for expected persistency, over the expected life of the contract, as the services are provided (equal service provision assumed) but subject to a restriction whereby it is no longer than the period in which such costs are expected to be recoverable out of future margins.

At the end of each reporting period, contract costs and DAC are reviewed for recoverability, by category of business, against future margins from the related contracts. They are impaired in the income statement where they are no longer considered to be recoverable.

4(h): Investment contract liabilities

The majority of the Group's investment contracts are unit-linked contracts. At inception, investment contract liabilities for unit-linked business are designated as financial liabilities and measured at FVTPL (mandatory under IFRS 9 from 1 January 2018 and previously designated at FVTPL under IAS 39 *Financial Instruments: Recognition and Measurement* see note 4(r) for full details of the impact to the Group of transitioning from IAS 39 to IFRS 9). For these contracts, the fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets in the fund. The FVTPL classification reflects the fact that the matching investment portfolio, that backs the unit-linked liabilities, is managed, and its performance evaluated, on a fair value basis.

Contributions received on investment contracts are treated as policyholder deposits and credited directly to investment contract liabilities on the statement of financial position, as opposed to being reported as revenue in the consolidated income statement. This practise is known as deposit accounting. Withdrawals paid out to policyholders on investment contracts are treated as a reduction to policyholder deposits, reducing the investment contract liabilities on the statement of financial position, as opposed to being recognised as expenses in the consolidated income statement.

4(i): Insurance contract liabilities

Claims

Long-term business claims reflect the cost of all claims arising during the year and include payments for maturities, annuities, surrender, death and disability claims, as well as claims handling costs, incurred in connection with the negotiation and settlement of claims. They are recognised as expenses in the income statement. Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified. Reinsurance recoveries are accounted for in the same period as the related claim.

Long-term business liabilities

The Group calculates its long term business liabilities for the life operation, based on local regulatory requirements and actuarial principles consistent with those applied in the local market. For UK business this is in accordance with UK regulatory requirements (the Modified Statutory Solvency Basis), in place before the introduction of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions. Liabilities are calculated using the gross premium valuation method, which is based on the amount of contractual premiums receivable and includes explicit assumptions for interest and discount rates, as well as for mortality, morbidity, persistency and future expenses. These assumptions are based on market data, internal experience data and also external data where either no internal experience data exists or where internal data is too sparse to give credible estimates of the true expectation of experience. Anticipated future trends have been allowed for in deriving mortality and morbidity assumptions. The liability for contractual benefits that are expected to be paid in the future is determined as the discounted value of the excess of future expected outgoings over future expected income. Future expected outgoings include claim costs, direct expenses, commissions and reinsurance premiums. Future expected income includes premiums payable by policyholders and recoveries made from reinsurers. For anticipated future claims that have been incurred but not yet paid, the Group establishes a provision for outstanding claims.

Basis of preparation and significant accounting policies continued

For the year ended 31 December 2018

4: Significant accounting policies continued

4(i): Insurance contract liabilities continued

The method used to determine liabilities for long-term life business makes allowance for the level of risk and uncertainty inherent in the business by the use of margins for caution within the assumptions used to project future income and outgoings. The portion of premiums received that relates to unexpired risks as at the reporting period end is reported within the long term insurance liabilities. The change in insurance contract liabilities, comprising the full movement in the corresponding liabilities during the period, is recognised in the income statement.

Liability adequacy test

At each reporting date, the Group assesses whether the recognised insurance contract liabilities are adequate in light of current estimates of future cash flows. This liability adequacy test is performed by comparing the carrying value of the insurance contract liabilities and the discounted projections of future cash flows. If the carrying value is less than the future expected cash flows, the deficiency is initially recognised by writing down the DAC asset. The recoverability of the DAC asset is tested against present value of in-force ("PVIF") business, determined on a best estimate basis, with any deficit written off the DAC asset immediately. Any required write down in excess of the value of the DAC asset is recognised in the income statement with a corresponding additional provision in the statement of financial position.

4(j): Reinsurance

Long-term insurance business

The Group cedes reinsurance in the normal course of business for the purpose of limiting its claims costs. Ceded reinsurance contracts include arrangements where regular risk premiums are paid by the Group to the reinsurer and an agreed share of claims are paid by the reinsurer to the Group. These arrangements are in respect of underlying policies that are classified as insurance contracts. Accordingly, contracts with reinsurers are assessed to establish whether they contain significant insurance risk to justify such a classification. Only rights under contracts that give rise to a transfer of significant insurance risk are accounted for as long term insurance business reinsurance assets.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. Reinsurance recoveries are recognised in the income statement in the same period as the related claim.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in other receivables and other payables respectively unless a right of offset exists, in which case the net amount is reported on the consolidated statement of financial position. Assets, liabilities, income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the underlying insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

The value of the benefits that the Group is entitled to under the ceded reinsurance arrangements are reported as "reinsurers' share of policyholder liabilities" in the statement of financial position. This is calculated as the difference between the insurance contract liability assuming no reinsurance arrangement exists (the gross basis) and the liability with explicit allowance for all cash flows relating to the reinsurance arrangement (the net basis). Insurance contract liabilities are calculated quarterly on the gross and net bases taking into account all relevant experience effects. The reinsurers' share of insurance provisions is updated consistently with these calculations. Any resulting movement in the reinsurers' share of insurance provisions is recognised in the income statement.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due to it under the terms of the contract and that the event has an impact that can be measured reliably in respect of amounts expected to be received from the reinsurer. The reinsurers' share of policyholder liabilities is updated for any impairment. Any resulting movement in the reinsurers' share of policyholder liabilities is recognised in the income statement.

Investment contracts

Policyholder investments recognised by the Group that are fully managed by a third party reinsurer are shown on the statement of financial position within reinsurers' share of investment contract liabilities, with the corresponding liability to the policyholder included within liabilities for linked investment contracts.

4(k): Financial instruments (other than derivatives)

As of 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* and categorises its financial instruments as described in detail below. Prior to this, the Group applied the previous accounting policy in line with IAS 39 *Financial Instruments: Recognition and Measurement*. As detailed in note 4(r) this change in accounting standard has mainly resulted in new classifications, all of which are shown in note 4(r) under both IFRS 9 and IAS 39.

Financial instruments cover a wide range of financial assets, including financial investments, trade receivables and cash and cash equivalents and certain financial liabilities, including investment contract liabilities, trade payables, and borrowings. Derivatives, which are also financial instruments, are covered by accounting policy 4(l). Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to receive cash flows have expired or been forfeited by the Group. A financial liability is derecognised when the liability is extinguished.

4: Significant accounting policies continued

4(k): Financial instruments (other than derivatives) continued

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best represents the way the business is managed and information is reported to management. The assessment considers the stated portfolio policies and objectives. The Group determines its strategy in holding the financial asset, particularly considering whether the Group earns contractual interest revenue, for example to match the duration of financial assets to the duration of liabilities that are funding those assets or to realise cash flows through the sale of the assets. The frequency, volume and timing of sales in prior periods may be reviewed, along with the reasons for such sales and expectations about future sales activity. These factors enable management to determine which financial assets should be measured at fair value through the profit or loss ("FVTPL").

Initial measurement

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

Subsequent measurement

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

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

Amortised cost

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding on specified dates.

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

Financial investments

All other financial assets that are not measured at amortised cost are classified and measured at FVTPL. This includes any derivative financial assets (the majority of which are as a result of the consolidated of funds, as described in note 4(a)). In addition, on initial recognition, the Group 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 Group'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 consolidated income statement.

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

The Group recognises purchases and sales of financial investments on trade date, which is the date that the Group commits to purchase or sell the assets. The costs associated with investment transactions are included within expenses in the consolidated income statement.

Basis of preparation and significant accounting policies continued

For the year ended 31 December 2018

4: Significant accounting policies continued

4(k): Financial instruments (other than derivatives) continued

Loans and advances

Loans with fixed maturities, including policyholder loans, are recognised when cash is advanced to borrowers or policyholders. Policyholder loans are interest free and are mandatorily at FVTPL since they are taken from the policyholder's unit-linked account and thereby matched to underlying unit-linked liabilities held at FVTPL, which are unaffected by the transaction. Other loans and advances are carried at amortised cost using the effective interest rate method. These assets are subject to the impairment requirements outlined below.

Cash and cash equivalents

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

Cash and cash equivalents held within money market collective investment funds are classified as FVTPL. All other cash and cash equivalents are classified as amortised cost which means they are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method and are subject to the impairment requirements outlined below. The carrying amount of cash and cash equivalents, other than money market collective investment funds which are measured at fair value, approximates to their fair value.

Financial liabilities and equity

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

Trade payables and receivables

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

Investments in 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

IFRS 9 introduces an expected loss accounting model for credit losses that differs significantly from the incurred loss model under IAS 39 and results in earlier recognition of credit losses.

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

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.

4: Significant accounting policies continued

4(k): Financial instruments (other than derivatives) continued

Impaired financial assets

Stage 3

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

Application of the new impairment model

The Group applies IFRS 9's new ECL model to two main types of financial assets that are measured at amortised cost:

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

ECLs are a probability-weighted estimate of credit losses. ECLs for financial assets that are not credit-impaired at the reporting date are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due in accordance with the contract and the cash flows that the Group 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 Group 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 Group 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 Group 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 Group on terms that the Group would not otherwise consider. The assumption that the credit risk for balances over 30 days significantly increases has been rebutted on the basis that some balances will exceed 30 days in the normal course of the settlement cycle, and therefore, there is no increase in the credit risk.

Presentation of impairment

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

Write-offs

Loans and debt securities 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 Group 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.

Hedge accounting

The Group does not currently apply hedge accounting and has elected to defer the application of hedge accounting requirements in IFRS 9 and will assess them once the IASB has completed its macro-hedging project. It will disclose information on the impact of adoption in the first set of financial statements in which it has applied the IFRS 9 hedging requirements.

4(l): Derivatives

The Group has limited involvement in the use of derivative instruments and does not use them for speculation purposes. Derivative financial instruments are used to manage well-defined foreign exchange risks arising out of the normal course of business in our International operations and the Group uses forward foreign exchange contracts to reduce the currency risk on certain US dollar, Euro and Swedish krona denominated future revenues and accounts receivables. Management determines the classification of derivatives at initial recognition and classifies derivatives as mandatorily at FVTPL. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The only other derivatives recognised in the Group's statement of financial position are as a result of the consolidation of funds (described in note 4(a)).

Basis of preparation and significant accounting policies continued

For the year ended 31 December 2018

4: Significant accounting policies continued

4(m): Employee benefits

Pension obligations

The Group operates two types of pension plans which have been established for eligible employees of the Group:

- defined contribution schemes where the Group makes contributions to members' pension plans but has no further payment obligations once the contributions have been paid; and
- defined benefit plans which provide pension payments upon retirement to members as defined by the plan rules.

The Group has funded these liabilities by ring-fencing assets in trustee-administered funds.

Defined contribution pension obligation

Under a defined contribution plan, the Group's legal or constructive obligation is limited to the amount it agrees to contribute to a pension fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. Contributions in respect of defined contribution schemes for current service are expensed in the income statement as staff costs and other employee-related costs when incurred.

Defined benefit pension obligation

A defined benefit pension plan typically defines the amount of pension benefit that an employee will receive on retirement. For these plans, the Group's defined benefit obligation is calculated by independent actuaries using the projected unit credit method, which measures the pension obligation as the present value of estimated future cash outflows. The discount rate used is determined based on the yields for investment grade corporate bonds that have maturity dates approximating to the terms of the Group's obligations. Plan assets are measured at their fair value at the reporting date. The net surplus or deficit of the defined benefit plan is recognised as an asset or liability in the statement of financial position and represents the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets.

An asset is recognised only where there is an unconditional right to future benefits.

The current service cost and any past service costs together with the expected return on plan assets less the unwinding of the discount on the plan liabilities is charged to "other expenses" in the income statement.

Re-measurements which comprise gains and losses as a result of experience adjustments and changes in actuarial assumptions, the actual return on plan assets (excluding interest) and the effect of the asset ceiling are recognised immediately in OCI in the period in which they occur. Re-measurements are not reclassified to the income statement in subsequent periods. Administration costs (other than the costs of managing plan assets) are recognised in the income statement when the service is provided.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the income statement when the plan amendment or curtailment occurs.

Employee share-based payments

The Group operates a number of share incentive plans for its employees. These generally involve an award of shares or options in the Group (equity-settled share-based payments), but may also take the form of a cash award based on the share price of the Group (cash-settled share-based payments).

The Group's incentive plans have conditions attached before the employee becomes entitled to the award. These can be performance and/or service conditions (vesting conditions) or conditions that are often wholly within the control of the employee, for example where the employee has to provide funding during the vesting period, which is then used to exercise share options (non-vesting condition).

Performance conditions may be market-based or non-market based. Market performance conditions are those related to an entity's equity, such as achieving a specified share price or target based on a comparison of the entity's share price with an index of share prices. Non-market performance conditions are those related to an entity's profit or revenue targets, an example of which would be Earnings per Share ("EPS"). Market-based performance conditions and non-vesting conditions are taken into account when estimating the fair value of the share or option awards at the measurement date. The fair value of the share awards or options is not adjusted to take into account non-market performance features. These are taken into consideration by adjusting the number of equity instruments in the share-based payment measurement and this adjustment is made each period until the equity instruments vest.

4: Significant accounting policies continued

4(m): Employee benefits continued

The fair value of share-based payment awards granted is recognised as an expense in the income statement over the vesting period which accords with the period for which related services are provided by the employee. A corresponding increase in equity is recognised for equity-settled plans and a corresponding financial liability for cash-settled plans.

For equity-settled plans, the fair value is determined at grant date and not subsequently re-measured. For cash-settled plans, the fair value is re-measured at each reporting date and the date of settlement, with any changes in fair value recognised in the profit or loss for the period and the liability adjusted accordingly.

At each period end the Group reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the income statement with a corresponding adjustment to the share-based payments reserve in equity.

At the time the equity instruments vest, the amount recognised in the share-based payments reserve in respect of those equity instruments is transferred to retained earnings.

4(n): Tax

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 consolidated financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

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

Deferred tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or in other comprehensive income. In certain circumstances, as permitted by accounting guidance, deferred tax balances are not recognised. In particular, where the liability relates to the initial recognition of goodwill, or transactions that are not a business combination and at the time of their occurrence affect neither accounting nor taxable profit. Note 31(b) includes further detail of circumstances in which the Group does not recognise temporary differences.

Policyholder tax

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

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

4(o): Goodwill and intangible assets

The recognition of goodwill arises on the acquisition of a business and represents the premium paid over the fair value of the Group's share of the identifiable assets and liabilities acquired at the date of acquisition. Intangible assets include both purchased intangible assets initially recognised as part of a business combination and internally generated assets, such as software development costs related to amounts recognised for in-house systems development.

Basis of preparation and significant accounting policies continued

For the year ended 31 December 2018

4: Significant accounting policies continued

4(o): Goodwill and intangible assets continued

Goodwill and goodwill impairment

Goodwill arising on the Group's investments in subsidiaries is shown as a separate asset, while that on associates, where it arises, is included within the carrying value of those investments. Goodwill is recognised as an asset at cost at the date when control is achieved (the acquisition date) and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to annual impairment reviews.

Goodwill is allocated to one or more cash-generating units ("CGUs") expected to benefit from the synergies of the combination, where the CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Goodwill is reviewed for impairment at least once annually, as a matter of course even if there is no indication of impairment, and whenever an event or change in circumstances occurs which indicates a potential impairment. For impairment testing, the carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of an operation within a group of CGUs to which goodwill has been allocated, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal. It is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Intangible assets acquired as part of a business combination

Intangible assets acquired as part of a business combination are recognised where they are separately identifiable and can be measured reliably. Acquired intangible assets consist primarily of contractual relationships such as customer relationships and distribution channels. Such items are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships acquired at the date of acquisition. Brands and similar items acquired as part of a business combination are capitalised at their fair value based on a "relief from royalty" valuation methodology.

Subsequent to initial recognition acquired intangible assets are measured at cost less amortisation and any recognised impairment losses. Amortisation is recognised at rates calculated to write off the cost or valuation less estimated residual value, using a straight-line method over their estimated useful lives as set out below:

- Distribution channels 10 years
- Customer relationships 10 years
- Brand 15–20 years

The economic lives are determined by considering relevant factors such as usage of the asset, product life cycles, potential obsolescence, competitive position and stability of the industry. The amortisation period is re-evaluated at the end of each financial year end.

Internally developed software

There are a number of factors taken into account when considering whether internally developed software meets the recognition criteria in IAS 38 *Intangible assets*. Where for example a third party provider retains ownership of the software, this will not meet the control criterion in the standard (i.e. the power to obtain benefits from the asset) and the costs will be expensed as incurred.

Where it is capitalised, internally developed software is held at cost less accumulated amortisation and impairment losses. Such software is recognised in the statement of financial position if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Group and its cost can be measured reliably.

Costs incurred in the research phase are expensed, whereas costs incurred in the development phase are capitalised, subject to meeting specific criteria, as set out in the relevant accounting guidance, the main one being that future economic benefits can be identified as a result of the development expenditure. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the relevant software, which range between three and five years, depending on the nature and use of the software.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4: Significant accounting policies continued

4(o): Goodwill and intangible assets continued

Impairment testing for intangible assets

For intangible assets with finite lives, impairment charges are recognised where evidence of impairment is observed. If an indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is calculated as the higher of fair value less costs to sell and value in use. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

4(p): Assets and liabilities held for sale and discontinued operations

Assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year of the date of classification. Assets and liabilities held for sale are presented separately in the consolidated statement of financial position.

Assets and liabilities (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. No depreciation or amortisation is charged on a non-current asset while classified as held for sale or while part of a disposal group once it has been classified as held for sale.

The Group classifies as discontinued operations areas of the business which have been disposed of, or are classified as held for sale at the year end and which either represent a separate major line of business or geographical area, or are part of a plan to dispose of one, or are subsidiaries acquired exclusively with a view to resale.

When an asset (or disposal group) ceases to be classified as held for sale, the individual assets and liabilities cease to be shown separately in the statement of financial position at the end of the year in which the classification changes. Comparatives are not restated. If the line of business was previously presented as a discontinued operation and subsequently ceases to be classified as held for sale, profit and loss and cash flows of the comparative period are restated to show that line of business as a continuing operation.

Further information can be found in note 5.

4(q): Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of the time value of money is material, provisions are discounted and represent the present value of the expected expenditure.

The Group recognises specific provisions where they arise for the situations outlined below:

- client compensation and related costs when the Group has decided to compensate clients in the context of providing fair customer outcomes;
- onerous contracts when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract;
- corporate restructuring only if the Group has approved a detailed formal plan and raised a valid expectation among those parties directly affected, that the plan will be carried out either by having commenced implementation or by publicly announcing the plan's main features. Such provisions include the direct expenditure arising from the restructuring, such as employee termination payments but not those costs associated with the ongoing activities of the Group; and
- legal uncertainties and the settlement of other claims.

Provisions are not recognised for future operating costs or losses.

Contingent liabilities are possible obligations of the Group of which the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the consolidated statement of financial position, unless they are assumed by the Group as part of a business combination. They are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and recognised as a liability.

Contingent assets which are possible benefits to the Group are only disclosed if it is probable that the Group will receive the benefit. If such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the consolidated statement of financial position as an asset.

Basis of preparation and significant accounting policies continued

For the year ended 31 December 2018

4: Significant accounting policies continued

4(r): Changes in significant accounting policies

4(r)(i): Changes to the "Group Accounting" accounting policy

The Group Accounting policy (note 4(a)) has been updated to include our use of "Merger accounting": used by the Group for common control combinations, which are transactions between entities that are ultimately controlled by the same party or parties. For further information of the impact of this during the current year, see note 27.

4(r)(ii): Changes to the "Financial Instruments" accounting policy

As outlined in Note 2 above, the Group has adopted IFRS 9 *Financial instruments* as issued by the IASB in July 2014. The adoption of IFRS 9 during the year has resulted in changes to accounting policies (see note 4(k)) and a small adjustment to opening retained earnings for moving to a forward looking impairment model, based on ECLs.

IFRS 9 Financial Instruments – Transition impacts

Assessments have been carried out on the basis of the facts and circumstances that existed at the date of initial application to determine the business model within which a financial asset is held and to establish the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except that, in accordance with the transitional provisions in paragraph 7.2.15 of IFRS 9, comparative information for prior periods has not been restated. Accordingly, all comparative period information is presented in accordance with the Group's previous accounting policies. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018.

Classification and measurement on adoption

On adopting IFRS 9 the Group has incurred a small additional impairment allowance, adjusting the Group's opening retained earnings by £0.2 million at 1 January 2018. This is shown below. There has also been a change to classification terminology, outlined below for the Group's main financial instruments:

	IFRS 9 – Current year	IAS 39 – Prior year	
Financial instrument	Classifications and measurement models	Classifications	Measurement model
• Cash and cash equivalents, excluding money market funds • Contract assets • Trade receivables • Loans and advances (not unit-linked)	Amortised Cost	Loans and receivables	Amortised Cost
• Debt instruments (unit-linked)[1] • Equity instruments (unit-linked) • Loans and advances (unit-linked) • Reinsurers' share of policyholder liabilities (unit-linked) • Cash and cash equivalents, money market funds only	FVTPL (mandatory)	FVTPL (designated)	FVTPL
• Debt instruments (non-linked)	FVTPL (designated)	FVTPL (designated)	FVTPL

[1] Quilter's unit-linked business, where a portfolio of financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with its risk management strategy, is required (not elected) to be held at FVTPL under IFRS 9. This is due to the business model being neither (i) held to collect contractual cash flows nor (ii) held both to collect contractual cash flows and to sell financial assets.

Impairment on adoption

For assets in the scope of the IFRS 9 impairment model, the impact of adopting IFRS 9 at 1 January 2018 is as follows:

	£m
Opening retained earnings IAS 39	872.0
Increase in provision for trade receivables	(0.1)
Increase in provision for loans	(0.1)
Total adjustment to retained earnings for adoption of IFRS 9	**(0.2)**
Opening retained earnings IFRS 9	**871.8**

4: Significant accounting policies continued

4(r): Changes in significant accounting policies continued

IFRS 15 Revenue from Contracts with Customers

As indicated in Note 2 above, the Group has adopted IFRS 15 *Revenue from Contracts with Customers* as issued by the IASB in May 2014 using the cumulative effect method. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under IAS 18 *Revenue*. The adoption of IFRS 15 has not resulted in any material impact on the Group's existing practices and accounting policies, except for the incorporation of new terminology introduced by the standard.

Under IFRS 15, revenue is recognised when a customer obtains control of goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

The Group performed an assessment to determine the impact of the new standard on the Group's statement of financial position and performance. It considered the five-step analysis prescribed by the standard, taking into account the different types of contracts it has with its customers, the corresponding types of services provided to customers and when these service obligations are satisfied. In addition, the Group considered the types of fee income generated across all products from the contracts with its customers and when the fee income is recognised – see the table below for further information. The assessment concluded that no changes were required to the measurement and recognition of revenue from customer contracts. Consequently, the cumulative impact of adoption was £nil and as a result no adjustment to the Group's opening retained earnings as at 1 January 2018 has been recognised.

The table below summarises the types of fee and commission income generated by the Group.

Type of fee	Description	Nature of change in accounting policy
Premium-based fees	This relates to non-refundable initial fees taken on receipt of clients' investments and recognised on receipt over the life of the contract, in line with the performance obligation associated with the contract in respect of the administration of the underlying client records and client benefits, and results in the recognition of a contract liability on the statement of financial position (see note 34 for further information).	IFRS 15 did not have a significant impact on the Group's accounting policies.
Fund-based fees	This is periodic fee income based on the market valuation of the investment contracts. They are calculated and recognised on a daily basis in line with the provision of investment management services.	
Fixed fees	This is periodic fee income which is fixed in value according to underlying contract terms and relate to the provision of services and transactional dealing fees. These are recognised on provision of the transaction.	
Surrender fees	Fee income relates to client charges received on the surrender of an investment contract or insurance contract, which is based on the value of the policy and recognised on surrender of the policy.	
Other fee and commission income	Fees in respect of advice provided to clients. Typically, fee income is paid by providers of the financial products at the point of sale to the client. This is when the advice has been provided to the client and the financial adviser's performance obligation has been fully delivered. Accordingly, fee income is recognised at the inception of the financial product sold.	

The introduction of IFRS 15 did not result in changes to the Group's significant accounting policies, except to update them for new terminology introduced by the new standard for contract costs (previously known as deferred acquisition costs for non-insurance contracts – refer to note 4(g) for further information), contract assets (previously known as accrued income from contracts with customers), and contract liabilities (previously known as deferred fee income from contracts with customers).

Notes to the consolidated financial statements

For the year ended 31 December 2018

5: Acquisitions, discontinued operations and disposal groups held for sale

This note provides details of the acquisitions and disposals of subsidiaries the Group has made during the period, together with details of businesses held for sale during that same period.

5(a): Business acquisitions completed during the period

Business acquisitions completed during year ended 31 December 2018

Acquisition of Skandia UK Limited from Old Mutual plc

On 31 January 2018, the Group acquired the Skandia UK Limited group of entities from Old Mutual plc which comprises seven Old Mutual plc group entities with a net asset value ("NAV") of £591 million. The transfer was effected by the issue of a share and with the balance represented by a merger reserve. No debt was taken on as a result of this transaction. The most significant asset within these entities is a £566 million receivable which corresponds to an equivalent payable within the Group's statement of financial position. The net effect of this transaction for the Group is to replace a payable due to Old Mutual plc with equity. For further information see note 27.

Acquisition of adviser businesses by Quilter Private Client Advisers ("QPCA") (formerly Old Mutual Wealth Private Client Advisers)

During the year, the Group continued its expansion of the QPCA business, aiming to develop a Quilter plc branded, employed adviser business focused upon servicing upper affluent and high net worth clients, offering a centrally-defined restricted advice proposition focused upon the Group's investment solutions and platform. In the year the Group completed the acquisition of 14 adviser businesses as part of the expansion of the QPCA business. The total cash consideration paid was an initial £5.3 million with additional potential deferred consideration of £6.4 million which is expected to be paid in full (discounted to net present value for this and all other acquisitions listed below), dependent upon meeting certain performance targets generally relating to funds under management.

Net tangible assets of £0.2 million were acquired and goodwill of £5.1 million, other intangible assets of £7.4 million and a deferred tax liability of £1.0 million were recognised as a result of the transaction. The deferred consideration was capitalised in the calculation of goodwill recognised.

Business acquisitions completed during year ended 31 December 2017

Caerus Capital Group Limited ("Caerus")

On 1 June 2017, the Group, completed the acquisition of 100% of the share capital of Caerus, a UK-based adviser network that operates in a similar manner to Intrinsic (another Group business within the Advice and Wealth Management segment) and which has approximately £4 billion of funds under advice and 300 advisers.

The total consideration of £22 million includes £15 million cash consideration and up to £3 million that has been deferred for two years and up to £4 million that has been deferred for three years. The deferred consideration has been included as part of the cost of the acquisition as there is no continuing employment condition applying to the sellers of the business. The deferred consideration payable is dependent on turnover targets post acquisition and is potentially reduced by the amount of any relevant claims arising from in-force business existing prior to the payment dates.

The purchase price has been allocated based on the fair value of assets acquired and liabilities assumed at the date of acquisition determined in accordance to IFRS 3 *Business Combinations*.

The carrying value of assets and liabilities in Caerus's consolidated statement of financial position on acquisition date approximates the fair value of these items determined by the Group. Net tangible assets of £1 million were acquired and in addition, the Group recognised identified intangible assets of £14 million and a deferred tax liability of £2 million relating to customer distribution channels. The value of the intangible assets was determined by applying cash flows to standard industry valuation models. Goodwill of £9 million was recognised on the acquisition which is attributable to the delivery of cost and revenue synergies that cannot be linked to identifiable intangible assets.

Transaction costs incurred of £1 million relating to the acquisition have been recognised within other expenses in the consolidated income statement, but not included within adjusted profit.

Acquisition of adviser businesses by Quilter Private Client Advisers ("QPCA")

During 2017, the Group completed the acquisition of eight adviser businesses as part of the expansion of its QPCA business that was launched in October 2015. The purchase price has been allocated based on the fair value of assets acquired and liabilities assumed at the date of acquisition determined in accordance to IFRS 3 *Business Combinations*.

The aggregate estimated consideration payable was £18 million, of which £10 million was cash consideration and up to £8 million in deferred payments. The amount of deferred consideration is dependent upon meeting certain performance targets, generally relating to the value of funds under management and levels of ongoing fee income. The deferred consideration has been included as part of the cost of the acquisition. Total other intangible assets of £13 million and a deferred tax liability of £2 million in respect of customer relationships have been recognised as a result of the acquisitions, together with goodwill of £7 million, £2 million of which has been transferred from intangibles to goodwill following a review of the purchase price allocations in 2018 (see note 16(a)).

Transaction costs incurred of £1 million relating to the acquisitions have been recognised within other operating expenses in the consolidated income statement, but not included within adjusted profit.

5: Acquisitions, discontinued operations and disposal groups held for sale continued

5(a): Business acquisitions completed during the period continued

Attivo Investment Management Limited ("AIM")

On 29 March 2017, the Group completed the acquisition of 100% of the share capital of AIM, a UK-based investment management business offering a comprehensive investment management service.

The fair value of the total estimated consideration was £8 million, of which £5 million was cash consideration and £3 million was deferred for two years. The deferred consideration is included within the cost of the acquisition because it is dependent on levels of assets under management being maintained, with no requirement for continuing employment applied to the sellers of the business.

The book value of total assets and total net assets of the acquired business were both less than £1 million.

The purchase price has been based on the fair value of assets acquired and liabilities assumed at the date of acquisition determined in accordance to IFRS 3 *Business Combinations*.

The carrying value of assets and liabilities in AIM's statement of financial position on acquisition date approximates the fair value of these items determined by the Group. Other intangible assets of £9 million and a deferred tax liability of £2 million, relating to customer relationships, were recognised as a result of the acquisition. No goodwill was recognised on this transaction.

Transaction costs incurred of £0.5 million relating to the acquisition have been recognised within other operating expenses in the consolidated income statement, but not included within adjusted profit.

Commsale 2000 Limited ("Commsale")

On 29 September 2017, the Group acquired Commsale from Old Mutual plc. Commsale is a UK-based service company that runs the lease for the London Head Office building and is responsible for the payment of rent, rates and service charges relating to the building and recharging the costs to all tenants through a service charge.

This represents a business combination involving entities or businesses under common control because the combining businesses are ultimately controlled by the same party or parties before and after the business combination.

The total consideration was £0.3 million. The fair value of the identifiable assets at the date of acquisition was £0.5 million, with a gain on purchase of £0.2 million being recognised, representing assets not valued within the agreed consideration.

Global Edge Technologies (Pty) Ltd ("GET")

On 30 November 2017, the Group acquired 100% of the issued share capital of GET from Old Mutual plc. GET is a service company incorporated in South Africa, with a branch in the UK that provides IT support for the Group's Platform business services.

This represents a business combination involving entities or businesses under common control because the combining businesses are ultimately controlled by the same party or parties before and after the business combination.

The total consideration was £1 million. The fair value of the identifiable assets at the date of acquisition was £4 million, with a gain on purchase of £3 million being recognised. The Group determined that the excess of book value over consideration paid was attributable to potential future integration costs which, if incurred, would be expensed in future periods. As potential future integrating activities do not qualify to be recognised as a liability in the application of the acquisition method of accounting, no such liability was recognised, and the Group recorded the excess as a bargain purchase gain.

5(b): Disposal of subsidiaries, associated undertakings and strategic investments

Year ended 31 December 2018

In December 2017, the Group announced that it had entered into an agreement to sell its Single Strategy Asset Management business ("Single Strategy business") to a special purpose vehicle ultimately owned by funds managed by TA Associates and certain members of the Single Strategy management team (together "the Acquirer"). On 29 June 2018, the Group completed the sale for a total consideration of £583 million, comprising cash consideration of £540 million on completion, with an additional £7 million anticipated to be payable thereafter, to be paid primarily in 2019 to 2021 as surplus capital associated with the separation from the Group is released in the business. The deferred consideration is not subject to performance conditions. The remaining proceeds of £36 million were received in cash as a pre-completion dividend on 15 June 2018. Economic ownership of the Single Strategy business passed to the Acquirer effective from 1 January 2018 with all profits and performance fees generated up until 31 December 2017 for the account of Quilter plc. The results of the Single Strategy business continued to be included as part of the Group up until the date of sale on 29 June 2018. The Group recognised a post tax profit on disposal of £292 million.

During the year an expense provision of £2 million in relation to the sale of Old Mutual Wealth Italy S.p.A. in the prior year (see below for details of this sale) was released as it is not expected to be incurred, giving rise to a £2 million increase in the profit on sale.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

5: Acquisitions, discontinued operations and disposal groups held for sale continued

5(b): Disposal of subsidiaries, associated undertakings and strategic investments continued

Year ended 31 December 2017

In August 2016, the Group announced that it had agreed to sell Old Mutual Wealth Italy S.p.A. to Ergo Previdenza S.p.A. ("Ergo"), a member of the Flavia insurance group. The sale completed on 9 January 2017. The consideration for the transaction was £221 million (€278 million) in cash, plus interest to completion recognising a profit on disposal of £80 million.

