Quilter

NEWS RELEASE

11 March 2020
Quilter plc preliminary results for the year ended 31 December 2019

A year of significant strategic progress, underlying profit performance ahead of market expectations and £375 million capital return with additional c.£30 million Odd-lot Offer announced

Highlights (including Quilter Life Assurance ("QLA"))

- Adjusted profit before tax up 1% to £235 million (2018: £233 million excluding Single Strategy business; 2018: £259 million including Single Strategy business) of which £53 million (2018: £57 million) from QLA.
- Adjusted diluted earnings per share of 11.3 pence (2018: 13.5 pence, of which 1.2 pence is in respect of the Single Strategy business).

Management basis - continuing business (excludes QLA)

- Adjusted profit before tax for the Group up 3% to £182 million (2018: £176 million); for further details see overleaf.
- Adjusted diluted earnings per share from continuing operations of 8.6 pence (2018: 8.9 pence) reflecting more normal tax charge.
- Recommended final dividend of 3.5 pence per share (2018: 3.3 pence per share), bringing the total dividend for the year to 5.2 pence per share (2018: 3.3 pence per share, excluding the special dividend of 12.0 pence per share).
- Assets under Management/Administration ("AuMA") up 13% from 31 December 2018 to £110.4 billion (2018: £97.7 billion).
- Operating margin stable at 26% (2018: 26%), despite investment in distribution, supported by optimisation initiatives.
- Net Client Cash Flow ("NCCF") of £0.3 billion (2018: £4.7 billion).
- Integrated net flows of £2.6 billion (2018: £4.7 billion).

Statutory results

- IFRS loss before tax attributable to equity holders from continuing operations of £53 million (2018: profit of £41 million) reflecting a higher policyholder tax charge due to the increase in market levels during 2019.
- Diluted earnings per share of 7.8 pence (2018: 26.5 pence).
- Solvency II ratio of 221% after payment of the recommended final dividend (2018: 190% (including QLA)).

Strategic progress

- The sale of the QLA business to ReAssure Group for £425 million (plus interest of £21 million) completed on 31 December 2019. The net surplus proceeds of £375 million are planned to be returned to shareholders. A share buyback on both the London and Johannesburg Stock Exchanges will commence imminently.
- Odd-Lot Offer to reduce number of shareholders by up to c.50% at a cost of up to c.£30 million announced alongside full year results.
- UK Platform Transformation Programme - initial migration of 38,500 accounts from 25,000 clients representing AuA of £4.3 billion successfully transitioned over the weekend of 22/23 February 2020, in line with plan.
- Business optimisation and cost saving initiatives ahead of plan with £14 million of savings realised during the year with an end-2019 run rate benefit of £24 million.
- Integration of Charles Derby completed and Lighthouse Group plc progressing in line with plan. Charles Derby rebranded to Quilter Financial Advisers early in 2020.
- Quilter Investors disengagement from Transition Service Agreement with Merian completed six months ahead of schedule and on budget.

Paul Feeney, Chief Executive Officer, said:

"2019 was a pivotal year for Quilter. Not only were we pleased with a 3% increase in adjusted profit to £182 million, excluding QLA, after business investment via acquisitions and new premises expenditure of around £10 million, it was also a great year for delivering on our transformation agenda.

Our optimisation plans remain on track and our advice acquisitions will contribute to flows in the coming years. Quilter Investors is now a highly scalable business with a broader range of solutions to meet client needs. Quilter International delivered strong performance in 2019 supported by a focus on cost containment to offset revenue pressures.

The Board has proposed a final dividend of 3.5 pence per share to provide a full year dividend of 5.2 pence per share. We intend to undertake a capital return of £375 million to shareholders from the net surplus proceeds from the Quilter Life Assurance sale, and a share buyback will commence imminently. We have also announced an Odd-Lot Offer to provide small shareholders with a cost effective means of selling their shares.

2020 began well but the sharp Coronavirus induced market correction beginning in late February has created a level of uncertainty as to the outlook for the remainder of 2020. It is currently too early to ascertain what impact market volatility will have on investor sentiment, NCCF and the consequential impact this may have on revenues and profitability.

Notwithstanding short term market sentiment, we remain optimistic on the long-term secular opportunity across our markets and Quilter is strategically well positioned to benefit from this. Completing the first migration onto our new UK platform in early February was a major milestone for the Group. We are now focussed on delivering the second and final migration to a high quality outcome in the summer. Our new platform will strengthen the cohesion between our different business capabilities and be a catalyst for faster growth."

Quilter highlights from continuing operations[1]	2019	2018
Assets and flows		
AuMA (£bn)[2]	110.4	97.7
Gross sales (£bn)[2]	12.3	14.2
NCCF (£bn)[2]	0.3	4.7
NCCF/opening AuMA[2]	-	5%
Integrated flows (£bn)[2]	2.6	4.7
Productivity (£m)[2,3]	1.0	1.7
Asset retention[2]	88%	91%
Profit & loss		
IFRS (loss)/profit before tax attributable to equity holders from continuing operations (£m)	(53)	41
IFRS (loss)/profit after tax from continuing operations (£m)	(21)	66
Adjusted profit before tax before reallocation of QLA costs (£m)[2,4]	182	176
Adjusted profit before tax (£m)[2,4]	156	148
Operating margin[2]	26%	26%
Revenue margin (bps)[2]	55	55
Return on equity[2]	8.3%	9.8%
Non-financial		
Restricted Financial Planners ("RFPs")[6]	1,799	1,621
Investment Managers ("IMs")[6]	167	155

Quilter highlights from continuing operations and Quilter Life Assurance	2019	2018
Profit & loss		
Adjusted profit before tax (£m)[2]	235	233
Operating margin[2]	29%	30%
Revenue margin (bps)[2]	57	57
Adjusted diluted earnings per share (pence)[2,5]	11.3	12.3

[1]Continuing operations represent Quilter plc excluding results of QLA (for both 2018 and 2019) and the Single Strategy business (up to the date of sale which completed on 29 June 2018).

[2]Alternative Performance Measures ("APMs") are detailed on pages 5 to 7.

[3]Average integrated NCCF per Restricted Financial Planner.

[4]Adjusted profit from continuing operations includes £26 million of costs (2018: £28 million) previously reported as part of the QLA business to be reallocated from discontinued to continuing operations, as these costs do not transfer to ReAssure on disposal at 31 December 2019. Of the £26 million of costs reallocated, £14 million will recur in 2020 to provide services to ReAssure under the Transitional Services Arrangement, with corresponding income to cover these costs. Management actions are being taken to manage the remaining costs, which are expected to continually decline over the next two years. Refer to page 16 for a full reconciliation.

[5]Adjusted diluted earnings per share in 2018 of 13.5 pence, of which 1.2 pence in respect of the Single Strategy business.

[6]Closing headcount as at the year end date.

Adjusted profit presented in this announcement

Adjusted profit is presented in this announcement in a number of ways, to provide readers with a view of adjusted profit for the total Group, excluding QLA, and on a continuing and discontinued basis. A full reconciliation of these views is provided on page 16 and a definition of adjusted profit is explained on page 5.

For adjusted profit before tax on a continuing basis, IFRS accounting standards require £26 million of costs (2018: £28 million), previously reported as part of the QLA business, to be reallocated from discontinued to continuing operations, as these costs do not transfer to ReAssure on disposal at 31 December 2019. Of the £26 million of costs re-allocated, £14 million will be incurred in 2020 to provide services to ReAssure under the Transitional Services Arrangement, with corresponding income to cover these costs. Management actions are being taken to manage the remaining costs, which are expected to continually decline over the next two years.

Alternative Performance Measures ("APMs")

We assess our financial performance using a variety of measures including APMs, as explained further on pages 5 to 7. In the headings and tables presented from page 8 onwards, these measures are indicated with an asterix: *.

Quilter plc results for the year ended 31 December 2019

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Paul Feeney, CEO, and Mark Satchel, CFO, will host a presentation for investors and analysts at 08:30am (GMT) today, 11 March 2020, at Quilter plc, Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ.

Alternatively, if you are unable to attend but would like to watch a live webcast of the presentation, please click on the link below to join via our website.

Live and on-demand: https://www.quilter.com/investor-relations

To join by telephone:

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Note: Neither the content of the Company's website nor the content of any website accessible from hyperlinks on this announcement (or any other website) is incorporated into, or forms part of, this announcement.

Disclaimer

This announcement may contain certain forward-looking statements with respect to certain Quilter plc's plans and its current goals and expectations relating to its future financial condition, performance and results.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Quilter plc's control including amongst other things, international and global economic and business conditions, the implications and economic impact of several scenarios of the UK leaving the EU in relation to financial services, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Quilter plc and its affiliates operate. As a result, Quilter plc's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Quilter plc's forward looking statements.

Quilter plc undertakes no obligation to update the forward-looking statements contained in this announcement or any other forward-looking statements it may make. Nothing in this announcement should be construed as a profit forecast.

Business unit descriptor:

Previous Business Unit Name	New Business Unit Name
Advice & Wealth Management	
Multi-Asset	Quilter Investors
Quilter Cheviot	No change
Intrinsic	Quilter Financial Planning
Old Mutual Wealth Private Client Advisers	Quilter Private Client Advisers
Wealth Platforms	
UK Platform	Quilter Wealth Solutions
International	Quilter International
Heritage	Quilter Life Assurance

Alternative Performance Measures ("APMs")

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

APMs should be read together with the Group's consolidated financial statements, which include the Group's income statement, statement of financial position and statement of cash flows, which are presented on pages 32 to 37.

A number of our metrics exclude Quilter Life Assurance, which was historically excluded due to the closure of the institutional life book of business announced in 2017, and the run-off of the closed legacy book of business. At 31 December 2019, this business was sold to ReAssure, as explained in note 3(b) to the financial statements, and has been classified as a discontinued operation accordingly.

Further details of APMs used by the Group in its financial review are provided below**.** The Group's APMs have not changed due to the adoption of new accounting standards in the year, which includes the impact of IFRS 16, as disclosed in note 1 to the consolidated financial statements.

APM	Definition
Adjusted profit before tax	Represents the adjusted profit before tax of the Group. Adjusted profit before tax represents the Group's IFRS profit, adjusted for key items and excludes non-core operations, as detailed on page 34 in the consolidated financial statements. Due to the nature of the Group's businesses, management believe that adjusted profit before tax is an appropriate basis by which to assess the Group's underlying operating results as it enhances comparability and understanding of the financial performance of the Group. In 2019, total adjusted profit before tax is presented for the total Group, as well as adjusted profit before tax for the Group excluding QLA, and adjusted profit before tax for QLA. A continuing and discontinued view of adjusted profit before tax has also been presented, as IFRS accounting standards require £26 million of costs (2018: £28 million) previously reported as part of the QLA business to be reallocated from discontinued to continuing operations, as these costs do not transfer to ReAssure on disposal at 31 December 2019. A detailed reconciliation of the adjusted profit before tax metrics presented, and how these reconcile to IFRS, is provided on page 16. Adjusted profit is referred to throughout the Chief Executive Officer's statement and Financial review, with comparison to the prior period explained on page 13.
Revenue margin (bps)	Represents net management fees, divided by average AuMA. Management uses this APM as it represents the Group's ability to earn revenue from AuMA. Revenue margin by segment and for the Group is explained on page 14 of the Financial review.
Operating margin	Represents adjusted profit before tax divided by total net fee revenue including policyholder tax contributions and adviser fees. Operating margin excludes financing costs on external debt (as disclosed in note 5(a) to the consolidated financial statements as 'Interest payable on borrowed funds'). Operating margin is presented for the total group, including QLA, and the group excluding QLA (before the reallocation of the QLA costs as described in the adjusted profit before tax section above). Management use this APM as this is an efficiency measure that reflects the percentage of total net fee revenues that become adjusted profit before tax. Operating margin is referred to in the Chief Executive Officer's statement and Financial review, with comparison to the prior year explained in the adjusted profit section on page 14.
Gross sales	Gross sales are the gross client cash inflows received from customers during the period and represent our ability to increase AuMA and revenue. Gross sales are disclosed by business on page 12 of the Financial review and by business and segment in the Supplementary information on pages 24 and 26.
Gross outflows	Gross outflows are the gross client cash outflows returned to customers during the period and results in a decrease to AuMA and revenue. Gross outflows are disclosed by business on page 12 of the Financial review and by business and segment in the Supplementary information on pages 24 and 26.
Net client cash flows ("NCCF")	The difference between money received from and returned to customers during the relevant period for the Group or for the business indicated. This measure is considered to be a lead indicator of total net fee revenue. NCCF is referred to throughout this document, with a separate section in the Financial review on pages 12 to 13, and is presented by business and segment in the Supplementary information on pages 24 to 26.

