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**
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

	Note	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**

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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]		Amortised cost			
	Held for trading £m	Designated at fair value through the profit or loss £m	Loans and receivables £m	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.

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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.

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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:

For the year ended 31 December 2018	Liabilities Borrowings £m	 Deposits from reinsurers £m	Equity[1] 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**

For the year ended 31 December 2017	Liabilities Borrowings £m	 Deposits from reinsurers £m	Equity[1] 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.

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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

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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

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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.