	Year ended 31 December 2018	Year ended 31 December 2017
	Single Strategy business and Old Mutual Wealth Italy adjustment £m	Old Mutual Wealth Italy £m
Consideration received[1]	546	221
Less: transaction costs on the sale of Single Strategy	(20)	(4)
Plus: release of accrued expenses in relation to OMW Italy S.p.A. disposal	2	–
Net proceeds from sale	528	217
Carrying value of net assets disposed of	(238)	(137)
Profit on sale of operations before tax	290	80
Tax on disposals	4	–
Profit on sale of operations after tax	**294**	**80**

[1] Consideration received in respect of the Single Strategy business includes £540 million of cash received together with the discounted deferred consideration of £6 million, and excludes the £36 million pre-completion dividend received in June 2018.

5(c): Discontinued operations – Income statement

For the years ended 31 December 2018 and 31 December 2017, the Group's discontinued operations included the Single Strategy business (previously part of Old Mutual Global Investors). Old Mutual Wealth Italy S.p.A. is also included in discontinued operations up to the date its sale completed on 9 January 2017.

The table below sets out the trading results of the Group's discontinued operations and also any profit on the sale of discontinued operations during the period.

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Revenue			
Fee income and other income from service activities	8(a)	136	389
Investment return	8(b)	–	7
Other income		2	3
Total revenue		**138**	**399**
Expenses			
Fee and commission expenses, and other acquisition costs	9(a)	(31)	(62)
Other operating and administrative expenses	9(b)	(81)	(185)
Total expenses		**(112)**	**(247)**
Profit on the disposal of subsidiaries	5(b)	290	80
Profit before tax from discontinued operations		**316**	**232**
Tax (expense) attributable to equity holders		(2)	(29)
Profit for the period after tax from discontinued operations		**314**	**203**
Attributable to:			
Equity holders of Quilter plc		**314**	**203**
Earnings per Ordinary Share on profit attributable to ordinary shareholders of Quilter plc			
Basic – from discontinued operations (pence)		**17.1**	**11.1**
Diluted – from discontinued operations (pence)		**17.1**	**11.1**

5: Acquisitions, discontinued operations and disposal groups held for sale continued

5(d): Discontinued operations – Statement of comprehensive income

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the period	314	**203**
Other comprehensive income from discontinued operations:		
Items that may be reclassified subsequently to income statement		
Exchange gains on translation of foreign operations	–	4
Other comprehensive income for the period	–	3
Total other comprehensive income from discontinued operations, net of tax	–	**7**
Total comprehensive income for the period from discontinued operations	**314**	**210**

5(e): Discontinued operations – Net cash flows

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Total net cash flows from operating activities	(63)	(22)
Total net cash used in investing activities	131	137
Total net cash used in financing activities	(45)	–
Net increase in cash and cash equivalents	**23**	**115**

5(f): Assets and liabilities held for sale

Assets and liabilities held for sale

Assets and liabilities of operations classified as held for sale at 31 December 2017 relate to the Single Strategy business. The operation was classified as held for sale from December 2017 and, on 29 June 2018, the Group completed the sale. See note 5(b) above. The assets and liabilities held for sale are disclosed in the table below.

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Assets classified as held for sale			
Goodwill and intangible assets	16(b)	–	82
Deferred acquisition costs	25	–	4
Deferred tax assets	31	–	9
Trade, other receivables and other assets	24	–	204
Cash and cash equivalents	26	–	147
Assets of operations classified as held for sale		**–**	**446**
Liabilities directly associated with assets classified as held for sale			
Current tax payable		–	33
Trade, other payables and other liabilities	33	–	186
Liabilities of operations classified as held for sale		–	**219**
Net assets of operations classified as held for sale		**–**	**227**

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

6: Segmental information

6(a): Segmental presentation

The Group's operating segments comprise Advice and Wealth Management and Wealth Platforms, which is consistent with how the Group is managed. For all reporting periods, these businesses have been classified as continuing operations in the IFRS income statement and as core operations in determining the adjusted profit. Head Office includes certain revenues and central costs that are not allocated to the segments.

For the period ended 31 December 2018, the Group has classified the Single Strategy Asset Management business as discontinued. For the period ended 31 December 2017, the Group has classified the Italian business as discontinued. These businesses were sold or held for sale in these periods. Further detail is included in note 5(b).

There have been no changes to the basis of segment information for the period in these financial statements.

The Group's segmental results are analysed and reported on a basis with the way that management and the Board of Directors of Quilter plc assess performance of the underlying businesses and allocate resources. Information is presented to the Board on a consolidated basis in pounds sterling (the presentation currency) and in the functional currency of each business.

Adjusted profit is one of the key measures reported to the Group's management and Board of Directors for their consideration in the allocation of resources to, and the review of, the performance of the segments. As appropriate to the business line, the Board reviews additional measures to assess the performance of each of the segments. These typically also include net client cash flows, assets under management and administration, and revenue and operating margins.

Consistent with internal reporting, assets, liabilities, revenues and expenses that are not directly attributable to a particular segment are allocated between segments where appropriate and where there is a reasonable basis for doing so. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

The revenues generated in each reported segment are provided in the analysis of profits and losses in note 6(b). The segmental information in this note reflects the adjusted and IFRS measures of profit or loss and the assets and liabilities for each operating segment as provided to management and the Board of Directors. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments.

The Group is primarily engaged in the following business activities from which it generates revenue: investment and asset management, financial advice (revenue from fee income and other income from service activities), and life assurance (revenue from premium income). Investment return includes gains and losses on investment securities and other income includes other fees and miscellaneous income.

The principal lines of business from which each operating segment derives its revenues are as follows:

Advice and Wealth Management

This segment comprises Quilter Investors, Quilter Cheviot Limited and Quilter Financial Planning, including Quilter Private Client Advisers ("QPCA").

Quilter Investors is a leading provider of investment solutions in the UK multi-asset market. It develops and manages investment solutions in the form of funds for Quilter plc and third party clients. It has several fund ranges which vary in breadth of underlying asset class. The business has primarily been accumulation-focused, with recent development of decumulation solutions.

Quilter Cheviot Limited provides discretionary investment management in the United Kingdom with bespoke investment portfolios tailored to the individual needs of affluent and high net worth customers, charities, companies and institutions through a network of branches in London and the regions. Investment management services are also provided by branches in Jersey, Channel Islands and the Republic of Ireland.

Quilter Financial Planning is a restricted and independent financial adviser network (including QPCA) providing mortgage and financial planning advice and financial solutions for both individuals and businesses through a network of intermediaries. They operate across all markets, from wealth management and retirement planning advice through to dealing with property wealth and personal and business protection needs.

Wealth Platforms

This segment comprises Quilter Wealth Solutions ("QWS") and Quilter Life Assurance ("QLA"), and Quilter International cross-border businesses.

QWS and QLA provide advice based predominantly unit-linked wealth management products and services in the UK, which serves a largely affluent customer base through advised multi-channel distribution. The QLA business is predominantly a closed book, made up of legacy products. Protection and institutional pension products are also part of the business.

Quilter International is a cross-border business, focusing on high net worth and affluent local customers and expatriates in Asia, the Middle East, Europe and Latin America.

In addition to the two operating segments, Head Office comprises the investment return on centrally held assets, central function expenses, such as Group treasury and finance functions, along with central core structural borrowings and certain tax balances in the segmental statement of financial position.

6: Segmental information continued

6(b)(i): Adjusted profit statement – segmental information for the year ended 31 December 2018

		Adjusted profit – Continuing operations				Reconciliation to IFRS		
		Operating segments						
	Note	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Adjusted profit £m	Consolidation adjustments[1] £m	Adjusting items (Note 7(a)) £m	IFRS Income Statement £m
Revenue								
Gross earned premiums		–	148	–	**148**	–	–	**148**
Premiums ceded to reinsurers		–	(88)	–	**(88)**	–	–	**(88)**
Net earned premiums		–	60	–	**60**	–	–	**60**
Fee income and other income from service activities	8(a)	547	507	–	**1,054**	(8)	–	**1,046**
Investment return		9	(3,248)	3	**(3,236)**	(246)	–	**(3,482)**
Other income		2	101	6	**109**	(74)	–	**35**
Segmental revenue		**558**	**(2,580)**	**9**	**(2,013)**	**(328)**	**–**	**(2,341)**
Expenses								
Claims and benefits paid		–	(87)	–	**(87)**	–	–	**(87)**
Reinsurance recoveries		–	60	–	**60**	–	–	**60**
Net insurance claims and benefits incurred		–	(27)	–	**(27)**	–	–	**(27)**
Change in reinsurance assets and liabilities		–	103	–	**103**	–	–	**103**
Change in insurance contract liabilities		–	(109)	–	**(109)**	–	–	**(109)**
Change in investment contract liabilities		–	3,236	–	**3,236**	–	–	**3,236**
Fee and commission expenses, and other acquisition costs		(163)	(170)	–	**(333)**	(104)	–	**(437)**
Change in third-party interest in consolidated funds		–	–	–	**–**	369	–	**369**
Other operating and administrative expenses		(290)	(347)	(40)	**(677)**	63	(158)	**(772)**
Finance costs	10	(3)	(1)	–	**(4)**	–	(13)	**(17)**
Segmental expenses		**(456)**	**2,685**	**(40)**	**2,189**	**328**	**(171)**	**2,346**
Adjusted profit/(loss) before all tax		**102**	**105**	**(31)**	**176**	**–**	**(171)**	**5**
Tax attributable to policyholders' funds		–	57	–	**57**	–	101	**158**
Adjusted profit/(loss) before tax attributable to equity holders		**102**	**162**	**(31)**	**233**	**–**	**(70)**	**163**
Reconciliation to IFRS:								
Adjusted for non-operating items:	7(a)							
Goodwill impairment and impact of acquisition accounting		(49)	(1)	–	**(50)**			
Business transformation costs		(19)	(58)	(7)	**(84)**			
Managed Separation costs		–	(1)	(23)	**(24)**			
Finance costs		–	–	(13)	**(13)**			
Policyholder tax adjustments		–	101	–	**101**			
Reallocation of central costs[2]		–	(2)	2	**–**			
Adjusting items before tax		(68)	39	(41)	**(70)**			
Profit/(Loss) before tax attributable to equity holders		**34**	**201**	**(72)**	**163**			

[1] Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.
[2] Reallocation of central costs reverses management reallocations included within adjusted profit to reconcile back to IFRS profit.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

6: Segmental information continued

6(b)(ii): Adjusted profit statement – segmental information for the year ended 31 December 2017

		Adjusted profit – Continuing operations				Reconciliation to IFRS		
		Operating segments						
	Note	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Adjusted profit £m	Consolidation adjustments[1] £m	Adjusting items (Note 7(a)) £m	IFRS Income Statement £m
Revenue								
Gross earned premiums		–	148	–	**148**	–	–	**148**
Premiums ceded to reinsurers		–	(88)	–	**(88)**	–	–	**(88)**
Net earned premiums		–	60	–	**60**	–	–	**60**
Fee income and other income from service activities	8(a)	382	526	–	**908**	(13)	–	**895**
Investment return		3	4,412	1	**4,416**	779	–	**5,195**
Other income		2	83	3	**88**	(75)	–	**13**
Segmental revenue		**387**	**5,081**	**4**	**5,472**	**691**	**–**	**6,163**
Expenses								
Claims and benefits paid		–	(76)	–	**(76)**	–	–	**(76)**
Reinsurance recoveries		–	54	–	**54**	–	–	**54**
Net insurance claims and benefits incurred		–	(22)	–	**(22)**	–	–	**(22)**
Change in reinsurance assets and liabilities		–	85	–	**85**	–	–	**85**
Change in insurance contract liabilities		–	(78)	–	**(78)**	–	–	**(78)**
Change in investment contract liabilities		–	(4,308)	–	**(4,308)**	–	–	**(4,308)**
Fee and commission expenses, and other acquisition costs		(52)	(198)	–	**(250)**	(70)	–	**(320)**
Change in third-party interest in consolidated funds		–	–	–	**–**	(673)	–	**(673)**
Other operating and administrative expenses		(253)	(336)	(35)	**(624)**	52	(244)	**(816)**
Finance costs	10	–	–	–	**–**	–	(39)	**(39)**
Segmental expenses		**(305)**	**(4,857)**	**(35)**	**(5,197)**	**(691)**	**(283)**	**(6,171)**
Profit on disposal of subsidiaries, associated undertakings and strategic investments		–	–	–	**–**	–	3	**3**
Adjusted profit/(loss) before all tax		**82**	**224**	**(31)**	**275**	**–**	**(280)**	**(5)**
Tax attributable to policyholders' funds		–	(66)	–	**(66)**	–	17	**(49)**
Adjusted profit/(loss) before tax attributable to equity holders		**82**	**158**	**(31)**	**209**	**–**	**(263)**	**(54)**
Reconciliation to IFRS:								
Adjusted for non-operating items:	7(a)							
Goodwill impairment and impact of acquisition accounting		(53)	–	(1)	**(54)**			
Net profit on business disposals and acquisitions		–	–	3	**3**			
Business transformation costs		–	(89)	–	**(89)**			
Managed Separation costs		–	–	(32)	**(32)**			
Finance costs		–	–	(39)	**(39)**			
Policyholder tax adjustments		–	17	–	**17**			
Voluntary customer remediation provision		–	(69)	–	**(69)**			
Adjusting items before tax		(53)	(141)	(69)	**(263)**			
Profit/(Loss) before tax attributable to equity holders		**29**	**17**	**(100)**	**(54)**			

[1] Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

6: Segmental information continued

6(c)(i): Statement of financial position – segmental information at 31 December 2018

	Note	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Consolidation Adjustments[1] £m	Total Continuing Operations £m	Discontinued Operations £m	Total £m
Assets								
Goodwill and intangible assets	16	386	164	–	–	**550**	–	**550**
Property, plant and equipment	17	10	7	–	–	**17**	–	**17**
Investments in associated undertakings		–	–	2	–	**2**	–	**2**
Deferred acquisition costs	25	–	11	–	–	**11**	–	**11**
Contract costs	25	–	551	–	–	**551**	–	**551**
Contract assets	25	44	–	–	–	**44**	–	**44**
Loans and advances	18	27	188	7	–	**222**	–	**222**
Financial investments	19	3	54,636	2	4,578	**59,219**	–	**59,219**
Reinsurers' share of policyholder liabilities	29	–	2,162	–	–	**2,162**	–	**2,162**
Deferred tax assets	31	7	22	9	–	**38**	–	**38**
Current tax receivable	31(c)	–	46	1	–	**47**	–	**47**
Trade, other receivables and other assets	24	197	178	8	103	**486**	–	**486**
Derivative assets	20	–	–	–	46	**46**	–	**46**
Cash and cash equivalents	26	358	1,113	440	484	**2,395**	–	**2,395**
Inter-segment funding – assets		–	12	–	(12)	**–**	–	**–**
Total assets		**1,032**	**59,090**	**469**	**5,199**	**65,790**	**–**	**65,790**
Liabilities								
Long-term business insurance policyholder liabilities	29	–	602	–	–	**602**	–	**602**
Investment contract liabilities	29	–	56,450	–	–	**56,450**	–	**56,450**
Third-party interests in consolidated funds		–	–	–	5,116	**5,116**	–	**5,116**
Provisions	30	26	59	9	–	**94**	–	**94**
Deferred tax liabilities	31	40	19	–	–	**59**	–	**59**
Current tax payable	31(c)	9	14	(18)	–	**5**	–	**5**
Borrowings	32	–	–	197	–	**197**	–	**197**
Trade, other payables and other liabilities	33	340	579	20	60	**999**	–	**999**
Contract liabilities	34	1	225	–	–	**226**	–	**226**
Derivative liabilities	20	–	1	–	36	**37**	–	**37**
Inter-segment funding – liabilities		–	–	12	(12)	**–**	–	**–**
Total liabilities		**416**	**57,949**	**220**	**5,200**	**63,785**	**–**	**63,785**
Total equity								**2,005**
Total equity and liabilities								**65,790**

[1] Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

6: Segmental information continued

6(c)(ii): Statement of financial position – segmental information at 31 December 2017

	Note	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Consolidation Adjustments[1] £m	Total Continuing Operations £m	Discontinued Operations[2] £m	Total £m
Assets								
Goodwill and intangible assets	16	412	162	–	–	**574**	–	**574**
Property, plant and equipment	17	9	9	–	–	**18**	–	**18**
Investments in associated undertakings[3]		–	–	1	–	**1**	–	**1**
Deferred acquisition costs	25	–	611	–	–	**611**	–	**611**
Loans and advances	18	18	180	1	–	**199**	–	**199**
Financial investments[3]	19	2	56,562	1	7,685	**64,250**	–	**64,250**
Reinsurers' share of policyholder liabilities	29	–	2,908	–	–	**2,908**	–	**2,908**
Deferred tax assets	31	6	15	1	–	**22**	–	**22**
Trade, other receivables and other assets	24	208	210	19	60	**497**	–	**497**
Derivative assets	24	–	1	–	86	**87**	–	**87**
Cash and cash equivalents	26	303	1,061	83	913	**2,360**	–	**2,360**
Assets of operations classified as held for sale	5(f)	–	–	–	–	**–**	446	**446**
Inter-segment funding – assets		4	12	–	(16)	**–**	–	**–**
Total assets		**962**	**61,731**	**106**	**8,728**	**71,527**	**446**	**71,973**
Liabilities								
Long-term business insurance policyholder liabilities	29	–	489	–	–	**489**	–	**489**
Investment contract liabilities	29	–	59,139	–	–	**59,139**	–	**59,139**
Third-party interests in consolidated funds		–	–	–	7,905	**7,905**	–	**7,905**
Provisions and accruals	30	10	89	5	–	**104**	–	**104**
Deferred tax liabilities	31	40	150	–	–	**190**	–	**190**
Current tax payable	31(c)	21	40	(23)	–	**38**	–	**38**
Borrowings	32	–	–	782	–	**782**	–	**782**
Trade, other payables and other liabilities	33	275	607	43	406	**1,331**	–	**1,331**
Deferred revenue	34	1	243	–	–	**244**	–	**244**
Derivative liabilities	20	–	–	–	433	**433**	–	**433**
Liabilities of operations classified as held for sale	5(f)	–	–	–	–	**–**	219	**219**
Inter-segment funding – liabilities		–	–	16	(16)	**–**	–	**–**
Total liabilities		**347**	**60,757**	**823**	**8,728**	**70,655**	**219**	**70,874**
Total equity								**1,099**
Total equity and liabilities								**71,973**

1 Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.
2 Discontinued operations includes the balances of the Group's Single Strategy Asset Management business.
3 As at 31 December 2017, £2 million has been reclassified from investments in associated undertakings to financial investments to conform with current year presentation.

2017 comparatives for the segmental statement of financial position have been re-presented due to the reallocation of a UK holding company from Wealth Platforms to Head Office. This change was made to ensure that all material intercompany loan balances are reported (and eliminate) within Head Office.

6: Segmental information continued

6(d): Geographic segmental information

In presenting geographic segmental information, revenue is based on the geographic location of our businesses. The Group has defined two geographic areas: UK and International.

		UK			International				
For the year ended 31 December 2018	Note	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Wealth Platforms £m	Consolidation Adjustments £m	Total Continuing Operations £m	Discontinued Operations £m	Total Group £m
Revenue									
Gross earned premiums		–	147	–	1	–	148	–	148
Premiums ceded to reinsurers		–	(87)	–	(1)	–	(88)	–	(88)
Net earned premiums		**–**	**60**	**–**	**–**	**–**	**60**	**–**	**60**
Premium-based fees		87	15	–	77	–	179	–	179
Fund-based fees[1]		460	243	–	102	–	805	136	941
Retrocessions received, intragroup		–	17	–	4	(21)	–	–	–
Fixed fees		–	4	–	28	–	32	–	32
Surrender charges		–	1	–	16	–	17	–	17
Other fee and commission income		–	–	–	–	13	13	–	13
Fee income and other income from service activities	8(a)	**547**	**280**	**–**	**227**	**(8)**	**1,046**	**136**	**1,182**
Investment return		9	(2,332)	3	(916)	(246)	(3,482)	–	(3,482)
Other income		2	98	6	3	(74)	35	2	37
Total revenue		**558**	**(1,894)**	**9**	**(686)**	**(328)**	**(2,341)**	**138**	**(2,203)**

[1] Income from fiduciary activities is included within fund-based fees.

		UK			International				
For the year ended 31 December 2017	Note	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Wealth Platforms £m	Consolidation Adjustments £m	Total Continuing Operations £m	Discontinued Operations £m	Total Group £m
Revenue									
Gross earned premiums		–	147	–	1	–	148	–	148
Premiums ceded to reinsurers		–	(87)	–	(1)	–	(88)	–	(88)
Net earned premiums		**–**	**60**	**–**	**–**	**–**	**60**	**–**	**60**
Premium-based fees		76	29	–	74	–	179	–	179
Fund-based fees[1]		306	241	–	107	–	654	389	1,043
Retrocessions received, intragroup		–	17	–	6	(23)	–	–	–
Fixed fees		–	5	–	26	–	31	–	31
Surrender charges		–	1	–	20	–	21	–	21
Other fee and commission income		–	–	–	–	10	10	–	10
Fee income and other income from service activities	8(a)	**382**	**293**	**–**	**233**	**(13)**	**895**	**389**	**1,284**
Investment return		3	3,366	1	1,046	779	5,195	7	5,202
Other income		2	81	3	2	(75)	13	3	16
Total revenue		**387**	**3,800**	**4**	**1,281**	**691**	**6,163**	**399**	**6,562**

[1] Income from fiduciary activities is included within fund-based fees.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

7: Adjusted profit and adjusting items

7(a): Adjusted profit adjusting items

In determining the adjusted profit for core operations, certain adjustments are made to profit before tax to reflect the underlying long-term performance of the Group. The following table shows an analysis of those adjustments before and after tax.

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Expense/(income)			
Goodwill impairment and impact of acquisition accounting	7(b)	50	54
Profit on business acquisitions and disposals	7(c)	–	(3)
Business transformation costs	7(d)	84	89
Managed Separation costs	7(e)	24	32
Finance costs	7(f)	13	39
Policyholder tax adjustments	7(g)	(101)	(17)
Voluntary customer remediation provision	7(h)	–	69
Total adjusting items before tax		**70**	**263**
Tax on adjusting items	13(c)	(118)	(39)
Less: policyholder tax adjustments		101	17
Total adjusting items after tax		**53**	**241**

7(b): Goodwill impairment and impact of acquisition accounting

The recognition of goodwill and other acquired intangibles is created on the acquisition of a business and represents the premium paid over the fair value of the Group's share of the identifiable assets and liabilities acquired at the date of acquisition (as recognised under IFRS 3). The Group excludes from adjusted profit the impairment of goodwill, the amortisation and impairment of acquired other intangible assets as well as the movements in certain acquisition date provisions.

Costs incurred on completed acquisitions are also excluded from adjusted profit, including any finance costs related to discounted deferred consideration.

The effect of these adjustments to determine adjusted profit are summarised below:

For the year ended 31 December 2018	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Total Group £m
Impairment of other intangible assets	–	1	–	1
Amortisation of other acquired intangible assets	41	–	–	41
Acquisition costs[1]	5	–	–	5
Unwinding of discount on deferred consideration	3	–	–	3
Total goodwill impairment and impact of acquisition accounting	**49**	**1**	**–**	**50**

For the year ended 31 December 2017	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Total Group £m
Amortisation of other acquired intangible assets	39	–	–	39
Change in acquisition date provisions	–	–	1	1
Acquisition costs[1]	13	–	–	13
Unwinding of discount on deferred consideration	1	–	–	1
Total goodwill impairment and impact of acquisition accounting	**53**	**–**	**1**	**54**

[1] Acquisition costs include items such as transaction costs or deferred incentives arising on the acquisition of businesses.

7(c): Net profit/loss on business disposals and acquisitions

As part of the Group's Managed Separation from Old Mutual plc, the Group acquired Commsale 2000 Limited ("Commsale") from Old Mutual plc on 29 September 2017. The total consideration was £0.29 million. The NAV at the date of acquisition was £0.45 million, with a gain on purchase of £0.16 million being recognised, representing assets not valued within the agreed consideration.

On 30 November 2017, the Group acquired 100% of the whole of the issued share capital of Global Edge Technologies (Pty) Ltd ("GET"), a company incorporated in South Africa, from OM Group (UK) Limited (part of the Old Mutual plc group) for £1 million. Along with recording the book values of the assets acquired and liabilities assumed of £4 million, the Group recognised a bargain purchase gain of £3 million.

We determined that the excess of book value over consideration paid was attributable to potential future integration costs which, if incurred, would be expensed in future periods. As potential future integrating activities do not qualify to be recorded as a liability in the application of the acquisition method of accounting, none were recorded.

7: Adjusted profit and adjusting items continued

7(d): Business transformation costs

Within business transformation costs are four items: costs associated with the UK Platform Transformation Programme, build out costs incurred within Quilter Investors as a result of the sale of our Single Strategy Asset Management business, Optimisation programme costs and, in the prior period, certain one-off charges relating to the transformation of our business as we separated from Old Mutual plc. Each item is described in detail below.

UK Platform Transformation Programme – 31 December 2018: £58 million, 31 December 2017: £74 million

In 2013, the Group embarked on a significant programme to develop new platform capabilities and to outsource UK business administration. This involved replacing many aspects of the existing UK Platform, and on completion certain elements of service provision would be migrated to International Financial Data Services ("IFDS") under a long-term outsourcing agreement. The cost of developing the new technology did not meet the criteria for capitalisation and were expensed. These direct costs and the costs of decommissioning existing technology and migrating of services to IFDS are excluded from adjusted profit. The contracts with International Financial Data Services related to the UK Platform transformation came to an end by mutual agreement effective as of 2 May 2017. For the year ended 31 December 2018, these costs total £nil (31 December 2017: £53 million).

The Group conducted a comprehensive review of the options available to the UK Platform business and, in May 2017, entered into a new contract with FNZ, having concluded that FNZ's scale, market-proven and functionally-rich offering was the most suitable to meet the current and anticipated needs of the business.

In partnership with FNZ, the Group expects to deliver all the existing functionality of the platform with increased levels of straight-through processing and enhanced functionality for new business and to migrate the in-force (UK Platform) business over time. For the period ended 31 December 2018, these costs totalled £58 million (31 December 2017: £21 million).

Quilter Investors' build out costs – 31 December 2018: £19 million, 31 December 2017: £nil

In March 2016, Old Mutual plc announced its Managed Separation strategy that sought to unlock and create significant long-term value for shareholders. As part of this strategy, Quilter's Multi-Asset (now renamed as Quilter Investors) and Single Strategy teams were to develop as separate distinct businesses, and the Single Strategy Asset Management business was sold to its management and TA Associates on 29 June 2018. As a result, the Group has incurred £24 million of one-off costs in the year ended 31 December 2018, £5 million of which are included in profit on disposal within discontinued operations and £19 million is an adjusting item within continuing business.

One-off transformational costs as a result of Quilter's Managed Separation from Old Mutual plc – 31 December 2018: £nil, 31 December 2017: £15 million

The Group historically had a number of arrangements with the wider Old Mutual plc group's South African businesses. As a consequence of Managed Separation these arrangements were severed and, as a result, deferred acquisition cost balances totalling £10 million were written off (included within fee and commission expenses in the income statement), together with a loss incurred of £5 million on the cancellation of reinsurance arrangements (included within other costs within the income statement) in the year ended 31 December 2017. These charges are regarded as one-off and related to the transformation of the business to a standalone group.

Optimisation programme costs – 31 December 2018: £7 million, 31 December 2017: £nil

Following the Group's Managed Separation from Old Mutual plc, the Group has initiated an Optimisation programme focused on driving operational efficiencies, incurring £7 million of one-off project costs to date.

7(e): Managed Separation costs

One-off costs related to the implementation of Managed Separation recognised in the IFRS income statement have been excluded from adjusted profit on the basis that they are not representative of the operating activity of the Group. These costs relate to preparing the Group to operate as a standalone business and the execution of various transactions required to implement our Managed Separation strategy. They are not expected to persist in the long term as they relate to a fundamental restructuring of the Group, which is not operational in nature, rather than more routine restructuring activity which would be seen as part of the usual course of business. The treatment and the disclosure of these costs as an adjusting item are also intended to make these costs more visible to the readers of the financial statements in the context of publicly disclosed estimates previously given in relation to these items. For the period ended 31 December 2018, these costs totalled £24 million (31 December 2017: £32 million).

7(f): Finance costs

The nature of much of the Group's operations means that, for management's decision making and internal performance management, the effects of interest costs on borrowings are removed when calculating adjusted profit. For year ended 31 December 2018, the finance costs totalled £13 million (31 December 2017: £39 million) – see note 10.

7(g): Policyholder tax adjustments

Adjustments to policyholder tax are made to remove distortions arising from market volatility that can in turn lead to volatility in the policyholder tax charge between periods. The significant market volatility during the year ended 31 December 2018 has resulted in a £96 million adjustment (31 December 2017: £(4) million). For a further explanation of the impact of markets on the policyholder tax charge see note 13(a). Adjustments are also made to remove distortions from other non-operating adjusting items that results in a further £5 million tax adjustment as at 31 December 2018 (31 December 2017: £21 million).

For the period ended 31 December 2018, the total policyholder tax adjustments to adjusted profit total £101 million (31 December 2017: £17 million) as shown in note 13(c).

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

7: Adjusted profit and adjusting items continued

7(h): Voluntary Customer Remediation Provision

As detailed in note 30 Provisions and Accruals, as part of its ongoing work to promote fair customer outcomes, the Group conducted product reviews consistent with the recommendations from the Financial Conduct Authority's ("FCA") thematic feedback and the FCA's guidance "FG16/8 Fair treatment of long-standing customers in the life insurance sector". Following those reviews, the Group decided to commence voluntary remediation to customers in certain products, resulting in an additional provision raised during 2017 of £69 million.

During 2018 £31 million of this provision has been utilised against programme costs and pension remediation incurred.

The provision was recognised in the IFRS income statement but has been excluded from adjusted profit on the basis that it is not representative of the operating performance of the business.

8: Details of income

This note gives further detail on the items appearing in the income section of the consolidated income statement.

8(a): Fee income and other income from service activities

This note analyses the fees, commission and other income from service activities earned by the Group.

	Year ended 31 December 2018 £m	Year ended 31 December 2017[1] £m
Fee income and other income from service activities		
Premium-based fees	179	179
Fund-based fees[2]	805	654
Fixed fees	32	31
Surrender charges	17	21
Other fee and commission income	13	10
Fee income and other income from service activities – continuing operations	**1,046**	**895**
Fee income and other income from service activities – discontinued operations	**136**	**389**
Total fee income and other income from service activities	**1,182**	**1,284**

[1] A number of items have been reclassified in the prior year comparatives to conform with current year presentation.
[2] Income from fiduciary activities is included within fund-based fees.

8(b): Investment return

This note analyses the investment return from the Group's investing activities.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Net investment income		
Interest and similar income		
Investments and securities	59	53
Cash and cash equivalents[1]	21	10
Total interest and similar income	**80**	**63**
Dividend income	99	83
Foreign currency gains and losses	2	3
Total gains on financial instruments at fair value through profit and loss[2]	(3,663)	5,046
Mandatorily at fair value through profit and loss[2]	(3,658)	–
Designated at fair value through profit and loss[2]	(5)	5,046
Net investment income – continuing operations	**(3,482)**	**5,195**
Net investment income – discontinued operations	–	**7**
Total net investment income	**(3,482)**	**5,202**

[1] Included within interest on cash and cash equivalents is £2 million arising from assets held at amortised cost. The remainder is from assets at FVTPL.
[2] The Group has initially applied IFRS 9 at 1 January 2018 and has taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements. Refer to note 4(r) for further information.

9: Details of expenses

This note gives further detail on the items appearing in the expense section of the consolidated income statement.

9(a): Fee and commission expenses

This note analyses the fee and commission expenses and other acquisition costs.

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Fee and commission expenses			
Fee and commission expense		227	92
Acquisition commission costs – investment contracts		54	80
Acquisition commission costs – insurance business		7	12
Renewal commission – investment contracts		74	84
Retrocessions paid		26	16
Changes in deferred acquisition costs and contract costs	25	49	36
Fee and commission expenses – continuing operations		**437**	**320**
Fee and commission expenses – discontinued operations		**31**	**62**
Total fee and commission expenses		**468**	**382**

9(b): Other operating and administrative expenses

This note gives further detail on the items included within other operating and administrative expenses section of the consolidated income statement.

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Other operating and administrative expenses			
Staff costs[1]	11	394	388
Depreciation		8	8
Operating lease payments		16	14
Amortisation of purchased software		5	2
Amortisation of other acquired intangibles		41	39
Administration and other expenses[1]		308	365
Other operating and administrative expenses – continuing operations		**772**	**816**
Other operating and administrative expenses – discontinued operations		**81**	**185**
Total other operating and administrative expenses		**853**	**1,001**

[1] In the year ended 31 December 2017, £9 million of share-based payments expenses have been reclassified from administration and other expenses to staff costs.