Integrated net flows	Total NCCF (excluding QLA), before intra-Group eliminations that have flowed through two or more segments within the Group. It is considered to be a lead indicator of revenue generation driven by our integrated business model. Integrated net flows are explained in the NCCF section of the Financial review on page 13.
Assets under Management and Administration ("AuMA")	Represents the total market value of all financial assets managed and administered on behalf of customers. For reporting, the Advice and Wealth Mangement segment presents Assets under Management and Wealth Platforms segment presents Assets under Administration. AuMA is referred to throughout this document, with a separate section in the Financial review on page 13, and is presented by business and segment in the Supplementary information on page 25.
Average AuMA	Represents the average total market value of all financial assets managed and administrated on behalf of customers. Average AuMA is calculated using a 7-point average (half year) and 13-point average (full year) of monthly closing AuMA.
Total net fee revenue[1]	Total net fee revenue represents revenue earned from net management fees and other revenue listed below, and is a key input into the Group's operating margin. Further information on total net fee revenue is provided on page 14 of the Financial review and note 5(c) in the consolidated financial statements.
Net management fees	Consists of revenue generated from AuMA, fixed fee revenues including charges for policyholder tax contributions, less trail commissions payable. Net management fees are presented net of trail commission payable as trail commission is a variable cost directly linked to revenue, which is treatment and presentation commonly used across our industry. Net management fees is a part of total net fee revenue, which is a key input into the Group's operating margin. Further information on net management fees is provided on page 14 and note 5(c) in the consolidated financial statements.
Other revenue	Represents revenue not directly linked to AuMA (e.g. encashment charges, closed book unit-linked policies, non-linked Protect policies, adviser initial fees and adviser fees linked to AuMA in Quilter Financial Planning (recurring fees)). Other revenue is part of total net fee revenue, which is a key input into the Group's operating margin. Further information on other revenue is provided on page 14 and note 5(c) in the consolidated financial statements.
Expenses[1]	Expenses represent the underlying costs for the Group, excluding the impact of one-off items that need to be incurred to earn total net fee revenue. Expenses are included in the calculation of adjusted profit before tax, and impact the Group's operating margin. A reconciliation of expenses to the applicable IFRS line items is included in note 5(c) to the consolidated financial statements, and the adjusting items excluded from expenses are explained in note 5(a). Expenses are explained on page 15 of the Financial review.
Cash generation	This presents a shareholder view of underlying cash earnings. The IFRS consolidated statement of cash flows includes policyholder cash flows and non-operating items. Cash generated from operations is calculated by removing non-cash items from adjusted profit after tax. For 2019, the cash generation has been calculated using the total adjusted profit for the Group (including QLA), as well as for adjusted profit (excluding QLA) before the reallocation of QLA costs (as explained on page 2). The capital requirements of the business are assessed on each company's solo regulatory solvency basis. Cash generation is explained on page 17 of the Financial review.
Asset retention	The asset retention rate measures our ability to retain assets from delivering good customer outcomes and investment performance. Asset retention reflects the annualised outflows of the assets under management during the period as a percentage of opening assets under management. Asset retention is calculated as: 1 - (annualised gross outflow divided by opening assets under management). Asset retention is provided for the Group on page 2, and by segment on pages 28 to 29.
Productivity	Productivity is a measure of the value created by Integrated net flows from our advice business, and is an indicator of the success of our integrated business model. Productivity is calculated as average integrated net flow per Restricted Financial Planner. Productivity is provided on pages 2 and 28.
NCCF/opening AuMA (excluding QLA)	This measure is calculated as total NCCF annualised (as described above) divided by opening AuMA presented as a percentage. Quilter Life Assurance is excluded from this metric principally due to the closure of the institutional life book of business announced in 2017 and run-off of the legacy book as it is a closed-book business. The completion of the sale of this business took place on 31 December 2019. This metric is provided on page 2.

Return on Equity ("RoE") (excl. discontinued operations)	This calculates how many pounds of profit the Group generates with each pound of shareholder equity. This measure is calculated as adjusted profit after tax divided by average equity. For the 2018 comparative, equity was adjusted for the acquisition of Skandia UK from Old Mutual plc as part of Managed Separation and equity allocated to the discontinued operations arising from the sale of the Single Strategy business and, for both 2018 and 2019, sale of the Quilter Life Assurance business.
IFRS profit before tax (excluding amortisation, policyholder tax adjustments and other one-off items)[1]	This profit metric is calculated using the Group's IFRS profit before tax, from continuing and discontinued operations, and is adjusted to exclude amortisation of intangible assets, policyholder tax adjustments, and other one-off items as disclosed in the reconciliation in note 5(b) to the consolidated financial statements. This APM has been relabeled in 2019, to provide a more meaningful title (was previously called IFRS profit before tax (excluding policyholder tax and life tax contributions)). The 2018 comparative has also been restated for comparability with the current year, which is also explained in note 5(b) to the consolidated financial statements. This metric is used as the basis for remuneration, which is explained in the Remuneration Report in the Group's Annual Report.
Adjusted diluted earnings per share	Represents the adjusted profit earnings per share. Calculated as adjusted profit after tax divided by the weighted average number of shares. Refer to page 15 and note 7 in the consolidated financial statements. In 2019 adjusted diluted earnings per share is presented for the total Group, as well as adjusted profit before tax for the Group excluding QLA. A continuing and discontinued view of diluted earnings per share has also been presented, as IFRS accounting standards require £26 million of costs (2018: £28 million) previously reported as part of the QLA business to be re-allocated from discontinued to continuing operations, as these costs do not transfer to ReAssure on disposal at 31 December 2019. The calculation of all EPS metrics is included in note 7 to the consolidated financial statements Adjusted diluted earnings per share is referred to throughout this document, with additional details in the EPS section in the Financial review on page 15.
Headline earnings per share[1]	The Group is required to calculate headline earnings per share in accordance with the Johannesburg Stock Exchange Limited Listing Requirements, determined by reference to the South African Institute of Chartered Accountants' circular 02/2015. This is calculated on a basic and diluted basis. For details of the calculation, refer to note 7 to the consolidated financial statements.

[1]New APM definition in 2019.

Chief Executive Officer's Statement

Execution

Last year I noted that Quilter had come to market not as the finished article but as a work in progress. In 2019 we made significant strides towards achieving our goals. We have a clear vision about what we want Quilter to be: a modern advice-led, wealth management company built on the principles of fairness, transparency and choice with each of these supported by great service. Our core UK customer propositions are free of exit charges or surrender penalties. Delivering good customer outcomes through the provision of trusted advice is central to everything we do. The combination of our own restricted financial planners together with the c.4,000 independent adviser firms who use Quilter's UK Platform on a regular basis provides us with two strong channels to drive business growth.

Our ambitions are considerable and the growth opportunity across our markets remains compelling, so during 2019 we have been moving at pace to transform Quilter by:

- a relentless focus on optimisation and the development of our new UK platform;
- reshaping our business through both acquisitions and disposals;
- investing in our revenue generation capability through growth in restricted financial planners and adding investment managers to replace the departures we saw in 2018; and
- maintaining the capital discipline we demonstrated with 2018's special dividend through a commitment to return the £375 million net surplus sale proceeds from the disposal of Quilter Life Assurance through on-market share repurchases.

Remaining key milestones include the migration of customers from our existing platform onto our new UK platform, the first stage of which was completed in early 2020. We also need to complete the first phase of our optimisation plans by the end of 2021. As we look ahead, we believe that the secular growth characteristics of our markets remain strong, and each of our businesses are well positioned strategically in each of the markets in which they operate. Our objective is to deliver on our potential by making Quilter more than the sum of its parts and delivering excellent outcomes for all our stakeholders.

Financial performance

We have delivered a solid profit performance in 2019 in a market that has had to contend with extreme political and economic uncertainty due to Brexit in the UK, and trade and geopolitical concerns more broadly across the globe. Business conditions in 2019 were the opposite of those experienced in the previous year. In 2018, Quilter benefited from good new business flows but a challenging environment which was exacerbated by the market sell off late in that year. By contrast, in 2019 the net flow environment has been more challenging due to the aforementioned geopolitical uncertainty coupled with certain Quilter-specific issues, discussed below. However, the market rebound early in 2019 was stronger than we expected at the end of 2018, which, coupled with the high level of retention of our assets under management and administration, meant we closed the year with record AuMA of £110.4 billion.

Against this backdrop, I am pleased with our adjusted profit before tax for the year of £182 million (2018: £176 million) (excluding Quilter Life Assurance), up 3% on last year, or £235 million (2018: £233 million), up 1%, including Quilter Life Assurance. This reflected stable revenue margins coupled with a 4% increase in average AuMA and was supported by strong cost discipline and our optimisation activities. Expenses increased modestly as a result of investment in the business through our distribution acquisitions and the normalisation of the charge for the FSCS levy. Excluding the impact from acquisitions, underlying costs (including Quilter Life Assurance) were broadly unchanged on 2018, in line with the guidance provided at the beginning of the year. On an IFRS basis, our continuing business made a loss after tax of £21 million (2018: profit after tax of £66 million). The difference between our IFRS and adjusted profit is predominantly due to the amortisation of (non-cash) intangibles related to acquisitions, the costs of our platform transformation programme (which will fall away in 2021) and the restructuring costs associated with our optimisation plans, which will continue to be incurred in 2020 and 2021.

Transformation

A key initiative in 2019 was broadening the reach of our advice business. We acquired Charles Derby Group in February 2019 which, in one-step, gave us UK-wide scale in our recently formed national advice business. The subsequent addition of 390 financial advisers through the acquisition of Lighthouse Group plc in June 2019 added critical mass to the national advice business as well as broadening our network business. We will enhance the Lighthouse restricted proposition through access to Quilter Investors solutions which have been specifically designed to meet the needs of customers of advice businesses. In line with the trend in previous acquisitions, over time, we expect a number of the 250 Lighthouse independent financial advisers to convert to a restricted proposition based upon the ability of our propositions to meet their customers' needs.

The integration of both the above acquisitions are progressing in line with expectations and should contribute to flows during 2020. While these acquisitions were strategically important, we also experienced good levels of organic growth in RFPs across our wider business. We added a net 41 RFPs across the firm representing organic growth of 3% and have a strong pipeline of new joiners expected for 2020 which is partly due to the scaling up of our investment in our Financial Adviser School. Given the focus on broadening of our business, we were delighted that Quilter was named as the top-ranked financial adviser firm in 2019 by FTAdviser which provides external validation of our commitment to providing high-quality advice.

The sale of Quilter Life Assurance was in line with our strategic objectives. Once the FCA thematic review into fair treatment of long-standing customers closed with a favourable outcome in late 2018, we decided to undertake a strategic review of the business which concluded that a sale was in the best interests of customers, shareholders and employees. The sale of Quilter Life Assurance to ReAssure helps simplify and focus our business and removes a drag from our growth trajectory. We were delighted with the sale price achieved of £425 million (and interest income of £21 million) representing 120% of proforma own funds which set a new benchmark for pricing of closed life book transactions in the UK. Our Board is highly focussed on capital discipline and we intend to return the full net surplus sale proceeds (after disposal costs) of £375 million to shareholders. We will commence a share buyback on the London and Johannesburg exchanges shortly and it will be subject to staged regulatory approval and the Board will keep the programme under review to make sure it continues to be the most efficient and effective means of returning capital to shareholders.

In terms of our operational transformation through optimisation, we continue to make excellent progress. In late 2018 and 2019 our focus was on initiatives with near-term benefits such as supplier contract renegotiation and reduction, driving savings in property and facility costs, and reducing dependence on higher cost contracting staff. We are now focussed on delivering the longer-term sustainable cost savings which will allow us to deliver the planned operating margin improvements in 2020 and 2021. This will be achieved through technology enabled transformation, such as implementing a single payroll system, a firm-wide general ledger and enhancing the straight through processing capabilities within our advice business. We have started the consolidation of the support functions which is designed to create centres of excellence across the business by removing duplication and ensuring tasks are only performed once. This has already contributed to our lower costs in activities such as finance and marketing.

Our optimisation plans have contributed to keeping our operating margin stable year-on-year, despite the impact of our Advice acquisitions which have a lower operating margin than the rest of the Group. We remain committed to delivering the targeted improvement in our operating margin in 2020 and in 2021. As a result of the sale of Quilter Life Assurance, this will be off a lower base than we originally expected when we announced our targets in March 2019. We target an operating margin of 27% for 2020 and 29% for 2021.

Turning to our UK Platform Transformation Programme, this has been a priority over the course of 2019. We spent the year with the system in soft launch phase which was used to verify core system functionality, processes and controls in a live environment. This provided valuable insight as we worked through to the core code delivery in the summer and the delivery of the master version of the code in early November 2019. Alongside our rigorous testing approach, we undertook two dry runs and three dress rehearsals as part of our migration readiness plans before our initial migration in February 2020.

This initial migration of c.8% of the total platform assets under administration represented the funds associated with around 60 adviser firms and 25,000 customers. In the period immediately after migration, operational activity has been in line with expectations and initial feedback from advisers using the new system has been positive. We will incorporate lessons learnt from this process into our plans and ensure the new platform is operating well and at scale, ahead of undertaking our final migration by the end of summer, with scheduling of this timed to reduce potential disruption to our customers and advisers.

Ensuring that assets are transferred from our existing platform onto the new platform on a high quality, low risk basis is mission-critical. The total costs of the project are expected to be around £185 million, in line with the revised estimates we set out in August 2019. Of this sum, £136 million had been spent by end-December 2019.

Separately, we executed well on the programme to build out Quilter Investors' capability as a standalone business independent of the transitional support provided by Merian Global Investors (formerly Old Mutual Global Investors). This project was completed more than six months ahead of schedule and within budget.

Operational performance

Delivering good customer outcomes through a trusted advice relationship is core to the Quilter business model. Both our restricted and third party independent advisers drive client flows to our platform – the centre of our business which provides the investment 'wrappers', where needed, to meet clients needs. Our investment solutions provide the intellectual capital to deliver the financial outcomes that our clients seek. Excellent service delivery underpins the customer and adviser experience. Confidence in our proposition is demonstrated through both the continued attraction of our solutions to independent financial advisers and the resilience of our integrated net flows.

Gross client cash flows (excluding Quilter Life Assurance) into the business were lower at £12.3 billion (2018: £14.2 billion) and as already noted, 2019 was challenging in terms of NCCF. 2019 NCCF (excluding Quilter Life Assurance) of £0.3 billion was down from £4.7 billion in 2018. As well as general market uncertainty caused by Brexit and broader geopolitical and macro-economic concerns, the 2019 result includes two Quilter-specific issues:

First, despite higher gross sales in 2019 from Quilter Cheviot, the departures of a group of Investment Managers who resigned in mid-2018 had an impact on outflows in the business once their non-compete restrictions expired in the second quarter 2019. We recorded outflow requests totalling £1.3 billion from clients looking to follow these Investment Managers and, as previously announced, we also experienced the transfer of a quasi-institutional £0.2 billion mandate from Quilter Cheviot late in the second quarter.

Secondly, partly due to market uncertainty, we have experienced a lower level of new gross flows onto our UK platform from both our and third party financial advisers ahead of our planned platform migration this year. This has led to lower levels of flow into Quilter Investors, with the combination of these factors leading to lower net flows.

Quilter International's NCCF was up 67% on the prior year, albeit off a low base. The current business flows are consistent with repositioning the business to have deeper roots in fewer markets, and to ensure the product range and client offering across our international markets is consistent with Quilter's risk appetite in all markets where we operate.

We are pleased that overall levels of client retention across the business were broadly unchanged, outside of the isolated impact from the Quilter Cheviot departures.

AuMA, excluding Quilter Life Assurance, increased 13% to £110.4 billion from £97.7 billion at 31 December 2018. The market recovery began late in the first quarter and overall market levels oscillated around the higher levels for most of the year, with the FTSE-100 up 12% during the year. This led to average AuMA, excluding Quilter Life Assurance, of £105.7 billion, the principal driver of management fee revenue, modestly higher than the 2018 average level of £101.9 billion.

Investment performance

Our solutions have continued to deliver good investment performance for our clients. Performance at Quilter Cheviot, our discretionary fund management business, continued to outperform relevant ARC benchmarks, with strong returns from our stock selection. We recorded first or second quartile performance over 1, 3 and 5 years, and top quartile over 10 years across all categories.

The medium and longer-term performance of Quilter Investors' multi-asset funds has also remained strong, although the shorter-term performance on the biggest range, Cirilium Active, has been more mixed reflecting some tactical positioning over the prior year end and the start of 2019 that did not perform in the short-term to our medium and long-term expectations. This underperformance partially recovered in a strong finish to the year. Our Cirilium passive range has continued to perform strongly. The second largest range, our Managed Portfolio Service, continued to deliver good performance.

We have both simplified and broadened the Quilter Investors product range through fund consolidation and new product launches during 2019. These new products, including our new multi-asset income suite and the Cirilium blend proposition, have been launched in response to the specific needs of our customers based upon direct research we conducted through our advice business. These products have lower revenue margins than our current stock of business and equally, have a lower cost to manufacture. We are pleased with the early response from clients and advisers to these new products and look forward to them contributing to the Group's net flows in the years to come.

Brand

Ensuring Quilter brand consistency and strengthening the ties that bind our people to deliver our purpose is a core focus for the management team. Feedback from the gradual transition to a single Quilter brand across our business from both staff and advisers has been overwhelmingly positive. The move to the Quilter brand allows our network of advisers to enhance their relationship with their clients by demonstrating the backing of a strong FTSE-250 listed business and for staff it reinforces their importance to the broader Quilter business.

Culture and values

Creating a responsible business which builds positive stakeholder relationships is very important to me. In particular I want Quilter to be a place where our people can fulfil their potential and thrive. During 2019 we continued our colleague wellbeing initiative, Thrive, which supports our people's emotional, mental, physical, financial and social wellbeing. Colleagues are engaged in the community via the Quilter Foundation which is our registered charity. It supports young people by enhancing financial capability, improving employment prospects and supporting good mental health. As we complete our transition to a unified brand I am delighted that our employee engagement scores remain strong and we will continue to strengthen our cutlure and the ties that bind us across the organisation.

Our vision for Quilter is to be a modern, advice led, Wealth Manager delivering good customer outcomes. Our foundations are built on three simple principles; delivering customer choice, being transparent and ensuring fairness in all our dealings with customers, with all of this underpinned by high quality service levels.

Choice is about delivering quality assured choice rather than unlimited choice to customers and being agnostic as to active versus passive solutions and in terms of how customers wish to approach us - whether it is via their own independent adviser or through one of our own restricted financial planners.

Transparency means no hidden charges and no lock-ins so that customers only pay Quilter for what they use and are free to go elsewhere if they choose.

Fairness is about always doing the right thing for our customers. In this regard, we are aware of current market commentary surrounding British Steel pension transfer advice. Prior to our acquisition in June last year, Lighthouse advised around 300 British Steel pension scheme members to undertake a defined benefit transfer. Of this sum, approximately 80 were undertaken prior to June 2017 after which the transfer values of the pension scheme were fundamentally enhanced. Since the year-end we have been notified of around 30 complaints relating to advice provided by Lighthouse, all of which related to the pre-June 2017 period. We are in the process of reviewing those complaints and have written directly to the customers involved. Whilst Lighthouse has professional indemnity insurance cover in place, we have taken a provision of £12 million on a gross basis to cover potential costs and this has been reflected as an adjustment to the acquisition balance sheet of Lighthouse. We have initiated a review of all cases advised by Lighthouse, prior to its acquisition by Quilter in June 2019, to assess the standard of advice given to British Steel pension scheme members and have actively engaged with the regulator. While this situation is obviously disappointing, our priority is to do the right thing for our customers.

Outlook

Quilter's performance during the early part of 2020 was broadly in line with our expectations. Markets were initially resilient, we were seeing a more confident tone from clients and their advisers and the overall NCCF flow trends for the UK business were consistent with the trends seen in late 2019. Net flows onto the UK platform continued at a similar level and the outflows at Quilter Cheviot continued to decline leading to a modest NCCF inflow in that business. NCCF for Quilter International was at a similar run-rate to the first quarter of 2019.

The sharp Coronavirus induced market correction beginning in late February has created a level of uncertainty as to the outlook for the remainder of 2020. As we all try to understand the potential impact of this on people, economies and markets, my focus is two-fold; firstly, making sure our people are safe and secondly, a customer focus. We have contingency plans in place for home-working across the organisation and we are following Public Health England guidelines, as they develop. In times of turbulence like this, we want our advisers and investment managers to be right there to support and guide our clients, so they are not left to deal with this level of uncertainty alone. At this stage, it is too early to ascertain the impact of this situation on investor sentiment, NCCF and revenues.

Our optimisation programme will deliver the cost savings that are embedded in our operating margin targets for 2020/2021. However, as we have previously indicated, those targets were based on an expectation of broadly stable markets from the base level at time they were set, coupled with a modest aggregate NCCF contribution over the period. If markets were to remain at recent post correction levels for an extended period, or to decline further, then delivering our operating margin target for 2020 will be a challenge. We remain committed to our targets but recognise that attainability will be subject to market levels, investor activity and management actions over the remainder of the year.

Irrespective of short term market sentiment, we remain optimistic on the long-term secular opportunity across our markets and we are strategically well positioned to benefit from this. Completing the first migration onto our new UK platform in early February was a major milestone for the Group. We are now focussed on delivering the second and final migration to a high quality outcome in the summer. The new platform will strengthen the cohesion between our different business capabilities and be a catalyst for faster growth.

Paul Feeney

Chief Executive Officer

Financial review

Review of financial performance

Overview

In this financial review, unless indicated otherwise, all results are presented including QLA in both the current year and prior year comparative. Unless indicated otherwise, the prior year comparative will exclude the results of the Single Strategy business that was disposed on 29 June 2018.

The Group delivered solid results for 2019, in a challenging environment for flows. Platform industry statistics indicate that 2019 was the lowest year for net flows since 2013, due to broader UK political and economic uncertainty. NCCF for the Group was £0.3 billion, excluding the Quilter Life Assurance business, which was sold to ReAssure in December 2019. AuMA, excluding the Quilter Life Assurance business, increased by 13% to close at £110.4 billion, benefitting from the rebound in equity markets during the year, with the FTSE-100 index up 12% for the year. Adjusted profit before tax (including QLA) increased by 1% to £235 million, with stable revenue, supported by continued cost discipline across the business. The Group's IFRS loss after tax from continuing operations (excluding QLA) was £21 million, compared to a profit after tax of £66 million in 2018, primarily due to the change in policyholder tax, which can vary significantly year on year as a result of market volatility.

Alternative Performance Measures ("APMs")

We assess our financial performance using a variety of measures including APMs, as explained further on pages 5 to 7. In the headings and tables presented, these measures are indicated with an asterix: *.

Key financial highlights

Year ended 31 December 2019 Continuing operations (excluding QLA)	**Advice & Wealth Management**	**Wealth Platforms**	**Eliminations**	**Total Group**
Gross sales (£bn)*	7.5	8.0	(3.2)	**12.3**
Gross outflows (£bn)*	(7.8)	(6.6)	2.4	**(12.0)**
NCCF (£bn)*	(0.3)	1.4	(0.8)	**0.3**
Integrated net flows (£bn)*	1.6	1.0	-	**2.6**
AuMA (£bn)*	45.8	77.7	(13.1)	**110.4**
NCCF/opening AuMA (%)*	(1%)	2%	n/a	**-**
Asset retention (%)*	81%	90%	n/a	**88%**

Year ended 31 December 2018 Continuing operations (excluding QLA)	Advice & Wealth Management	Wealth Platforms	Eliminations	Total Group
Gross sales (£bn)*	8.0	9.5	(3.3)	14.2
Gross outflows (£bn)*	(4.5)	(6.1)	1.1	(9.5)
NCCF (£bn)*	3.5	3.4	(2.2)	4.7
Integrated net flows (£bn)*	3.6	1.1	-	4.7
AuMA (£bn)*	40.7	67.7	(10.7)	97.7
NCCF/opening AuMA (%)*	8%	5%	n/a	5%
Asset retention (%)*	89%	91%	n/a	91%

Net client cash flow ("NCCF")*

NCCF, excluding Quilter Life Assurance, was a net inflow of £0.3 billion (2018: £4.7 billion). After a good first quarter, the Group experienced net outflows in the second and third quarters of the year, which modestly reversed in the final quarter. Gross sales were lower due to challenging market conditions, with Brexit and broader geopolitical and macro-economic concerns weighing on investor sentiment. The Group also experienced higher gross outflows during the year, primarily as a result of the Investment Manager ("IM") departures from Quilter Cheviot, who resigned during 2018. Detailed analysis on NCCF by business is shown in the supplementary information section of this announcement.

Net inflows into Quilter Investors were £0.5 billion, down 82% from 2018 (£2.8 billion) reflecting lower new business volumes from Quilter Financial Planning, Quilter's own platform (Quilter Wealth Solutions) and third party platforms. As reported during the year, new business flows from Quilter Financial Planning and independent financial advisers were particularly impacted by investor uncertainty over Brexit in the UK and the macro environment more generally. This had a knock-on impact for Quilter Investors, where net flows from the restricted channel were £1.2 billion (2018: £2.4 billion), of which £0.3 billion (2018: £1.1 billion) were from third party platforms and £0.9 billion (2018: £1.3 billion) from our own platform, Quilter Wealth Solutions. Flows from the Wealth Platform segment to Quilter Investors were net outflows of £0.1 billion in 2019 (2018: net inflow £0.8 billion). Third party net outflows in Quilter Investors were £0.6 billion in 2019 (2018: outflow £0.4 billion).

Quilter Cheviot experienced NCCF outflows of £0.8 billion (2018: inflow of £0.7 billion), which included £1.3 billion of outflows linked to the departures of the IMs who resigned in mid-2018 and the loss of a £0.2 billion quasi-institutional mandate.

Quilter Wealth Solutions recorded net inflows of £0.9 billion, down 71% on prior year (2018: £3.1 billion). Gross sales of £6.0 billion (2018: £7.7 billion) decreased by £1.7 billion, primarily as a result of lower levels of defined benefit scheme ("DB") to defined contribution scheme ("DC") pension transfers, which were down 50% to £0.8 billion (2018: £1.6 billion) and lower levels of market activity more generally, particularly from independent financial advisers. NCCF from Quilter Wealth Solutions was further impacted by the impending migration of client assets to our new technology platform.