Operating lease payments principally represent rentals payable by the Group for the rental of buildings and equipment.

Administration and other expenses include business transformation costs for the year ended 31 December 2018 of £58 million (2017: £74 million) in relation to the UK Platform Transformation Programme and £nil in relation to the voluntary customer remediation provision (2017: £69 million), as well as general operating expenses such as IT related costs, premises and marketing.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

10: Finance costs

This note analyses the interest costs on our borrowings and similar charges, all of which are valued at amortised cost. Finance costs comprise:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Term loans and other external debt	2	–
Subordinated debt securities (Tier 2 bond)	8	–
Loans from Old Mutual plc	3	39
Interest payable on borrowed funds	**13**	**39**
Other	4	–
Total finance costs – continuing operations	**17**	**39**

Finance costs represent the cost of interest and finance charges on the Group's borrowings from a number of relationship banks and Old Mutual plc. The Group has had no borrowings from Old Mutual plc since 28 February 2018. More details regarding borrowed funds, including the interest rates payable, are shown in note 32. These costs are excluded from adjusted profit within the "Finance costs" adjusting item.

Including the impact of amortisation of bond set-up costs, the issuance of the Tier 2 Bond will result in expenses in the Head Office segment of approximately £10 million on an annual basis. This has replaced the £39 million of interest on the borrowings with Old Mutual plc in prior years.

Within other finance costs above is £3 million relating to the impact of unwinding the discount rate on deferred consideration payable as a result of various acquisitions. These costs are excluded from adjusted profit within the "Goodwill impairment and impact of acquisition accounting" adjusting item as shown in note 7(b).

11: Staff costs and other employee-related costs

11(a): Staff costs

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Wages and salaries		232	235
Bonus and incentive remuneration[1]		65	66
Social security costs		27	28
Retirement obligations			
Defined contribution plans		13	11
Share-based payments			
Cash-settled[1]	28(f)	3	4
Equity-settled[1]	28(f)	26	17
Other		28	27
Staff costs – continuing operations		**394**	**388**
Staff costs – discontinued operations		**56**	**142**
Total staff costs		**450**	**530**

1 In the year ended 31 December 2017, £9 million of administration and other expenses (see note 9(b)) and £3 million of bonus and incentive remuneration have been reclassified to share-based payment expenses. This has resulted in a corresponding reclassification of £4 million relating to cash-settled schemes and £8 million relating to equity-settled schemes in the table above.

11(b): Employee numbers

	Year ended 31 December 2018 Number	Year ended 31 December 2017 Number
The average number of persons employed by the Group was:		
Advice and Wealth Management	1,396	1,360
Wealth Platforms	2,823	2,514
Head Office	60	66
Continuing operations	**4,279**	**3,940**
Discontinued operations	**141**	**283**
Total average number of employees during the year	**4,420**	**4,223**

The average number of persons employed by the Group is based on permanent employees, fixed term contractors and contractors employed via third parties.

12: Auditors' remuneration

Included in other operating and administrative expenses are fees paid to the Group's auditors. These can be categorised as follows:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Fees for audit services		
Group and Parent Company	1.1	0.4
Subsidiaries	2.2	2.1
Total fees for audit services	3.3	2.5
Fees for audit-related assurance services	1.2	0.5
Total fees for audit and audit-related assurance services	4.5	3.0
Fees for non-audit services	2.3	1.1
Total Group auditors' remuneration – continuing operations	**6.8**	**4.1**
Total Group auditors' remuneration – discontinued operations	**0.1**	**0.8**
Total Group auditors' remuneration	**6.9**	**4.9**

13: Tax

This note analyses the income tax expense recognised in profit or loss for the period and the various factors that have contributed to the composition of the charge.

13(a): Tax charged to the income statement

The total tax charge for the period comprises:

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Current tax			
United Kingdom		6	43
International		4	3
Adjustments to current tax in respect of prior periods[1]		(25)	1
Total current tax		**(15)**	**47**
Deferred tax			
Origination and reversal of temporary differences		(155)	2
Effect on deferred tax of changes in tax rates		(1)	(1)
Adjustments to deferred tax in respect of prior periods		2	(7)
Total deferred tax		**(154)**	**(6)**
Total tax (credited)/charged to income statement – continuing operations		**(169)**	**41**
Total tax charged to income statement – discontinued operations	5(c)	**2**	**29**
Total tax (credited)/charged to income statement		**(167)**	**70**
Attributable to policyholder returns		**(158)**	**49**
Attributable to equity holders		**(9)**	**21**
Total tax (credited)/charged to income statement		**(167)**	**70**

[1] The current year tax adjustment in respect of prior periods is £(25) million (31 December 2017: £1 million). This is primarily as a result of the carry back of policyholder capital losses in the life businesses as permitted under UK tax legislation resulting in tax credits in respect of 2016 and 2017.

Policyholder tax

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

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

Significant market volatility during the year ended 31 December 2018 resulted in investment return losses of £623 million on products subject to policyholder tax. This loss is a component of the total "investment return" loss of £3,482 million shown in the income statement. The impact of the £623 million investment return loss, together with the utilisation of brought forward capital losses, are the primary reasons for the £158 million tax credit attributable to policyholder returns for the year ended 31 December 2018 (31 December 2017: £49 million charge).

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

13: Tax continued

13(b): Reconciliation of total income tax expense

The income tax charged to profit or loss differs from the amount that would apply if all of the Group's profits from the different tax jurisdictions had been taxed at the UK standard corporation tax rate. The difference in the effective rate is explained below:

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit/(Loss) before tax		**5**	**(5)**
Tax at UK standard rate of 19% (2017: 19.25%)		1	(1)
Different tax rate or basis on overseas operations		(5)	(3)
Untaxed and low taxed income		(15)	(2)
Disallowable expenses		6	7
Adjustments to current tax in respect of prior years[1]		(25)	1
Net movement on deferred tax assets not recognised		(11)	(14)
Effect on deferred tax of changes in tax rates		(1)	(1)
Adjustments to deferred tax in respect of prior years		2	(7)
Income tax attributable to policyholder returns		(121)	61
Total tax (credited)/charged to income statement – continuing operations		**(169)**	**41**
Total tax charged to income statement – discontinued operations	5(c)	**2**	**29**
Total tax (credited)/charged to income statement		**(167)**	**70**

[1] The adjustment in current tax in respect of prior years of £(25) million (31 December 2017: £1 million) is primarily as a result of the carry back of policyholder capital losses in the life businesses as permitted under UK tax legislation resulting in tax credits in respect of 2016 and 2017.

13(c): Reconciliation of income tax expense in the IFRS income statement to income tax on adjusted profit

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Income tax (credit)/expense on continuing operations	**(169)**	**41**
Tax on adjusting items		
Goodwill impairment and impact of acquisition accounting	8	8
Business transformation costs	16	14
Managed Separation costs	2	4
Finance costs	2	8
Policyholder tax adjustments	101	17
Voluntary customer remediation provision	–	14
Other shareholder tax adjustments	(11)	(26)
Total tax on adjusting items	**118**	**39**
Tax attributable to policyholders returns	57	(66)
Tax charged on adjusted profit – continuing operations	**6**	**14**
Tax charged on adjusted profit – discontinued operations	**5**	**29**
Tax charged on adjusted profit	**11**	**43**

14: Earnings per share

The Group calculates earnings per share ("EPS") on a number of different bases as appropriate to prevailing International and UK practices and guidance. IFRS requires the calculation of basic and diluted EPS. Adjusted EPS reflects earnings per share that is consistent with the Group's alternative profit measure. The Group's EPS on these different bases are summarised below.

Disclosure of basic and diluted EPS is required by IAS 33 *Earnings per Share*. On 6 June 2018, the Board approved a reorganisation of the Company's share capital to enable the implementation of the Managed Separation before the initial public offering on 25 June 2018 and, consequently, both basic and diluted EPS for historical periods was not representative of the Group's current structure. In accordance with IAS 33, share transactions that change the number of shares in issue but do not result in any corresponding change to an entity's resources, such as share splits, bonus issues to existing shareholders and share consolidations are adjusted for in the EPS denominator as if these transactions had occurred at the start of the earliest period for which EPS is presented. Accordingly, the weighted average number of Ordinary Shares in issue at 31 December 2017 have been retrospectively restated to take account of the new share structure at Listing. As a result, the Group's EPS has fallen relative to the position shown in the 31 December 2017 Historical Financial Information, within the Listing Prospectus, because the number of shares has increased on Listing.

For further information on share capital refer to note 27.

14: Earnings per share continued

	Source of guidance	Note	Year ended 31 December 2018 pence	Year ended 31 December 2017 pence
Basic earnings per share	IFRS	14(a)	26.6	8.6
Diluted basic earnings per share	IFRS	14(b)	26.5	8.6
Adjusted basic earnings per share	Group policy	14(c)	12.4	10.7
Adjusted diluted earnings per share	Group policy	14(c)	12.3	10.7
Headline earnings per share (net of tax)	JSE Listing Requirements	14(d)	10.6	4.0
Diluted headline earnings per share (net of tax)	JSE Listing Requirements	14(d)	10.5	4.0

14(a): Basic earnings per share (IFRS)

Basic EPS is calculated by dividing the profit for the financial period attributable to ordinary equity shareholders of the parent by the weighted average number of Ordinary Shares in issue during the year. The weighted average number of shares excludes the following treasury shares: Quilter plc shares held within Employee Benefit Trusts ("EBTs") to satisfy the Group's obligations under employee share awards; and Quilter plc shares held in consolidated funds. Treasury shares are deducted for the purpose of calculating both basic and diluted EPS.

(i) The profit attributable to ordinary shareholders is:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit/(Loss) after tax from continuing operations	174	(46)
Profit after tax from discontinued operations	314	203
Profit for the for the financial period for the calculation of earnings per share	**488**	**157**

The table below summarises the calculation of the weighted average number of Ordinary Shares for the purposes of calculating basic earnings per share:

	Year ended 31 December 2018	Year ended 31 December 2017
Weighted average number of Ordinary Shares in issue (millions)	**1,902**	**1,902**
Treasury shares including those held in EBTs (millions)	(70)	(72)
Adjusted weighted average number of Ordinary Shares used to calculate basic earnings per share (millions)	**1,832**	**1,830**
Basic earnings per Ordinary Share (pence)	**26.6**	**8.6**

14(b): Diluted earnings per share (IFRS)

Diluted EPS recognises the dilutive impact of shares and options awarded to employees under share-based payment arrangements (potential Ordinary Shares), to the extent they have value, in the calculation of the weighted average number of shares, as if the relevant shares were in issue for the full year. The table below summarises the calculation of weighted average number of shares for the purpose of deriving diluted EPS:

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Profit attributable to ordinary equity holders (£m)		488	157
Diluted profit attributable to ordinary equity holders (£m)		**488**	**157**
Adjusted weighted average number of Ordinary Shares (millions)	14(a)	1,832	1,830
Adjustments for share options held by EBTs and similar trusts (millions)		7	–
Weighted average number of Ordinary Shares used to calculate diluted earnings per share (millions)		**1,839**	**1,830**
Diluted earnings per Ordinary Share (pence)		**26.5**	**8.6**

There is no dilutive impact of potential shares on EPS for the period ended 31 December 2017 because the new share-based payment arrangements, settled in Quilter plc shares, have only been in place since Listing (25 June 2018).

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

14: Earnings per share continued

14(c): Adjusted earnings per share

The following table presents a reconciliation of profit for the financial period to adjusted profit after tax attributable to ordinary equity holders and summarises the calculation of adjusted earnings per share:

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the financial period attributable to shareholders of the Company		**488**	**157**
Adjusting items	7	70	263
Income tax expense on adjusting items	13(c)	(118)	(39)
Less: Policyholder tax adjustments	13(c)	101	17
Less: Profit after tax from discontinued operations	5(c)	(314)	(203)
Adjusted profit after tax attributable to ordinary shareholders		**227**	**195**
Adjusted weighted average number of Ordinary Shares used to calculate adjusted basic earnings per share (millions)	14(a)	**1,832**	**1,830**
Adjusted basic earnings per share (pence)		**12.4**	**10.7**
Adjusted weighted average number of Ordinary Shares used to calculate diluted adjusted earnings per share (millions)	14(b)	**1,839**	**1,830**
Adjusted diluted earnings per share (pence)		**12.3**	**10.7**

14(d): Headline earnings per share

The Group is required to calculate headline earnings per share ("HEPS") in accordance with the Johannesburg Stock Exchange Limited ("JSE") Listing Requirements, determined by reference to the South African Institute of Chartered Accountants' circular 02/2015 "Headline Earnings". The table below sets out a reconciliation of basic EPS and HEPS in accordance with that circular. Disclosure of HEPS is not a requirement of IFRS, but it is a commonly used measure of earnings in South Africa.

The table below reconciles the profit for the financial period attributable to equity holders of the parent to headline earnings and summarises the calculation of basic HEPS:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Gross £m	Net of tax £m	Gross £m	Net of tax £m
Profit for the period attributable to shareholders of the Company		**488**		**157**
Adjusting items:				
Less: Profit on disposals of subsidiaries	(290)	(294)	(83)	(83)
Headline earnings	**(290)**	**194**	**(83)**	**74**
Diluted headline earnings		**194**		**74**
Weighted average number of Ordinary Shares (millions)		**1,832**		**1,830**
Diluted weighted average number of Ordinary Shares (millions)		**1,839**		**1,830**
Headline earnings per share (pence)		**10.6**		**4.0**
Diluted headline earnings per share (pence)		**10.5**		**4.0**

15: Dividends

This note analyses the total dividends paid during the year. The table below does not include the final dividend proposed after the year end because it is not accrued in these financial statements.

	Payment date	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Ordinary dividends declared and charged to equity in the year			
2017 Special dividend paid – 161.47p per Ordinary Share	9 January 2017	–	210
2018 Special interim dividend paid – 12.00p per Ordinary Share	21 September 2018	221	–
Dividends paid to ordinary shareholders		**221**	**210**

15: Dividends continued

Subsequent to year ended 31 December 2018 the Directors proposed a final dividend for 2018 of 3.3 pence per Ordinary Share amounting to £61 million in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 20 May 2019. In compliance with the rules issued by the Prudential Regulation Authority ("PRA") in relation to the implementation of the Solvency II regime and other regulatory requirements to which the Group is subject, the dividend is required to remain cancellable at any point prior to it becoming due and payable on 20 May 2019 and to be cancelled if, prior to payment, the Group ceases to hold capital resources equal to or in excess of its Solvency Capital Requirement, or if that would be the case if the dividend was paid. The Directors have no intention of exercising this cancellation right, other than where required to do so by the PRA or for regulatory capital purposes.

Final and interim dividends paid to ordinary shareholders are calculated using the number of shares in issue at the record date less own shares held in Employee Benefit Trusts.

16: Goodwill and intangible assets

16(a): Analysis of goodwill and intangible assets

The table below shows the movements in cost, amortisation and impairment of goodwill and intangible assets.

	Goodwill £m	Software development costs[4] £m	Other intangible assets[4] £m	Total £m
Gross amount				
At 1 January 2017	373	94	350	817
Acquisitions through business combinations[1]	15	–	30	45
Transfer to non-current assets held for sale[2]	(82)	(2)	(3)	(87)
Other movements	–	5	(6)	(1)
At 31 December 2017	306	97	371	774
Acquisitions through business combinations	5	–	9	14
Additions	–	4	–	4
Transfer to non-current assets held for sale	(1)	–	–	(1)
Other movements[3]	4	(1)	–	3
At 31 December 2018	**314**	**100**	**380**	**794**
Amortisation and impairment losses				
At 1 January 2017	–	(90)	(73)	(163)
Amortisation charge for the year	–	(2)	(39)	(41)
Transfer to non-current assets held for sale	–	2	3	5
Other movements	–	(2)	1	(1)
At 31 December 2017	–	(92)	(108)	(200)
Amortisation charge for the year	–	(4)	(41)	(45)
Impairment of other acquired intangibles	–	–	(1)	(1)
Other movements	–	1	1	2
At 31 December 2018	**–**	**(95)**	**(149)**	**(244)**
Carrying amount				
At 31 December 2017	306	5	263	574
At 31 December 2018	**314**	**5**	**231**	**550**

[1] Goodwill acquired through business combinations for the year ended 31 December 2017 of £15 million relates to the acquisition of Caerus Capital Group Limited (£10 million) and various acquisitions by the QPCA business (£5 million). Refer to note 5(a) for further information.

[2] Goodwill transferred to non-current assets held for sale relates to the Single Strategy Asset Management business (see note 5(f)).

[3] Goodwill has increased by £4 million in 2018 due to a review of the purchase price allocation ("PPA") calculation at 31 December 2017 year end relating to the QPCA acquisitions resulting in a reclassification from other intangibles to goodwill.

[4] In year ended 31 December 2017 £6 million has been reclassified from software development costs to other intangible assets to conform with current year presentation.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

16: Goodwill and intangible assets continued

16(a): Analysis of goodwill and intangible assets continued

The net carrying amount of other intangible assets at 31 December 2018 principally comprises:

- £168 million (FY 2017: £196 million) relating to distribution channels in the Quilter Cheviot business (to be amortised over a further six years);
- £19 million (FY 2017: £25 million) relating to mutual fund and asset management relationship assets in the Intrinsic business (to be amortised over a further four years);
- £4 million (FY 2017: £7 million) relating to the Quilter Cheviot brand (to be amortised over a further one year);
- £3 million (FY 2017: £3 million) relating to the acquisition of AAM Advisory Pte Ltd (to be amortised over a further seven years);
- £9 million (FY 2017: £8 million) relating to customer distribution channels of Caerus Capital Group Limited (to be amortised over a further six years);
- £20 million (2017: £16 million) relating to customer relationships of the QPCA business (to be amortised over six to eight years); and
- £8 million (2017: £8 million) relating to customer relationships of Attivo Investment Management Limited (to be amortised over 6 years).

16(b): Allocation of goodwill to cash generating units ("CGUs") and impairment testing

Goodwill is allocated to the Group's CGUs, which are contained within the following operating segments as follows:

	At 31 December 2018 £m	At 31 December 2017 £m
Goodwill (net carrying amount)		
Advice and Wealth Management	153	148
Wealth Platforms	161	158
Goodwill (as per the Statement of Financial Position)	**314**	**306**
Goodwill held for sale	–	82
Total goodwill	**314**	**388**

In accordance with the requirements of IAS 36 *Impairment of Assets*, goodwill in both the Advice and Wealth Management and Wealth Platforms CGUs is tested for impairment annually by comparing the carrying value of the CGU to which the goodwill relates to the recoverable value of that CGU, being the higher of that CGU's value-in-use or fair value less costs to sell. An impairment charge is recognised when the recoverable amount is less than the carrying value.

The value-in-use calculations for life assurance operations are determined as the sum of net tangible assets, the expected future profits arising from the in-force business, together with the expected profits from future new business derived from business plans. Future profit elements allow for the cost of capital needed to support the business.

The net tangible assets and future profits arising from the in-force business are derived from Solvency II ("SII") calculations. The value of in-force (VIF) is calculated as the prospective value of future expected cash flows on all in-force policies at the valuation date on a policy-by-policy basis allowing for surrender or transfer payments, death claims, income withdrawals, maintenance expenses, fund-based fees, mortality charge/protection premiums and other policy charges. The underlying assumptions are based on the best estimate view for the future, which is largely based on recent business experience and any emerging trends. The unit fund growth rates (gross of investment charges) and the risk discount rates are set using the prescribed SII term-dependent risk-free interest rates. The SII calculations are adjusted for a risk margin using the prescribed SII rules.

The value-in-use calculations for asset management operations are determined as the sum of net tangible assets and the expected profits from existing and expected future new business.

The cash flows that have been used to determine the value-in-use of the cash generating units are based on three year business plans. These cash flows grow at different rates because of the different strategies of the CGUs. In cases where the CGUs have made significant acquisitions in the recent past, the profits are forecast to grow faster than the more mature businesses. Post the three year growth business plan, the growth rate used to determine the terminal value of the cash generating units approximates to the UK long-term growth rate of 2.1% (2017: 2.9%). Market share and market growth information are also used to inform the expected volumes of future new business.

The Group uses a single cost of capital of 10.8% (2017: 9.4%) to discount future expected business plan cash flows across its two CGUs because they are perceived to present a similar level of risk and are strongly integrated. Capital is provided to the Group predominantly by shareholders with only a small amount of debt. The cost of capital is the weighted average of the cost of equity (return required by shareholders) and the cost of debt (return required by bond holders). When assessing the systematic risk (i.e. beta value) within the calculation of the cost of equity, a triangulation approach is used that combines beta values obtained from historical data, a forward looking view on the progression of beta values and the external views of investors.

On business disposals, goodwill is allocated to the disposed business based on the relative value-in-use of the business from calculations used within the impairment reviews.

During the period, the Group updated its assessment of goodwill for potential impairment. The recoverable amounts of goodwill allocated to the CGUs are determined from value-in-use calculations. There was no indication of impairment of goodwill during the period. The goodwill model is subject to certain stress tests, including sudden stock market falls, the absence of net client cash flow, and the impact of an increase in discount rates. None of these have resulted in any indication of impairment to goodwill.

17: Property, plant and equipment

The following table analyses property, plant and equipment.

	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2017	12	73	85
Additions	1	7	8
Additions from business combinations	–	3	3
Disposals	–	(4)	(4)
Foreign exchange and other movements	–	(2)	(2)
Transfer to assets held for sale	–	(2)	(2)
At 31 December 2017	13	75	88
Additions	2	5	7
Disposals	–	(1)	(1)
Foreign exchange and other movements	(2)	–	(2)
At 31 December 2018	**13**	**79**	**92**
Accumulated depreciation and impairment			
At 1 January 2017	(4)	(63)	(67)
Depreciation charge for the year	(1)	(7)	(8)
Disposals	–	4	4
Foreign exchange and other movements	(2)	1	(1)
At 31 December 2017	(7)	(63)	(70)
Depreciation charge for the year	(1)	(7)	(8)
Disposals	–	2	2
Foreign exchange and other movements	–	1	1
At 31 December 2018	**(8)**	**(67)**	**(75)**
Carrying amount			
At 31 December 2017	6	12	18
At 31 December 2018	**5**	**12**	**17**

18: Loans and advances

This note analyses the loans and advances the Group has made. The carrying amounts of loans and advances were as follows:

	At 31 December 2018 £m	At 31 December 2017 £m
Loans to policyholders	189	181
Loans to brokers and other loans to clients	27	19
Other loans	7	–
Gross loans and advances	**223**	**200**
Provision for impairments	**(1)**	**(1)**
Total net loans and advances	**222**	**199**
To be recovered within 12 months	**199**	**190**
To be recovered after 12 months	**23**	**9**
Total net loans and advances	**222**	**199**

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

18: Loans and advances continued

The carrying amount of loans approximates to their fair value which is measured as the principal amounts receivable under the loan agreements.

Policyholder loans are amounts taken from an individual policyholder's unit-linked accounts and loaned to the same policyholder. Policyholder loans are non-interest bearing and are deemed to be risk free from a shareholder perspective as the policyholder retains all associated risks. Policyholder loans are available on demand as they have no repayment schedule.

Included within loans to brokers and other loans to clients, are loans to advisers made on commercial terms.

Other loans represent a loan to TA Associates in respect of the deferred consideration receivable arising from the sale of the Single Strategy Asset Management business. The loan is repayable no later than 2022, but is expected to be repaid between 2019 and 2021 as surplus capital is released from that business.

The provision for impairments is a specific impairment relating to a balance due from a financial adviser that is not expected to be recovered. The impairment was recognised during 2016 under IAS 39; any future provisions will be recognised under IFRS 9 and disclosed in the expected credit loss model in note 40.

19: Financial investments

The table below analyses the investments and securities that the Group invests in, either for its own proprietary behalf (shareholder funds) or on behalf of third parties (policyholder funds).

	At 31 December 2018 £m	At 31 December 2017 £m
Government and government-guaranteed securities	1,175	2,427
Other debt securities, preference shares and debentures	2,095	2,401
Equity securities[1]	10,006	12,556
Pooled investments	45,931	46,455
Short-term funds and securities treated as investments	12	15
Other	–	396
Total financial investments	**59,219**	**64,250**
To be recovered within 12 months	**59,044**	**64,074**
To be recovered after 12 months	**175**	**176**
Total financial investments	**59,219**	**64,250**

[1] At 31 December 2017, £2 million has been reclassified from investments in associated undertakings to financial investments to aid comparability between periods.

The financial investments recoverability profile is based on the intention with which the financial assets are held. These assets, together with the reinsurers' share of investment contract liabilities, are held to cover the liabilities for linked investment contracts (net of reinsurance), all of which can be withdrawn by policyholders on demand.

19(a): Other debt securities, preference shares and debentures

All debt securities, preference shares and debentures are neither past due nor impaired. These debt instruments and similar securities are classified according to their local credit rating (Standard & Poor's or an equivalent), by investment grade. Further information of the credit rating of debt securities, preference shares and debentures is analysed in the table in note 40(b).

19(b): Equity securities

Equity securities are held to cover the liabilities for linked investment contracts. The majority of the listed securities are traded on the London Stock Exchange.

The majority of the Group's holdings of unlisted equity securities arise principally from private equity investments, held exclusively on behalf of policyholders.

20: Derivative financial instruments – assets and liabilities

The Group has limited involvement with derivative instruments and does not use them for speculation purposes. Derivative instruments are used to manage well-defined foreign exchange risks arising out of the normal course of business. The Group enters into forward foreign exchange contracts to reduce currency risk on accounts receivable and future revenues denominated in United States dollars. The Group does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate non-performance by counterparties. The Group only deals with highly rated counterparties.

The majority of derivatives included within the statement of financial position relate to instruments included as a consequence of the consolidation of investment funds. This can be seen within the segmented statement of financial position (note 6(c)).

	At 31 December 2018 £m	At 31 December 2017 £m
Assets	46	87
Liabilities	37	433

21: Categories of financial instruments

The analysis of financial assets and liabilities into their categories as defined in IFRS 9 *Financial Instruments* is set out in the following tables. Assets and liabilities of a non-financial nature, or financial assets and liabilities that are specifically excluded from the scope of IFRS 9, are reflected in the non-financial assets and liabilities category.

For information about the methods and assumptions used in determining fair value please refer to note 22. The Group's exposure to various risks associated with financial instruments is discussed in note 40(c).

	Fair value[1]				
At 31 December 2018 – Measurement basis	**Mandatorily at FVTPL £m**	**Designated at FVTPL £m**	**Amortised cost £m**	**Non-financial assets and liabilities £m**	**Total £m**
Assets					
Investments in associated undertakings[2]	–	–	–	2	2
Reinsurers' share of policyholder liabilities	1,671	–	–	491	2,162
Contract assets	–	–	44	–	44
Loans and advances	189	–	33	–	222
Financial investments	59,052	167	–	–	59,219
Trade, other receivables and other assets	–	–	449	37	486
Derivative financial instruments	46	–	–	–	46
Cash and cash equivalents	1,361	–	1,034	–	2,395
Total assets that include financial instruments	62,319	167	1,560	530	64,576
Total other non-financial assets	–	–	–	1,214	1,214
Total assets	**62,319**	**167**	**1,560**	**1,744**	**65,790**
Liabilities					
Long-term business insurance policyholder liabilities	–	–	–	602	602
Investment contract liabilities	56,450	–	–	–	56,450
Third-party interest in consolidation of funds	5,116	–	–	–	5,116
Borrowings	–	–	197	–	197
Trade, other payables and other liabilities	–	–	840	159	999
Derivative financial instruments	37	–	–	–	37
Total liabilities that include financial instruments	61,603	–	1,037	761	63,401
Total other non-financial liabilities	–	–	–	384	384
Total liabilities	**61,603**	**–**	**1,037**	**1,145**	**63,785**

1 The Group adopted IFRS 9 *Financial Instruments* for the first time in 2018. IFRS 9 introduces new classification and measurement categories. The Mandatorily at Fair Value Through Profit or Loss (FVTPL) category includes financial assets that are managed (and their performance evaluated) on a fair value basis, including those previously described as "held for trading". The majority of the Group's financial assets and liabilities continue to be measured at FVTPL. The Group has taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements. For further information on IFRS 9 refer to note 4.

2 Investments in associated undertakings classified as non-financial assets and liabilities are equity accounted.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

21: Categories of financial instruments continued

At 31 December 2017 – Measurement basis	Fair value[1] Held for trading £m	Fair value[1] Designated at fair value through the profit or loss £m	Amortised cost Loans and receivables £m	Amortised cost Financial liabilities amortised cost £m	Non-financial assets and liabilities £m	Total £m
Assets						
Investments in associated undertakings[2, 3]	–	–	–	–	1	1
Reinsurers' share of policyholder liabilities	–	2,525	–	–	383	2,908
Loans and advances	–	180	19	–	–	199
Financial investments[3]	–	64,250	–	–	–	64,250
Trade, other receivables and other assets	–	–	154	–	343	497
Derivative financial instruments	87	–	–	–	–	87
Cash and cash equivalents[4]	–	412	1,948	–	–	2,360
Total assets that include financial instruments	87	67,367	2,121	–	727	70,302
Total other non-financial assets	–	–	–	–	1,225	1,225
Total assets net of held for sale	87	67,367	2,121	–	1,952	71,527
Total assets classified as held for sale	–	–	147	–	299	446
Total assets	**87**	**67,367**	**2,268**	**–**	**2,251**	**71,973**
Liabilities						
Long-term business insurance policyholder liabilities	–	–	–	–	489	489
Investment contract liabilities	–	59,139	–	–	–	59,139
Third-party interest in consolidation of funds	–	7,905	–	–	–	7,905
Borrowings	–	–	–	782	–	782
Trade, other payables and other liabilities	–	–	–	505	826	1,331
Derivative financial instruments	433	–	–	–	–	433
Total liabilities that include financial instruments	433	67,044	–	1,287	1,315	70,079
Total other non-financial liabilities	–	–	–	–	576	576
Total liabilities net of held for sale	433	67,044	–	1,287	1,891	70,655
Total liabilities classified as held for sale	–	–	–	–	219	219
Total liabilities	**433**	**67,044**	**–**	**1,287**	**2,110**	**70,874**

1 The Group adopted IFRS 9 *Financial Instruments* for the first time in 2018. The Group has taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements. For further information on IFRS 9 refer to note 4.

2 Investments in associated undertakings classified as non-financial assets and liabilities are equity accounted.

3 As at 31 December 2017 £2 million has been reclassified from investments in associated undertakings to financial investments to conform with current year presentation.

4 As at 31 December 2017 £412 million money market collective investment funds has been reclassified from amortised costs to FVTPL level 1 to aid comparability between periods.

22: Fair value methodology

This section explains the judgements and estimates made in determining the fair values of financial instruments that are recognised and measured at fair value in the financial statements. Classifying financial instruments into the three levels below, prescribed under accounting standards, provides an indication about the reliability of inputs used in determining fair value.

22(a): Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market exit prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs:

- for units in unit trusts and shares in open ended investment companies, fair value is determined by reference to published quoted prices representing exit values in an active market;
- for equity and debt securities not actively traded in organised markets and where the price cannot be retrieved, the fair value is determined by reference to similar instruments for which market observable prices exist;
- for assets that have been suspended from trading on an active market, the last published price is used. Many suspended assets are still regularly priced. At the reporting date all suspended assets are assessed for impairment; and
- where the assets are private company shares the valuation is based on the latest available set of audited financial statements where available, or if more recent, a statement of valuation provided by the private company's management.

There have been no significant changes in the valuation techniques applied when valuing financial instruments. The general principles applied to those instruments measured at fair value are outlined below:

Reinsurers' share of policyholder liabilities

Reinsurers' share of policyholder liabilities are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Reinsurance contracts which cover financial risk are measured at fair value of the underlying assets.

Loans and advances

Loans and advances include loans to policyholders, loans to brokers, and other secured and unsecured loans. Loans and advances to policyholders of investment-linked contracts are measured at fair value. All other loans are stated at their amortised cost.

Financial investments

Financial investments include government and government-guaranteed securities, listed and unlisted debt securities, preference shares and debentures, listed and unlisted equity securities, listed and unlisted pooled investments (see below), short-term funds and securities treated as investments and certain other securities.

Pooled investments represent the Group's holdings of shares/units in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles. Pooled investments are recognised at fair value. The fair values of pooled investments are based on widely published prices that are regularly updated.

Other financial investments that are measured at fair value are measured at observable market prices where available. In the absence of observable market prices, these investments and securities are fair valued utilising various approaches including discounted cash flows, the application of an earnings before interest, tax, depreciation and amortisation multiple or any other relevant technique.

Derivatives

The fair value of derivatives is determined with reference to the exchange traded prices of the specific instruments. In situations where the derivatives are traded over the counter the fair value of the instruments is determined by the utilisation of option pricing models.

Investment contract liabilities

The fair value of the investment contract liabilities is determined with reference to the underlying funds that are held by the Group.

Third-party interests in consolidation of funds

Third-party interests in consolidation of funds are measured at the attributable net asset value of each fund.