Quilter International's NCCF increased by 67% to £0.5 billion (2018: £0.3 billion), supported by a small number of investments from Hong Kong and Latin America in the fourth quarter, which totalled £0.3 billion.

Flows from continuing operations	**2019**	2018	% Change
Total integrated net flows*	**2.6**	4.7	(45%)
Direct net flows	**(1.5)**	2.2	-
Eliminations	**(0.8)**	(2.2)	64%
Total Quilter plc NCCF from continuing operations	**0.3**	4.7	(94%)

Integrated net flows (excluding Quilter Life Assurance) were £2.6 billion, down 45% from 2018 (£4.7 billion), as cautious investment sentiment led to a decrease in gross sales from Quilter Financial Planning. Similarly, Quilter Wealth Solutions experienced a decline in net flows primarily due to weaker flows across the industry due to a combination of Brexit, defined benefit transfer head winds and lower pension limits having an impact. The restricted channel of Quilter Financial Planning accounted for £1.2 billion (2018: £2.4 billion) of Quilter Investors' net flows and £1.0 billion (2018: £1.1 billion) of Quilter Wealth Solutions net flows.

Total Restricted Financial Planner ("RFP") headcount of 1,799 at 31 December 2019 included an additional 137 RFPs following the acquisition of Lighthouse Group plc. Excluding RFPs added through the Lighthouse Group plc acquisition, net RFP growth of 41 represents an annualised growth rate of 3%. We continue to generate good levels of new RFP appointments within existing businesses and through the recruitment of newly appointed representative firms, driven in part by the appointment of new recruitment leadership to drive our organic recruitment capability. The Quilter Financial Adviser School continues to be popular with firms and is on schedule to add around 100 graduates into Quilter Financial Planning firms in 2020. New RFP appointments have been partially offset by the natural attrition of advisers, with turnover levels within our appointed representative firms remaining stable throughout the year. Productivity* for Quilter Financial Planning was £1.0 million per RFP for the year (2018: £1.7 million), reflecting the challenging market conditions in 2019. Our strategic focus of building scale within the National model will help drive overall productivity levels in 2020 and beyond, boosted by the integration of Lighthouse Group plc and the acquisition of Prescient in December 2019.

Asset retention* (excluding Quilter Life Assurance) has declined marginally to 88% (2018: 91%), as a result of the outflows in Quilter Cheviot from the departing IMs. Adjusting for these outflows, asset retention is 90%, in line with prior year and previous medium-term experience.

Assets under management/administration ("AuMA")*

AuMA was £110.4 billion at 31 December 2019, up 13% from 31 December 2018 (£97.7 billion, excluding Quilter Life Assurance), driven by positive market performance of £12.4 billion and net inflows of £0.3 billion.

Quilter Investors' AuM was £20.8 billion, up 18% since the start of the year (2018: £17.7 billion). The Cirilium fund range AuM increased by 23% to £11.1 billion at 31 December 2019 (2018: £9.0 billion), with £0.8 billion of net inflows and £1.3 billion of market movement. The WealthSelect fund range increased by 22% to £6.7 billion of AuM at the end of December 2019 (2018: £5.5 billion). Quilter Cheviot AuM of £24.2 billion increased by 9% in the year, primarily as a result of positive market movements. Quilter Wealth Solutions' AuA increased by 16% to £57.2 billion, which is primarily comprised of £27.8 billion within pension propositions (of which £4.4 billion has been generated from the restricted channel and £23.4 billion from third party advisers) and £16.5 billion of ISA products. Quilter International AuA was £20.5 billion, up 12% (2018: £18.3 billion) predominantly due to favourable markets over the year and modest client inflows.

Adjusted profit before tax*

Adjusted profit before tax reflects the Board's view of the underlying performance of the Group and is used for management decision making and internal performance management. Adjusted profit before tax is a non-GAAP measure which adjusts IFRS profit for specific items, as detailed in note 5 in the consolidated financial statements on page 49 of this announcement, and is the profit measure presented in the Group's segmental reporting.

Adjusted profit before tax for 2019 (including QLA) was £235 million, 1% higher than the prior year (2018: £233 million excluding the Single Strategy business; 2018: £259 million including Single Strategy business). Adjusted proft for the Advice and Wealth Management segment grew by 1% (excluding the Single Strategy business) and the Wealth Platforms segment grew by 2% during the year. Excluding Quilter Life Assurance, adjusted profit for the Wealth Platforms segment grew by 7%.

Total net fee revenue of £808 million increased by 3% (2018: £788 million) over the year. Net management fees of £649 million were broadly stable on those of the prior year (2018: £647 million) as the growth in revenues from higher average AuMA in Quilter Investors and Quilter Wealth Solutions was offset by a decreasing revenue contribution from Quilter Life Assurance given the run-off nature of that business. Other revenue of £159 million grew by 13% (2018: £141 million), where the growth in Quilter Financial Planning contributed to the increase.

Expenses for the Group increased from £555 million to £573 million, mainly due to the impact of the Quilter Financial Planning acquisitions made in the year. Excluding acquisitions, expenses remained stable year on year.

The Group's overall operating margin has remained broadly stable at 29% (2018: 30%). Realised optimisation benefits have offset the impact of the Quilter Financial Planning acquisitions, which initially provide a drag on operating margin.

Financial performance from continuing operations and Quilter Life Assurance 2019 (£m)	**Advice & Wealth Management**	**Wealth Platforms**	**Head Office**	**Total Group**
Net management fee*	296	353	-	**649**
Other revenue*	111	45	3	**159**
Total net fee revenue*	**407**	**398**	**3**	**808**
Expenses*	**(304)**	**(233)**	**(36)**	**(573)**
Adjusted profit before tax*	**103**	**165**	**(33)**	**235**
Tax				**(25)**
Adjusted profit after tax				**210**
Operating margin (%)*	25%	41%		**29%**
Revenue margin (bps)*	67	42		**57**

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

[1]Total adjusted profit before tax including the Single Strategy business for 2018 is £259 million. Refer to reconciliation on page 16.

Total net fee revenue*

The Group's total net fee revenue increased by 3% to £808 million (2018: £788 million) due to higher average AuMA across all businesses, primarily as a result of the rebound in equity markets in 2019 and increased advice fees as a result of the Quilter Financial Planning acquisitions in both 2018 and 2019.

Total net fee revenue for the Advice and Wealth Management segment grew by 9% during the year, to £407 million (2018: £373 million). Quilter Investors average AuM increased by 10% to £19.6 billion, with £17 million of additional net management fee revenue compared to the prior year. This included non-recurring net revenue for Quilter Investors from the release of revenue provisions that were no longer required and which relate to the separation of the business from the Single Strategy business that was sold in 2018 (c. £8 million). Quilter Cheviot average AuM was flat year-on-year, as market growth offset the impact of the assets lost as a consequence of the IM departures. Total net fee revenue within Quilter Cheviot was 2% higher in 2019 at £178 million (2018: £175 million). Other revenue increased by £14 million to £111 million, principally due to the increase in advice fees in Quilter Financial Planning as a result of the acquisitions in 2019, as well as the full year revenue contribution from acquisitions made in 2018.

Total net fee revenue for the Wealth Platforms segment (including QLA) was £398 million, which was down 4% (2018: £414 million) primarily due to a reduction in Quilter Life Assurance and Quilter International's revenue. Quilter Wealth Solutions' net fee revenue increased by £7 million (4%) to £177 million due to higher average AuA of 6% over the course of the year. Quilter International's net fee revenue was £10 million lower than the prior year due to the continued movement of the book towards products that attract lower revenue. As expected, revenues from Quilter Life Assurance continued to decrease given the run-off nature of the book, and totalled £96 million (2018: £109 million).

The Group's revenue margin* from continuing business of 55 bps remained consistent with the prior year (2018: 55 bps).

The revenue margin for Advice and Wealth Management of 67 bps was 2 bps higher compared to the prior year. This increase was due to a 4 bps increase in the revenue margin for Quilter Investors to 63 bps, primarily due to the revenue provision releases (c. 2 bps) and income received from the Compass fund range previously managed by Merian. Quilter Cheviot's revenue margin remained in line with prior year at 72 bps.

The revenue margin for Wealth Platforms (excluding QLA) decreased by 2 bps to 38 bps, as new business written for Quilter Wealth Solutions and Quilter International is generally in products or in revenue tiering structures that have a slightly lower margin than the average for the current book of business.

Expenses*

Expenses increased by £18 million to £573 million (2018: £555 million) in the year. The acquisitions made by Quilter Financial Planning in 2019, and a full year run-rate for those made in 2018, increased expenses by £24 million, and the continued build out of the Quilter Investors business increased costs by a further £4 million year-on-year. The Quilter Investors business is now fully independent following the separation from the Single Strategy business, with a stable cost base. Expenses also increased as a result of the London office move, which added an additional £3 million as previously guided. The impact of these cost increases and those arising from inflation were more than mitigated by the continued cost disciplines across the business and savings achieved through optimisation. Overall expenses were broadly flat on 2018, excluding the impact of the acquisitions.

Expense split (£m)[1]	2019	2018
Front office and operations	**339**	319
IT and development	**130**	123
Support functions	**83**	96
Other	**21**	17
Expenses*	**573**	555

[1]For the 2018 comparatives, some costs have been reallocated between categories to align with current year presentation.

Front office and operations expenses increased by 6% to £339 million (2018: £319 million), primarily due to the impact of the Quilter Financial Planning acquisitions made during the year.

IT and development expenses increased by 6% to £130 million (2018: £123 million), mainly due to increased IT run costs to facilitate the growth in the business and general inflation, partly offset by a reduction in development costs due to less regulatory change requirements in 2019 compared to 2018.

Support function expenses relate to back office expenses, which have decreased by 14% to £83 million (2018: £96 million). Savings have been made across various functions as part of optimisation and are expanded on further below.

Other costs include Professional Indemnity Insurance, and charges for regulation and licencing fees. FSCS levies increased by £3 million this year due to an increase in levies for asset managers across the industry and a normalised full year charge for Quilter Financial Planning, following the nine month charge in 2018 as the FCA changed the timing of making charges to regulated entities within the industry.

Taxation

The effective tax rate (“ETR”) on adjusted profit was 10.7% (2018: 4.5%). The Group’s ETR is lower than the UK corporation tax rate of 19% principally due to profits from Quilter International being taxed at lower rates than the UK and the utilisation of brought forward capital losses. The Group’s ETR is dependent upon a number of factors including the level of Quilter International profits, the utilisation of capital losses, which can be volatile, as well as the UK corporation tax rate. A further reduction in the corporation tax rate to 17% from 1 April 2020 was enacted in 2016.

The Group’s IFRS income tax expense on continuing business was £66 million for the year ended 31 December 2019, compared to a credit of £86 million for the prior year. This income tax expense or credit can vary significantly year-on-year as a result of market volatility and the impact market movements have on policyholder tax. The recognition of the income received from policyholders (which is included within the Group’s IFRS revenue) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding policyholder tax expense, creating volatility to the Group’s IFRS profit or loss before tax attributable to equity holders. An adjustment is made to adjusted profit to remove these distortions, as explained further on page 17 and in note 5(a) of the consolidated financial statements.

Earnings Per Share (“EPS”)

Basic EPS was 8.0 pence, compared to 26.6 pence in 2018. Basic EPS is based on the Group’s IFRS profit (including both continuing and discontinued operations), with the decrease within discontinued operations due principally to the profit on sale of the Single Strategy business in 2018. During the year, the number of shares in issue remained at 1,902 million. The average number of shares in issue used for basic EPS was 1,835 million (2018: 1,832 million), after the deduction of shares held in Employee Benefit Trusts (“EBTs”) of 67 million (2018: 70 million) which are held in respect of staff share schemes.

Adjusted diluted EPS* (based on the Group’s adjusted profit after tax) was 11.3 pence (2018: 13.5 pence), of which 8.6 pence relates to the continuing business before the reallocation of QLA costs. Refer to note 7 of the consolidated financial statements. The average number of shares in issue used for adjusted diluted EPS was 1,863 million (2018: 1,839 million), following inclusion of the dilutive effect of shares and options awarded to employees under share-based payment arrangements of 28 million (2018: 7 million). The dilutive effect of share awards has increased year-on-year due to more share options being awarded to employees during 2019. Further details are included in note 7 of the consolidated financial statements.

Optimisation

As announced in March 2019, we have commenced our phased, multi-year optimisation programme, targeting a 4 percentage point uplift in the Group’s operating margin on an on-going business by 2021. Phase 1 is aiming to unify and simplify the Group through a number of efficiency initiatives that will deliver improvements in operational performance.

Throughout 2019 delivery and benefits were ahead of plan, with £14 million of savings realised during the period when compared to 2018. Together with the initiatives delivered in 2018, this amounts to a run-rate annualised benefit to the Group of approximately £24 million. Implementation costs remain in line with previous guidance.

A number of quick win tactical efficiencies have been delivered, which included targeted staff restructuring, third party contract renegotiation and termination, and property and facilities savings. Some more complex initiatives, such as the insourcing of technology capabilities as well as the simplification of group support functions, have also been delivered. All the planned programmes that will transform our business through technology enablement, such as the consolidation and modernisation of our general ledgers and other associated finance, HR and procurement modules, have been initiated. The use of robotics to automate manual operational processes in our International business, as well as streamlining and automating some of the processes used in our advice business, are also underway.

Reconciliation of adjusted profit before tax* to IFRS profit

Adjusted profit before tax for the group, including QLA, was £235 million (2018: £233 million), which includes £182 million for the group excluding QLA (2018: £176 million), and £53 million (2018: £57 million) for QLA.

For adjusted profit before tax on a continuing basis, IFRS accounting standards require £26 million of costs (2018: £28 million), previously reported as part of the QLA business, to be reallocated from discontinued to continuing operations, as these costs do not transfer to ReAssure on disposal at 31 December 2019. Of the £26 million of costs reallocated, £14 million will be incurred in 2020 to provide services to ReAssure under the Transitional Services Arrangement, with corresponding income to cover these costs. Management actions are being taken to manage the remaining costs, which are expected to continually decline over the next two years. Due to the sale of the QLA business, we expect to incur additional one-off business transformation costs of up to £10 million over the next two years, as we restructure certain parts of our business and decommission IT infrastructure previously associated with QLA.

The Group's IFRS loss after tax from continuing operations was £21 million, compared to a profit after tax of £66 million in 2018, primarily due to the change in policyholder tax, which can vary significantly year on year as a result of market volatility. The table reconciles the Group's adjusted profit to the IFRS results in 2019 and 2018.

Reconciliation of adjusted profit before tax to profit after tax	**For the year ended 31 December 2019**			For the year ended 31 December 2018				
		Discontinued operations			Discontinued operations		Discontinued operations	
£m	**Continuing Operations**	**Quilter Life Assurance**	**Total**	Continuing Operations	Quilter Life Assurance	Sub-total of Continuing Operations and Quilter Life Assurance	Single Strategy business	Total
Advice and Wealth Management	**103**	**-**	**103**	102	-	102	26	128
Wealth Platforms	**112**	**53**	**165**	105	57	162	-	162
Head Office	**(33)**	**-**	**(33)**	(31)	-	(31)	-	(31)
Adjusted profit before tax before reallocation*	**182**	**53**	**235**	176	57	233	26	259
Reallocation of QLA costs[1]	**(26)**	**26**	**-**	(28)	28	-	-	-
Adjusted profit before tax*	**156**	**79**	**235**	148	85	233	26	259
Adjusting for the following:								
Goodwill impairment and impact of acquisition accounting	**(54)**	**-**	**(54)**	(50)	-	(50)	-	(50)
Profit on business disposals	**-**	**103**	**103**	-	-	-	290	290
Business transformation costs	**(77)**	**-**	**(77)**	(84)	-	(84)	-	(84)
Managed Separation costs	**(6)**	**-**	**(6)**	(24)	-	(24)	-	(24)
Finance costs	**(10)**	**-**	**(10)**	(13)	-	(13)	-	(13)
Policyholder tax adjustments	**(62)**	**(12)**	**(74)**	64	37	101	-	101
Voluntary customer remediation provision	**-**	**10**	**10**	-	-	-	-	-
Total adjusting items before tax	**(209)**	**101**	**(108)**	(107)	37	(70)	290	220
(Loss)/profit before tax attributable to equity holders	**(53)**	**180**	**127**	41	122	163	316	479
Tax attributable to policyholder returns	**98**	**76**	**174**	(61)	(97)	(158)	-	(158)
Income tax (expense)/credit	**(66)**	**(89)**	**(155)**	86	83	169	(2)	167
(Loss)/profit after tax	**(21)**	**167**	**146**	**66**	108	174	314	488

[1]Adjusted profit from continuing operations includes £26 million of costs (2018: £28 million) previously reported as part of the QLA business to be reallocated from discontinued to continuing operations, as these costs do not transfer to ReAssure on disposal at 31 December 2019. Of the £26 million of costs reallocated, £14 million will recur in 2020 to provide services to ReAssure under the Transitional Services Arrangement, with corresponding income to cover these costs. Management actions are being taken to manage the remaining costs, which are expected to continually decline over the next two years.

Adjusted profit before tax reflects the profit from the Group's core operations, and is calculated by making certain adjustments to IFRS profit to reflect the Directors' view of the Group's underlying performance. Details of these adjustments are provided in note 5 of the consolidated financial statements.

Business transformation costs of £77 million in 2019 (2018: £84 million) include £57 million (2018: £58 million) incurred on the UK Platform Transformation Programme and £18 million of costs (2018: £7 million) in relation to the optimisation programme. In 2019, a credit of £1 million (2018 cost: £19 million) has been recognised in relation to the separation of Quilter Investors as a result of the sale of the Single Strategy business and restructuring costs of £3 million (2018: nil) as a result of the sale of QLA.

Managed Separation costs were £6 million (2018: £24 million), reflecting costs associated with our successful separation from Old Mutual plc and Listing in June 2018. In 2019, this cost was primarily incurred on the rebranding activities within the business, with a further £4 million expected to be incurred in 2020 for the final rebranding activity.

Finance costs were £10 million (2018: £13 million). The prior year includes the cost of interest and finance charges on the Group's borrowings from Old Mutual plc. As previously reported, these were converted into equity or repaid in February 2018.

Policyholder tax adjustments of £74 million expense for 2019 (2018: credit of £101 million) relate to the removal of distortions arising from market volatility that can, in turn, lead to volatility in the policyholder tax charge between periods. The recognition of the income received from policyholders (which is included within the Group's IFRS revenue) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding tax expense, creating volatility to the Group's IFRS (loss)/profit before tax attributable to equity holders.

Cash generation*

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

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

The Group, including Quilter Life Assurance, achieved a cash generation rate of 94% of adjusted profit over 2019 (2018: 88%). The cash generation rate for the Group excluding Quilter Life Assurance and before the reallocation of Quilter Life Assurance costs is 85% (2018: 81%).

Review of financial position

Capital and liquidity

Solvency II

The Group's pro forma Solvency II surplus is £769 million at 31 December 2019 (31 December 2018: £1,059 million), representing a Solvency II ratio of 180% (31 December 2018: 190%). The Solvency II information for the year to 31 December 2019 contained in this results disclosure has not been audited.

The pro forma Solvency II position is stated after allowing for the impact of the recommended final dividend payment of £65 million (2018: £61 million), the proposed distribution to shareholders of the net surplus proceeds from the QLA sale of £375 million and the Odd-lot Offer to shareholders of c.£30 million.

The Solvency II position for regulatory purposes is also presented below. Under Solvency II rules, the impact of future distribution of share buybacks and Odd-lot Offer to shareholders is not taken into account as at 31 December 2019, thereby increasing the Group's Solvency II surplus to £1,168 million and the Solvency II ratio to 221%.

Group regulatory capital (£m)	Pro forma at 31 December 2019[1]	At 31 December 2019[1,2]	At 31 December 2018[3]
Own funds	**1,727**	**2,132**	2,237
Solvency capital requirement ("SCR")	**958**	**964**	1,178
Solvency II surplus	**769**	**1,168**	1,059
Solvency II coverage ratio	**180%**	**221%**	**190%**

[1]Based on preliminary estimates.
[2]Formal filing to the PRA by 19 May 2020.
[3]As represented within the Quilter plc Group Solvency and Financial Condition report for the year ended 31 December 2018.

The 10 percentage point decrease in the Group Solvency II ratio on a pro forma basis from the 2018 position is primarily due to corporate activity in the year, with the main contributors being the acquisitions of Charles Derby Group, Lighthouse Group plc and Prescient during 2019. The goodwill and intangible assets arising in respect of these acquisitions are not recognised within Solvency II own funds, thereby reducing the Solvency II ratio.

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

Composition of qualifying Solvency II capital

The Group own funds include the Quilter plc issued subordinated debt security which qualifies as capital under Solvency II. The composition of own funds by tier is presented in the table below.

Group own funds (£m)	Pro forma at 31 December 2019	At 31 December 2019	At 31 December 2018
Tier 1[1]	**1,520**	**1,925**	**2,036**
Tier 2[2]	**207**	**207**	**201**
Total Group Solvency II own funds	**1,727**	**2,132**	**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.

On a pro forma basis:

- the Group SCR is covered by Tier 1 capital, which represents 159% of the Group SCR of £958 million;
- Tier 1 capital represents 88% of Group Solvency II own funds; and
- Tier 2 capital represents 12% of Group Solvency II own funds and 27% of the Group surplus.

Dividend

The Board has recommended a final dividend of 3.5 pence per share at a total cost of £65 million. Subject to shareholder approval, the recommended final dividend will be paid on 18 May 2020 to shareholders on the UK and South African share registers on 3 April 2020. For shareholders on our South African share register a dividend of 72.78519 South African cents per share will be paid on 18 May 2020, using an exchange rate of 20.79577. This will bring the dividend for the full year to 5.2 pence per share (2018: 3.3 pence per share).

Holding company cash

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

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

£m	2019	2018
Opening cash at holding companies at 1 January	**416**	36
Short term loan and Tier 2 bond proceeds	**-**	500
Loans repaid to Old Mutual plc	**-**	(200)
Quilter Life Assurance business sale - cash proceeds	**446**	-
Single Strategy business sale - cash proceeds	**-**	576
Short-term loan repayment	**-**	(300)
Costs of disposal and external financing fees	**(7)**	(19)
Dividends to market	**(92)**	(221)
Net capital movements	**347**	336
Managed Separation and head office costs	**(49)**	(54)
Interest costs	**(9)**	(6)
Net operational movements	**(58)**	(60)
Cash remittances from subsidiaries	**307**	167
Net capital contributions and investments	**(200)**	(65)
Other	**3**	2
Internal capital and strategic investments	**110**	104
Closing cash at holding companies at end of period	**815**	416

Net capital movements

Net capital movements in the period include the cash proceeds of £446 million resulting from the sale of the Quilter Life Assurance business to ReAssure on 31 December 2019. There was also a further £7 million of outflows in connection with disposal costs as a consequence of the sale. Also included are the two dividend payments made to shareholders of £61 million on 20 May 2019 and £31 million on 17 September 2019.

Net operational movements

Net operational movements were £58 million for the year, which comprises corporate and transformation costs, including the Managed Separation and optimisation programmes, totalling £49 million. Interest paid of £9 million relates to coupon payments on the Tier 2 bond and non-utilisation fees for the revolving credit facility.

Internal capital and strategic investments

The net inflow in the year of £110 million is principally due to £307 million of cash remittances from the trading businesses, partially offset by £200 million of capital contributions, made to support business unit operational activities, the Platform Transformation Programme and funding for the strategic acquisitions of Charles Derby Group, Lighthouse Group plc and acquisitions by Private Client Advisers within Quilter Financial Planning.

Balance sheet

Summary balance sheet (£m)	At 31 December 2019 Total	At 31 December 2018 Continuing Operations	At 31 December 2018 Quilter Life Assurance	At 31 December 2018 Total
Assets				
Financial investments	**59,345**	49,533	9,686	59,219
Reinsurers' share of policyholder liabilities	**-**	-	2,162	2,162
Contract costs/deferred acquisition costs	**455**	498	64	562
Cash and cash equivalents	**2,473**	1,881	514	2,395
Goodwill and intangible assets	**592**	520	30	550
Trade, other receivables and other assets	**424**	500	30	530
Other assets	**449**	349	23	372
Total assets	**63,738**	53,281	12,509	65,790
Equity	**2,071**	1,593	412	2,005
Liabilities				
Investment contract liabilities	**52,455**	45,211	11,239	56,450
Third-party interests in consolidated funds	**7,675**	5,116	-	5,116
Contract liabilities/deferred revenue	**191**	195	31	226
Borrowings - sub-ordinated debt	**198**	197	-	197
Lease liabilities	**137**	-	-	-
Trade, other payables and other liabilities	**836**	841	158	999
Other liabilities	**175**	128	669	797
Total liabilities	**61,667**	51,688	12,097	63,785
Total equity and liabilities	**63,738**	53,281	12,509	65,790

The Group balance sheet at 31 December 2019 has total equity of £2,071 million (2018: £2,005 million).

Financial investments have increased from £49,533 million for continuing operations at 31 December 2018 to £59,345 million at 31 December 2019, predominantly due to positive market performance. The corresponding increase is reflected in Investment contract liabilities (an increase from £45,211 million for continuing operations at 31 December 2018 to £52,455 million at 31 December 2019), and Third-party interests in consolidated funds (an increase from £5,116 million at 31 December 2018 to £7,675 million at 31 December 2019).

Cash and cash equivalents of £2,473 million have increased by £592 million from £1,881 million at 31 December 2018 for continuing operations. This increase includes £446 million of the cash proceeds received on the sale of Quilter Life Assurance, of which £375 million is planned to be returned to shareholders. Included within this balance are cash investments due to policyholders, and cash to support the capital and funding requirements of the business.