Borrowed funds

Borrowed funds are stated at amortised cost.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

22: Fair value methodology continued

22(b): 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 that are actively traded, actively traded pooled investments, certain quoted derivative assets and liabilities, reinsurers' share of investment contract 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 or quoted prices for identical or similar instruments in inactive 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. Over the counter (OTC) derivatives, certain privately placed debt instruments and third-party interests in consolidated funds.
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 securities with significant unobservable inputs, securities where the market is not considered sufficiently active, including certain inactive pooled investments.

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 or 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.

22(c): Transfer between fair value hierarchies

The Group deems a transfer to have occurred between Level 1 and Level 2 or Level 3 when an active, traded primary market ceases to exist for that financial instrument. A transfer between Level 2 and Level 3 occurs when the majority of the significant inputs used to determine fair value of the instrument become unobservable.

There were transfers of financial investments of £13 million from Level 1 to Level 2 during the year (2017: £154 million). There were transfers of financial investments of £107 million from Level 2 to Level 1 during the year (2017: £20 million). These movements are matched exactly by transfers of investment contract liabilities. See note 22(e) for details of movements in Level 3.

22(d): Financial assets and liabilities measured at fair value, classified according to fair value hierarchy

The tables below present a summary of the Group's financial assets and liabilities that are measured at fair value in the consolidated statement of financial position according to their IFRS 9 classification, as set out in changes to accounting policies in note 4(r). The Group has initially applied IFRS 9 at January 2018. Under the transition methods selected, comparative information is not restated.

The Group has not disclosed the fair value for financial instruments not measured at fair value because their carrying values are a reasonable approximation of fair value.

The majority of the Group's financial assets are measured using quoted market prices for identical instruments in active markets (Level 1) and there has been no significant change during the year.

The assets, together with the reinsurers' share of investment contract liabilities, are held to cover the liabilities for linked investment contracts (net of reinsurance). The difference between linked assets and linked liabilities is principally due to short term timing differences between policyholder premiums being received and invested in advance of policies being issued, and tax liabilities within funds which are reflected within the Group's tax liabilities.

22: Fair value methodology continued

22(d): Financial assets and liabilities measured at fair value, classified according to fair value hierarchy continued

	At 31 December 2018		At 31 December 2017	
	£m	%	£m	%
Financial assets measured at fair value				
Level 1	52,060	83.4%	58,357	86.5%
Level 2	9,272	14.8%	7,928	11.8%
Level 3[1]	1,154	1.8%	1,169	1.7%
Total	**62,486**	**100.0%**	**67,454**	**100.0%**
Financial liabilities measured at fair value				
Level 1	54,944	89.2%	57,399	85.1%
Level 2	5,508	8.9%	8,911	13.2%
Level 3	1,151	1.9%	1,167	1.7%
Total	**61,603**	**100.0%**	**67,477**	**100.0%**

[1] As at 31 December 2017 £2 million has been reclassified from investments in associated undertakings to Level 3 financial assets to conform with current year presentation.

At 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value				
Mandatorily (fair value through profit or loss)	51,893	9,272	1,154	62,319
Reinsurers' share of policyholder liabilities	1,671	–	–	1,671
Loans and advances	189	–	–	189
Financial investments	48,672	9,226	1,154	59,052
Cash and cash equivalents	1,361	–	–	1,361
Derivative financial instruments – assets	–	46	–	46
Designated (fair value through profit or loss)	167	–	–	167
Financial investments	167	–	–	167
Total assets measured at fair value	**52,060**	**9,272**	**1,154**	**62,486**
Financial liabilities measured at fair value				
Mandatorily (fair value through profit or loss)	54,944	5,508	1,151	61,603
Investment contract liabilities	54,944	355	1,151	56,450
Third-party interests in consolidated funds	–	5,116	–	5,116
Derivative financial instruments – liabilities	–	37	–	37
Total liabilities measured at fair value	**54,944**	**5,508**	**1,151**	**61,603**

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

22: Fair value methodology continued

22(d): Financial assets and liabilities measured at fair value, classified according to fair value hierarchy continued

At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value				
Held-for-trading (fair value through profit or loss)	–	87	–	87
Derivative financial instruments – assets	–	87	–	87
Designated (fair value through profit or loss)	58,357	7,841	1,169	67,367
Reinsurers' share of policyholder liabilities	2,525	–	–	2,525
Loans and advances	180	–	–	180
Financial investments[1]	55,240	7,841	1,169	64,250
Cash and cash equivalents[2]	412	–	–	412
Total assets measured at fair value	**58,357**	**7,928**	**1,169**	**67,454**
Financial liabilities measured at fair value				
Held-for-trading (fair value through profit or loss)	–	433	–	433
Derivative financial instruments – liabilities	–	433	–	433
Designated (fair value through profit or loss)	57,399	8,478	1,167	67,044
Investment contract liabilities	57,399	573	1,167	59,139
Third-party interests in consolidated funds	–	7,905	–	7,905
Total liabilities measured at fair value	**57,399**	**8,911**	**1,167**	**67,477**

[1] As at 31 December 2017 £2 million has been reclassified from investments in associated undertakings to Level 3 financial investments to conform with current year presentation.
[2] As at 31 December 2017 £412 million money market collective investment funds has been reclassified from amortised costs to FVTPL Level 1 to aid comparability between periods.

22(e): Level 3 fair value hierarchy disclosure

The majority of the assets that are classified as Level 3 are held within linked policyholder funds. This means that all of the investment risk associated with these assets is borne by policyholders and that the value of these assets is exactly matched by a corresponding liability due to policyholders. The Group bears no risk from a change in the market value of these assets except to the extent that it has an impact on management fees earned. Also included within the assets classified as Level 3 is a shareholder investment in an unlisted equity of £3 million (2017: £2 million); this is not matched by a corresponding liability and therefore any changes in market value are taken to the Group's income statement.

The table below reconciles the opening balance of Level 3 financial assets to the closing balance at the end of the year:

	At 31 December 2018 £m	At 31 December 2017 £m
At beginning of the year	1,169	581
Total net fair value gains recognised in:		
– profit or loss	54	(23)
Purchases	38	618
Sales	(25)	(23)
Transfers in	69	167
Transfers out	(151)	(152)
Foreign exchange and other	-	1
Total Level 3 financial assets	**1,154**	**1,169**
Unrealised fair value gains/(losses) relating to assets held at the year end recognised in:		
– profit or loss	**54**	**(23)**

Amounts shown as sales arise principally from the sale of private company shares, unlisted pooled investments and from distributions received in respect of holdings in property funds.

Transfers into Level 3 assets for the current period comprise £69 million (2017: £167 million) of stale priced assets that were previously shown within Level 2 and for which price updates have not been received for more than six months. Transfers out of Level 3 assets in the current period comprise £151 million (2017: £152 million) of stale priced assets that were not previously being repriced and that have been transferred into Level 2 as they are now actively priced.

22: Fair value methodology continued

22(e): Level 3 fair value hierarchy disclosure continued

The table below analyses the type of Level 3 financial assets held:

	At 31 December 2018 £m	At 31 December 2017 £m
Pooled investments	86	186
Unlisted and stale price pooled investments	82	185
Suspended funds	4	1
Private equity investments	1,068	983
Total Level 3 financial assets	**1,154**	**1,169**

All of the liabilities that are classified as Level 3 are investment contract liabilities which exactly match against the Level 3 assets held in linked policyholder funds.

The table below reconciles the opening balance of Level 3 financial liabilities to the closing balance at the end of the year:

	At 31 December 2018 £m	At 31 December 2017 £m
At beginning of the year	1,167	581
Total net fair value gains recognised in:		
– profit or loss	53	(23)
Purchases	38	616
Sales	(25)	(23)
Transfers in	69	167
Transfers out	(151)	(152)
Foreign exchange and other	–	1
Total Level 3 financial liabilities	**1,151**	**1,167**
Unrealised fair value gains/(losses) relating to liabilities held at the year end recognised in:		
– profit or loss	**53**	**(23)**

22(f): Effect of changes in significant unobservable assumptions to reasonable possible alternatives

Favourable and unfavourable changes are determined on the basis of changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually.

The valuations of the private equity investments are performed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment and in line with industry guidelines. Private equity investments are valued at the value disclosed in the latest available set of audited financial statements or if more recent information is available from investment managers or professional valuation experts at the value of the underlying assets of the private equity investment.

Details of the valuation techniques applied to the different categories of financial instruments can be found in note 22(a) above.

Management believe that in aggregate, 10% (2017: 10%) change in the value of the financial asset or liability represents a reasonable possible alternative judgement in the context of the current macro-economic environment in which the Group operates. It is therefore considered that the impact of alternative assumptions will be in the range of £115 million, both favourable and unfavourable (2017: £117 million). As described in note 22(e) above, changes in the value of Level 3 assets held within linked policyholder funds are exactly matched by corresponding changes in the value of liabilities due to policyholders and therefore have no impact on the Group's net asset value or profit or loss, except to the extent that it has an impact on management fees earned.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

22: Fair value methodology continued

22(g): Fair value hierarchy for assets and liabilities not measured at fair value

Certain financial instruments of the Group are not carried at fair value. The carrying values of these are considered reasonable approximations of their respective fair values, as they are either short term in nature or are repriced to current market rates at frequent intervals. Their classification within the fair value hierarchy would be as follows:

Contract assets	Level 3
Trade, other receivables, and other assets	Level 3
Cash and cash equivalents	Level 1
Trade, other payables, and other liabilities	Level 3

Loans and advances are financial assets held at amortised cost and therefore not carried at fair value, with the exception of policyholder loans which are categorised as FVTPL. Loans and advances held at amortised cost would be classified as Level 3 in the fair value hierarchy.

Borrowed funds are financial liabilities held at amortised cost and therefore not carried at fair value. Borrowed funds relate to subordinated liabilities and would be classified as Level 2 in the fair value hierarchy.

23: Structured entities

23(a): Group's involvement in structured entities

Some investment vehicles are classified as structured entities because they have a narrow and well defined purpose. In structured entities, voting rights are not the predominant factor in deciding who controls the entity but rather it is the Group's exposure to the variability of returns from these entities. The table below summarises the types of structured entities the Group has an interest in. These entities are not consolidated where the Group determines that it does not have control:

Type of structured entity	Nature	Purpose	Interest held by the Group
• Investments in collective investment vehicles	• Manage client funds through the investment in assets	• Generate fees from managing assets on behalf of third-party investors	• Investment in units issued by the vehicles
• Investments in collective investment vehicles	• Manage shareholder funds through the investment in assets	• Generate fees from managing company assets	• Investment in units issued by the vehicles

The Group's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. All of the investment vehicles in the investment portfolios are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee, and is reflected in the valuation of the investment vehicles.

23(b): Interests in unconsolidated structured entities

The Group invests in unconsolidated structured entities as part of its normal investment and trading activities. The Group's total interest in unconsolidated structured entities is classified as investments and securities held at fair value through profit or loss. The table below provides a summary of the carrying value of the Group's interest in unconsolidated structured entities:

	At 31 December 2018 £m	At 31 December 2017 £m
Financial investments	40,815	43,848
Cash and cash equivalents[1]	1,361	412
Total Group interest in unconsolidated structured entities	**42,176**	**44,260**

[1] In the year ended 31 December 2017 money market funds of £412 million have been reclassified on the statement of financial position from Financial Investments to Cash and cash equivalents.

The Group's maximum exposure to loss with regard to the interests presented above is the carrying amount of the Group's investments. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are largely less than 50% and as such the net asset value of these structured entities is likely to be significantly higher than their carrying value.

23: Structured entities continued

23(c): Consolidation considerations for structured entities managed by the Group

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of decision making rights as fund manager, the investor's rights to remove the fund manager and the aggregate economic interests of the Group in the fund in the form of interest held and exposure to variable returns.

In most instances the Group's decision making authority, in its capacity as fund manager, with regard to these funds is regarded to be well-defined. Discretion is exercised when decisions regarding the relevant activities of these funds are being made. For funds managed by the Group where the investors have the right to remove the Group as fund manager without cause, the fees earned by the Group are considered to be market related. These agreements include only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis. The Group has concluded that it acts as agent on behalf of the investors in all instances.

The Group is considered to be acting as principal where the Group is the fund manager and is able to make the investment decisions on behalf of the unit holders and earn a variable fee, and there are no kick out rights that would remove the Group as fund manager.

There have been no changes in facts or circumstances which have changed the Group's conclusion on the consolidation of funds.

The Group has not provided any non-contractual support to any consolidated or unconsolidated structured entities.

23(d): Other interests in unconsolidated structured entities

The Group receives management fees and other fees in respect of its asset management businesses that manage investments in which the Group has no holding. These also represent interests in unconsolidated structured entities. As these investments are not held by the Group, the investment risk is borne by the external investors and therefore the Group's maximum exposure to loss relates to future management fees. The Group does not sponsor any of the funds or investment vehicles from which it receives fees.

The table below shows the assets under management of entities that the Group manages but does not have a holding in and the fees earned from those entities:

	At 31 December 2018		At 31 December 2017	
	Assets under management £m	Fees earned £m	Assets under management £m	Fees earned £m
Pooled investments				
Open Ended Investment Company (OEIC)	–	1	275	6
Total other interest in unconsolidated structured entities	**–**	**1**	**275**	**6**

24: Trade, other receivables and other assets

The note analyses total trade, other receivables and other assets.

	Note	At 31 December 2018 £m	At 31 December 2017[2] £m
Debtors arising from direct insurance business – amounts owed by intermediaries		–	2
Debtors arising from reinsurance business		5	8
Outstanding settlements		327	307
Other receivables		94	244
Accrued interest		2	3
Prepayments and accrued income[1]		34	63
Management fees		23	44
Other assets		1	30
Total trade, other receivables and other assets		**486**	**701**
Less: trade, other receivables and other assets classified as held for sale	5(f)	**–**	**(204)**
Total trade, other receivables and other assets net of held for sale		**486**	**497**
To be settled within 12 months		**486**	**469**
To be settled after 12 months		**–**	**28**
Total trade, other receivables and other assets net of held for sale		**486**	**497**

1 In the year ended 31 December 2018 £44 million has been reclassified to contract assets (see note 25(b)) as a result of the Group's adoption of IFRS 15 on 1 January 2018.
2 A number of items have been reclassified in the prior year comparatives to conform with current year presentation.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

24: Trade, other receivables and other assets continued

Other receivables mainly relate to trade debtors, tax debtors and other debtors. There have been no non-performing receivables or material impairments in the financial year that require disclosure. Information about the Group's impairment losses on trade receivables is included in note 40(b). None of the receivables reflected above have been subject to the renegotiation of terms. All amounts are current, short term and interest free with the carrying amount approximating to fair value.

25: Deferred acquisition costs, contract costs and contract assets

25(a): Deferred acquisition costs and contract costs

Deferred acquisition costs (on insurance contracts) and contract costs (on investment contracts and asset management contracts) relate to costs that the Group incur to obtain new business. These acquisition costs are capitalised in the statement of financial position and are amortised in profit or loss over the life of the contracts. The table below analyses the movements in these balances relating to insurance, investment and asset management contracts.

	Deferred acquisition costs			Contract costs		
	Investment contracts £m	Insurance contracts £m	Asset management £m	Investment contracts £m	Asset management £m	Total £m
Balance at 1 January 2017	629	17	9	–	–	655
New business	79	–	3	–	–	82
Amortisation	(108)	(3)	(7)	–	–	(118)
Movement shown in fee and commission expenses[1]	(29)	(3)	(4)	–	–	(36)
Foreign exchange	1	–	–	–	–	1
Deferred acquisition costs written off[2]	(9)	–	–	–	–	(9)
Other movements related to discontinued operations[3]	–	–	4	–	–	4
Transfer to non-current assets held for sale	–	–	(4)	–	–	(4)
Balance at 31 December 2017	592	14	5	–	–	611
Reclassification to contract costs[4]	(592)	–	(5)	592	5	–
New business	–	–	–	50	1	51
Amortisation	–	(3)	–	(97)	(2)	(102)
Other movements	–	–	–	2	–	2
Movement shown in fee and commission expenses[1]	–	(3)	–	(45)	(1)	(49)
Balance at 31 December 2018	**–**	**11**	**–**	**547**	**4**	**562**

1 Changes in deferred acquisition costs and contract costs, within the fee and commission expenses note 9(a).
2 As part of the managed separation of the Old Mutual plc Group, part of the Group's DAC balance was written off in respect of a South African book of business transferred outside of the Quilter plc Group.
3 Other movements in 2017 includes £5 million of new business and £(1) million of amortisation relating to discontinued operations.
4 Reclassified from deferred acquisition costs to contract costs at 1 January 2018, as a result of IFRS 15.

25(b): Contract assets

Contract assets (on non-insurance contracts) of £44 million at 31 December 2018 were previously (before the adoption of IFRS 15) known as accrued income from contracts with customers and were disclosed within other receivables.

26: Cash and cash equivalents

26(a): Analysis of net cash flows from operating activities:

	Year ended 31 December 2018 £m	Year ended 31 December 2017[3] £m
Cash flows from operating activities		
Profit before tax	321	227
Adjustments for non-cash movements in net profit for the year		
Depreciation of property, plant and equipment	6	8
Movement on deferred acquisition costs and contract costs	49	40
Movement on deferred fee income and contract liabilities	(14)	(24)
Amortisation and impairment of intangibles	46	41
Fair value movements of financial assets	3,473	(4,688)
Fair value movements in investment contract liabilities	(4,119)	3,958
Other change in investment contract liabilities	1,412	3,871
Profit on sale of subsidiaries and bargain purchase	(290)	(83)
Other movements	21	28
	584	**3,151**
Net changes in working capital		
Decrease/(increase) in derivatives[1]	(353)	315
Decrease/(increase) in loans and advances	(23)	23
(Decrease)/increase in provisions	(6)	75
Decrease/(increase) in other assets/liabilities[2]	(287)	567
	(669)	980
Taxation paid	(92)	(9)
Net cash flows from operating activities	**144**	**4,349**

[1] The movement in derivatives primarily relates to consolidated funds as explained in note 20.
[2] Working capital changes in respect of other assets and liabilities primarily relate to consolidation of funds.
[3] A number of items within the 2017 comparatives have been reclassified to align with the presentation within the 2018 financial statements. There was no impact on cash and cash equivalents resulting from these reclassifications.

26(b): Total cash and cash equivalents can be broken down as follows:

	At 31 December 2018 £m	At 31 December 2017 £m
Cash at bank	550	1,036
Money market funds	1,361	412
Cash and cash equivalents in consolidated funds	484	912
Total cash and cash equivalents per statement of financial position	**2,395**	**2,360**
Cash within held for sale	–	147
Total cash and cash equivalents per consolidated statement of cash flows	**2,395**	**2,507**

Except for cash and cash equivalents subject to consolidation of funds of £484 million (2017: £912 million), management do not consider that there are any material amounts of cash and cash equivalents which are not available for use in the Group's day-to-day operations.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

26: Cash and cash equivalents continued

26(c): Cash flows from financing activities is further analysed below:

	Liabilities		Equity[1]	
For the year ended 31 December 2018	**Borrowings £m**	**Deposits from reinsurers £m**	**Changes in equity £m**	**Total £m**
	Note 32	**Note 33**		
Opening balance at 1 January 2018	**782**	**16**	**1,099**	**1,897**
Cash flows from financing activities				
Liability related:				
Finance costs	(7)	(1)	–	(8)
Proceeds from issue of subordinated and other debt	497	–	–	497
Subordinated and other debt repaid	(516)	–	–	(516)
Equity related:				
Dividends paid to ordinary equity holders of the Company	–	–	(221)	(221)
Proceeds from issue of Ordinary Shares	–	–	–	–
Cash flows from financing activities	**(26)**	**(1)**	**(221)**	**(248)**
Other changes				
Other changes in liabilities[2]	(559)	1	–	(558)
Liability related	(559)	1	–	(558)
Equity related	–	–	1,127	1,127
Closing balance at 31 December 2018	**197**	**16**	**2,005**	**2,218**

	Liabilities		Equity[1]	
For the year ended 31 December 2017	**Borrowings £m**	**Deposits from reinsurers £m**	**Changes in equity £m**	**Total £m**
	Note 32	**Note 33**		
Opening balance at 1 January 2017	**839**	**14**	**992**	**1,845**
Cash flows from financing activities				
Liability related:				
Finance costs	(39)	–	–	(39)
Subordinated and other debt repaid	(57)	–	–	(57)
Equity related:				
Dividends paid to ordinary equity holders of the Company	–	–	(210)	(210)
Proceeds from issue of Ordinary Shares	–	–	258	258
Cash flows from financing activities	**(96)**	**–**	**48**	**(48)**
Other changes				
Foreign exchange movements	–	–	–	–
Other changes in liabilities	39	2	–	41
Liability related	39	2	–	41
Equity related	–	–	59	59
Closing balance at 31 December 2017	**782**	**16**	**1,099**	**1,897**

1 Full details of changes in equity are shown in the consolidated statement of changes in equity.
2 Other changes in liabilities in the year ended 31 December 2018 includes the £566 million receivable transferred into the Group as part of the acquisition of the Skandia Ltd group, which offsets with the corresponding payable already within the Group, as explained in note 5(a).

27: Share capital and merger reserve

27(a): Share capital

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. The Parent Company's equity capital currently comprises 1,902,251,098 Ordinary Shares of 7 pence each with an aggregated nominal value of £133,157,577 (2017: 130,000,257 Ordinary Shares of 100 pence each with an aggregated nominal value of £130,000,257).

This note gives details of the Company's Ordinary Share capital and shows the movements during the period:

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2017	130,000,256	130	–
Issue of share capital[1, 2]	200,000,001	200	58
Reduction of share capital[3]	(200,000,000)	(200)	–
At 31 December 2017	130,000,257	130	58
At 1 January 2018	130,000,257	130	58
Issue of share capital[4]	1	–	–
	130,000,258	130	58
Sub-division of Ordinary Shares of 100p each to 1p each[5]	12,870,025,542	–	–
	13,000,025,800	130	58
Bonus shares issued to ordinary shareholders of 1p each[6]	315,731,886	3	–
	13,315,757,686	133	58
Conversion of Ordinary Shares of 1p each to 7p each[7]	(11,413,506,588)	–	–
At 31 December 2018	**1,902,251,098**	**133**	**58**

1 On 3 May 2017 the Company allotted and issued 200 million £1 Ordinary Shares, for a consideration of £200 million, to its now former parent Old Mutual plc.
2 On 21 December 2017 Old Mutual plc contributed £58 million to the Company in exchange for the issue of 1 share.
3 On 27 November 2017 the Company carried out a share capital reduction, which cancelled the 200 million £1 Ordinary Shares.
4 On 31 January 2018 the Company allotted and issued 1 Ordinary Share of £1.
On 6 June 2018 the Board approved a reorganisation of its share capital to enable the implementation of the Managed Separation and to ensure that existing shareholders of Old Mutual plc received one Ordinary Share for every three Ordinary Shares they hold in Old Mutual plc, as described in the Prospectus document. The share capital reorganisation consisted of the following steps:
5 Each of the Company's existing 130,000,258 Ordinary Shares of £1.00 each was sub-divided into 100 Ordinary Shares of £0.01 each, following which the Company's share capital consisted of 13,000,025,800 Ordinary Shares of £0.01 each, with an aggregate nominal value of £130,000,258;
6 The Company allotted 315,731,886 bonus Ordinary Shares of £0.01 each to the existing shareholders of the Company (with any fractional entitlements arising to be aggregated and allotted to Old Mutual plc), following which the Company's share capital consisted of 13,315,757,686 Ordinary Shares of £0.01 each, with an aggregate nominal value of £133,157,577; and
7 The Company's 13,315,757,686 Ordinary Shares of £0.01 each were consolidated into Ordinary Shares of £0.07 each (with any fractional entitlements arising to be aggregated and allotted to Old Mutual plc), following which the Company's share capital consists of 1,902,251,098 Ordinary Shares of £0.07 each, with an aggregate nominal value of £133,157,577.

27(b): Merger reserve

On 31 January 2018, the Group acquired the Skandia UK Ltd group of entities from its then parent company Old Mutual plc. This comprised of seven Old Mutual plc group entities with a net asset value of £591 million. The transfer was effected by the issue of one share and with the balance giving rise to a merger reserve of £591 million in the consolidated statement of financial position, being the difference between the nominal value of the share issued by the parent company for the acquisition of the shares of the subsidiaries and the subsidiaries' net asset value. No debt was taken on as a result of this transaction. The most significant asset within these entities is a £566 million receivable which corresponds to an equivalent payable within the Group's consolidated statement of financial position. The net effect of this transaction for the Group was to replace a payable due to Old Mutual plc with equity.

Following the acquisition the Company allotted 315,731,886 bonus Ordinary Shares of £0.01 each to the existing shareholders of the Company (with any fractional entitlements arising to be aggregated and allotted to Old Mutual plc), with a total nominal value of £3 million. This had the effect of reducing the merger reserve by £3 million to £588 million at 31 December 2018.

This transaction attracted merger relief under section 612 of the Companies Act 2006.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

28: Share-based payments

During the year ended 31 December 2018 and the year ended 31 December 2017, the Group participated in a number of Old Mutual plc and Quilter plc share-based payment arrangements. This note describes the nature of the plans and how the share options and awards are valued.

28(a): Arrangements in place from 25 June 2018 onwards

The Group created four new share-based payment schemes with awards over Quilter plc shares which came into force on 25 June 2018: the Quilter plc Performance Share Plan, the Quilter plc Share Reward Plan, the Quilter plc Share Incentive Plan, and the Quilter plc Sharesave Plan.

The Old Mutual Wealth Joint Share Ownership Plan, the Old Mutual Wealth Phantom Share Reward Plan and the Old Mutual plc Managed Separation Incentive Plan were awards over Old Mutual plc shares or, in the case of the Old Mutual Wealth Phantom Share Reward Plan, notional Old Mutual plc shares. These share-based payment schemes were transferred to awards over Quilter plc shares on 25 June 2018 and continue to the original vesting dates.

	Description of award					Vesting conditions		
Scheme	Restricted shares	Conditional shares	Options	Other	Dividend entitlement[1]	Contractual life (years)	Typical service (years)	Performance (measure)
Quilter plc Performance Share Plan – Share Options (Nil cost options)[2]	–	–	✓	–	✓	Up to 10	3	AP EPS CAGR[3] and Relative Total Shareholder Return
Quilter plc Performance Share Plan – Conditional Shares	–	✓	–	–	✓	Not less than 3	3	Conduct, Risk & Compliance Underpins
Quilter plc Share Reward Plan – Conditional Shares	–	✓	–	–	✓	Typically 3	3	–
Quilter plc Share Incentive Plan – Restricted Shares	✓	–	–	–	✓	Not less than 3	2	–
Quilter plc Sharesave Plan[4]	–	–	✓	✓	–	3½ – 5½	3 & 5	–
Old Mutual Wealth Joint Share Ownership Plan – Jointly Owned/Restricted Shares[5]	✓	–	–	✓	✓	3	3	–
Old Mutual Wealth Phantom Share Reward Plan – Conditional Shares[6]	–	✓	–	–	✓	Typically 3	3	–
Old Mutual plc Managed Separation Incentive Plan – Share Options (Nil cost options)	–	–	✓	–	✓	Up to 10	–	Targets in respect of Managed Separation completion

1 Participants are entitled to actual dividends for the Joint Share Ownership Plan Restricted Shares and the Share Incentive Plan. For all other schemes participants are entitled to dividend equivalents.
2 The EPS element of options granted under the Performance Share Plan are subject to a performance period commencing 1 January 2018, and with a grant date of 25 June 2018. In accordance with IFRS 2 *Share-based Payment* the cost of the EPS element of the award is recognised from the start of the performance period until the date upon which the options are expected to vest.
3 Adjusted Profit compound annual growth rate ("CAGR").
4 The Quilter plc Sharesave Plan is linked to a savings plan.
5 The Joint Share Ownership Plan ("JSOP") was implemented for certain key employees of the Group in 2013, with the final grant of awards in 2016. It provided participants with an interest in the capital growth of the Company by granting joint ownership of shares in Old Mutual Wealth Management Ltd (now Quilter plc) with an employee benefit trust ("EBT"), whereby the trust owned the principal value of the shares and the participants owned any growth in value during the vesting period. Upon the demerger and Listing of Quilter plc, the trust exercised a call option to acquire the participants' interest in the shares based on the growth in value of the Company between grant and Listing, in return for consideration shares in Quilter plc. The consideration shares for any awards that remain unvested are restricted until the normal vesting date, and attract dividends during that time.
6 Awards granted under the Phantom Share Reward Plan prior to the demerger of Quilter plc were made over notional Ordinary Shares in Old Mutual plc that were settled in cash on the vesting date. Upon the demerger and Listing of Quilter plc, all unvested notional share awards were converted to conditional awards over Ordinary Shares in Quilter plc, which will be settled in Quilter plc shares on the normal vesting dates.

28: Share-based payments continued

28(b): Arrangements in place up to 25 June 2018 onwards

The share-based payment schemes listed below were all awards over Old Mutual plc shares or, in the case of the Old Mutual Wealth Phantom Share Reward Plan, notional Old Mutual plc shares. The majority of these share-based payment schemes were subject to early vesting or exercise, apart from the Old Mutual plc and Old Mutual Wealth schemes listed in note 28(a) above.

	Description of award					Vesting conditions		
Scheme	Restricted shares	Conditional shares	Options	Other	Dividend entitlement	Contractual life (years)	Typical service (years)	Performance (measure)
Old Mutual plc Share Reward Plan – Restricted Shares	✓	–	–	–	✓	1-3	–	–
Old Mutual plc Performance Share Plan – Share Options (Nil cost options)	–	–	✓	–	✓	Up to 10	Not less than 3	Target growth in EPS and ROE
Old Mutual plc 2008 Sharesave Plan[1]	–	–	✓	✓	–	3½ – 5½	3 & 5	–
Old Mutual Wealth Joint Share Ownership Plan – Jointly Owned/Restricted Shares	✓	–	–	✓	✓	3	3	–
Old Mutual Wealth Phantom Share Reward Plan – Conditional Shares	–	✓	–	–	✓	Typically 3	3	–
Old Mutual plc Managed Separation Incentive Plan – Share Options (Nil cost options)	–	–	✓	–	✓	Up to 10	–	Targets in respect of Managed Separation completion

[1] Sharesave scheme linked to a savings plan.

28(c): Reconciliation of movements in options

The movement in the options outstanding under these arrangements during the period is detailed below:

	Year ended 31 December 2018		Year ended 31 December 2017	
Options over shares (London Stock Exchange)	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the period	7,622,956	£1.60	10,250,582	£1.60
Granted during the period	2,824,136	–	–	–
Forfeited during the period	(2,252,333)	£1.60	(284,093)	£1.62
Exercised during the period	(5,578,539)	£1.60	(1,819,897)	£1.61
Expired during the period	(5,967)	£1.60	(39,892)	–
Cancelled during the period	(141,289)	£1.60	(510,560)	–
Other transfers during the period	–	–	26,816	–
Outstanding at end of the period	**2,468,964**	**–**	**7,622,956**	**£1.60**
Exercisable at end of the period	**–**	**–**	**104,204**	**£1.61**

The amount outstanding at the end of the period for 2018 and 2017 includes an amount for employees who have transferred into/out of Quilter plc from/to other Old Mutual divisions.

The weighted average fair value of options at the measurement date, for options granted during the year ended 31 December 2018, was £1.24.

The options outstanding at 31 December 2018 have an exercise price of £nil, as they are all nil cost options (2017: £1.28 to £1.87) and a weighted average remaining contractual life of 2.7 years (2017: 1.1 years).

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

28: Share-based payments continued

28(d): Measurements and assumptions

In determining the fair value of equity-settled share-based awards and the related charge to the income statement, the Group makes assumptions about future events and market conditions. Specifically, management makes estimates of the likely number of shares that will vest and the fair value of each award granted which is valued and "locked in" at the grant date.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of fair value of share options granted is measured using either a Black-Scholes option pricing model or a Monte Carlo simulation.

The inputs used in the measurement of fair values at the grant date for awards granted during 2018 were as follows:

Scheme	Weighted average share price £	Weighted average expected volatility	Weighted average expected life (years)	Weighted average risk free interest rate	Weighted average expected dividend yield	Expected forfeitures per annum
Old Mutual Wealth Phantom Share Reward Plan – Conditional Shares	1.52	24.8%	1.85	0.7%	0.0%	4%
Quilter plc Share Incentive Plan – Restricted Shares	1.53	24.3%	2.00	0.7%	0.0%	10%
Quilter plc Performance Share Plan – Share Options (Nil cost options)	1.52	29.5%	2.75	0.8%	0.0%	4%
Quilter plc Performance Share Plan – Conditional Shares	1.41	29.2%	2.93	0.8%	0.0%	4%

28(e): Forfeitable/Restricted/Conditional Share grants

The following summarises the fair value of Restricted Shares and Conditional Shares granted by the Group during the year:

Instruments granted during the period		Number granted	Weighted average fair value
Quilter plc Share Incentive Plan – Restricted Shares	2018	5,202,140	£1.53
Quilter plc Performance Share Plan – Conditional Shares	2018	5,928,616	£1.41
Old Mutual Wealth Phantom Share Reward Plan – Conditional Shares	2018	6,474,853	£1.52
Old Mutual plc Share Reward Plan – Restricted Shares	2017	1,890,693	£2.18

28(f): Financial impact

The total expense recognised for the period arising from equity compensation plans was as follows:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Expense arising from equity-settled share and share option plans – continuing operations[1]	26	17
Expense arising from cash-settled share and share option plans – continuing operations[1]	3	4
Expense arising from equity-settled share and share option plans – discontinued operations[1]	1	1
Total expense arising from share option plans	30	22

[1] 2017 comparatives have been reclassified consistent with note 11(a) Staff costs.