Goodwill and intangible assets have increased by £72 million to £592 million at 31 December 2019. The balance increased by £117 million during the year due to the acquisitions made by Quilter Financial Planning, which was offset by the amortisation of the intangible assets of £45 million charged during the year.

Trade, other receivables and other assets have decreased by £76 million to £424 million mainly due to a reduction in unsettled trades across the business and lower management fees as Quilter Investors no longer acts as authorised corporate director ("ACD") for certain Merian funds.

Other assets of £449 million, which principally reflects property, plant and equipment and loans and advances, increased by £100 million during the year. The implementation of IFRS 16 resulted in an increase in other assets, where a right of use asset has been created in respect of property leases, which have totaled £124 million. Included within this balance are Practice Buy Out ("PBO") loans of £19 million, a £6 million increase during the year.

The lease liability of £137 million has arisen due to the implementation of IFRS 16, which represents the Group's obligation to pay lease rentals on certain property, plant and equipment.

Trade, other payables and other liabilities have reduced by £5 million to £836 million as at 31 December 2019, primarily due to a reduction in outstanding trade payables as Quilter Investors no longer acts as ACD for Merian funds.

Other liabilities have increased from £128 million to £175 million primarily due to an increase in deferred tax liabilities.

Contingent liability/post balance sheet event

Prior to the Group's acquisition of Lighthouse in June 2019, Lighthouse provided pension transfer advice to around 300 British Steel pension scheme members between 2016 and 2018. The Group was advised after the reporting date of a number of complaints on the advice given by Lighthouse. The Group has initiated a review of all cases advised by Lighthouse, prior to its acquisition by Quilter in June 2019, to assess the standard of advice given to British Steel pension scheme members.

For the cases where a complaint has been received on the advice given by Lighthouse, the likelihood of redress is probable, and an estimate of the amount of redress payable has been made of £9 million. For the remaining cases, it is possible that further costs of redress may be incurred following the outcome of the reviews. Of the pension transfers Lighthouse advised on between 2016 and 2018, approximately 80 cases were undertaken prior to mid-2017 after which the British Steel pension scheme was restructured and transfer values were enhanced considerably.

An additional provision for £3 million has been established in respect of the cost of legal and professional fees related to the complaints and redress process, which includes the anticipated costs to review advice provided of a similar nature in relation to cases that management believe may have similar characteristics.

As the advice was provided before the Group's acquisition of Lighthouse, any further redress costs will be recognised as a pre-acquisition liability within the fair value of the net assets acquired, with a corresponding increase in goodwill. Any adjustments to the acquisition balance sheet must be finalised within 12 months after the acquisition, in June 2020.

Principal risks and uncertainties

The Group continues to operate in a challenging political and economic environment. While the Brexit deal struck in October 2019 and the subsequent General Election of 12 December 2019 has provided greater stability on possible outcomes, the detail of the UK's future trading relationships is still to be determined. Although Quilter's UK-focused business model has limited the cross-border challenges faced by Quilter in comparison with others in the sector, the firm is strongly exposed to any detriment to future UK economic performance and consequential impacts such as loss of investor confidence. The Group is continuing to closely monitor developments and has developed a range of actions to mitigate any implications to our business and customers.

The Group's business has become simpler during 2019. The successful sale of the Quilter Life Assurance business significantly reduces the financial and regulatory complexities associated with delivering life assurance business, and good progress has been made to move towards transitioning the UK Platform business onto FNZ's market-leading technology platform.

The principal risks and uncertainties faced by the group are:

- **Strategic risks:** The risk that Quilter's strategy to be the leading UK advice-led wealth manager does not yield the anticipated benefits for the business as result of misalignment with customer needs or failure to establish appropriate arrangements to deliver the strategy.
- **Business risks:** The risk Quilter's strategy is undermined by a failure to successfully deliver key strategic priorities, for example delivery of suitable advice, strong investment performance, and strong Group financial performance.
- **Market risks:** The risk of an adverse change in the level or volatility of market prices of assets, since Quilter's key revenue streams are asset value related.
- **Operational risks:** The risk of losses arising from inadequate or failed internal processes, or from personnel and systems, or from external events. Given Quilter's technology-enabled client service model, particular exposures arise in relation to information technology, information security and third party risks.
- **Legal and regulatory:** Quilter is subject to regulation and laws of the jurisdictions in which it operates and failure to achieve compliance could expose Quilter to penalties or restrictions on its permissions to provide financial services.

At this time, there remain the much publicised concerns about the risk of Coronavirus becoming a global pandemic and further impact to global supply chains, global growth and employee availability. The Group could be adversely impacted by falls in equity market levels, adverse investor sentiment affecting NCCF and increased operational risks should employment availability be badly affected. The length and severity of the impact remains unclear but the Group would not expect these to adversely change the underlying medium to long-term prospects of the business.

Shareholder information

The Quilter Board has agreed to recommend to shareholders the payment of a final dividend of 3.5 pence per share. This will be considered at the Quilter plc Annual General Meeting, which will be held on Thursday 14 May 2020. The final dividend will be paid on Monday 18 May 2020 to shareholders on the UK and South African share registers on Friday 3 April 2020.

Dividend Timetable

Dividend announcement in pounds sterling with South Africa ZAR Equivalent	Wednesday 11 March 2020
Last day to trade cum dividend in South Africa	Tuesday 31 March 2020
Shares trade ex-dividend in South Africa	Wednesday 1 April 2020
Shares trade ex-dividend in the UK	Thursday 2 April 2020
Record Date in UK and South Africa	Friday 3 April 2020
Annual General Meeting	Thursday 14 May 2020
Final dividend payment date	Monday 18 May 2020

From the opening of trading on Wednesday 11 March 2020 until the close of business on Friday 3 April 2020, no transfers between the London and Johannesburg registers will be permitted. Share certificates for shareholders on the South African register may not be dematerialised or rematerialised between Wednesday 1 April and Friday 3 April 2020, both dates inclusive.

Additional information

For Shareholders on our South African share register a dividend of 72.78519 cents per share will be paid on Monday 18 May 2020 to shareholders, based on an exchange rate of 20.79577. Dividend Tax will be withheld at the rate of 20% from the amount of the gross dividend of 72.78519 South African cents per share paid to South African shareholders unless a shareholder qualifies for exemption. After the Dividend Tax has been withheld, the net dividend will be 58.22815 South African cents per share. The Company had a total of 1,902,251,098 shares in issue at today's date.

If you are uncertain as to the tax treatment of any dividends you should consult your own tax advisor.

Odd-lot Offer

As part of our drive for greater efficiency and in line with our desire to act in the best interests of all our shareholders, the Board will today announce the launch of an Odd-lot Offer, for shareholders registered on the London and Johannesburg Stock Exchanges. The Odd-lot Offer entails Quilter making an offer to eligible shareholders (holders of less than 100 shares) to repurchase their shares at a 5% premium to the market price. Full details will be provided in this morning’s announcement.

The proposed Odd-lot Offer will reduce the complexity and cost to Quilter of managing our shareholder base and will allow investors holding small numbers of shares to dispose of their holdings in a timely and cost effective manner. Eligible shareholders can, of course, elect to retain their shareholding in Quilter, if they so choose.

Odd-lot Holders will receive the final dividend on their Odd-lot Offer shares providing they still hold their shares on the dividend record date, Friday 3 April 2020.

Further information will be released to the market this morning and documentation for completion will be provided to eligible shareholders shortly.

Capital return

Following the completion of the sale of Quilter Life Assurance to Reassure Group plc for £425 million (and interest income of £21 million), the Quilter Board intends to return the full net surplus sale proceeds (after disposal costs) of £375 million to shareholders. Quilter will commence a share buyback on the London and Johannesburg exchanges imminently and it will be subject to staged Board and regulatory approvals. The Board will keep the programme under review to make sure it continues to be the most efficient and effective means of returning capital to shareholders.

Supplementary information

Alternative Performance Measures ("APMs")

We assess our financial performance using a variety of measures including APMs, as explained further on pages 5 to 7. These measures are indicated with an asterix: *.

For the year ended 31 December 2019

1. Key financial data

	2019					Change (FY 2019 vs FY 2018)	2018				
Gross sales* (£bn)	**Q1**	**Q2**	**Q3**	**Q4**	**FY**	**%**	Q1	Q2	Q3	Q4	FY
Quilter Investors	1.0	1.0	0.9	2.0	**4.9**	(11%)	1.6	1.5	1.3	1.1	5.5
Quilter Cheviot	0.7	0.5	0.7	0.7	**2.6**	4%	0.8	0.6	0.5	0.6	2.5
Advice & Wealth Management	**1.7**	**1.5**	**1.6**	**2.7**	**7.5**	**(6%)**	2.4	2.1	1.8	1.7	8.0
Quilter Wealth Solutions	1.6	1.4	1.4	1.6	**6.0**	(22%)	2.3	2.0	1.8	1.6	7.7
Quilter International	0.4	0.4	0.4	0.8	**2.0**	11%	0.5	0.4	0.4	0.5	1.8
Wealth Platforms	**2.0**	**1.8**	**1.8**	**2.4**	**8.0**	**(16%)**	2.8	2.4	2.2	2.1	9.5
Elimination of intra-Group items	(0.6)	(0.4)	(0.6)	(1.6)	**(3.2)**	**(3%)**	(1.0)	(0.9)	(0.6)	(0.8)	(3.3)
Quilter plc excl. Quilter Life Assurance	**3.1**	**2.9**	**2.8**	**3.5**	12.3	**(13%)**	4.2	3.6	3.4	3.0	14.2
Quilter Life Assurance	0.1	0.1	0.2	-	0.4	(33%)	0.2	0.1	0.1	0.2	0.6

	2019					% of opening AuMA	2018				
NCCF* (£bn)	**Q1**	**Q2**	**Q3**	**Q4**	**FY**		Q1	Q2	Q3	Q4	FY
Quilter Investors	0.2	0.2	-	0.1	**0.5**	3%	1.0	0.8	0.5	0.5	2.8
Quilter Cheviot	0.1	(0.5)	(0.4)	-	**(0.8)**	(4%)	0.3	0.2	0.1	0.1	0.7
Advice & Wealth Management	**0.3**	**(0.3)**	**(0.4)**	**0.1**	**(0.3)**	**(1%)**	1.3	1.0	0.6	0.6	3.5
Quilter Wealth Solutions	0.4	0.1	0.1	0.3	**0.9**	2%	1.3	0.8	0.6	0.4	3.1
Quilter International	0.1	-	0.1	0.3	**0.5**	3%	0.1	-	-	0.2	0.3
Wealth Platforms	**0.5**	**0.1**	**0.2**	**0.6**	**1.4**	**2%**	1.4	0.8	0.6	0.6	3.4
Elimination of intra-Group items	**(0.3)**	**-**	**(0.3)**	**(0.2)**	**(0.8)**		(0.7)	(0.8)	(0.1)	(0.6)	(2.2)
Quilter plc excl. Quilter Life Assurance	**0.5**	**(0.2)**	**(0.5)**	**0.5**	**0.3**	**0%**	2.0	1.0	1.1	0.6	4.7
Quilter Life Assurance	(0.8)	(0.4)	(1.1)	(1.2)	(3.5)	(31%)	(0.5)	(0.5)	(0.5)	(0.8)	(2.3)
Integrated net flows (excl. Quilter Life Assurance)*	**0.6**	**0.8**	**0.4**	**0.8**	**2.6**		1.5	1.3	0.9	1.0	4.7

AuMA* (£bn)	2019 Q1	2019 H1	2019 Q3	2019 FY	Change (FY 2019 vs FY 2018) %	2018 Q1	2018 H1	2018 Q3	2018 FY
Quilter Investors	19.0	19.9	20.2	**20.8**	18%	17.0	18.3	18.6	17.7
Quilter Cheviot	23.6	24.0	23.8	**24.2**	9%	22.7	24.0	24.2	22.2
Quilter Financial Planning	0.8	0.8	0.8	**0.8**	-	1.0	1.0	1.0	0.8
Advice & Wealth Management	43.4	44.7	44.8	**45.8**	**13%**	40.7	43.3	43.8	40.7
Quilter Wealth Solutions	52.6	54.8	55.7	**57.2**	16%	49.1	51.8	52.9	49.4
Quilter International	19.2	20.0	20.2	**20.5**	12%	18.5	19.1	19.5	18.3
Wealth Platforms	71.8	74.8	75.9	**77.7**	**15%**	67.6	70.9	72.4	67.7
Elimination of intra-Group assets	(11.6)	(12.2)	(12.5)	**(13.1)**	**22%**	(10.1)	(10.9)	(11.0)	(10.7)
Quilter plc excl. Quilter Life Assurance	103.6	107.3	108.2	**110.4**	**13%**	98.2	103.3	105.2	97.7
Quilter Life Assurance	11.2	11.1	10.3	-	(100%)	13.4	13.4	12.9	11.2

YTD Gross flows, net flows and AuMA (£bn)

	AuMA as at 31 December 2018*	**Gross sales***	**Gross outflows***	**NCCF***	**Market and other movements**	**AuMA as at 31 December 2019***
Quilter Investors	17.7	4.9	(4.4)	0.5	2.6	20.8
Quilter Cheviot	22.2	2.6	(3.4)	(0.8)	2.8	24.2
Quilter Financial Planning	0.8	-	-	-	-	0.8
Advice & Wealth Management	**40.7**	**7.5**	**(7.8)**	**(0.3)**	**5.4**	**45.8**
Quilter Wealth Solutions	49.4	6.0	(5.1)	0.9	6.9	57.2
Quilter International	18.3	2.0	(1.5)	0.5	1.7	20.5
Wealth Platforms	**67.7**	**8.0**	**(6.6)**	**1.4**	**8.6**	**77.7**
Elimination of intra-group assets	**(10.7)**	**(3.2)**	**2.4**	**(0.8)**	**(1.6)**	**(13.1)**
Quilter plc excl. Quilter Life Assurance	**97.7**	**12.3**	**(12.0)**	**0.3**	**12.4**	**110.4**

Quilter Life Assurance	11.2	0.4	(3.9)	(3.5)	(7.7)	-

	AuMA as at 31 December 2017*	Gross Sales*	Gross Outflows*	NCCF*	Market and other movements	AuMA as at 31 December 2018*
Quilter Investors	16.7	5.5	(2.7)	2.8	(1.8)	17.7
Quilter Cheviot	23.5	2.5	(1.8)	0.7	(2.0)	22.2
Quilter Financial Planning	1.1	-	-	-	(0.3)	0.8
Advice & Wealth Management	41.3	8.0	(4.5)	3.5	(4.1)	40.7
Quilter Wealth Solutions	49.6	7.7	(4.6)	3.1	(3.3)	49.4
Quilter International	19.2	1.8	(1.5)	0.3	(1.2)	18.3
Wealth Platforms	68.8	9.5	(6.1)	3.4	(4.5)	67.7
Elimination of intra-group assets	(9.8)	(3.3)	1.1	(2.2)	1.3	(10.7)
Quilter plc excl. Quilter Life Assurance	100.3	14.2	(9.5)	4.7	(7.3)	97.7

Quilter Life Assurance	14.6	0.6	(2.9)	(2.3)	(1.1)	11.2

Estimated asset allocation (%) **Fund profile by Investment type**	**2019 Total client AuMA**	2018 Total client AuMA
Quilter		
Fixed interest	26%	26%
Equities	64%	64%
Cash	4%	4%
Property and alternatives	6%	6%
Total	**100%**	100%
Retail	99%	99%
Institutional	1%	1%
Total	**100%**	100%

Total net fee revenue* 2019 (£m)	Quilter Investors	Quilter Cheviot	Quilter Financial Planning	**Advice & Wealth Management**	Quilter Wealth Solutions	Quilter International	Quilter Life Assurance	**Wealth Platforms**	**Head Office**	**Group**
Net management fee*	123	171	2	**296**	173	110	70	**353**	-	**649**
Other revenue*	1	7	103	**111**	4	15	26	**45**	3	**159**
Total net fee revenue*	**124**	**178**	**105**	**407**	**177**	**125**	**96**	**398**	**3**	**808**

Total net fee revenue* 2018 (£m)	Quilter Investors	Quilter Cheviot	Quilter Financial Planning	Advice & Wealth Management	Quilter Wealth Solutions	Quilter International	Quilter Life Assurance	Wealth Platforms	Head Office	Group
Net management fee*	106	168	2	276	168	112	91	371	-	647
Other revenue*	3	7	87	97	2	23	18	43	1	141
Total net fee revenue*	109	175	89	373	170	135	109	414	1	788

2. Advice and Wealth Management

The following table presents certain key financial metrics utilised by management with respect to the business units of the Advice & Wealth Management segment, for the periods indicated.

Key financial highlights	**2019**	2018	**% change**
Quilter Financial Planning			
Net management fee*	2	2	-
Other revenue*	103	87	18%
Total net fee revenue*	**105**	89	18%
RFPs + PCA (#)	1,799	1,621	11%
Productivity (£m)*	1.0	1.7	(41%)
Quilter Investors			
Net management fee*	123	106	16%
Other revenue*	1	3	(67%)
Total net fee revenue*	**124**	109	14%
NCCF (£bn)*	0.5	2.8	(82%)
Closing AuM (£bn)*	20.8	17.7	18%
Average AuM (£bn)*	19.6	17.8	10%
Revenue margin (bps)*	63	59	4 bps
Asset retention (%)*	75%	84%	(9) pp
Quilter Cheviot			
Net management fee*	171	168	2%
Other revenue*	7	7	-
Total net fee revenue*	**178**	175	2%
NCCF (£bn)*	(0.8)	0.7	-
Closing AuM (£bn)*	24.2	22.2	9%
Average AuM (£bn)*	23.6	23.5	0%
Revenue margin (bps)*	72	72	-
Asset retention (%)*	85%	92%	(7) pp
Investment managers (#)	167	155	8%

3. Wealth Platforms

The following table presents certain key financial metrics utilised by management with respect to the business units of the Wealth Platforms segment, for the periods indicated.

Key financial highlights	2019	2018	% change
Quilter Wealth Solutions			
Net management fee*	173	168	3%
Other revenue*	4	2	100%
Total net fee revenue*	**177**	170	4%
NCCF (£bn)*	0.9	3.1	(71%)
Closing AuA (£bn)*	57.2	49.4	16%
Average AuA (£bn)*	54.1	51.0	6%
Revenue margin (bps)*	31	32	(1) bp
Asset retention (%)*	90%	91%	(1) pp
Quilter International			
Net management fee*	110	112	(2%)
Other revenue*	15	23	(35%)
Total net fee revenue*	**125**	135	(7%)
NCCF (£bn)*	0.5	0.3	67%
Closing AuA (£bn)*	20.5	18.3	12%
Average AuA (£bn)*	19.6	19.0	3%
Revenue margin (bps)*	56	59	(3) bp
Asset retention (%)*	92%	92%	-
Quilter Life Assurance			
Net management fee*	70	91	(23%)
Other revenue*	26	18	44%
Total net fee revenue*	**96**	109	(12%)
Expenses*	**(43)**	(52)	(17%)
Adjusted profit before tax*	**53**	57	(7%)
Tax	3	(7)	-
Adjusted profit after tax	**50**	64	(22%)
Operating margin %*	55%	52%	3 pp
NCCF (£bn)*	(3.5)	(2.3)	(52%)
Closing AuA (£bn)*	-	11.2	(100%)
Average AuA (£bn)*	-	13.2	(100%)
Revenue margin (bps)*	66	69	-
Asset retention (%)*	-	80%	-

Index to the condensed consolidated financial statements

For the year ended 31 December 2019

Group condensed consolidated financial statements

Statement of Directors' responsibility in respect of the preliminary announcement	31
Consolidated income statement	32
Consolidated statement of comprehensive income	33
Reconciliation of adjusted profit to profit after tax	34
Consolidated statement of changes in equity	35
Consolidated statement of financial position	36
Consolidated statement of cash flows	37

Basis of preparation

1: Basis of preparation and significant accounting policies	38
2: New standards, amendments to standards and interpretations adopted by the Group	39

Notes to the condensed consolidated financial statements

3: Acquisitions, disposals and discontinued operations	40
4: Segmental information	45
5: Alternative performance measures	49
6: Tax	53
7: Earnings per share	55
8: Dividends	56
9: Goodwill and intangible assets	57
10: Financial investments	58
11: Categories of financial instruments	59
12: Fair value methodology	60
13: Cash and cash equivalents	64
14: Insurance and investment contract liabilities	64
15: Provisions	67
16: Contingent liabilities	68
17: Capital and financial risk management	69
18: Related party transactions	75
19: Events after the reporting date	75

Statement of Directors' responsibilities

in respect of the preliminary announcement of the Annual report and accounts and the financial statements

The Directors confirm that to the best of their knowledge:

- The results in this preliminary announcement have been taken from the Group's 2019 Annual report and accounts, which will be available on the Company's website on 26 March 2020; and
- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

Approved by the Board on 11 March 2020.

Paul Feeney
Chief Executive Officer

Mark Satchel
Chief Financial Officer

Consolidated income statement

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Revenue			
Fee income and other income from service activities		936	954
Investment return		6,866	(2,712)
Other income		22	35
Total revenue		**7,824**	**(1,723)**
Expenses			
Insurance contract claims and changes in liabilities		(1)	(1)
Change in investment contract liabilities	14(c)	(5,810)	2,499
Fee and commission expenses, and other acquisition costs		(294)	(398)
Change in third party interest in consolidated funds		(917)	369
Other operating and administrative expenses		(740)	(750)
Finance costs[1]		(17)	(16)
Total expenses		**(7,779)**	**1,703**
Profit/(loss) before tax from continuing operations		**45**	**(20)**
Tax (expense)/credit attributable to policyholder returns	6(a)	(98)	61
(Loss)/profit before tax attributable to equity holders from continuing operations		**(53)**	**41**
Income tax (expense)/credit	6(a)	(66)	86
Less: tax expense/(credit) attributable to policyholder returns		98	(61)
Tax credit attributable to equity holders		32	25
(Loss)/profit after tax from continuing operations		**(21)**	**66**
Profit after tax from discontinued operations	3(c)	167	422
Profit after tax		**146**	**488**
Attributable to:			
Equity holders of Quilter plc		**146**	**488**
Earnings per ordinary share on profit attributable to ordinary shareholders of Quilter plc			
Basic			
From continuing operations (pence)	7(b)	(1.1)	3.5
From discontinued operations (pence)	3(c)	9.1	23.1
Basic earnings per ordinary share (pence)	7(b)	**8.0**	**26.6**
Diluted			
From continuing operations (pence)	7(b)	(1.1)	3.5
From discontinued operations (pence)	3(c)	8.9	23.0
Diluted earnings per ordinary share (pence)	7(b)	**7.8**	**26.5**

[1]The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the time of initial application.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Profit after tax		146	488
Exchange losses on translation of foreign operations		(1)	–
Items that may be reclassified subsequently to income statement		(1)	–
Measurement movements on defined benefit plans		(7)	–
Tax on amounts related to defined benefit pension plans		1	–
Items that will not be reclassified subsequently to income statement		(6)	–
Total other comprehensive expense, net of tax		(7)	–
Total comprehensive income		**139**	**488**
Attributable to:			
Continuing operations		(28)	66
Discontinued operations	3(d)	167	422
Equity holders of Quilter plc		**139**	**488**

Reconciliation of adjusted profit to profit after tax

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019			Year ended 31 December 2018		
		Continuing operations £m	Discontinued operations[1] £m	Total £m	Continuing operations £m	Discontinued operations[1] £m	Total £m
Advice and Wealth Management		103	–	103	102	26	128
Wealth Platforms		112	53	165	105	57	162
Head Office		(33)	–	(33)	(31)	–	(31)
Adjusted profit before tax before reallocation		**182**	**53**	**235**	**176**	**83**	**259**
Reallocation of QLA costs[2]		(26)	26	–	(28)	28	–
Adjusted profit before tax	4(b)(i)	**156**	**79**	**235**	**148**	**111**	**259**
Adjusted for the following:							
Goodwill impairment and impact of acquisition accounting	5(a)(i)	(54)	–	(54)	(50)	–	(50)
Profit on business disposals	3(b)	–	103	103	–	290	290
Business transformation costs	5(a)(ii)	(77)	–	(77)	(84)	–	(84)
Managed Separation costs	5(a)(iii)	(6)	–	(6)	(24)	–	(24)
Finance costs	5(a)(iv)	(10)	–	(10)	(13)	–	(13)
Policyholder tax adjustments	5(a)(v)	(62)	(12)	(74)	64	37	101
Voluntary customer remediation provision	5(a)(vi)	–	10	10	–	–	–
Total adjusting items before tax		**(209)**	**101**	**(108)**	**(107)**	**327**	**220**
(Loss)/profit before tax attributable to equity holders		**(53)**	**180**	**127**	**41**	**438**	**479**
Tax attributable to policyholder returns	6(a)	98	76	174	(61)	(97)	(158)
Income tax (expense)/credit	6(a),(b)	(66)	(89)	(155)	86	81	167
(Loss)/profit after tax		**(21)**	**167**	**146**	**66**	**422**	**488**

Adjusted earnings per share

	Notes	Year ended 31 December 2019			Year ended 31 December 2018		
		Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Adjusted profit before tax before reallocation		**182**	**53**	**235**	**176**	**83**	**259**
Shareholder tax on adjusted profit before reallocation	6(c)	(22)	(3)	(25)	(13)	2	(11)
Adjusted profit after tax before reallocation	**7(b)**	**160**	**50**	**210**	**163**	**85**	**248**
Basic weighted average number of ordinary shares (millions)	7(a)			1,835			1,832
Adjusted basic earnings per share (pence)	**7(b)**	**8.7**	**2.7**	**11.4**	**8.9**	**4.6**	**13.5**
Diluted weighted average number of ordinary shares (millions)	7(a)			1,863			1,839
Adjusted diluted earnings per share (pence)	**7(b)**	**8.6**	**2.7**	**11.3**	**8.9**	**4.6**	**13.5**

[1]Discontinued operations includes the results of the Quilter Life Assurance ("QLA") business. In 2018, it also includes the Single Strategy business up to the date of its disposal in June 2018. For further details of the Group's segmentation, see note 4.