28(g): JSOP Employee Benefit Trust ("JSOP EBT")

On 22 December 2017 the JSOP EBT, which was set up for the benefit of the Group employees, was transferred to the Group from Old Mutual plc. As a result of this transfer, on consolidation the Group's equity was reduced by £99 million, representing the value of Company shares held within the trust, which are recognised as treasury shares and deducted from equity.

The JSOP EBT held 72 million Quilter plc shares at the point of the Quilter plc Listing on 25 June 2018. Following the Listing of Quilter plc, a number of the shares were transferred out of the JSOP EBT into a new Quilter Employee Benefit Trust to be used to support not only the JSOP but also other existing and future share scheme obligations. As at 31 December 2018 the JSOP EBT did not hold any Quilter plc shares.

29: Insurance and investment contract liabilities

The following is a summary of the Group's insurance and investment contract provisions and related reinsurance assets:

	Note	At 31 December 2018 Gross £m	Reinsurance £m	Net £m	At 31 December 2017 Gross £m	Reinsurance £m	Net £m
Life assurance policyholder liabilities							
Long-term business insurance policyholder liabilities							
Life assurance policyholder liabilities	29(a)	588	(478)	110	480	(375)	105
Outstanding claims		14	(13)	1	9	(8)	1
		602	(491)	111	489	(383)	106
Investment contract liabilities							
Unit-linked investment contracts	29(d)	56,450	(1,671)	54,779	59,139	(2,525)	56,614
Total life assurance policyholder liabilities		**57,052**	**(2,162)**	**54,890**	**59,628**	**(2,908)**	**56,720**

29(a): Insurance contract liabilities

Movements in the amounts outstanding in respect of life assurance policyholder liabilities, other than outstanding claims, are set out below:

	Note	At 31 December 2018 Gross £m	Reinsurance £m	Net £m	At 31 December 2017 Gross £m	Reinsurance £m	Net £m
Carrying amount at 1 January		480	(375)	105	402	(290)	112
Impact of new business		2	(10)	(8)	42	(55)	(13)
Impact of experience effects		38	(26)	12	30	(23)	7
Impact of assumption changes		69	(68)	1	7	(7)	–
Other movements		(1)	1	–	(1)	–	(1)
Movement shown in consolidated income statement	29(b)	108	(103)	5	78	(85)	(7)
Total insurance contract life assurance policyholder liabilities		**588**	**(478)**	**110**	**480**	**(375)**	**105**

29(b): Insurance contract claims and change in liabilities

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Claims and benefits paid		(87)	(76)
Reinsurance recoveries		59	54
Net insurance claims and benefits incurred		**(28)**	**(22)**
Change in reinsurance assets and liabilities	29(a)	103	85
Change in insurance contract liabilities	29(a)	(108)	(78)
Insurance contract claims and change in liabilities		**(33)**	**(15)**

A presentational change has been made to the face of the consolidated income statement from the prior year. Details of the breakdown of insurance and investment expense, which were previously shown on the face of the income statement, are now included in this note.

29(c): Assumptions – life assurance

The key assumptions considered are mortality/morbidity rates, maintenance expenses, interest rates, persistency rates and maintenance expense inflation. These assumptions are based on market data and internal experience data. External data is also used where either no internal experience data exists or where internal data is too sparse to give credible estimates of the true expectation of experience. Anticipated future trends have been allowed for in deriving mortality and morbidity assumptions.

The liabilities for non-linked contracts have been calculated using a gross premium discounted cash flow approach on a policy by policy basis, using the following assumptions:

Class of business	Mortality/morbidity 2018	2017	Interest rates 2018	2017
Non-linked protection business (pre 1 January 2013)[1]	Based on relevant CMI tables	Risk reinsurance rates	1.724%	1.610%
Non-linked protection business (post 31 December 2012)[1]	Based on relevant CMI tables	Risk reinsurance rates	1.378%	1.287%
Pension annuity payment	100% PA92 (C2030) ult. projected using the long-term cohort basis		1.420%	1.330%

[1] On 1 January 2013 the discount rate was impacted by Finance Act 2012 amendments to the life tax rules.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

29: Insurance and investment contract liabilities continued

29(c): Assumptions – life assurance

The Continuous Mortality Investigation ("CMI"), supported by the Institute and Faculty of Actuaries ("IFoA"), provides mortality and sickness rate tables for UK life insurers and pension funds.

The interest rate assumption is set with reference to a matching portfolio of gilts. During 2017, a modification was made to achieve a better match of the IFRS liabilities to available gilts. In aggregate, the non-linked protection business is expected to generate net income over the next 3 years. This net income has been excluded from the matching exercise and has instead been discounted using Bank of England forward rates of the relevant durations. Liabilities after these three years are matched and the rates provided above are used.

For non-linked contracts (defined as insurance contracts under IFRS 4), the margin of prudence for the individual assumptions is generally taken as the 60% confidence interval over a one-year timeframe so that, broadly speaking, in 100 scenarios the reserves are expected to cover the liabilities in 60 of those scenarios. Overall, the level of confidence is likely to be greater than 60% on the basis that these margins are applied to several assumptions at the same time and prudence is applied to all future years.

The liability values do not make allowance for the amortisation of the DAC asset. A separate liability adequacy test is carried out on best estimate assumptions allowing for all of the cash flows used to derive the liability values and the run-off of the DAC.

Impact of assumption changes

Assumptions are reviewed on an annual basis and updated as appropriate. The impact of the assumption changes on annual IFRS profit are as follows:

2018	Impact on IFRS reported profit (before reinsurance) £m	Impact of reinsurance £m	Impact on IFRS reported profit (after reinsurance) £m
Assumption			
Mortality/morbidity rates	(86.5)	81.4	(5.1)
Maintenance expense	1.9	–	1.9
Maintenance expense inflation	0.1	–	0.1
Interest rates	21.3	(18.4)	2.9
Persistency rates	(5.4)	4.6	(0.8)
	(68.6)	**67.6**	**(1.0)**

2017	Impact on IFRS reported profit (before reinsurance) £m	Impact of reinsurance £m	Impact on IFRS reported profit (after reinsurance) £m
Assumption			
Mortality/morbidity rates	10.1	(10.7)	(0.6)
Maintenance expense	3.1	(0.1)	3.0
Maintenance expense inflation	0.3	–	0.3
Interest rates	(15.1)	13.0	(2.1)
Persistency rates	(5.0)	4.8	(0.2)
	(6.6)	**7.0**	**0.4**

The sensitivity of IFRS profit before tax to variations in key assumptions are shown below:

	2018		2017	
(Decrease)/Increase in IFRS profit before tax	+10% £m	-10% £m	+10% £m	-10% £m
Mortality/morbidity rates	(3.3)	3.4	(3.0)	3.1
Maintenance expenses	(2.2)	2.2	(2.6)	2.6
Persistency rates	2.6	(2.8)	2.4	(2.6)

The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impact assuming other assumptions remain unchanged.

29: Insurance and investment contract liabilities continued

29(d): Unit-linked investment contract liabilities

Movements in the amounts outstanding in respect of unit-linked and other investment contracts are set out below:

	At 31 December 2018			At 31 December 2017		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Carrying amount at 1 January	59,139	(2,525)	56,614	51,265	(2,560)	48,705
Fair value movements	(4,119)	78	(4,041)	3,958	(330)	3,628
Investment income	805	–	805	680	–	680
Movements arising from investment return	(3,314)	78	(3,236)	4,638	(330)	4,308
Contributions received	7,117	774	7,891	9,718	365	10,083
Maturities	(183)	–	(183)	(220)	–	(220)
Withdrawals and surrenders	(6,091)	–	(6,091)	(5,682)	–	(5,682)
Claims and benefits	(234)	–	(234)	(217)	–	(217)
Other movements	(2)	2	–	(408)	–	(408)
Change in liability	(2,707)	854	(1,853)	7,829	35	7,864
Currency translation (gain)/loss	18	–	18	45	–	45
Total unit-linked investment contract policyholder liabilities	**56,450**	**(1,671)**	**54,779**	**59,139**	**(2,525)**	**56,614**

For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

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

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

The reinsurers' share of policyholder liabilities relating to investment contract liabilities of £1,671 million (2017: £2,525 million) were rated according to the table in note 40. None of these were past due as at 31 December 2018 (2017: £nil).

29(e): Methodology and assumptions – investment contracts

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

30: Provisions

Year ended 31 December 2018	Compensation provisions £m	Sale of Single Strategy business £m	Other £m	Total £m
Balance at beginning of the period	82	–	22	104
Additions from business combinations	–	–	1	1
Charge to income statement	11	25	3	39
Utilised during the period	(31)	(5)	(5)	(41)
Unused amounts reversed	(4)	–	(1)	(5)
Reclassification within Statement of Financial Position	(4)	–	–	(4)
Balance at 31 December 2018	**54**	**20**	**20**	**94**

Year ended 31 December 2017	Compensation provisions £m	Sale of Single Strategy business £m	Other £m	Total £m
Balance at beginning of the year	13	–	16	29
Charge to income statement – Voluntary remediation	69	–	–	69
Charge to income statement – Other	7	–	6	13
Utilised during the year	(5)	–	(5)	(10)
Foreign exchange and other movements	(2)	–	5	3
Balance at 31 December 2017	**82**	**–**	**22**	**104**

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

30: Provisions continued

Compensation provisions

Compensation provisions totalled £54 million (31 December 2017: £82 million).

Voluntary client remediation provision

During 2017, as part of ongoing work to promote fair customer outcomes, the Group conducted product reviews consistent with the recommendations from the FCA's thematic feedback and the FCA's guidance 'FG16/8 Fair treatment of long-standing customers in the life insurance sector'. Following these reviews, the Group decided to commence voluntary remediation to customers of certain legacy products, establishing a provision in 2017 for £69 million.

The redress relates to early encashment charges and contribution servicing charges made on pension products and, following the re-introduction of annual reviews, compensation payable to a subset of protection plan holders.

During 2018, £27 million has been utilised against programme costs and pension remediation incurred. There was also a £4 million reclassification to 'liabilities for linked investment contracts', reflecting the capping of early encashment charges on live pension plans. The remaining provision includes £6 million of programme costs and £7 million of estimated interest. Of the total provision outstanding, £20 million is estimated to be payable after one year.

Estimates and assumptions

Key assumptions in relation to the calculation are:

- investment return used within the protection remediation calculations;
- timing of protection customer remediation; and
- the programme costs of carrying out the remediation activity.

The model used to calculate the costs of protection remediation assumes a generic annual investment return across the population of plans in scope. A sensitivity analysis has been calculated to determine the impact of adjusting the return rate.

The current model assumes protection customers will be compensated within a certain timeframe. Delays to the programme and more specifically, in locating customers and resolving complicated plan arrangements will increase the final cost of remediation.

The programme costs of conducting the remediation activity are highly variable and are subject to a number of uncertainties. In calculating the best estimate of these costs, consideration has been given to such matters as the identification of impacted customers, likelihood of the customer contesting the offer, the complexity of the calculations, the level of quality assurance and checking, the ease of contacting and communicating with customers and the level of customer interactions. As a result of these uncertainties, the current provision for programme costs has been calculated as falling within a range of approximately £5 million to £7 million.

Sensitivities relating to the assumptions and uncertainties are provided in the table below:

Assumption/estimate	Change in assumption/estimate	Consequential change in provision £m
Modelled investment return	+/- 2%	+/- 0.2
Timing of protection remediation	12-month delay	+ 2.0

Compensation provision (other)

The other compensation provision includes amounts relating to the cost of correcting deficiencies in policy administration systems, including restatements and clawbacks, any associated litigation costs and the related costs to compensate previous or existing policyholders. This provision represents best estimates based upon management's view of expected outcomes based upon previous experience. Due to the nature of the provision, the timing of the expected cash outflows is uncertain. Estimates are reviewed annually and adjusted as appropriate for new circumstances.

Sale of Single Strategy Asset Management business

A restructuring provision was recognised as a result of the sale of the Single Strategy Asset Management business to enable the remaining Quilter Investors business to function as a standalone operation going forward. The provision includes those costs directly related to replacing and restoring the operational capability that previously underpinned and supported both parts of the asset management business. Key parts of this capability had either been disposed of or disrupted as a consequence of the sale. The total provision established in the year was £19 million, of which £5 million has now been utilised. The carried forward provision at 31 December 2018 is £14 million. Further provisions may be established as the project progresses.

Additional provisions totalling £6 million have been made as a consequence of the sale of the Single Strategy Asset Management business. These have been made in relation to various sale related future commitments, the outcome of which was uncertain at the time of the sale and the most significant of which is in relation to the guarantee of revenues in future years.

30: Provisions continued

Other provisions

Other provisions include amounts for the resolution of legal uncertainties and the settlement of other claims raised by contracting parties, property dilapidation provisions and indemnity commission provisions. Where material, provisions and accruals are discounted at discount rates specific to the risks inherent in the liability. The timing and final amounts of payments in respect of some of the provisions, particularly those in respect of litigation claims and similar actions against the Group, are uncertain and could result in adjustments to the amounts recorded.

Of the other provisions recorded above, £5 million (2017: £10 million) is estimated to be payable after one year.

31: Tax assets and liabilities

Deferred income taxes are calculated on all temporary differences at the tax rate applicable to the jurisdiction in which the timing differences arise.

Deferred tax summary

	Note	At 31 December 2018 £m	At 31 December 2017 £m
Deferred tax assets		38	31
Less: amounts classified as held for sale	5(f)	–	9
Deferred tax assets		**38**	22
Deferred tax liabilities		**59**	190
Net deferred tax liability		**21**	**168**

31(a): Deferred tax assets

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable, being where on the basis of all available evidence it is considered more likely than not that there will be suitable taxable profits against which the reversal of the deferred tax asset can be deducted.

The movement on the recognised deferred tax assets account is as follows:

Year ended 31 December 2018	At beginning of the year £m	Income statement (charge) /credit £m	Acquisition /disposal of subsidiaries £m	At end of the year £m
Tax losses carried forward	6	13	–	19
Accelerated depreciation	17	(4)	–	13
Other temporary differences	4	–	–	4
Share-based payments	2	2	–	4
Contract liabilities	3	(1)	–	2
Deferred expenses	24	11	–	35
Netted against liabilities	(34)	(5)	–	(39)
Deferred tax assets at 31 December 2018	**22**	**16**	**–**	**38**

Year ended 31 December 2017	At beginning of the year £m	Income statement (charge) /credit[1] £m	Acquisition /disposal of subsidiaries £m	At end of the year £m
Tax losses carried forward	6	–	–	6
Accelerated depreciation	–	17	–	17
Other temporary differences	9	(2)	(3)	4
Share-based payments	–	2	–	2
Contract liabilities	4	(1)	–	3
Deferred expenses	27	(3)	–	24
Netted against liabilities	(38)	4	–	(34)
Deferred tax assets at 31 December 2017	**8**	**17**	**(3)**	**22**

[1] £5 million has been reclassified from acquisition/disposal of subsidiaries to income statement movements, to conform with current year presentation. Closing deferred tax assets are unchanged.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

31: Tax assets and liabilities continued

31(a): Deferred tax assets continued

Unrecognised deferred tax assets

The amounts for which no deferred tax asset has been recognised comprise:

	At 31 December 2018		At 31 December 2017	
	Gross amount £m	Tax £m	Gross amount £m	Tax £m
Expiring in less than a year	–	–	–	–
Expiring between one and five years	–	–	–	–
Expiring after five years	663	112	471	80
Unrelieved tax losses	**663**	**112**	**471**	**80**
Accelerated capital allowances	93	16	108	18
Other timing differences	285	49	269	46
Total unrecognised deferred tax assets	**1,041**	**177**	**848**	**144**

Movements in unrecognised deferred tax assets

The unrelieved tax losses have increased by £192 million during the year which is mainly as a result of the reclassification of capital losses previously shown in 'Other timing differences' that have now crystallised. Other timing differences have increased due to the net impact of the reclassification of capital losses (as described above) and the addition of previously unrecognised assets on the acquisition of Skandia UK Limited under Managed Separation.

31(b): Deferred tax liabilities

The movement on the deferred tax liabilities account is as follows:

Year ended 31 December 2018	At beginning of the year £m	Income statement (credit)/ charge £m	Acquisition /disposal of subsidiaries £m	At end of the year £m
Deferred acquisition costs	15	(4)	–	11
Other acquired intangibles	41	(8)	7	40
Other temporary differences	1	–	–	1
Investment gains	167	(121)	–	46
Netted against assets	(34)	(5)	–	(39)
Deferred tax liabilities at 31 December 2018	**190**	**(138)**	**7**	**59**

Year ended 31 December 2017	At beginning of the year £m	Income statement (credit)/ charge £m	Acquisition /disposal of subsidiaries £m	At end of the year £m
Deferred acquisition costs	20	(5)	–	15
Other acquired intangibles	49	(8)	–	41
Other temporary differences	2	(1)	–	1
Investment gains	146	21	–	167
Netted against assets	(38)	4	–	(34)
Deferred tax liabilities at 31 December 2017	**179**	**11**	**–**	**190**

31(c): Current tax receivables and liabilities

Current tax receivables and current tax liabilities at 31 December 2018 were £47 million (2017: £nil) and £5 million (2017: £38 million), excluding amounts classified as held for sale in 2017 (see note 5(f)).

32: Borrowings

The following table analyses the Group's borrowed funds, repayable on demand and categorised in terms of IFRS 9 Financial Instruments as "Financial liabilities amortised cost". All amounts outstanding at 31 December 2018 are payable to a number of relationship banks. All amounts outstanding at 31 December 2017 were payable either to the Group's previous ultimate Parent Company, Old Mutual plc, or to other related entities within the Old Mutual plc group.

32: Borrowings continued

	At 31 December 2018 £m	At 31 December 2017 £m
Subordinated debt		
Fixed rate loan at 5.50%[1]	–	566
Fixed rate loan at 4.478%[2]	197	–
Other borrowed funds		
Floating rate loan at 6-month LIBOR + 0.25%[3]	–	93
Floating rate loan at 3-month LIBOR + 0.10%[4]	–	80
Fixed rate loan at 3.125%[5]	–	43
Total borrowings	**197**	**782**

1 Commenced on 25 February 2015 and was used to finance the acquisition of the Quilter Cheviot group.
2 Commenced on 28 February 2018 and used for general corporate purposes.
3 Commenced during 2014 and was used to finance the acquisition of Intrinsic Financial Services Limited.
4 Commenced in 2011 and was used to finance other historical corporate activity.
5 Commenced on 21 June 2016 and was used to finance one of the Group's employee benefit trusts.

On 23 February 2018, the Group entered into and fully drew down the New Term Loan, a £300 million senior unsecured term loan with five relationship banks with an annual coupon of 45 basis points above LIBOR, to be updated every three months. The New Term Loan was repaid in full using proceeds from the sale of the Single Strategy Asset Management business following the completion of the transaction in June 2018.

On 28 February 2018, the Group issued a £200 million subordinated debt security in the form of a 10-year Tier 2 bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478% (the "Tier 2 Bond"). The bond was remarketed and sold to the secondary market in full on 13 April 2018. It is now listed and regulated under the terms of the London Stock Exchange. In addition, the Group entered into a £125 million revolving credit facility which remains undrawn and is being held for contingent funding purposes.

As part of a series of internal transactions, £566 million of intercompany indebtedness to other companies within the Old Mutual plc group was equitised, with the effect of the intercompany indebtedness being cancelled and replaced with equity in the form of share capital and a merger reserve. The overall indebtedness also reduced by £16 million from ordinary course transactions.

The remaining £200 million intercompany indebtedness was repaid in full from the new facilities referred to above and from existing cash resources on 28 February 2018. On the same date, the £70 million revolving credit facility with Old Mutual plc was cancelled.

Borrowings at 31 December 2017 were borrowed from Old Mutual plc and were unsecured and were repayable on demand. The carrying amount approximates to fair value which is valued as the principal amount repayable.

33: Trade, other payables and other liabilities

	At 31 December 2018 £m	At 31 December 2017[2] £m
Claims outstanding	226	283
Amounts owed to intermediaries	22	50
Amounts payable on direct insurance business[1]	248	333
Deposits received from reinsurers[1]	16	16
Accounts payable on reinsurance business	8	6
Outstanding settlements	386	708
Accruals and deferred income	147	250
Trade creditors	33	38
Deferred consideration	37	35
Other liabilities	124	131
Total trade, other payables and other liabilities	**999**	**1,517**
Less: Trade, other payables and other liabilities classified as held for sale	**–**	**(186)**
Total trade, other payables and other liabilities net of held for sale	**999**	**1,331**
To be settled within 12 months	**981**	**1,295**
To be settled after 12 months	**18**	**36**
Total trade, other payables and other liabilities net of held for sale	**999**	**1,331**

1 Deposits received from reinsurers was included within the direct insurance business category previously.
2 A number of items have been reclassified in the prior year comparatives to conform with current year presentation.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

34: Contract liabilities and deferred revenue

Prior to the implementation of IFRS 15 on 1 January 2018, contract liabilities were classified as deferred revenue. Deferred revenue relates to non-refundable front-end fee income, comprising fees received at inception or receivable over an initial period for services not yet provided, and is deferred through the creation of a deferred revenue liability on the statement of financial position and released to income as the services are provided. Equal service provision is assumed over the lifetime of the contract and, as such, the deferred revenue is amortised on a linear basis over the expected life of the contract, adjusted for expected persistency. The deferred revenue principally comprises fee income already received in cash. The table below analyses the movements in contract liabilities (since 31 December 2017) and deferred revenue (prior to 1 January 2018).

	Life and Savings		Asset Management		
	Deferred revenue £m	Contract liabilities £m	Deferred revenue £m	Contract liabilities £m	Total £m
Balance at 1 January 2017	255	–	6	–	261
Fees and commission income deferred	16	–	1	–	17
Amortisation	(33)	–	(5)	–	(38)
Foreign exchange	7	–	–	–	7
Deferred revenue written off[1]	(3)	–	–	–	(3)
Balance at 31 December 2017	242	–	2	–	244
Reclassification to contract liabilities[2]	(242)	242	(2)	2	–
Fees and commission income deferred	–	10	–	–	10
Amortisation	–	(23)	–	(1)	(24)
Foreign exchange	–	(4)	–	–	(4)
Balance at 31 December 2018	**–**	**225**	**–**	**1**	**226**

[1] As part of the managed separation of the Old Mutual plc Group, part of the Group's DFI balance was written off in respect of a South African book of business transferred outside of the Quilter plc group.
[2] Reclassified as a result of IFRS 15 at 1 January 2018.

	At 31 December 2018 £m
The Group expects to recognise the above contract liability balances as revenue in the following years[3]:	
Within one year	27
One to five years	78
More than five years	121
Balance at 31 December 2018	**226**

[3] The Group has initially applied IFRS 15 at 1 January 2018, using the cumulative effect method under which the comparative information is not restated.

35: Post-employment benefits

The Group operates a number of defined contribution and defined benefit pension schemes in the UK, the Channel Islands and Ireland.

Defined contribution pension schemes

The Group operates a number of defined contribution schemes. The schemes require contributions to be made to funds held in trust, separate from the assets of the Group. Participants receive either a monthly pension supplement to their salaries or contributions to personal pension plans. For the defined contribution schemes, the Group pays contributions to separately administered pension schemes. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in current service cost in the consolidated income statement as staff costs and other employee-related costs when they are due.

Defined benefit schemes

The Group operates two defined benefit schemes: The Quilter Cheviot Limited Retirement Benefits Scheme and the Quilter Cheviot Channel Islands Retirement Benefits Scheme which are both closed to new members. The assets of these schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions payable to each pension scheme, together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied.

35: Post-employment benefits continued

The Group has considered the requirements of IFRIC 14, including whether the Group has an 'unconditional right' to a refund of any surplus that may exist at the conclusion of the schemes. This includes a scenario where the schemes' liabilities are gradually settled over time until all members have left the schemes (i.e. on the death of the last beneficiary), along with all other potential outcomes for the schemes. The Group has concluded that it does not have an unconditional right to a refund of any surplus that may exist under these circumstances, and in accordance with IFRIC 14 has not recognised the current surplus as an asset within the statement of financial position.

IAS 19 *Employee Benefits* disclosures

This note gives full IAS 19 *Employee Benefits* disclosures for the above schemes.

35(a): Liability for defined benefit obligations

The IAS 19 value of the assets and the scheme obligations are as follows:

	At 31 December 2018 £m	At 31 December 2017 £m
Changes in retirement benefit obligations		
Total IAS 19 retirement benefit obligation at 1 January	**(48)**	**(52)**
Interest cost on benefit obligation	(1)	(3)
Effect of changes in actuarial assumptions	1	1
Actuarial gains	1	–
Benefits paid	3	6
Total IAS 19 retirement benefit obligations at period end	**(44)**	**(48)**
Change in plan assets		
Total IAS 19 fair value of scheme assets at 1 January	**61**	**62**
Actual return on plan assets	(3)	4
Company contributions	1	1
Benefits paid	(3)	(6)
Total IAS 19 fair value of scheme assets at period end	**56**	**61**
Net IAS 19 asset/(liability) recognised in statement of financial position		
Funded status of plan	12	13
Unrecognised assets	(12)	(13)
Net IAS 19 amount recognised in statement of financial position	**–**	**–**

35(b): Income/expense recognised in the income statement

The total pension charge to staff costs for all of the Group's defined benefit schemes for the year ended 2018 was £nil (2017: £nil).

Actuarial gains and losses and the effect of the limit to the pension asset under IAS 19 *Employee Benefits* paragraph 58 have been reported in other comprehensive income.

The cumulative amount of actuarial losses recognised in other comprehensive income is £26 million (2017: £25 million).

Assumptions

The expected long-term rate of return on assets represents the Group's best estimate of the long-term return on the scheme assets and generally was estimated by computing a weighted average return of the underlying long-term expected returns on the different asset classes, based on the target asset allocations. The expected long-term return on assets is a long-term assumption that generally is expected to remain the same from one year to the next unless there is a significant change in the target asset allocation, the fees and expenses paid by the plan or market conditions.

The Group, in consultation with its independent investment consultants and actuaries, determined the asset allocation targets based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics and related risk factors. Other relevant factors, including industry practices, long-term historical and prospective capital market returns, were also considered.

The scheme return objectives provide long-term measures for monitoring the investment performance against growth in the pension obligations. The overall allocation is expected to help protect the plan's funded status while generating sufficiently stable real returns (net of inflation) to help cover current and future benefit payments.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

35: Post-employment benefits continued

35(b): Income/expense recognised in the income statement continued

Both the equity and fixed income portions of the asset allocation use a combination of active and passive investment strategies and different investment styles. The fixed income asset allocation consists of longer duration fixed income securities in order to help reduce plan exposure to interest rate variation and to better correlate assets with obligations. The longer duration fixed income allocation is expected to help stabilise plan contributions over the long run.

The following table presents the principal actuarial assumptions at the end of the reporting period:

	2018 %	2017 %
Discount rate	2.9	2.5
Rate of increase in defined benefit funds	3.6	3.8
Inflation	3.3	3.2

The mortality assumptions used give the following life expectancy at 65:

		Life expectancy at 65 for male member currently		Life expectancy at 65 for female member currently	
	Mortality table	Aged 65	Aged 45	Aged 65	Aged 45
31 December 2018	S2PA Light	23.30	24.90	24.30	26.10
31 December 2017	S2PA Light	22.30	23.60	23.30	24.70

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and rate of mortality.

The sensitivities regarding the principal assumptions used to measure the defined benefit obligations are described below. Reasonably possible changes at the reporting date to one of the principal actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation as follows:

	At 31 December 2018 £m		At 31 December 2017 £m	
	Increase	Decrease	Increase	Decrease
Discount rate (0.1% movement)	(0.8)	0.8	(0.8)	0.8
Inflation rate (0.1% movement)	0.4	(0.4)	0.2	(0.2)
Rate of mortality (increase by 1 year)	1.5	–	1.7	–

35(c): Scheme assets allocation

Scheme assets are stated at their fair values. Total scheme assets are comprised as follows:

	At 31 December 2018 %	At 31 December 2017 %	At 31 December 2018 £m	At 31 December 2017 £m
Equity securities	21	39	12	24
Debt securities	77	61	43	37
Cash and other assets	2	–	1	–
Total IAS 19 fair value of scheme assets	**100**	**100**	**56**	**61**

36: Master netting or similar agreements

The Group offsets financial assets and liabilities in the statement of financial position when it has a legal enforceable right to do so and intends to settle on a net basis simultaneously. Currently, the only such offsetting within the Group relates to the pooling of bank accounts and, in some circumstances a bank account may be overdrawn and therefore offset.

36: Master netting or similar agreements continued

The following tables present information on the potential effect of netting offset arrangements after taking into consideration these types of agreements.

At 31 December 2018	Gross amounts £m	Amounts offset in the statement of financial position £m	Net amounts reported in the statement of financial position £m	Related amounts available for future set off: Master netting agreement £m	Related amounts available for future set off: Collateral received/ pledged[1] £m	Net amount
Financial assets						
Cash and cash equivalents	2,419	(24)	2,395	–	–	2,395
Financial liabilities						
Amounts owed to bank depositors	24	(24)	–	–	–	–

At 31 December 2017	Gross amounts £m	Amounts offset in the statement of financial position £m	Net amounts reported in the statement of financial position £m	Related amounts available for future set off: Master netting agreement £m	Related amounts available for future set off: Collateral received/ pledged[1] £m	Net amount
Financial assets						
Cash and cash equivalents	2,415	(55)	2,360	–	–	2,360
Financial liabilities						
Amounts owed to bank depositors	55	(55)	–	–	–	–

[1] This represents the amounts that could be offset in the event of default. These arrangements are typically governed by master netting and collateral arrangements.

37: Contingent liabilities

The Group, in the ordinary course of business, enters into transactions that expose it to tax, legal and business risks. The Group recognises a provision when it has a present obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made (see note 30). Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result are reported as contingent liabilities in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Tax

The Revenue authorities in the principal jurisdictions in which the Group operates routinely review historical transactions undertaken and tax law interpretations made by the Group. The Group is committed to conducting its tax affairs in accordance with the tax legislation of the jurisdictions in which they operate. All interpretations made by management are made with reference to the specific facts and circumstances of the transaction and the relevant legislation.

There are occasions where the Group's interpretation of tax law may be challenged by the Revenue authorities. The financial statements include provisions that reflect the Group's assessment of liabilities which might reasonably be expected to materialise as part of their review. The Board is satisfied that adequate provisions have been made to cater for the resolution of tax uncertainties and that the resources required to fund such potential settlements are sufficient.

Due to the level of estimation required in determining tax provisions amounts, eventually payable may differ from the provision recognised.

Complaints and disputes

The Group is committed to treating customers fairly and supporting its customers in meeting their lifetime goals. The Group does from time to time receive complaints, claims and have commercial disputes with service providers, in the normal course of business. The costs, including legal costs, of these issues as they arise can be significant and where appropriate, provisions have been established under IAS 37.

Contingent liabilities – acquisitions and disposals

The Group routinely monitors and reassesses contingent liabilities arising from matters such as litigation, warranties and indemnities relating to past acquisitions and disposals. These are not expected to result in any material provisions.

38: Commitments

The Group has contractual commitments in respect of funding arrangements and leases which will be payable in future periods. These commitments are not recognised on the Group's statement of financial position at the year end but are disclosed to give an indication of the Group's future committed cash flows. See note 39.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

39: Operating lease arrangements

The Group has entered into commercial non-cancellable leases on certain property, plant and equipment where it is not in the best interest of the Group to purchase these assets. Such leases have varying terms, escalation clauses and renewal rights. All Group leases are operating leases, being leases where the lessor retains substantially all the risks and rewards of the ownership of the leased asset.

Operating lease commitments where the Group is the leasee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	At 31 December 2018 £m	At 31 December 2017 £m
Within one year	15	14
Between one and five years	40	37
After five years	43	42
Outstanding commitments under non-cancellable operating leases	**98**	**93**

40: Capital and financial risk management

40(a): Capital management

The Group manages its capital with a focus on capital efficiency and effective risk management. The capital objectives are to maintain the Group's ability to continue as a going concern while supporting the optimisation of return relative to the risks. The Group ensures that it can meet its expected capital and financing needs at all times having regard to the Group's business plans, forecasts and strategic initiatives and regulatory requirements in all businesses in the Group. The Group'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;
- optimise debt to equity structure to enhance shareholder returns; and
- retain financial flexibility by maintaining liquidity including unutilised committed credit lines.

The primary sources of capital used by the Group are equity shareholders' funds and subordinated debt. 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 regulatory capital for the Group is assessed under Solvency II requirements.

40(a)(i): Regulatory capital

Solvency II is the European Union solvency regime for insurance undertakings and insurance groups which came into force on 1 January 2016. The Group is subject to Solvency II group supervision by the Prudential Regulation Authority ("PRA"). The Group is required to measure and monitor its capital resources under the Solvency II regulatory regime.

The Group's insurance undertakings are included in the Group solvency calculation on a Solvency II basis. Other regulated entities are included in the Group solvency calculation according to the relevant sectoral rules. The Group's Solvency II surplus is the amount by which the Group's capital on a Solvency II basis (own funds) exceeds the Solvency II capital requirement (the Solvency Capital Requirement or "SCR").

The Group's Solvency II surplus is £1,058 million at 31 December 2018 (2017: £651 million), representing a Solvency II ratio of 190% (2017: 154%) calculated under the standard formula. The Solvency II information in this results disclosure has not been audited.

The estimated SCR and corresponding eligible own funds for each period (unaudited) were as follows:

	At 31 December 2018[1] £m	At 31 December 2017[2] £m
Own funds[3]	2,237	1,849
Solvency capital requirements (SCR)	1,179	1,198
Solvency II surplus	1,058	651
Coverage	**190%**	**154%**

1 Based on preliminary estimates. Formal annual filing due to the PRA by 3 June 2019.
2 As represented within the Annual 2017 Solvency II submission of the Old Mutual plc group, the group Quilter plc previously formed part of, to the PRA. Own funds include a £566 million subordinated loan from the parent company at the time. This subordinated loan was effectively converted to equity during H1 2018, following the acquisition of the entity holding the loan.
3 Group own funds are stated after allowing for the impact of the proposed final dividend payment relating to 2018 of £61 million.

40: Capital and financial risk management continued

40(a): Capital management continued

40(a)(i): Regulatory capital continued

The Group own funds include the Quilter plc issued subordinated debt security which qualifies as capital under Solvency II. The composition of own funds by tier is presented in the table below for year ended 31 December 2018. At 31 December 2017, Solvency II group reporting was not required at a Quilter plc level and is therefore not included in the table below.

Group own funds	At 31 December 2018 £m
Tier 1[1]	2,036
Tier 2[2]	201
Total Group Solvency II own funds	**2,237**

1 All Tier 1 capital is unrestricted for tiering purposes.
2 Comprises a Solvency II compliant subordinated debt security in the form of a Tier 2 bond, which was issued at £200 million in February 2018.

The Group's EU insurance undertakings are also subject to Solvency II at entity level. The Group's asset management and advisory businesses are subject to group supervision under the Capital Requirement Directive IV ("CRD IV"). Other regulated entities in the Group are subject to the locally applicable entity-level capital requirements in the jurisdictions in which they operate.

The solvency and the capital requirements for the Group and each of its regulated subsidiaries are reported and monitored through monthly Capital Management Forum meetings. Throughout 2018, the Group and each of its regulated subsidiaries have complied with the applicable regulatory capital requirements.

40(a)(ii): Loan covenants

Under the terms of the revolving credit facility agreement, the Group is required to comply with the following financial covenant: the ratio of total net borrowings to consolidated equity shareholders' funds shall not exceed 0.5.

	Note	At 31 December 2018 £m
Total external borrowings of the Company	32	197
Less: cash and cash equivalents of the Company		(281)
Total net external borrowings of the Company		**(84)**
Total shareholders' equity of the Group		2,005
Tier 2 bond	32	197
Total Group equity (including Tier 2 bond)		**2,202**
Ratio of Company net external borrowings to Group equity		**-0.038**

The Group has complied with the covenant since the facility was created in February 2018.

40(a)(iii): Own Risk and Solvency Assessment ("ORSA") and Internal Capital Adequacy Assessment Process ("ICAAP")

The Group ORSA process is an ongoing cycle of risk and capital management processes which provide an overall assessment of the current and future risk profile of the Group and demonstrates the relationship between business strategy, risk appetite, risk profile and solvency needs. These assessments support strategic planning and risk-based decision making.

The underlying ORSA processes cover the entire Group and consider how risks and solvency needs may evolve over the planning period. The ORSA includes stress and scenario tests, which are performed to assess the financial and operational resilience of the Group.

The Group ORSA report is produced annually. This report summarises the analysis, insights and conclusions from the underlying risk and capital management processes in respect of the Group. The ORSA report is submitted to the Prudential Regulation Authority ("PRA") as part of the normal supervisory process and may be supplemented by ad hoc assessments where there is a material change in the risk profile of the Group outside the usual reporting cycle.

In addition to the Group ORSA process, entity level ORSA processes are performed for each of the solo insurance entities within the Group.

The Group ICAAP process is similar to the ORSA process although the ICAAP process is performed for a subset of the Group consisting of the investment and advisory firms within the Group (the "ICAAP Group"). The Group ICAAP report is also produced annually. This report summarises the analysis, insights and conclusions from the underlying risk and capital management processes in respect of the ICAAP Group. The ICAAP report is submitted to the Financial Conduct Authority ("FCA") as part of the normal supervisory process and may be supplemented by ad hoc assessments where there is a material change in the risk profile of the ICAAP Group outside the usual reporting cycle.

The conclusions of ORSA and ICAAP processes are reviewed by management and the Board throughout the year.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

40: Capital and financial risk management continued

40(b): 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 Group 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.

The credit risk exposures of the Group are monitored regularly to ensure that counterparties remain creditworthy, to ensure there is appropriate diversification of counterparties and to ensure that exposures are within approved limits. At 31 December 2018, the Group's material credit exposures were to financial institutions (primarily through the investment of shareholder funds), corporate entities (including external fund managers and reinsurers) and individuals (primarily through fund management trade settlement activities).

There is no direct exposure to European sovereign debt (outside of the UK) within the shareholder investments. The Group has no significant concentrations of credit risk exposure.

Reinsurance arrangements

The Group has reinsurance arrangements in place to mitigate the risk of excessive claims on unit-linked and non-linked protection contracts. Reinsurance arrangements are also used in respect of unit-linked institutional business to access specific funds not available through direct fund links and to provide liquidity.

Since the Group uses reinsurance as a means of mitigating insurance risk, reinsurance counterparties bear a significant financial obligation to the Group.

In general, credit risk is controlled through the use of risk premium reinsurance terms, where reinsurance cover is paid for as the cover is provided. In these arrangements credit risk is limited to the risk of being unable to recover amounts due as a result of claims arising over the latest quarter, since reinsurance accounts are settled quarterly in arrears. This risk is largely mitigated since the Group would be able to withhold amounts due to the reinsurer to offset amounts due from the reinsurer.

The Group also has reinsurance arrangements in which there is a timing difference between the reinsurance premium payment and the provision of cover, which results in prepayment for cover by the Group. In respect of these arrangements, a credit risk exposure can arise.

Reinsurance credit risk is managed by dealing only with reinsurance firms with credit ratings which meet the requirements of the Group's credit risk policy on inception of new reinsurance arrangements. The Group monitors the exposure to and credit rating of reinsurance counterparties regularly to ensure that these remain within acceptable limits. Legal agreements are in place for all reinsurance arrangements which set out the terms of the arrangement and the rights of both the Group and the reinsurance providers.

None of the Group's reinsurance assets are either past due or impaired. Of the reinsurance assets shown in the statement of financial position all are considered investment grade with the exception of £20 million of unrated exposures (2017: £51 million). Collateral is not taken against reinsurance assets or deposits held with reinsurers other than in limited circumstances. For further information see note 29.

Details of the age analyses and credit quality of reinsurance assets in respect of insurance contracts and investment contracts are included below.

40: Capital and financial risk management continued

40(b): Credit risk continued

Investment of shareholder funds

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

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

Other credit risks

The Group is exposed to financial adviser counterparty risk through a number of loans that it makes to its advisers and the payment of upfront commission on the sale of certain types of business. The risk of default by financial advisers is managed through monthly monitoring of loan and commission debt balances.

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

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

Details of the credit quality of debt securities can be found in this note in the table below.

Impact of credit risk on fair value

Due to the limited exposure that the Group 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.

Maximum exposure to credit risk

The table below represents the Group's maximum exposure to credit risk. The Group'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 Group would have to pay, which may be significantly greater than the amount that would be recognised as a liability. The "not rated" balances represent the pool of counterparties that do not require a rating. These counterparties individually generate no material credit exposure and this pool is highly diversified, monitored and subject to limits.

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

	Credit rating relating to financial assets that are neither past due nor impaired							
At 31 December 2018	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Internally rated £m	Included through consolidation of funds £m	Carrying value £m
Financial investments at FVTPL	–	201	–	–	–	532	2,549	3,282
Government and government-related securities	–	201	–	–	–	–	974	1,175
Other debt securities, preference shares and debentures	–	–	–	–	–	520	1,575	2,095
Short-term funds and securities	–	–	–	–	–	12	–	12
Reinsurance assets	–	930	1,186	26	–	20	–	2,162
Cash and cash equivalents	1,358	60	451	1	6	35	484	2,395
Cash at amortised cost, subject to lifetime ECL	–	60	451	1	3	35	484	1,034
Money market funds at FVTPL	1,358	–	–	–	3	–	–	1,361
Loans and advances	–	–	–	–	–	222	–	222
Loans and advances subject to 12-month ECL	–	–	–	–	–	33	–	33
Loans and advances at FVTPL	–	–	–	–	–	189	–	189
Other receivables	–	–	–	–	–	320	166	486
Other receivables subject to lifetime ECL	–	–	–	–	–	283	166	449
Prepayments and accruals	–	–	–	–	–	37	–	37
Contract assets subject to lifetime ECL	–	–	–	–	–	44	–	44
	1,358	**1,191**	**1,637**	**27**	**6**	**1,173**	**3,199**	**8,591**

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

40: Capital and financial risk management continued

40(b): Credit risk continued

	Credit rating relating to financial assets that are neither past due nor impaired							
At 31 December 2017	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Internally rated £m	Included through consolidation of funds £m	Carrying value £m
Financial investments at FVTPL	–	183	–	12	–	508	4,536	5,239
Government and government-related securities	–	183	–	–	–	–	2,244	2,427
Other debt securities, preference shares and debentures	–	–	–	–	–	505	1,896	2,401
Short-term funds and securities	–	–	–	12	–	3	–	15
Other investments and securities	–	–	–	–	–	–	396	396
Reinsurance assets	–	1,050	1,807	–	–	51	–	2,908
Loans and advances neither past due not impaired	–	–	–	–	–	199	–	199
	–	**1,233**	**1,807**	**12**	**–**	**758**	**4,536**	**8,346**

The Group has initially applied IFRS 9 at 1 January 2018 and has taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements. Refer to note 4(r) for further information.

Impairment allowance

Consistent with IFRS 9 *Financial instruments* (see note 4(k)), assets that are measured and classified as amortised costs are monitored for any expected credit loss (ECL) on either a 12-month or lifetime ECL model. The majority of such assets within the Group are measured on the lifetime ECL model, with the exception of some specific loans that are on the 12-month ECL model.

As detailed in note 4(r) Changes in significant accounting policies, upon adoption of IFRS 9, the Group incurred an impairment allowance of £0.2 million. The table below shows a reconciliation of Group's total impairment allowance through to year end 31 December 2018.

Impairment allowance	£m
Opening impairment allowance under IAS 39	(0.3)
Impact upon adoption of IFRS 9	(0.2)
Additions due to increased broker loans	(0.4)
At 31 December 2018	**(0.9)**

40(c): Market risk

Market risk is the risk of an adverse change in the level or volatility of market prices of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency. Market risk arises from changes in equity, bond and property prices, interest rates and foreign exchange rates. Market risk arises differently across the Group's businesses depending on the types of financial assets and liabilities held.

The Group 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. The policy is cascaded to the businesses across the Group and Group level governance and monitoring processes provide oversight of the management of market risk by the individual businesses.

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

40(c)(i): Equity and property price risk

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

- mismatches between unitised fund assets and liabilities. These mismatches are permitted, subject to maximum limits, to avoid excessive dealing costs; and
- seed capital investments. Seed capital is invested within new unit-linked funds at the time when these funds are launched. The seed capital is then withdrawn from the funds as policyholders invest in the funds.

The above exposures are not material. Due to the nature of the investments held there is no material exposure to equity and property price risk on non-linked assurance policyholder assets.

40: Capital and financial risk management continued

40(c): Market risk continued

The Group derives fees (e.g. annual management charges) and incurs costs (e.g. adviser fund-based renewal commissions) which are linked to the performance of the underlying assets. Therefore future earnings will be affected by equity and property market performance.

Equity and property price sensitivity testing

A movement in equity and property prices would impact the fee income that is based on the market value of the investments held for the policyholders. In this analysis, all linked renewal commission is assumed to be fund-based and all gains are assumed to be realised gains. The sensitivity is applied as an instantaneous shock to equity and property prices at the start of the year. The sensitivity analysis is not limited to the unit-linked business and therefore reflects the sensitivity of the Group as a whole.

	Impact on profit after tax	
	At 31 December 2018 £m	At 31 December 2017 £m
Impact of 10% increase in equity and property prices	36	32
Impact of 10% decrease in equity and property prices	(36)	(31)

40(c)(ii): Interest rate risk

Interest rate risk arises primarily from investment in fixed interest government securities, which are exposed to fluctuations in interest rates and bank balances held with financial institutions.

Fixed interest UK government securities are held predominantly to match liabilities by durations for non-linked protection business determined on an IFRS basis. Therefore, on an IFRS basis there is low exposure to interest rate movements such that any movement in asset values is balanced by a movement in the insurance provision.

A rise in interest rates would also cause an immediate fall in the value of investments in fixed income securities within unit-linked funds. The unit-linked funds asset look-through analysis has revealed that less than 30% of the linked assets are invested in the fixed income securities which generally have short durations, resulting in a low material impact in fund-based revenues.

Exposure of the IFRS income statement and statement of financial position equity to interest rates are summarised below.

Interest rate sensitivity testing

The impact of an increase and decrease in market interest rates of 1% is tested (e.g. if the current interest rate is 5%, the test allows for the effects of an instantaneous change to 4% and 6% from the start of the year). The test allows consistently for similar changes in investment returns and movements in the market value of assets backing non-linked liabilities. The sensitivity of profit to change in interest rates is provided.

	Impact on profit after tax	
	At 31 December 2018 £m	At 31 December 2017 £m
Impact of 1% increase in interest rates	19	20
Impact of 1% decrease in interest rates	(12)	(10)

40(c)(iii): Currency translation risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's functional currency is pounds sterling, which accounts for the majority of the Group's transactions, but the Group also has minor exposure to foreign exchange risk in respect to accounts receivable and future revenues denominated in US dollars, Euro and Swedish krona through its International business. The currency risk is mitigated using derivative financial instruments such as forward foreign exchange contracts. After risk mitigation, the Group does not have material foreign currency risk exposure.

40(d): 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 Group to trade in illiquid assets in order to maintain its asset and liability matching ("ALM") profile. The Group manages liquidity through:

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

40: Capital and financial risk management continued

40(d): Liquidity risk continued

Individual businesses maintain and manage their local liquidity requirements according to their 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 consistently across all businesses in the Group to identify, manage, measure, monitor and report on all liquidity risks that have a material impact on liquidity levels. This framework considers both short-term liquidity and cash management considerations and longer-term funding risk considerations.

Liquidity is monitored centrally by Group Treasury, with management actions taken at a business level to ensure each business has liquidity to cover its minimum liquidity requirement, with an appropriate buffer.

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.

Information on the nature of the investments and securities held is given in note 19.

Prior to separation from Old Mutual plc the Group had a £70 million revolving credit facility in place with Old Mutual plc which could be drawn down in a liquidity stress and utilised freely within the Group. On 28 February 2018 debt financing arrangements were put in place that allowed the Group to become financially independent from Old Mutual plc and maintain sufficient liquidity ahead of listing at the end of June 2018. This allowed the Group to terminate existing arrangements with Old Mutual plc. The debt financing consisted of the following:

- £200 million Tier 2 Bond issuance details of which are given in note 32;
- £300 million Term Loan that was repaid in full at the end of June following the sale of the Single Strategy Asset Management business; and
- £125 million five-year Revolving Credit Facility with a five-bank club that represents a form of contingency liquidity for the Group. No drawdown on this facility has been made since inception. The Group has the option to extend the facility for a further two-year period.

The financing arrangements are considered sufficient to maintain the target liquidity levels of the Group and offer coverage for appropriate stress scenarios identified within the liquidity stress testing undertaken across the Group.

Further details, together with information on the Group's borrowed funds, are given in note 32.

The Group does not have material liquidity exposure to special purpose entities or investment funds.

40(e): Insurance risk (risk arising within insurance contracts)

40(e)(i): Overview

The Group assumes insurance risk by issuing insurance contracts, under which the Group agrees to compensate the policyholder or other beneficiary in the event that a specified uncertain future event (the insured event) affecting the policyholder occurs. The Group offers life assurance, critical illness and other life protection business. The Group does not offer general insurance business and therefore does not take on other forms of insurance risk such as motor and property insurance risks.

Insurance risk arises through exposure to variable claims experience on life assurance, critical illness and other protection business and exposure to variable operating experience in respect of factors such as persistency levels and management expenses. Unfavourable persistency, expenses and mortality and morbidity claim rates, relative to the actuarial assumptions made in the pricing process, may result in profit margins reducing below the target levels included in the pricing process.

The Group has implemented an insurance risk policy which sets out the Group requirements for the management, measurement, monitoring and reporting of insurance risks. The Group has implemented 3 standards which sit within the insurance risk policy, as follows:

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

The sensitivity of the Group's earnings and capital position to insurance risks is monitored through the Group's business planning and capital management processes. The insurance risk profile and experience is closely monitored relative to key risk metrics and defined tolerances.

The Group manages its insurance risks effectively through the following mechanisms:

- an agreed risk appetite for all risk types including insurance risks;
- pricing of insurance contracts utilising analysis of mortality, morbidity, persistency and expense experience;
- underwriting of mortality and morbidity risks;
- reinsurance, which is used to limit the Group's exposure to large single claims and catastrophes through transfer of insurance risk exposures; and
- the Group does not offer Group insurance business in order to avoid risk concentrations of insurance risk.

40: Capital and financial risk management continued

40(e): Insurance risk (risk arising within insurance contracts) continued

Terms and conditions of life assurance and critical illness protection business

The terms and conditions for life assurance and critical illness protection business determine the level of insurance risk accepted by the Group. The following table outlines the general form of terms and conditions that apply to contracts for the key protection products offered by the Group, and the nature of the risk incurred by the Group.

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Unit-linked life assurance	Mortality charges may be re-priced	Mortality	The initial premium is guaranteed to sustain the original cover for the first 10 years	None
Unit-linked critical illness	Mortality and morbidity charges may be re-priced	Mortality, Morbidity	The initial premium is guaranteed to sustain the original cover for the first 10 years	None
Non-linked life assurance and critical illness	Premium rates defined at inception[1]	Mortality, Morbidity	Rates guaranteed for the life of the contract[1]	None

[1] Certain non-linked life assurance and critical illness contracts have premiums which are reviewable if the contract term is extended beyond the initial term.

Mortality and morbidity

Mortality and morbidity risk is the risk that death, critical illness and disability claims experience is higher than the rates assumed when pricing contracts. Possible causes are new and unexpected epidemics, reductions in the effectiveness of treatments such as antibiotics and widespread changes in lifestyle.

For unit-linked contracts, a risk charge is applied to meet the expected cost of the insured benefit (in excess of the unit value). This risk charge can be altered in the event of changes in the expectation for future claims experience, subject to the objective to provide fair customer outcomes.

Persistency

Persistency risk is the risk that policyholder surrenders, transfers or premium cessation on contracts occur at levels that are different to the levels expected and allowed for within the pricing process. Persistency statistics are monitored monthly and a detailed persistency analysis at a product level is carried out on an annual basis. Management actions may be triggered if persistency statistics indicate significant adverse movement or emerging trends in experience.

Expenses

Expense risk is the risk that actual expenses and expense inflation differ from the levels expected and allowed for within the pricing process. Expense levels are monitored quarterly against budgets and forecasts. Expense drivers are used to allocate expenses to entities and products. Some product structures include maintenance charges. These charges are reviewed annually in light of changes in maintenance expense levels and the market rate of inflation. This review may result in changes in charge levels.

40(e)(ii): Sensitivity analysis – life assurance

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract liabilities recognised, with impact on profit/(loss) and/or shareholders' equity.

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at 31 December 2018 and 31 December 2017. Interest rate and equity and property price sensitivities are included within the Group market sensitivities above.

Expenses

The increase in expenses is assumed to apply to the costs associated with the maintenance and acquisition of insurance contracts. It is assumed that these expenses are increased by 10% from the start of the year, so is applied as an expense shock rather than a gradual increase. The only administrative expenses that are deferrable are sales bonuses but as new business volumes are unchanged in this sensitivity, sales bonuses and the associated deferrals have not been increased. Administrative expenses have been allocated equally between life and pensions.

An increase in expenses of 10% would have decreased profit by £6.5 million after tax (2017: £9.1 million).

Mortality/morbidity

The impact on profit of an increase in mortality and morbidity claims rates of 5% is tested. This would affect the level of insurance contract claims and is assumed to apply throughout the year.

An increase in mortality and morbidity claims of 5% each would have decreased profit after tax by £1.2 million (2017: £0.9 million).

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

40: Capital and financial risk management continued

40(f): Operational risk

Operational risk is the risk that failure of people, processes, systems or external events results in financial loss, damage to brand/reputation or adverse regulatory intervention, or government or regulatory fine. Operational risk includes all risks resulting from operational activities, excluding the risks already described above and excluding strategic risks and risks resulting from being part of a wider group of companies.

Operational risk includes the effects of failure of administration processes, IT maintenance and development processes, investment processes (including settlements with fund managers, fund pricing and, matching and dealing), product development and management processes, legal risks (e.g. risk of inadequate legal contract with third parties), risks relating to the relationship with third party suppliers and outsourcers, and the consequences of financial crime and business interruption events.

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

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

40(g): Contractual maturity analysis

The following table is a maturity analysis of liability cash flows based on contractual maturity dates for investment contract liabilities and expected claim dates for insurance contracts. Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies, and are therefore classified as less than three months maturity. Although these liabilities are payable on demand, the Group does not expect that all liabilities will be settled within this period.

		Undiscounted cash flows				
At 31 December 2018	Carrying amount £m	Up to three months £m	Three months to one year £m	Between one and five years £m	More than five years £m	Total £m
Life assurance policyholder liabilities						
Insurance contracts	**602**	**21**	**11**	**46**	**992**	**1,070**
Life assurance policyholder liabilities	588	7	11	46	992	1,056
Outstanding claims	14	14	-	-	-	14
Investment contracts						
Unit-linked investment contracts and similar contracts	56,450	56,450	-	-	-	56,450
Total policyholder liabilities	**57,052**	**56,471**	**11**	**46**	**992**	**57,520**

		Undiscounted cash flows				
At 31 December 2017	Carrying amount £m	Up to three months £m	Three months to one year £m	Between one and five years £m	More than five years £m	Total £m
Life assurance policyholder liabilities						
Insurance contracts	**489**	**15**	**8**	**34**	**855**	**912**
Life assurance policyholder liabilities	480	6	8	34	855	903
Outstanding claims	9	9	–	–	–	9
Investment contracts						
Unit-linked investment contracts and similar contracts	59,139	59,139	–	–	–	59,139
Total policyholder liabilities	**59,628**	**59,154**	**8**	**34**	**855**	**60,051**

41: Fiduciary activities

The Group provides custody, trustee, corporate administration and investment management and advisory services to third parties that involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group may be accused of misadministration or under-performance.

42: Related party transactions

In the normal course of business, the Group enters into transactions with related parties. These are conducted on an arm's length basis and are not material to the Group's results. There were no transactions with related parties during the current and prior year which had a material effect on the results or financial position of the Group except for the repayment of intercompany indebtedness with Old Mutual plc which has been disclosed in note 32: Borrowings. Except for these intra-group loan repayments, the nature of the related party transactions of the Group has not changed over the course of the year.

The Group's interests in subsidiaries and related undertakings are set out in Appendix B.

42(a): Transactions with previous Parent company, Old Mutual plc

Prior to the Group's Managed Separation from Old Mutual plc in June 2018, the Group had various transactions with Old Mutual plc and other related entities within the Old Mutual group, all of which were in the normal course of business. All receivables and payables were settled at the point of separation, resulting in receivables and payables of £nil as at 31 December 2018 (2017: receivables were £28 million and payables were £790 million). In addition, the Group incurred £3 million of interest expense in relation to intercompany indebtedness at the time, paid to Old Mutual plc prior to separation in 2018 (2017: £60 million) and received £nil income (2017: £5 million in respect of other transactions with Old Mutual plc group).

42(b): Transactions with key management personnel, remuneration and other compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Details of the compensation paid to the Board of Directors as well as their shareholdings in the Company are disclosed in the Remuneration Report.

The summary of compensation of key management personnel is as follows:

42(c): Key management personnel compensation

	At 31 December 2018 £'000	At 31 December 2017 £'000
Salaries and other short-term employee benefits	13,037	9,610
Post-employment benefits	100	80
Share-based payments	6,876	4,089
Termination benefits	346	–
Total compensation of key management personnel	**20,359**	**13,779**

42(d): Key management personnel transactions

Key management personnel and members of their close family have undertaken transactions with the Group in the normal course of business.

The Group's products are available to all employees of the Group on preferential staff terms. The impact of this on the financial statements is immaterial. During the year ended 31 December 2018, key management personnel and their close family members contributed £3 million (2017: £6 million) to Group pensions, investments and life insurance products. The total value of investments in Group pensions and investment products by key management personnel was £19 million (2017: £16 million).

42(e): Other related parties

Details of the Group's staff pension schemes are provided in note 35. Transactions made between the Group and the Group's staff pension schemes are made in the normal course of business.

Notes to the consolidated financial statements continued

For the year ended 31 December 2018

43: Events after the reporting date

On 14 February 2019, Intrinsic Financial Services Limited ("IFSL"), a subsidiary company, acquired the remaining equity of the Charles Derby Group Limited ("CDG"), having previously held a minority interest in CDG. The acquisition represents the next stage of Quilter's ambition to broaden out its national advice business. The acquisition complements the growth of Quilter Private Client Advisers which serves upper affluent and high net worth customers.

The provisional valuation of CDG at acquisition was £32 million. After deducting the existing holding (with a fair value of £2 million immediately prior to acquisition), the fair value of consideration for the remaining £30 million equity was £28 million comprising a cash payment of £21 million and deferred consideration of £9 million (discounted to present value of £7 million) payable in 2 equal instalments, 18 and 36 months after the date of acquisition.

Intangible assets including the value of the distribution channel will be recognised at acquisition. Intangible assets are grossed up by the current tax rate, with a corresponding deferred tax liability created on the statement of financial position. Because the purchase price allocation ("PPA") model is not yet complete, the excess of acquisition cost over the net liabilities acquired has been apportioned on an estimated basis 50% to intangible assets, with the remainder being classified as goodwill. Provisional balances of £19 million for intangible assets, £(3) million for deferred tax liability and £15 million for goodwill will be recognised within the group consolidated financial statements at acquisition. During 2019, the allocation will be finalised, with the potential for a reallocation between intangible assets and goodwill.

The provisional consolidated statement of financial position for CDG at acquisition date comprised total assets of £1.4 million, total liabilities of £2.0 million and equity of £(0.6) million.

The goodwill is derived from the existing adviser base which at the date of completion was around 200 mostly self-employed Registered Financial Planners. Strong synergies exist between IFSL and CDG, with the CDG advisers operating within Intrinsic's advice processes and proposition. CDG has proven lead generation capability which will help to deliver Intrinsic's national growth strategy.

The deferred consideration payments are variable, subject to changes in the value of assets under administration and deduction for indemnity claims. The full estimated amount of deferred consideration is currently expected to be paid.

Appendices

For the year ended 31 December 2018

Appendix A: Other accounting policies

Investments in associates

An associate is an entity over which the Group has significant influence, but not control or joint control, through its participation in the entity's financial and operating policy decisions. Significant influence is generally demonstrated by the Group holding between 20% and 50% of the voting rights. Where voting rights are irrelevant, all other factors, contractual or otherwise, are assessed in determining whether the Group has the ability to exercise significant influence.

The results, assets and liabilities of associates, other than those that are measured at FVTPL (see below) are incorporated into these consolidated financial statements using the equity method of accounting from the date that significant influence commences until the date it ends. Under this method, the cost of the investment in an associate together with the Group's share of that entity's post-acquisition changes to shareholders' funds is included as an asset in the consolidated statement of financial position. The cost includes goodwill recognised on acquisition. The Group's share of associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Where a Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment. Investments in associates that are held with a view to subsequent resale are accounted for as non-current assets held for sale.

Where the Group has an investment in an associate, a portion of which is held by, or is held indirectly through a unit trust or similar entity, including investment-linked insurance funds, that portion of the investment is measured at FVTPL.

Foreign currency translation

The Group's presentation currency is pounds sterling (£). The functional currency of the Group's foreign operations is the currency of the primary economic environment in which these entities operate. The Parent Company functional currency is pounds sterling (£). Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year and their statements of financial position are translated at the year-end exchange rates. Exchange rate differences arising from the translation of the net investment in foreign subsidiaries and associates are recognised in other comprehensive income and taken to the currency translation reserve within equity. To the extent that these gains and losses are effectively hedged, the cumulative effect of such gains and losses arising on the hedging instruments are also included in that component of shareholders' equity. On disposal of a foreign entity, exchange differences are transferred out of this reserve to the income statement as part of the gain or loss on sale.

Foreign currency transactions are converted into the relevant functional currency at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at exchange rates prevailing at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates prevailing at the dates the fair values were determined. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are converted into the functional currency at the rate of exchange ruling at the date of the initial recognition of the asset and liability and are not subsequently retranslated.

Exchange gains and losses on the translation and settlement during the period of foreign currency assets and liabilities are recognised in profit or loss. Exchange differences for non-monetary items are recognised in the statement of other comprehensive income when the changes in the fair value of the non-monetary item are recognised in the statement of other comprehensive income, and in profit or loss if the changes in fair value of the non-monetary item are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment consists principally of computer equipment, motor vehicles, fixtures and fittings, and is stated at cost less accumulated depreciation and any recognised impairment losses. Cost includes the original purchase price of the asset and the costs of bringing the asset to its working condition for its intended use. Depreciation is charged to profit or loss on a straight-line basis to write down the cost of the asset to its residual value over its estimated useful life, ranging between 3 and 10 years depending on the length of time the Group expects to derive benefit from the asset.

Management determines useful lives and residual values for assets when they are acquired, based on experience of similar assets and taking into account other relevant factors such as any expected changes in technology. The Group assesses and adjusts (if required) the useful life, residual value and depreciation method for property, plant and equipment on an annual basis.

Items of property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which represents the higher of the asset's fair value less costs of disposal and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the income statement. Impaired non-financial assets, except goodwill, are reviewed for possible reversal of the impairment at each reporting date. On de-recognition of an item of equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the period of the de-recognition. Items of property and equipment that are not owned by the Group, but are held under lease arrangements are accounted for in accordance with the accounting policy on leases.

Appendices continued

For the year ended 31 December 2018

Appendix A: Other accounting policies continued

Leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the lease.

Share Capital

Equity instruments

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The value of the Company's share capital consists of the number of Ordinary Shares in issue multiplied by their nominal value. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in share premium.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

Dividends

Dividends are distributions of profit to holders of the Group's share capital and as a result are recognised as a deduction in equity. Dividends payable to holders of equity instruments are recognised in the period in which they are authorised or approved. Interim dividends payable to holders of the Group's Ordinary Share capital are announced with the half year results and authorised by the Directors of the Parent Company. The final dividend is announced with the Annual Report and Accounts and typically requires shareholder approval at the Annual General Meeting. For this reason it is not included in the annual consolidated financial statements.

Shares held by trusts

Shares in the Parent Company that are held by the Employee Benefit Trust (EBT) are treated as "own shares" or Treasury shares. The EBT purchases shares in the Parent Company for delivery to employees under employee incentive plans. Purchased shares are recognised as a deduction from equity at the price paid for them.

Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by various share trusts of the Group and held as own shares.

Diluted earnings per share is calculated by increasing the weighted average number of Ordinary Shares outstanding to assume conversion of all dilutive potential Ordinary Shares, notably those related to employee share schemes.

Appendix B: Related undertakings

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings which is set out in this note. Related undertakings comprise subsidiaries, associates and other significant holdings.

The definition of a subsidiary undertaking in accordance with the Companies Act 2006 is different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. Refer to accounting policies note 4(a) Group Accounting for further detail on the principles of consolidation.

The Group's related undertakings along with the country of incorporation, the registered address, the classes of shares held and the effective percentage of equity owned at 31 December 2018 are disclosed below.

Company name	Share class	% Held
United Kingdom		
Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ		
Freedom Financial Planning (Manchester) Ltd.	Ordinary classes A, B, C, D & E	100
Quilter Investors Limited	Ordinary	100
Quilter Private Client Advisers Limited	Ordinary	100
Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4GG		
Commsale 2000 Limited	Ordinary	100
Dodd Murray Limited (Dissolved 08.01.2019)	Ordinary classes B, C, D, I & K	100
Infiniti Financial Planning & Investment Management Limited (Dissolved 08.01.2019)	Ordinary	100
Maestro Financial Services Limited	Ordinary & Perpetual Cumulative Preference	100
NPL Financial Limited	Ordinary	100
Old Mutual Financial Services (UK) Limited	Ordinary	100
OMFS (GGP) Limited	Ordinary	100
OMLA Holdings Limited	Ordinary	100
OMW CoSec Services Limited	Ordinary	100
Quilter Business Services Limited	Ordinary	100
Quilter Cheviot Investment Management Limited	Ordinary	100
Quilter Financial Planning Limited	Ordinary	100
Quilter Holdings Limited	Ordinary	100
Quilter International Limited	Ordinary	100
Quilter Life & Pensions Limited	Ordinary	100
Quilter Life Assurance Limited	Ordinary	100
Quilter No1 Limited	Ordinary	100
Quilter No2 Limited	Ordinary	100
Quilter Pension Trustees Limited	Ordinary	100
Quilter UK Holdings Limited	Ordinary	100
Quilter Wealth Solutions Limited	Ordinary	100
Skandia UK Limited	Ordinary	100
Old Mutual House, Portland Terrace, Southampton, SO14 7EJ		
IFA Holding Company Limited	Ordinary	100
IFA Services Holdings Company Limited	Ordinary A and Ordinary B	100
Old Mutual Wealth Business Services Limited	Ordinary	100
Old Mutual Wealth Holdings Limited	Ordinary	100
Old Mutual Wealth Life Assurance Limited	Ordinary	100
Old Mutual Wealth Life & Pensions Limited	Ordinary	100
Old Mutual Wealth Limited	Ordinary	100
Old Mutual Wealth Nominees Limited	Ordinary	100
Old Mutual Wealth Pensions Trustee Limited	Ordinary	100
Old Mutual Wealth UK Holding Limited	Ordinary	100
One Kingsway, London, WC2B 6AN		
Cheviot Capital (Nominees) Limited	Ordinary	100
QC 101 Limited	Ordinary	100
Quilter Group Limited (formerly Cheviot GP Limited)	Ordinary	100
Quilpep Nominees Limited	Ordinary	100
Quilter Cheviot Holdings Limited	Ordinary	100

Appendices continued

For the year ended 31 December 2018

Appendix B: Related undertakings continued

Company name	Share class	% Held
One Kingsway, London, WC2B 6AN		
Quilter Cheviot Limited	Ordinary	100
Quilter Nominees Limited	Class B shares	100
Violet No.2 Limited	Ordinary	100
Wiltshire Court, Farnsby Street, Swindon, SN1 5AH		
Blueprint Distribution Limited	Ordinary	100
Blueprint Financial Services Limited	Ordinary	100
Blueprint Organisation Limited	Ordinary	100
Caerus Bureau Services Limited	Ordinary	100
Caerus Capital Group Limited	Ordinary and Class B shares	100
Caerus Financial Limited	Ordinary A, Ordinary B	100
Caerus Holdings Limited	Ordinary	100
Caerus Portfolio Management Limited	Ordinary	100
Caerus Wealth Limited	Ordinary	100
Caerus Wealth Solutions Limited	Ordinary	100
Intrinsic Cirilium Investment Company Limited	Ordinary A, Ordinary B and Preference shares	100
Intrinsic Financial Planning Limited	Ordinary	100
Intrinsic Financial Services Limited	Ordinary	100
Intrinsic Financial Solutions Limited	Ordinary	100
Intrinsic Mortgage Planning Limited	Ordinary	100
Intrinsic Valuation Services Limited	Ordinary	100
Intrinsic Wealth Financial Solutions Limited	Ordinary	100
Intrinsic Wealth Limited	Ordinary	100
Riverside House, The Waterfront, Newcastle upon Tyne, NE15 8NY		
Positive Solutions (Financial Services) Ltd.	Ordinary	100
Think Synergy Limited	Ordinary	100
Hill House, 1 Little New Street, London, EC4A 3TR		
Premier Planning Limited (In liquidation 19.03.2018)	Ordinary	100
No2. Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA, Scotland		
D G Pryde Limited	Ordinary	100
Ireland		
Hambleden House, 2nd Floor, 19/26 Lower Pembroke Street, Dublin 2		
Old Mutual International Ireland dac	Ordinary	100
Pembroke Quilter (Ireland) Nominees Limited	Ordinary	100
Isle of Man		
King Edward Bay House, King Edward Road, Onchan, IM99 1NU		
Old Mutual International Business Services Limited	Ordinary	100
Old Mutual International Holdings Limited	Ordinary	100
Old Mutual International Isle of Man Limited	Ordinary Redeemable Preference shares	100
Old Mutual International Trust Company Limited	Ordinary	100
OMF (IOM) LTD	Ordinary	100
Jersey		
4th Floor 28/30 The Parade, St Helier, JE2 3QQ		
C.I.P.M. Nominees Limited	Ordinary	100
QGCI Nominees Limited	Ordinary	100
Singapore		
Capita Green, #06-01, 138 Market Street, 048946		
AAM Advisory PTE. Ltd.	Ordinary	100
Germany		
Europe Platz 2, 10557, Berlin		
Skandia Retail Europe Holding GmbH	Ordinary	100
Thurn-und-Taxis-Platz 6, 60313, Frankfurt		
Old Mutual Europe GmbH	Ordinary	100

Appendix B: Related undertakings continued

Company name	Share class	% Held
South Africa		
Mutual Gardens, Mowbary, Cape Town		
Global Edge Technologies (Pty) Limited	Ordinary	100
United Arab Emirates		
7&8, Level 2, Gate Village 7, Dubai International Financial Centre, Dubai, 482062		
Old Mutual International Middle East Limited	Ordinary	100
12-14, Upper Marlborough Road, St Albans, Hertfordshire, AL1 3UR		
360 Dot Net Limited	Ordinary	17.5

The International Wealth Platform business purchases shares of privately-held companies on behalf of customers so that those shares can be linked to whole of life assurance bonds for those customers. As the Group legally and beneficially usually owns 100% of the issued share capital of each of the private companies, they are considered related undertakings.

Private company shares held on behalf of customers	Share class	% Held
Amicorp Bahamas Management Limited, Shirley & Charlotte Streets, PO Box N-4865, Bahamas		
Rosco Bahamas Limited	Ordinary	100
Amathountos, 29 Myria Court, Flat 11 4532, Lemesos, Cyprus		
Michael Churm Holdings Limited	Ordinary	100
2nd Floor, Gaspe House, 66-72 Esplanade, St Helier, JE1 1GH, Jersey		
Electrolight Investments Limited	Ordinary	100
Gaspe House, 66-72 Esplanade, St Helier, JE2 3QT, Jersey		
Tixtan Limited	Ordinary	100
2nd Floor, Humboldt Tower, East 53rd Street, Urb., Marbella, Panama City, PO Box 0819-09132, Panama		
Accord Brook S.A.	Ordinary	100
Atwood Development S.A.	Ordinary	100
Calle Aquilino de la Guardia No 8 Edif. IGRA, PO BOX 0823 02435, Panama		
Narvik Investments Inc.	Ordinary	100
Suite 3, Global Village, Jivans Complex, Mont Fleuri, Mahe, Seychelles		
Reverades Holding Ltd	Ordinary	100
Rubyfield Investments Ltd	Ordinary	100
OMC Chambers, Wickhams Cay 1, Road Town, Tortola, VG1110, British Virgin Islands		
Akito Inc.	Ordinary	100
Palm Chambers, 197 Main Street, PO Box 3174, Road Town, Tortola, VG1110, British Virgin Islands		
Avanna Global Corp.	Ordinary	100
Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands		
Bliss Spring Limited	Ordinary	100
Unit 18, Mill Mall, Road Town, Tortola, British Virgin Islands		
Bolivian Investment Management Limited	Ordinary	50
2nd Floor, O'Neal Marketing Associates Building, PO Box 3174, Wickham's Cay II, Road Town, Tortola, VG1110, British Virgin Islands		
Cannon Capital Investment Corp.	Ordinary	100
Isidro Mayo Corp.	Ordinary	100
Tortola Pier Park, Building 1, Second Floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands		
Elegant Inn Inc.	Ordinary	100
Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands, VG1110		
South Surrey Investment & Finance S.A.	Ordinary	100
Level 1, Palm Grove House, Wickham's Cay I, Road Town, Tortola, British Virgin Islands		
Volenda Finance Inc.	Ordinary	100
Cayman National House, 4-8 Hope Street, Douglas, IM1 1AQ, Isle of Man		
Tissington Limited	Ordinary	100

Appendices continued

For the year ended 31 December 2018

Appendix B: Related undertakings continued

In addition, the following funds are consolidated and constitute related undertakings, as described in note 4(a):

Fund name	Share class	% Held
United Kingdom		
Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ		
Merian Asian Equity Income Fund	Ordinary	94
Merian Europe (ex UK) Smaller companies Fund	Hedged	56
Merian European Equity (ex UK) Fund	Accumulation	54
Merian Financials Contingent Capital Fund	Ordinary	91
Merian Global Emerging Markets Fund	Ordinary	51
Merian Global Equity Income Fund (IRL)	Income and Accumulation	81
Merian Local Currency Emerging Market Debt Fund	Hedged	52
Merian Strategic Absolute Return Bond Fund	Ordinary	63
Merian Style Premia Absolute Return Fund	Hedged	100
Merian Systematic Positive Skew Fund	Ordinary	96
Old Mutual Compass Portfolio 2	Hedged	65
Old Mutual Compass Portfolio 3	Hedged	44
Old Mutual Compass Portfolio 4	Hedged	54
Old Mutual Compass Portfolio 5	Hedged	93
Quilter Investors Absolute Return Bond Fund	Accumulation	100
Quilter Investors Asia Pacific (ex Japan) Equity Fund	Accumulation	100
Quilter Investors Asia Pacific (ex Japan) Large-Cap Equity Fund	Income and Accumulation	100
Quilter Investors Asia Pacific Fund	Accumulation	100
Quilter Investors Bond 1 Fund	Income	100
Quilter Investors Bond 2 Fund	Income and Accumulation	100
Quilter Investors Bond 3 Fund	Accumulation	100
Quilter Investors China Equity Fund	Accumulation	100
Quilter Investors Cirilium Adventurous Passive Portfolio	Accumulation	61
Quilter Investors Cirilium Adventurous Portfolio	Accumulation	55
Quilter Investors Cirilium Balanced Passive Portfolio	Accumulation	60
Quilter Investors Cirilium Balanced Portfolio	Accumulation	49
Quilter Investors Cirilium Conservative Passive Portfolio	Accumulation	58
Quilter Investors Cirilium Conservative Portfolio	Accumulation	52
Quilter Investors Cirilium Dynamic Passive Portfolio	Accumulation	47
Quilter Investors Cirilium Moderate Passive Portfolio	Accumulation	56
Quilter Investors Cirilium Moderate Portfolio	Accumulation	43
Quilter Investors Corporate Bond Fund	Accumulation	100
Quilter Investors Creation Adventurous Portfolio	Accumulation	81
Quilter Investors Creation Balanced Portfolio	Accumulation	92
Quilter Investors Creation Conservative Portfolio	Accumulation	92
Quilter Investors Creation Dynamic Portfolio	Accumulation	88
Quilter Investors Creation Moderate Portfolio	Accumulation	93
Quilter Investors Diversified Bond Fund	Accumulation	100
Quilter Investors Diversified Portfolio	Accumulation	99
Quilter Investors Emerging Markets Bond Fund	Accumulation	100
Quilter Investors Emerging Markets Equity Fund	Accumulation	100
Quilter Investors Emerging Markets Equity Growth Fund	Income and Accumulation	100
Quilter Investors Emerging Markets Equity Income Fund	Accumulation	100
Quilter Investors Equity 1 Fund	Accumulation	100
Quilter Investors Equity 2 Fund	Accumulation	100
Quilter Investors Ethical Equity Fund	Accumulation	59
Quilter Investors Europe (ex UK) Equity Fund	Accumulation	100
Quilter Investors Europe (ex UK) Equity Growth Fund	Accumulation	100
Quilter Investors Europe (ex UK) Equity Income Fund	Accumulation	100

Appendix B: Related undertakings continued

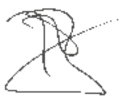
Fund name	Share class	% Held
Quilter Investors Europe (ex UK) Small/Mid-Cap Equity Fund	Accumulation	100
Quilter Investors Foundation 3 Fund	Income and Accumulation	94
Quilter Investors Foundation 4 Fund	Accumulation	100
Quilter Investors Foundation 5 Fund	Accumulation	100
Quilter Investors Generation CPI+ 3 Portfolio	Income and Accumulation	74
Quilter Investors Generation CPI+ 4 Portfolio	Income and Accumulation	82
Quilter Investors Generation CPI+ 5 Portfolio	Income and Accumulation	76
Quilter Investors Gilt Index Fund	Income and Accumulation	98
Quilter Investors Global Best Ideas Fund	Accumulation	45
Quilter Investors Global Dynamic Equity Fund	Accumulation	99
Quilter Investors Global Equity Absolute Return Fund	Accumulation	100
Quilter Investors Global Equity Growth Fund	Accumulation	96
Quilter Investors Global Equity Index Fund	Accumulation	100
Quilter Investors Global Equity Value Fund	Income and Accumulation	100
Quilter Investors Global Property Securities Fund	Income and Accumulation	65
Quilter Investors High Yield Bond Fund	Income and Accumulation	96
Quilter Investors Investment Grade Corporate Bond Fund	Income and Accumulation	100
Quilter Investors Japanese Equity Fund	Accumulation	100
Quilter Investors Natural Resources Equity Fund	Accumulation	99
Quilter Investors North American Equity Fund	Accumulation	100
Quilter Investors Precious Metals Equity Fund	Accumulation	100
Quilter Investors Sterling Corporate Bond Fund	Income and Accumulation	99
Quilter Investors Sterling Diversified Bond Fund	Income and Accumulation	100
Quilter Investors Strategic Bond Fund	Income and Accumulation	72
Quilter Investors UK Equity Fund	Accumulation	100
Quilter Investors UK Equity Growth Fund	Accumulation	100
Quilter Investors UK Equity Income Fund	Accumulation	100
Quilter Investors UK Equity Income II Fund	Income and Accumulation	100
Quilter Investors UK Equity Index Fund	Accumulation	100
Quilter Investors UK Equity Large-Cap Income Fund	Income and Accumulation	100
Quilter Investors UK Equity Large-Cap Value Fund	Accumulation	100
Quilter Investors UK Equity Opportunities Fund	Accumulation	100
Quilter Investors US Equity Growth Fund	Accumulation	100
Quilter Investors US Equity Income Fund	Accumulation	100
Quilter Investors US Equity Small/Mid-Cap Fund	Income and Accumulation	100
1 Sovereign Court, Graham Street, Birmingham, B1 3JR		
MGTS IBOSS 1 Fund	Accumulation & Income	52
Eastgate Court, High street, Guildford, Surrey, GU1 3DE		
Premier UK Money Market Fund	Accumulation & Income	52
Exchange House, Primrose Street, London, EC2A 2NY		
BMO UK Equity-linked Inflation fund	Accumulation	55
Marlborough House, 59 Chorley New Raod, Bolton, BL1 4QP		
IFSL AMR Diversified	Accumulation	99
Oakhill House, 150 Tonbridge Road, Hildenborough, Tonbridge, Kent, TN11 9DZ		
Fidelity Multi Asset Adventurous Fund	Accumulation	100
Luxembourg		
4, rue Jean Monnet L-2180 Luxembourg, Grand Duchy of Luxembourg		
Old Mutual Global Portfolios – Balanced Fund	Ordinary	100
Old Mutual Global Portfolios – Cautious Fund	Ordinary	100
Old Mutual Global Portfolios – Dynamic Fund	Ordinary	100
80, route D'Esch L-1470 Luxembourg, Grand Duchy of Luxembourg		
RWC UK Focus Fund	Class A, B, C & R	60

Company statement of financial position

At 31 December 2018

	Note	At 31 December 2018 £m	At 31 December 2017 £m
Assets			
Investment in subsidiary undertakings	4	2,663	2,069
Loans and advances	5	389	290
Deferred tax assets	6	2	-
Current tax receivable		17	10
Other receivables and other assets	7	5	4
Cash and cash equivalents		281	64
Total assets		**3,357**	**2,437**
Equity and liabilities			
Equity			
Ordinary Share capital		133	130
Ordinary Share premium reserve		58	58
Merger reserve	8	2,250	1,662
Share-based payments reserve		35	-
Retained earnings			
Brought forward retained earnings		407	169
Profit for the year		458	248
Other movements in retained earnings		(221)	(10)
Total retained earnings		644	407
Total equity		**3,120**	**2,257**
Liabilities			
Provisions	9	6	–
Borrowings	10	223	149
Other payables and other liabilities	11	8	31
Total liabilities		**237**	**180**
Total equity and liabilities		**3,357**	**2,437**

Approved by the Board on 11 March 2019.



Paul Feeney
Chief Executive Officer

Tim Tookey
Chief Financial Officer

Company statement of cash flows

For the year ended 31 December 2018

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cash flows from operating activities		
Profit before tax	444	239
Non-cash movements in profit before tax	(490)	(289)
Net changes in working capital	(23)	28
Taxation received	5	1
Total net cash flows used in operating activities	**(64)**	**(21)**
Cash flows from investing activities		
Dividends received from subsidiary undertakings	99	296
Investment in subsidiaries	(5)	(184)
Net proceeds from the disposal of interests in subsidiaries	525	–
Total net cash from investing activities	**619**	**112**
Cash flows from financing activities		
Dividends paid to ordinary equity holders of the Company	(221)	(210)
Finance costs	(6)	(7)
Proceeds from issue of Ordinary Shares	–	258
Proceeds from issue of subordinated and other debt	497	–
Subordinated and other debt repaid	(408)	(68)
Increase in loans to subsidiary undertakings	(200)	(36)
Total net cash used in financing activities	**(338)**	**(63)**
Net increase in cash and cash equivalents	217	28
Cash and cash equivalents at beginning of the year	64	36
Cash and cash equivalents at end of the period	**281**	**64**

Company statement of changes in equity

For the year ended 31 December 2018

For the year ended 31 December 2018	Note	Share capital £m	Share premium £m	Merger reserve £m	Share-based payments reserve £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2018		**130**	**58**	**1,662**	**–**	**407**	**2,257**
Profit for the period		–	–	–	–	458	458
Total comprehensive income		**–**	**–**	**–**	**–**	**458**	**458**
Dividends		–	–	–	–	(221)	(221)
Acquisition of entities due to managed separation restructure	8	–	–	591	–	–	591
Issue of share capital		3	–	(3)	–	–	–
Equity share-based payment transactions		–	–	–	35	–	34
Total transactions with the owners of the Company		**3**	**–**	**588**	**35**	**(221)**	**405**
Balance at 31 December 2018		**133**	**58**	**2,250**	**35**	**644**	**3,120**

For the year ended 31 December 2017	Share capital £m	Share premium £m	Merger reserve £m	Share-based payments reserve £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2017	**130**	**–**	**1,662**	**–**	**169**	**1,961**
Profit for the period	–	–	–	–	248	248
Total comprehensive income	**–**	**–**	**–**	**–**	**248**	**248**
Dividends	–	–	–	–	(210)	(210)
Issue of share capital	200	58	–	–	–	258
Reduction of share capital	(200)	–	–	–	200	–
Total transactions with the owners of the Company	**–**	**58**	**–**	**–**	**(10)**	**48**
Balance at 31 December 2017	**130**	**58**	**1,662**	**–**	**407**	**2,257**

Notes to the financial statements of the Company

For the year ended 31 December 2018

1: General Information

Quilter plc (the "Company"), a public limited company incorporated and domiciled in the United Kingdom ("UK").

The address of the registered office is Millennium Bridge House, 2 Lambeth Hill, London EC4V 4AJ.

The Company was, until 25 June 2018, a wholly owned subsidiary of Old Mutual plc, a FTSE 100 listed group. The Company formed part of the Old Mutual Wealth division of Old Mutual plc, for which it acted as a holding company and delivered strategic and governance oversight. On 25 June 2018, Quilter plc was listed on the London and the Johannesburg Stock Exchanges and is no longer part of the Old Mutual plc group.

2: Basis of preparation

The financial statements of Quilter plc for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"), and those parts of the Companies Act 2006 applicable to those reporting under IFRS.

The financial statements have been prepared on the historical cost basis, except for common control transactions which are stated at cost less impairments in accordance with IAS 27, and have been prepared in pounds sterling.

The accounting policies adopted are the same as those set out in Note 1 of the Group financial statements.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement in these financial statements.

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. 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 statements.

3: Capital and financial risk management

The material risks faced by the Company are described below.

3(a): 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, migration risk and spread risk.

3(b): Market risk

Market risk is defined as the risk that a change in the value of the Company's income from any asset is not matched by an equal change in the value of the related liability. Market risk arises from fluctuations in variables such as equity prices, property prices, interest rates and foreign exchange rates, where assets and liabilities are not precisely matched. The Company is subject to material market risk in the following area:

3(b)(i): 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 two intercompany loans (see notes 5 and 10) that are linked to an underlying variable interest rate, LIBOR, and so the value of these interest payments will vary if the underlying interest rate changes. The Company also has a subordinated debt and a loan to TA Associates (see notes 5 and 10) 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 its Market Risk Policy.

3(c): Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company manages liquidity by maintaining adequate liquidity resources and banking facilities, continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. The Company maintains and manages its local liquidity requirements according to its business needs, within the overall liquidity framework established by the Company.

Notes to the financial statements of the Company continued

For the year ended 31 December 2018

3: Capital and financial risk management continued

3(d): 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.

A decrease in interest rate of 1% would have decreased profit and shareholders' equity by £3 million (2017: decrease £1 million) after tax; an equal change in the opposite direction would have increased profit by £4 million (2017: increase £1 million) after tax.

4: Investments in subsidiaries

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

	At 31 December 2018 £m	At 31 December 2017 £m
Balance at the beginning of the year	2,069	**1,885**
Investment in subsidiary undertaking	5	170
Investment in subsidiary undertaking in relation to share-based payments	35	–
Acquisition of subsidiaries	600	14
Disposal of subsidiaries	(46)	–
Balance at the end of the year	**2,663**	**2,069**

2018 investment in subsidiary

On 29 June 2018 the Company made an investment of £5 million to Quilter Investors Limited (a direct subsidiary).

2018 investment in subsidiary undertaking in relation to share-based payments

Quilter plc grants rights to its equity instruments to employees of its subsidiaries under various share-based payment arrangements. In so doing, the subsidiaries receive services from employees that are paid for by Quilter plc, thereby increasing the investment that Quilter plc holds in those subsidiaries. Quilter plc recognises the equity-settled share-based payment in equity, with a corresponding increase in its investment in the subsidiaries. The amount recognised as an additional investment is based on the grant-date fair value of the share-based payment, and is recognised by Quilter plc over the vesting period of the share-based payments.

During 2018 the Company increased its investments in subsidiaries in relation to share-based payments as listed below:

Old Mutual Wealth Business Services Limited	£17 million
Quilter Cheviot Limited	£12 million
Intrinsic Financial Services Limited	£2 million
Quilter Investors Limited	£2 million
Other subsidiaries	£2 million
Total investments in subsidiaries	£35 million

2018 acquisition of subsidiaries

The Skandia UK Limited group of entities was acquired from Old Mutual plc on 31 January 2018 and comprises seven entities with net asset value of £591 million. The transfer was financed by the issue of one £1 share with the balance of the cost represented by a merger reserve; no debt was taken on as a result of this transaction. The most significant asset within these entities is a £566 million receivable which corresponds to an equivalent payable within the statement of financial position of Old Mutual Wealth Holdings Limited, a subsidiary undertaking.

On 25 April 2018 the Company received a dividend from the Single Strategy Asset Management business of £9 million and utilised the proceeds to acquire Quilter Investors Limited (formerly Old Mutual Investment Management Limited) from its subsidiary Old Mutual Global Investors Holdings Limited prior to its sale.

2018 disposal of subsidiary

On 29 June 2018 the Company completed the sale of the Single Strategy Asset Management business for a total consideration of £583 million, comprising cash consideration of £540 million on completion with an additional £7 million deferred consideration, anticipated to be payable thereafter, paid primarily between 2019 to 2021 (as surplus capital associated with the separation from Quilter plc is released in the business). The remaining proceeds of £36 million were received in cash as a pre-completion dividend on 15 June 2018.

The sale proceeds of £540 million less the holding value of the investment of £46 million and costs of £14 million resulted in a profit on sale of £480 million.

4: Investments in subsidiaries continued

2017 investments in subsidiaries

During 2017 the Company increased its investment in its subsidiary Old Mutual Wealth Holdings Limited by purchasing £170 million of newly issued shares.

During the year the Company purchased 100% of shares in Commsale 2000 Limited for £0.2 million, 100% of shares in Global Edge Technologies (Pty) Limited for £0.8 million and 100% of shares in Old Mutual Wealth Business Services for £12.7 million.

5: Loans and advances

This note analyses the loans and advances the Company has made. The carrying amounts of loans and advances were as follows:

	At 31 December 2018 £m	At 31 December 2017 £m
Lending to Old Mutual plc (previous parent)	–	15
Loan to group undertaking[1]	–	98
Loans to subsidiary undertaking	382	177
Loan to third party[2]	7	–
Total net loans and advances	**389**	**290**

1 During the year the loan to the group undertaking of £98 million in respect of the amount due from the JSOP Employee Benefit Trust was assessed and deemed to be irrecoverable following the transfer of Quilter plc shares from the JSOP EBT to another Quilter plc EBT. As a result an impairment was recognised.
2 Loan to third party is a loan to TA Associates in respect of the deferred consideration receivable arising from the sale of the Single Strategy Asset Management business. The loan is repayable no later than 2022, but is expected to be repaid between 2019 and 2021 as surplus capital is released from that business. The carrying amount of loans approximates to fair value which is measured as the principal amounts receivable under the loan agreements.

All loans are repayable on demand. The loans to subsidiary undertaking are charged at interest rates of annual LIBOR plus 0.5%, annual LIBOR plus 1.304% and 10%. There have been no non-performing loans, loans subject to renegotiations or material impairments on loans and advances recognised in the financial year.

6: Tax assets and liabilities

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

Year ended 31 December 2018	At beginning of the year £m	Income statement (charge)/ credit £m	At end of the year £m
Tax losses	–	2	2
Deferred tax assets at 31 December 2018	**–**	**2**	2

Year ended 31 December 2017	At beginning of the year £m	Income statement (charge)/ credit £m	At end of the year £m
Deferred tax assets at 31 December 2017	**–**	**–**	**–**

The main rate of UK corporation tax reduced from 20% to 19% with effect from 1 April 2017. It will reduce further to 17% from 1 April 2020.

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 the deferred tax assets not recognised as at 31 December 2018 was £2 million (2017: £2 million). This relates to gross carried forward losses of £10 million (2017: £10 million).

Notes to the financial statements of the Company continued

For the year ended 31 December 2018

7: Other receivables and other assets

The note analyses total other receivables and other assets.

	At 31 December 2018 £m	At 31 December 2017 £m
Due from subsidiary undertakings	5	4
Total other receivables and other assets	**5**	**4**

All amounts due from Group companies are unsecured and settled on demand. The Directors consider that the carrying amount of other receivables approximate their fair value.

8: Merger reserve

2017 Merger reserve

The merger reserve as at 31 December 2017 relates to a historic acquisition made whilst the Company was part of the Old Mutual plc Group. During 2008, the then Skandia Group underwent a reorganisation whereby the Company acquired 100% of the shares in Old Mutual Wealth Holdings Limited, a subsidiary undertaking and itself the parent of a number of significant trading entities within the Group. Consideration for the transaction was the issue of new shares at fair value. This transaction gave rise to a merger reserve of £1,662 million in the statement of financial position, being the difference between the nominal value of new shares issued by the Company for the acquisition of the shares of the subsidiary and the aggregate fair value of that subsidiary company and of its subsidiaries.

2018 Merger reserve

On 31 January 2018, the Company acquired the Skandia UK Limited group of entities from its then parent company Old Mutual plc. This comprised of seven Old Mutual plc group entities with a net asset value of £591 million. The transfer was effected by the issue of one share with the balance giving rise to an increase in the merger reserve of £591 million in the statement of financial position, being the difference between the nominal value of the share issued by the Company for the acquisition of the shares of the subsidiaries and the subsidiaries' net asset value. No debt was taken on as a result of this transaction. The most significant asset within these entities is a £566 million receivable which corresponds to an equivalent payable within the Group's consolidated statement of financial position. The net effect of this transaction for the Group was to replace a payable due to Old Mutual plc with equity.

Following the acquisition, the Company allotted 315,731,886 bonus Ordinary Shares of £0.01 each to the existing shareholders of the Company (with any fractional entitlements arising aggregated and allotted to Old Mutual plc), with a total nominal value of £3 million. This had the effect of reducing the Group's merger reserve by £3 million to £588 million at 31 December 2018, and increasing share capital by the same amount.

These transactions attracted merger relief under section 612 of the Companies Act 2006.

9: Provisions

	At 31 December 2018 £m	At 31 December 2017 £m
Balance at beginning of the period	–	–
Additions	6	–
Total provisions	**6**	**–**

Revenue warranty in relation to the sale of the Single Strategy Asset Management business

Additional provisions totalling £6 million have been made in 2018 as a consequence of the sale of the Single Strategy Asset Management business. These have been made in relation to various sale related future commitments, the outcome of which was uncertain at the time of the sale and the most significant of which is in respect of the guarantee of revenues in future years. Because of the long-term nature of this provision it is deemed to be a non-current liability.

10: Borrowings

	At 31 December 2018 £m	At 31 December 2017 £m
Subordinated debt		
Subordinated loan at 4.478%[1]	197	–
Other borrowings from group entities		
Floating rate loan at 1-month LIBOR + 0.50%[2]	26	26
Floating rate loan at 3-month LIBOR + 0.10%[3]	–	80
Fixed rate loan at 3.125%[4]	–	43
Total borrowings	**223**	**149**

1 Commenced on 28 February 2018 and used for general corporate purposes.
2 Loan from subsidiary that commenced during 2011 and was used to finance other historical corporate activity.
3 Loan from Old Mutual plc (previous parent). Commenced in 2011, used to finance historical corporate activity.
4 Loan from Old Mutual plc (previous parent). Commenced on 21 June 2016, used to finance a group employee benefit trust.

On 23 February 2018, the Company entered into and fully drew down the new Term Loan, a £300 million senior unsecured term loan with five relationship banks with an annual coupon of 45, basis points above LIBOR, to be updated every three months. The new Term Loan was repaid in full using proceeds from the sale of the Single Strategy Asset Management business following the completion of the transaction in June 2018.

On 28 February 2018, the Company issued a £200 million subordinated debt security (held at amortised cost of £197 million) in the form of a 10-year Tier 2 bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478% (the "Tier 2 Bond"). The bond was remarketed and sold to the secondary market in full on 13 April 2018. It is now listed and regulated under the terms of the London Stock Exchange. In addition, the Company entered into the new £125 million revolving credit facility which remains undrawn and is being held for contingent funding purposes across the Group.

Borrowings at 31 December 2017 were borrowed from Old Mutual plc and were unsecured and were repayable on demand. The carrying amount approximates to fair value which is valued as the principal amount repayable.

11: Other payables

	At 31 December 2018 £m	At 31 December 2017 £m
Due to subsidiary undertaking	5	31
Accruals	3	-
Total other payables	**8**	**31**

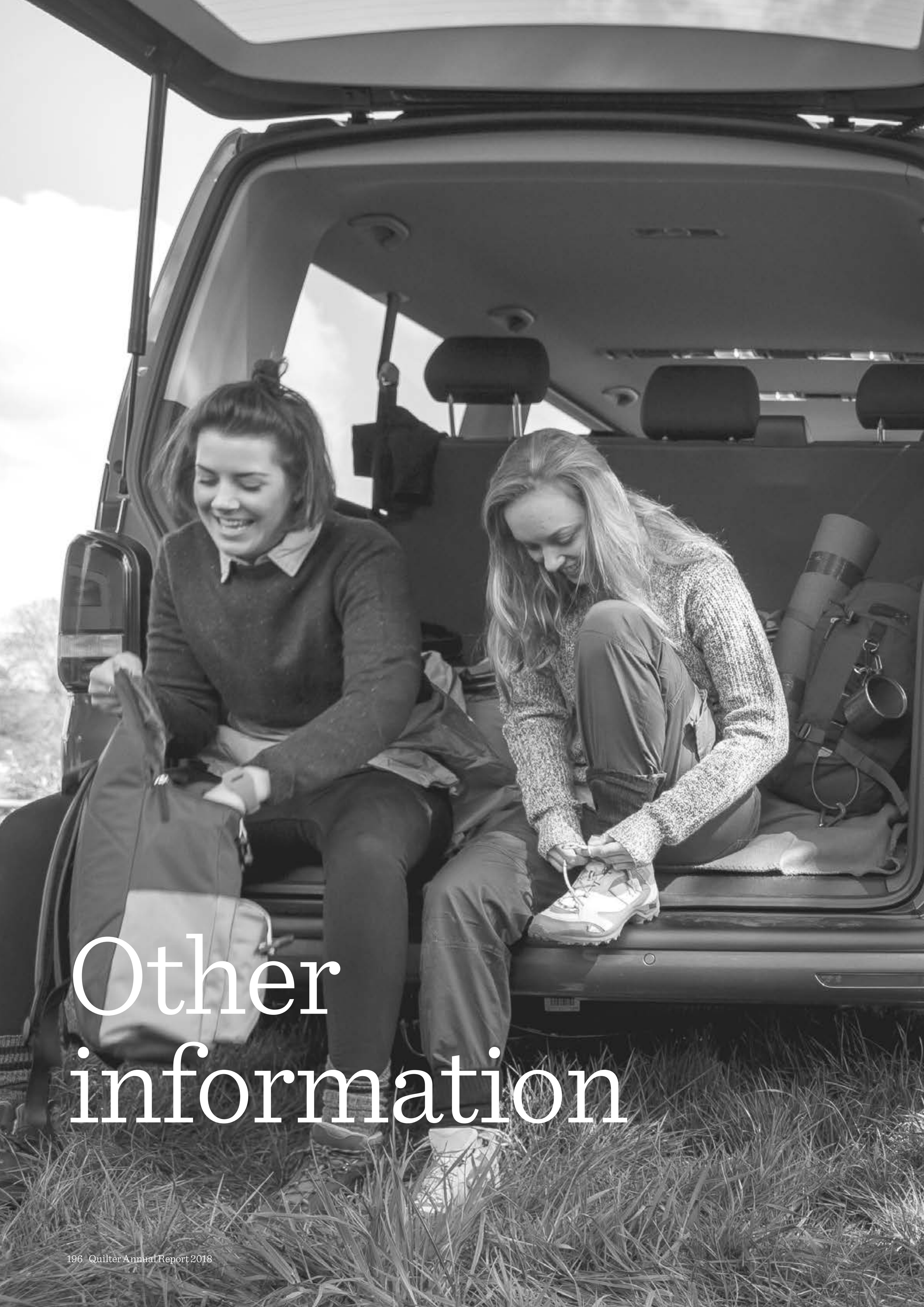
All amounts are current and short term. Amounts due to subsidiary undertaking are unsecured and are settled quarterly.

12: Related party transactions

Transactions with related parties carried out by the Company during the year were as follows:

	At 31 December 2018 £m	At 31 December 2017 £m
Management fees paid to subsidiary undertaking	49	56

Management services and fixed assets in the current and prior period in the UK are provided by Old Mutual Wealth Business Services Limited, a subsidiary undertaking. Old Mutual Wealth Business Services Limited charges a management fee for costs incurred and services provided. This fee is charged at cost plus a mark up.



Other information

Other information
Our Directors' Report, shareholder information and glossary of useful terms.

Directors' Report

The Directors present their report for the financial year ended 31 December 2018.

Cautionary statement

This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Corporate governance statement

The information that fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules can be found in the Corporate Governance Report on pages 40 to 85 (all of which forms part of this Directors' Report) and in this Directors' Report.

Information included in the Strategic Report

The Company's Strategic Report is on pages 1 to 37 and includes the following information that would otherwise be required to be disclosed in this Directors' Report:

Subject matter	Page reference
Important events since the financial year end	31
Likely future developments in the business	11
Engagement with employees	13
Engagement with suppliers, customers and others	14
Disclosures concerning greenhouse gas emissions	14

Financial instruments

The information relating to financial instruments that fulfils the reporting requirements of Schedule 7 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 can be found on page 143.

Profit and dividends

Statutory profit after tax for 2018 was £488 million (2017: £157 million).

Subject to shareholder approval, the Directors have recommended a final dividend for the financial year ended 31 December 2018 of 3.3 pence per Ordinary Share which will be paid out of distributable reserves. Further information regarding the dividend, including key dates, can be found at **quilter.com**. On 8 August 2018 the Board declared a special interim dividend of 12.0 pence per share returning the surplus proceeds from the sale of the Single Strategy asset management business. The special interim dividend was paid on 21 September 2018 to shareholders on the UK and South African share registers on 24 August 2018.

The nominee companies of certain Quilter employee benefit trusts ("EBTs") holding shares in Quilter in connection with the operation of the Company's share plans have lodged dividend waivers on shares held by them that have not been allocated to employees.

Directors

The names of the current Directors of the Company, along with their biographical details, are set out on pages 40 and 41 and are incorporated into this report by reference. Changes to Directors during the year are set out below:

Name	Role	Effective date of appointment/resignation
Bruce Hemphill	Non-executive Director	Resigned 19 April 2018
Ingrid Johnson	Non-executive Director	Resigned 19 April 2018
Suresh Kana	Non-executive Director	Appointed 8 August 2018
Paul Matthews	Non-executive Director	Appointed 8 August 2018
Ruth Markland	Non-executive Director	Appointed 25 June 2018
Mark Satchel	Corporate Finance Director	Resigned 19 April 2018

As explained on page 7, Mr Satchel is to be re-appointed to the Board with effect from 13 March 2019. His role will be Chief Financial Officer.

Details of the Directors' interests in the share capital of the Company are set out in the Directors' remuneration report on page 85.

The powers given to the Directors are contained in the Company's Articles of Association and are subject to relevant legislation and, in certain circumstances, including in relation to the issuing or buying back by the Company of its shares, subject to authority being given to the Directors by shareholders in general meeting. The Articles of Association also govern the appointment and replacement of Directors. The Board has the power to appoint additional Directors or to fill a casual vacancy amongst Directors. Any such Director only holds office until the next AGM and may offer himself/herself for election. The UK Corporate Governance Code recommends that all directors should be subject to annual re-election and all Directors will stand for re-election at the 2019 AGM, with the exception of Tim Tookey.

Re-registration and name change

On 27 March 2018, the Company re-registered as a public limited company and changed its name from Old Mutual Wealth Management Limited to Quilter plc.

Articles of Association

The Articles of Association may be amended in accordance with the provisions of the Companies Act 2006 by way of a special resolution of the Company's shareholders. The Company adopted two new sets of articles of association during the year in preparation for the Managed Separation and Listing. The information below sets out the provisions in the articles of association in force as at the date of this report.

Share capital and control

The Company has Ordinary Shares in issue, representing 100% of the total issued share capital as at 31 December 2018 and as at 4 March 2019 (the latest practicable date for inclusion in this report). Details of the movement in the Company's share capital during the year are set out in note 27 on page 155. The rights attaching to the shares are set out in the Articles of Association and are summarised below.

Voting rights of members

On a show of hands, every member or authorised corporate representative present has one vote and every proxy present has one vote except if the proxy has been duly appointed by more than one member and has been instructed by (or exercises his discretion given by) one or more of those members to vote for the resolution and has been instructed by (or exercises his discretion given by) one or more other of those members to vote against it, in which case a proxy has one vote for and one vote against the resolution. On a poll, every member present in person or by proxy has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

Unless the Board decides otherwise, a member shall not be entitled to vote, either in person or by proxy, at any general meeting of the Company in respect of any share held by him unless all calls and other sums presently payable by him in respect of that share have been paid.

Transfers

Save as described below, the Ordinary Shares are freely transferable.

A member may transfer all or any of his shares in any manner which is permitted by any applicable statutory provision and is from time to time approved by the Board. The Company shall maintain a record of uncertificated shares in accordance with the relevant statutory provisions.

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form, or in such other form as the Board may approve. The instrument of transfer shall be signed by or on behalf of the transferor and, except in the case of a fully paid share, by or on behalf of the transferee. The Board may, in its absolute discretion, refuse to register any instrument of transfer of any certificated share which is not fully paid up (but not so as to prevent dealings in listed shares from taking place on an open and proper basis) or on which the Company has a lien. The Board may also refuse to register any instrument of transfer of a certificated share unless it is left at the registered office, or such other place as the Board may decide, for registration, accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove title of the intending transferor or his right to transfer shares; and it is in respect of only one class of shares. If the Board refuses to register a transfer of a certificated share it shall, as soon as practicable and in any event within two months after the date on which the instrument was lodged, give to the transferee notice of the refusal together with its reasons for refusal. The Board must provide the transferee with such further information about the reasons for the refusal as the transferee may reasonably request. Unless otherwise agreed by the Board in any particular case, the maximum number of persons who may be entered on the register as joint holders of a share is four.

Variation of rights

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution of the holders of the shares of that class.

Exercisability of rights under an employee share scheme

Employee Benefit Trusts ("EBTs") operate in connection with certain of the Group's employee share plans ("Plans"). The trustees of the Employee Benefit Trusts ("EBTs") may exercise all rights attaching to the shares in accordance with their fiduciary duties other than as specifically restricted in the relevant Plan governing documents. The trustees of the EBTs have informed the Company that their normal policy is to abstain from voting in respect of the Quilter shares held in trust. The trustee of the Quilter Share Incentive Plan (the "SIP") will vote in respect of the allocated shares but the trustee will not otherwise vote in respect of the unallocated shares held in the SIP Trust.

Purchase of own shares

At the Annual General Meeting held on 6 June 2018, shareholders passed a special resolution in accordance with the Companies Act 2006 to authorise the Company to purchase in the market a maximum of 190,225,109 Ordinary Shares, representing 10% of the Company's issued Ordinary Share capital immediately following Admission. As at 4 March 2019, the latest practicable date for inclusion in this Report, no shares have been purchased under this authority. The Directors are seeking renewal of this authority at the forthcoming Annual General Meeting, in accordance with relevant institutional guidelines, together with an authority relating to potential purchase on the JSE, where the Company has a secondary listing, subject to the same overall limits.

The Directors are also seeking approval at the Annual General Meeting to implement an Odd-lot Offer at any time within the next 18 months. This will enable the Company to purchase, at a 5% premium, the Ordinary Shares held by those shareholders who hold less than 100 Ordinary Shares in the Company and who do not choose to retain their shareholding. For more information on the Odd-lot Offer please refer to the Notice of Meeting available at **quilter.com/agm**.

Major shareholders

Major shareholders do not have different voting rights from those of other shareholders. Information provided to the Company by substantial shareholders pursuant to the FCA's Disclosure Guidance and Transparency Rules is published via a Regulatory Information Service and is available on the Company's website. As at 31 December 2018, the Company had been notified, in accordance with Rule 5 of the FCA's Disclosure Guidance and Transparency Rules sourcebook, of the following holdings of voting rights in its Ordinary Share capital:

Name of shareholder	Number of Voting Rights attaching to Quilter shares	% interest in voting rights attaching to issued shares[1]	Nature of holding notified
BlackRock Inc.[2]	95,584,243	5.02	Indirect
Coronation Asset Management (Pty) Limited	210,416,957	11.06	Direct
Equiniti Trust (Jersey) Limited[3]	63,153,255	3.32	Direct
Norges Bank[4]	58,677,748	3.08	Direct
Prudential Portfolio Managers (South Africa) (PTY) Ltd	96,885,134	5.09	Indirect
Public Investment Corporation of the Republic of South Africa	180,012,608	9.46	Direct

1 The percentage of voting rights detailed above was calculated at the time of the relevant disclosures made in accordance with Rule 5 of Disclosure Guidance and Transparency Rules sourcebook.
2 Total show includes 3,318,364 securities lending and 9,234,051 contracts for difference to which voting rights are attached.
3 These shares are held by Equiniti Trust (Jersey) Limited in its capacity as trustee of the Quilter Employee Benefit Trust.
4 Total shown includes 2,009,876 shares on loan (with a right to recall) to which voting rights are attached,

As at 4 March 2019, the latest practicable date for inclusion in this report, the following voting rights had been notified, in accordance with Rule 5 of the FCA's Disclosure Guidance and Transparency Rules sourcebook:

Name of shareholder	Number of Voting Rights attaching to Quilter shares	% interest in voting rights attaching to issued shares[1]	Nature of holding notified
Allan Gray Unit Trust Management (RF) Proprietary Limited	68,880,114	3.62	Direct
BlackRock Inc.[2]	95,584,243	5.02	Indirect
Coronation Asset Management (Pty) Limited	228,279,037	12.00	Direct
Equiniti Trust (Jersey) Limited[3]	63,153,255	3.32	Direct
Norges Bank[4]	74,597,881	3.92	Direct
Prudential Portfolio Managers (South Africa) (PTY) Ltd	96,885,134	5.09	Indirect
Public Investment Corporation of the Republic of South Africa	180,012,608	9.46	Direct

1 The percentage of voting rights detailed above was calculated at the time of the relevant disclosures made in accordance with Rule 5 of Disclosure Guidance and Transparency Rules sourcebook.
2 Total show includes 3,318,364 securities lending and 9,234,051 contracts for difference to which voting rights are attached.
3 These shares are held by Equiniti Trust (Jersey) Limited in its capacity as trustee of the Quilter Employee Benefit Trust.
4 Total shown includes 1,059,783 shares on loan (with a right to recall) to which voting rights are attached.

Information provided to the Company under the Disclosure Guidance and Transparency Rules is publicly available via the regulatory information service and on the Company's website.

Significant agreements (change of control)

The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control of the Company following a takeover bid. All the Company's share plans contain provisions relating to a change of control, as summarised in the Directors' Remuneration Report on page 75.

The Company does not have agreements with any Director or employee that would provide for compensation for loss of office or employment that occurs as a result of a takeover bid.

Directors' indemnities

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial year ended 31 December 2018 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 they may incur (or have incurred) in connection with their duties, powers and office. In addition, the Company maintains Directors' & Officers' Liability Insurance which gives appropriate cover for legal action brought against its Directors.

Branch and representative offices

During 2018, the Group has operated branches or representative offices in Dubai, Ireland, Jersey, Hong Kong and Singapore.

Political donations

Quilter does not make monetary donations or gifts in kind to political parties, elected officials or election candidates. Accordingly, no such political donations were made in 2018. However, the Directors are seeking to renew the Company's and its subsidiaries' authority to make political donations not exceeding £50,000 in aggregate at the forthcoming Annual General Meeting. This is for the purposes of ensuring that neither the Company nor its subsidiaries inadvertently breach Part 14 of the Companies Act by virtue of the relevant definitions being widely defined. Further information is available in the Notice of Meeting.

Employment of disabled persons

Providing an environment where employees are safe and there is equality of opportunity is a key element in enabling our people to succeed and deliver the business strategy. Using our diversity and our relationships to learn from one another enables us to create one business that provides better opportunities for our people and better outcomes for our customers. We are committed to creating an inclusive culture which embraces diversity. We promote equal opportunities and ensure that no applicant or colleague is subject to less favourable treatment on the grounds of gender, marital status, nationality, ethnicity, age, sexual orientation, responsibilities for dependents, physical or mental disability. We select candidates for interview based on their skills, qualifications, experience and potential.

Going concern

The financial statements for the Group and the Company have been prepared on a going concern basis. Having made the appropriate enquiries, the Board is satisfied that the Group and the Company have adequate resources to continue in operational business for at least 12 months from the date of approving the financial statements.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group for a period longer than the 12 months required by the going concern statement.

Quilter's Risk Appetite Framework supports the delivery of the Quilter's strategy and business plan with risk preferences and appetite playing a central role in informing decision making across the Company.

Every year, the Board considers a three-year strategic plan and also an Own Risk and Solvency Assessment ("ORSA") for the Group, as required by UK regulators. The plan makes certain key assumptions in respect of the competitive markets and political environments in which the Group operates, economic assumptions and the impact of key strategic initiatives including the delivery and implementation of the new platform. The one-year planning period has greater certainty, and is used to set detailed budgets across the Group. Although three years is regarded as an appropriate period for the assessment of the Group's viability, the Directors also regularly consider other strategic matters that may affect the longer-term prospects of the Group.

This Board's assessment included reviews of capital, liquidity, and assessment of principal risks over the three-year planning period. Appropriate aspects of the strategic plan are stress-tested under the ORSA and ICAAP reviews to understand and help set capital and other requirements. The stress tests considered include a broad range of scenarios, including economic and market shocks, mass lapse events, new business growth scenarios and severe business interruption. In all severe but plausible adverse tests, sufficient capital and liquidity were available, demonstrating the Group's resilience to adverse conditions.

Reverse stress tests, which are performed to identify events which would make the current plan unviable, have also been performed. The results of these tests indicate that the Group can reasonably expect to have sufficient capital and liquidity to be able to meet its liabilities over the planning period. The Board regularly monitors performance against a range of predefined key performance indicators and early warning thresholds, which will identify if developments fall outside the Group's risk appetite or expectations, allowing management action to be taken.

The Strategic Report, on pages 1 to 31, sets out the Group's financial performance, business environment, outlook and financial management strategies. In addition details on the Group's principal risks and risk management framework is set out on pages 32 to 37.

Conclusion on viability

Considering the Group's current capital and trading position, its principal risks, and remaining three-year period of the strategic plan, the Board has a reasonable expectation that the Company and the Group can continue in operation, and meet their liabilities as they fall due for the period to 31 December 2021.

Disclosure of information to Auditor

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

(a) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
(b) the Director has taken all the steps that he or she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Directors' responsibility statements

The Directors are responsible for preparing the Annual Report and the Parent Company and consolidated financial statements in accordance with applicable law and regulations.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

Each of the Directors in office as at the date of this report, whose names are listed on pages 40 and 41, confirms that, to the best of his or her knowledge:

(a) the consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group; and
(b) the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

Annual General Meeting ("AGM")

The AGM of Quilter plc will be held in the Presentation Suite, Millennium Bridge House, 2 Lambeth Hill, London EC4V 4AJ on Thursday 16 May 2019 at 11:00am. Details of the business to be transacted at the AGM are included in the Quilter plc 2019 Notice of AGM which can be found at **quilter.com/agm**.

On behalf of the Board

Patrick Gonsalves
Company Secretary
11 March 2019

Shareholder information

Quilter plc share register
Quilter plc listed on the London and Johannesburg Stock Exchanges on 25 June 2018. Quilter plc has a premium listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange. The shares track under the QLT ticker.

2019 Key Dates
Key dates for shareholders are as follows:

26 April 2019	Record Date. Shareholders on the register are eligible for the final dividend
16 May 2019	Annual General Meeting
20 May 2019	Payment date of final dividend declared for the year ended 31 December 2018
7 August 2019	Publication of 2019 half year results, including any dividend details

Dates may be subject to change. Please check our website at **quilter.com** for further information.

Quilter 2019 Annual General Meeting ("AGM")
We understand the importance of communicating effectively with shareholders. We are committed to the constructive use of the AGM for the Chairman and Directors to meet with shareholders, hear their views, and answer their questions. Our first AGM will be held at 11:00am in the Presentation Suite, Millennium Bridge House, 2 Lambeth Hill, London EC4V 4AJ United Kingdom on 16 May 2019. Further information, including how to vote, can be found in the Quilter plc 2019 Notice of Meeting at **quilter.com/agm**

A webcast of the meeting will be made available at **quilter.com/agm** so that people who are unable to attend can see the meeting.

If you are unable to attend the meeting in person, you can submit a question to the Board by writing to:

The Company Secretary
Millennium Bridge House
2 Lambeth Hill
London EC4V 4AJ
Email: shareholderrelations@quilter.com

Dividend information
This year the Directors are recommending the payment of a final dividend of 3.3 pence per share.

Dividend policy
Quilter will target a dividend pay-out ratio of 40% to 60% of post-tax operating profits, taking into account the underlying cash generation, cash resources, capital position, distributable reserves and market conditions at the time.

Historical shareholder information
If you had shares in Old Mutual plc and have any questions about your holding or any unclaimed dividends you should contact Equiniti or Link Market Services using the contact details opposite. Please have your Shareholder Reference number to hand.

Duplicate documents
If you have received more than one copy of Quilter shareholder documents you may have duplicate shareholder accounts. Please contact our registrars who will be able to confirm and if necessary amalgamate any duplicate holdings.

Charitable donations
Did you know as part of the Managed Separation and Listing, shareholders donated £5,851.11 to the Quilter Foundation. This was the result of the sale of fractional shares.

Information for UK shareholders

Managing your shares and staying in touch
You do not have to receive paper shareholder documentation. Many shareholders choose to receive their communications electronically. Our Registrars, Equiniti, provide a free, convenient online service, Shareview, where you can access your shareholding quickly and easily. If you have not already done so, you can register for Shareview by visiting **www.shareview.co.uk**. All you need is your Quilter Shareholder Reference Number, which can be found on your share certificate. We will email you a notification when any shareholder statements are available and when we announce our full and half year results. You can also use Shareview to submit a voting instruction for any general meetings and to find out when any dividends are due.

Keeping your personal information up to date
It is important that you keep the personal information we hold up to date. That way correspondence advising you of any changes that might affect your shareholding reaches you, and any dividends are paid to you promptly. You can do this online at **www.shareview.co.uk**, via the shareholder helpline or by post.

Fraud warning
Shareholders should be wary of any unsolicited calls or documents offering unsolicited investment advice and offers to buy shares at a discounted price. Fraudsters can use persuasive and high-pressure tactics to lure shareholders into scams. You are advised not to give out any personal details or to hand over any money without ensuring that the organisation is authorised by the UK Financial Conduct Authority ("FCA") and doing further research. If you are unsure, or think you may have been targeted, you should report the organisation to the FCA using the share fraud reporting form available at **www.fca.org.uk/scams**. You can also report suspected share fraud through the FCA Helpline on +44 (0)800 111 6768 or through Action Fraud on +44 (0)300 123 2040.

Contact our registrar, Equiniti
If you have a question about your shareholding, please contact our registrar, Equiniti.

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

www.shareview.co.uk

Tel: 0333 207 5953
(calling from the UK)
Or +44 (0)121 415 0113
(calling from overseas)

Information for African shareholders

Managing your shares and staying in touch

You can go online to manage your shareholding at **https://investorcentre.linkmarketservices.co.za**. This enables you to view your holding, check your dividend history, and update how you want us to communicate with you.

Quilter would like to send you information about your shares by text message or email. We will text you a notification when your bi-annual shareholder statement is available; when we announce our results; when you can vote at any general meetings; and when any dividends are due. If you have not already done so, you can quickly and easily register your mobile phone and email address with us as follows.

Online

Go to **https://investorcentre.linkmarketservices.co.za/Login**. Register for electronic communications by following the instructions on screen. All you need is your post code and Quilter Shareholder Reference Number, which can be found on your share certificate, share account statement or your dividend advice.

By email

Write to investorenquiries@linkmarketservices.co.za. Please include your email address and mobile phone number and state that these should be used for all future communications.

By phone

Call the shareholder helpline number provided opposite and ask for your email and mobile number to be recorded.

Dividends

For your security, Quilter plc will only pay your dividend to the bank account currently registered with our registrar, Link Market Services. To register your bank details please contact Link Market Services using the adjacent contact details.

Dividend currency

All dividends will be declared in pounds sterling for shareholders on the UK register and rand for shareholders on the South African register. The foreign exchange rate will be determined the day before the Directors declare the dividend.

The key dates for South African shareholders are:

23 April 2019	Last day for shares to trade cum dividend in South Africa
24 April 2019	Shares start trading ex-dividend in South Africa
26 April 2019	Record Date. Shareholders on the register are eligible for the final dividend
16 May 2019	Annual General Meeting
20 May 2019	Payment date of final dividend declared for the year ended 31 December 2018
7 August 2019	Publication of 2019 half year results, including any dividend details

Dates may be subject to change. Please check our website at **quilter.com** for further information.

Did you know?

You do not need to hold a paper share certificate. By holding your shares electronically you can buy and sell shares more easily, protect your holding to help prevent fraud and ensure any dividends are paid directly to your bank account. You can find out more by contacting our registrar, Link Market Services.

Contact our African registrars

Shareholders on the South Africa register
Link Market Services South Africa (PTY) Limited
PO Box 10462
Johannesburg, 2000
South Africa

Email: investorenquiries@linkmarketservices.co.za
Tel: 086 140 0110 / 086 154 6566 (calling from South Africa)
Tel: +27 11 029 0251 / +27 11 715 3000 (calling from overseas)

Shareholders in Malawi
National Bank of Malawi
PO Box 945
Blantyre
Malawi

Email: legal@natbankmw.com
Tel: +265 182 0622 / +265 182 0054

Shareholders in Namibia
Transfer Securities (PTY) Limited
PO Box 2401
Windhoek
Namibia

Email: ts@nsx.com.na
Tel: +264 (0) 227647

Shareholders in Zimbabwe
Corpserve Registrars (PVT) Ltd
PO Box 2208
Harare
Zimbabwe

Email: corpserve@escrowgroup.org
Tel: +263 242 751 559 / +263 242 751 561

Alternative Performance Measures

We assess our financial performance using a variety of measures. APMs are not defined by the relevant financial reporting framework (which for the Group is IFRS), but we use them to provide greater insight into the financial performance, financial position and cash flows of the Group and the way it is managed.

APMs should be read together with the Group's IFRS consolidated income statement, IFRS consolidated statement of financial position and IFRS consolidated statement of cash flows, which are presented in the financial statements on pages 96 to 101.

A number of our metrics exclude Quilter Life Assurance, principally due to the closure of the institutional life book of business announced in 2017 and run-off of the legacy book as it is a closed-book business. Further details of APMs used by the consolidated Group in our financial review are provided below.

APM	Definition
Adjusted profit	Represents the adjusted profit before tax of the Group. It adjusts IFRS profit for key adjusting items and excludes non-core operations, as detailed in note 7(a) in the financial statements. Due to the nature of the Group's businesses, we believe that adjusted profit is an appropriate basis by which to assess the Group's underlying operating results and it enhances comparability and understanding of the financial performance of the Group. Please refer to page 29 for a detailed reconciliation of adjusted profit to IFRS.
Revenue margin (bps)	Represents net management fees, divided by average AuMA. Management use this APM as it represents the Group's ability to earn revenue from AuMA.
Operating margin	Represents adjusted profit before tax from continuing operations divided by total fee revenue including life tax contributions and adviser fees. Operating margin excludes financing costs. Management use this APM as this is an efficiency measure that reflects the percentage of net revenues that become adjusted profit.
Gross sales	Gross sales are the gross client cash inflows received from customers during the period and represent our ability to increase AuMA and revenue.
Net client cash flows ("NCCF")	The difference between money received from and returned to customers during the relevant period for the Group or for the business indicated. This measure is considered to be a lead indicator of reported net revenue.
Integrated flows	Total NCCF, before intra-Group eliminations that have flowed through two or more segments within the Group. It is considered to be a lead indicator of revenue generation driven by our integrated business model.
Assets under management and administration ("AuMA")	Represents the total market value of all financial assets managed and administered on behalf of customers and includes shareholder assets.
Average AuMA	Represents the average total market value of all financial assets managed and administrated on behalf of customers. Average AuMA is calculated using a 7-point average (half year) and 13-point average (full year) of monthly closing AuMA.
Net management fees	Consists of revenue generated from AuMA, fixed fee revenues including charges for life tax contributions, less trail commissions payable. Please refer to page 26 for more information on financial performance.
Other revenue	Represents revenue not directly linked to AuMA (e.g. encashment charges, closed book unit-linked policies, non-linked Protect policies, adviser initial fees and adviser fees linked to AuMA in Quilter Financial Planning (recurring fees)). Please refer to page 26 for more information on financial performance.
Cash generation	This presents a shareholder view of underlying cash earnings. The IFRS consolidated statement of cash flows includes policyholder cash flows, and does not exclude adjustments for non-operating items. Cash generated from operations is calculated by removing non-cash items from adjusted profit. Cash generated from operations is stated after deducting an allowance for cash required to support the capital requirements of the business generated from normal operations. The capital requirements of the business are assessed on each company's solo regulatory solvency basis.

APM	Definition
Asset retention	The asset retention rate measures our ability to retain assets from delivering good customer outcomes and investment performance. Asset retention reflects the outflows of the assets under management during the period as a percentage of opening assets under management. Asset retention is calculated as: 1 – (gross outflow divided by opening assets under management).
Productivity	Productivity is a measure of the value created by NCCF from our advice business, and an indicator of the success of our integrated business model. Restricted Financial Productivity is calculated as average integrated flow per Restricted Financial Planner.
NCCF/opening AuMA (excluding Quilter Life Assurance)	This measure is calculated as total NCCF as described above divided by opening AuMA presented as a percentage. Quilter Life Assurance is excluded from this metric principally due to the closure of the institutional life book of business announced in 2017 and run-off of the legacy book as it is a closed-book business.
Return on Equity ("RoE")	This calculates how many pounds of profit the Group generates with each pound of shareholders equity. This measure is calculated as adjusted profit after tax divided by average equity (after adjusting equity for the acquisition of Skandia UK from Old Mutual plc as part of Managed Separation and equity allocated to the discontinued operations).
Adjusted diluted earnings per share	Represents the adjusted profit earnings per share. Calculated as adjusted profit divided by the weighted average number of shares. Refer to page 28.

Glossary

Term	Definition
Affluent	Customers with £100,000 to £5 million of investable assets
AuA	Assets under administration, which unless stated otherwise, reflects gross AuA before intra-group eliminations
AuM	Assets under management, which unless stated otherwise, reflects gross AuM before intra-group eliminations
AuMA	Assets under management and administration – for more details see Alternative Performance Measures on page 204
Brexit	The exit of the United Kingdom from the European Union, officially announced on 29 March 2017
CAGR	Compound annual growth rate
Company	Quilter plc
FCA	The UK Financial Conduct Authority
GHG	Greenhouse Gas
Group	Quilter plc
High net worth	Customers with over £5 million of investable assets
ICAAP	Internal Capital Adequacy Assessment Process
IFAs	Independent Financial Advisers, meaning advisers who provide advice on an independent basis, based on a comprehensive analysis of the whole market and free from any restriction
IFRS	The International Financial Reporting Standards as adopted by the European Union
Integrated flows	NCCF that appear in more than one part of the Group's businesses – for more details see Alternative Performance Measures on page 204
Investment managers (IMs)	An individual who provides investment advice and investment management services to private clients of Quilter Cheviot in line with individual circumstances and investment objectives
IPO	Initial Public Offering
ISA	Individual Savings Accounts
JSE	Johannesburg Stock Exchange
LSE	London Stock Exchange
Managed Separation	Refers to the Managed Separation of Quilter plc from the Old Mutual Group
NCCF	Net client cash-flow – for more details see Alternative Performance Measures on page 204
ORSA	Own Risk and Solvency Assessment
Own funds	Capital resources determined on the basis of the Solvency II balance sheet
PCA	Private Client Advisers – refers to Quilter Private Client Advisers
PRA	Prudential Regulation Authority
Productivity	For definition, see Alternative Performance Measures on page 204
PTP	Platform Transformation Programme
Quilter	Quilter plc
Quilter Group	The group of companies that are ultimately owned by Quilter plc
Restricted Financial Planners (RFPs)	Advisers who advise on a defined range of products and investment solutions, including investment solutions offered by the Group and by third parties that have been pre-researched by the Group
Scope 1 & 2 GHG emissions	Greenhouse gas emissions are categorised into three groups or 'scopes' by the most widely-used international accounting tool, the Greenhouse Gas (GHG) Protocol. Scope 1 and 2 cover direct emissions sources (e.g., fuel used in company vehicles and purchased electricity), scope 3 emissions cover all indirect emissions due to the activities of an organisation.
Scope 2 – market-based GHG emissions	'Market-based' reflects emissions from the electricity that a company is purchasing, not what is generated locally, and therefore takes into account Quilter's renewable tariffs. Hence, within Quilter's GHG disclosure shown on page 14, 'Scope 2 market-based' emissions show a lower figure than 'Scope 2'.
SCR	Solvency Capital Requirement, the regulatory capital requirement under the Solvency II Directive
Single Strategy business	The Single Strategy asset management business, sold by the Group to TA Associates on 29 June 2018
Standard Formula	The regulatory formula used to determine capital requirements for insurance entities under Solvency II. This formula broadly represents the potential loss of own funds calibrated to a 1-in-200 likelihood level.

Quilter Business Unit names

Quilter is the new name for Old Mutual Wealth Management Limited. Within 24 months of the date of Listing all businesses within the Group will be subject to rebranding to align with the Quilter name. For the purposes of this Annual Report, all businesses have been referenced by their new name. The following table details the previous and new business names and the date of change where this has already taken place.

Previous Business Unit name	New Business Unit name	Date of change
Advice & Wealth Management		
Multi-Asset	Quilter Investors	29 Jun 2018
Quilter Cheviot	No change	n/a
Intrinsic	Quilter Financial Planning	Within 24 months of Listing
Old Mutual Wealth Private Client Advisers	Quilter Private Client Advisers	3 Sep 2018
Wealth Platforms		
UK Platform	Quilter Wealth Solutions	Within 24 months of Listing
International	Quilter International	Within 24 months of Listing
Heritage	Quilter Life Assurance	Within 24 months of Listing

Produced by Superunion
superunion.com

This document is printed on GalerieArt Matt, a paper containing fibre sourced from well-managed, responsible, FSC® certified forests and other controlled sources. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

Printed in the UK by Pureprint Group, a CarbonNeutral® company, certificated to Environmental Management System ISO14001 and holders of FSC® chain of custody certification.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C022913

Quilter plc
Millennium Bridge House
2 Lambeth Hill
London EC4V 4AJ
United Kingdom
quilter.com