[2]Adjusted profit from continuing operations includes £26 million of costs (2018: £28 million) previously reported as part of the QLA business which has been reclassified from discontinued to continuing operations as these costs do not transfer to ReAssure on disposal at 31 December 2019. See note 3(c) for further information.

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 specified items as detailed in note 5(a).

Adjusted profit excludes significant costs or income that are non-operating or one-off in nature, which includes but is not limited to: the impact of acquisition accounting and any impairment of goodwill, any profit or loss on business acquisitions and disposals, costs related to business transformation, and finance costs on external borrowings. Adjusted profit also treats policyholder tax (adjusted to remove the impact of non-operating tax items) as a pre-tax charge (to offset against the related income collected from policyholders). Full details of the Group's adjusting items are described in note 5(a).

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 Board 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 Group seeks to minimise such changes in order to maintain consistency over time. The Committee assesses refinements to the policy on a case-by-case basis.

Consolidated statement of changes in equity

For the year ended 31 December 2019

31 December 2019	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
Shareholders' equity at beginning of the year		**133**	**58**	**588**	**34**	**1**	**1,191**	**2,005**
Adjustment on initial application of IFRS 16 (net of tax)[1]		–	–	–	–	–	(5)	(5)
Balance at 1 January 2019		**133**	**58**	**588**	**34**	**1**	**1,186**	**2,000**
Profit for the year		–	–	–	–	–	146	146
Other comprehensive expense		–	–	–	–	–	(7)	(7)
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**139**	**139**
Dividends	8	–	–	–	–	–	(92)	(92)
Release of merger reserve		–	–	(439)	–	–	439	–
Movement in own shares		–	–	–	–	–	(2)	(2)
Equity share–based payment transactions[2]		–	–	–	11	–	15	26
Total transactions with the owners of the Company		**–**	**–**	**(439)**	**11**	**–**	**360**	**(68)**
Balance at 31 December 2019		**133**	**58**	**149**	**45**	**1**	**1,685**	**2,071**

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 year		–	–	–	–	–	488	488
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**488**	**488**
Dividends	8	–	–	–	–	–	(221)	(221)
Acquisition of entities due to Managed Separation restructure		–	–	591	–	–	–	591
Issue of share capital		3	–	(3)	–	–	–	–
Movement in own 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]The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the time of initial application.

[2]Equity–settled share–based payment transactions of £26 million (December 2018: £42 million) consists of IFRS 2 costs of £26 million (December 2018: £27 million). In the year ended 31 December 2019, £15 million has transferred from share-based payments reserve to retained earnings representing share–based payment schemes that have fully vested (December 2018: £35 million). The year ended 31 December 2018 also included a transfer of £15 million previously recognised within liabilities to the share-based payment reserve, including cash awards that were converted to equity–settled awards.

Consolidated statement of financial position

At 31 December 2019

	Notes	At 31 December 2019[1] £m	At 31 December 2018 £m
Assets			
Goodwill and intangible assets	9	592	550
Property, plant and equipment[2]		143	17
Investments in associated undertakings		1	2
Deferred acquisition costs		–	11
Contract costs		455	551
Loans and advances		217	222
Financial investments	10	59,345	59,219
Reinsurers' share of policyholder liabilities	14	–	2,162
Deferred tax assets		43	38
Current tax receivable		13	47
Trade, other receivables and other assets[3]		424	530
Derivative assets		32	46
Cash and cash equivalents	13(a)	2,473	2,395
Total assets		**63,738**	**65,790**
Equity and liabilities			
Equity			
Ordinary Share capital		133	133
Ordinary Share premium reserve		58	58
Merger reserve		149	588
Share-based payments reserve		45	34
Other reserves		1	1
Retained earnings		1,685	1,191
Total equity		**2,071**	**2,005**
Liabilities			
Insurance contract liabilities	14	–	602
Investment contract liabilities	14	52,455	56,450
Third-party interests in consolidated funds		7,675	5,116
Provisions	15	64	94
Deferred tax liabilities		88	59
Current tax payable		6	5
Borrowings and lease liabilities[2]		335	197
Trade, other payables and other liabilities		836	999
Contract liabilities and deferred revenue		191	226
Derivative liabilities		17	37
Total liabilities		**61,667**	**63,785**
Total equity and liabilities		**63,738**	**65,790**

[1]The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the time of initial application.
[2]Following the adoption of IFRS 16, the Group has presented right-of-use assets within Property, plant and equipment and lease liabilities within Borrowings and lease liabilities.
[3]The Group's contract assets are now included within Trade, other receivables and other assets, having previously been shown separately on the statement of financial position.

Approved by the Board on 11 March 2020.

Paul Feeney
Chief Executive Officer

Mark Satchel
Chief Financial Officer

Consolidated statement of cash flows

For the year ended 31 December 2019

The cash flows presented in this statement cover all the Group's activities (continuing and discontinued operations and cash that is held for sale) and includes 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.

	Notes	Year ended 31 December 2019[1] £m	Year ended 31 December 2018 £m
Cash flows from operating activities			
Profit/(loss) before tax from continuing operations		45	(20)
Profit before tax from discontinued operations	3(c)	256	341
Non-cash movements in profit before tax		(2,268)	584
Net changes in working capital[2]		(39)	(662)
Taxation paid		(37)	(92)
Total net cash (used in)/from operating activities		**(2,043)**	**151**
Cash flows from investing activities			
Net disposals/(acquisitions) of financial investments		2,260	(366)
Acquisition of property, plant and equipment		(8)	(7)
Acquisition of intangible assets		(5)	(4)
Net acquisition of interests in subsidiaries[2,3]		(87)	13
Net proceeds from the disposal of interests in subsidiaries		78	350
Total net cash from/(used in) investing activities		**2,238**	**(14)**
Cash flows from financing activities			
Dividends paid to ordinary equity holders of the Company		(92)	(221)
Finance costs on external borrowings		(10)	(8)
Payment of interest on lease liabilities		(3)	–
Payment of principal lease liabilities		(13)	–
Proceeds from issue of subordinated and other debt		–	497
Subordinated and other debt repaid		–	(516)
Total net cash used in financing activities		**(118)**	**(248)**
Net increase/(decrease) in cash and cash equivalents		77	(111)
Cash and cash equivalents at the beginning of the year		2,395	2,507
Effects of exchange rate changes on cash and cash equivalents		1	(1)
Cash and cash equivalents at end of the year	13(a)	**2,473**	**2,395**

[1]The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the time of initial application.
[2]There has been a £7 million reallocation between net changes in working capital and acquisitions of interests in subsidiaries in respect of the comparative figures to conform with the current year presentation of contingent consideration payments (see note 3(a)).
[3]The acquisition of interests in subsidiaries balance also includes £21 million paid in the year in respect of contingent consideration payments relating to historical acquisitions.

Basis of preparation and significant accounting policies

For the year ended 31 December 2019

General information

Quilter plc (the "Company"), a public limited company incorporated and domiciled in the United Kingdom ("UK"), together with its subsidiaries (collectively, the "Group") offers investment and wealth management services, 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 results in this preliminary announcement have been taken from the Group's 2019 Annual report and accounts ("ARA") which will be available on the Company's website on 26 March 2020. These condensed consolidated financial statements of Quilter plc for the year ended 31 December 2019 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.

Significant accounting policies applicable to the Group's condensed consolidated financial statements can be found in note 4 of the consolidated financial statements within the Group's 2019 ARA.

The preliminary announcement for the year ended 31 December 2019 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The consolidated financial statements for full year 2019 have been audited by KPMG. Comparative financial information for full year 2018 has been taken from the Group's 2018 ARA, which has been filed with the Registrar of Companies and was prepared in accordance with IFRS, as endorsed by the EU. KPMG provided an unqualified report that did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This is the first set of the Group's annual financial statements in which IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments* have been applied. Changes in significant accounting policies to reflect these new IFRSs are explained in note 2. All other accounting policies for recognition, measurement, consolidation and presentation are as outlined in the Group's 2019 ARA.

These condensed consolidated financial statements have been prepared on a 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.

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 consolidated financial statements, and continue to adopt the going concern basis in preparing the consolidated financial statements.

Critical accounting estimates and judgements

The preparation of financial statements requires management to exercise judgement in applying the Group's significant accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. The Group Audit Committee reviews these areas of judgement and estimates and the appropriateness of significant accounting policies adopted in the preparation of these financial statements.

The Group's critical accounting judgements are detailed below and are those that management makes when applying its significant accounting policies and that have the most effect on the amounts recognised in the Group's financial statements.

Area	Critical accounting judgements	Related notes
Consolidation of investment funds	The Group's interest in investment funds can fluctuate according to the Group's participation in them as clients' underlying investment choices change. The Group exercises judgement in assessing its level of power, exposure to variable returns and its ability to use such power to affect those returns relative to the power of other investors in those funds, when evaluating the need to consolidate those funds. In particular, management uses its judgement when assessing rights held by other parties including substantive removal ("kick-out" rights).	n/a[1]
Recognition of provisions and contingent liabilities in respect of Lighthouse complaints	Complaints were received after the reporting date in relation to advice provided by Lighthouse before its acquisition by the Group. Judgement is required to determine whether a provision can be reasonably estimated in relation to the complaints and whether redress is probable, and therefore whether a provision can be recognised. Judgement is also required to determine the treatment for advice where no complaint has been received and there is no present obligation, and these cases have been treated as a contingent liability.	3(a), 15, 16, 19
Discontinued operations	Management judgement was applied in the classification of the QLA business (disposed in December 2019) as a discontinued operation. Management concluded that QLA represented a separate major line of business, being the Group's closed book of legacy business and as such, met the discontinued operations criteria, restating prior year comparatives accordingly. Judgement has also been applied in the reallocation of specific on-going costs to the Group's continuing operations that will remain in the business after the disposal of QLA.	3(c)
Apportionment of goodwill to business disposals	Judgement was applied in the allocation of goodwill in relation to the QLA business, impacting the profit on disposal of that business. The allocation was based on QLA's fair value relative to the other businesses within the Wealth Platforms cash generating unit ("CGU").	9(c)
Recognition of provisions following the disposal of QLA	The Group has exercised significant judgement in determining the accounting treatment for a number of provisions in respect of the disposal of QLA. The disposal of QLA has led to a series of business activities related to the sale of the business resulting in costs to separate the business from the Group, including its separation from a significant number of shared IT systems. Provisions have been established where costs are either contractual within the disposal agreement or represent a constructive liability in respect of ancillary work to separate the businesses. Significant judgement was required to assess whether the costs were directly attributable and incremental to the sale and whether a legal or constructive obligation existed in order to recognise certain provisions.	15

Area	Critical accounting judgements	Related notes
Uncertain tax position	Due to the complexity of tax law, the tax treatment of specific transactions may be uncertain. In assessing uncertain tax positions, the Group considers the likelihood that the tax authority may take a different view to that reached by management. In that regard, the Group has exercised judgement in assessing the accounting tax position in relation to transactions undertaken as part of the demerger from Old Mutual plc in 2018.	n/a[2]

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

Area	Critical accounting estimates	Related notes
Consolidation of investment funds	Where the Group consolidates investment funds, estimation is required in some circumstances when sourcing the up-to-date financial information, aligned to the Group's reporting date. In instances where financial information is unavailable for the Group's reporting dates, the Group sources the most recently available financial information for those funds, as the best reliable estimate.	n/a[1]
Provision for cost of Lighthouse complaints	An estimation of the provision required for the complaints received was determined based upon a sample of cases which was deemed representative of the broader population to form a reasonable estimate. The estimation per case is based upon FCA guidelines and modelling performed based upon factors, including pension transfer value, discount rate, and retail price indexation. The sample was then extrapolated to the entire population of complaint cases.	15
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. During the current year, these assets have arisen on the acquisition of the Charles Derby Group, Lighthouse Group and various smaller adviser businesses. In relation to goodwill impairment, the determination of a CGU's 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. Estimation was also used in the valuation of goodwill attributable to the disposal of the QLA business.	9
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.	12
Insurance contracts measurement and the impact upon profit on disposal of QLA	Measurement of insurance contracts involves significant use of assumptions including mortality, morbidity, persistency, expense valuation and interest rates. This measurement impacted upon the closing net asset value of QLA, and therefore the profit recognised by the Group on the disposal of QLA.	3(b) 14
Measurement of deferred tax	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. The business plan, adjusted for known and estimated tax sensitivities, is used to determine the extent to which deferred tax assets are recognised. In general the Group assesses recoverability based on estimated taxable profits over a 3 year planning horizon. Where credible longer term profit forecasts are available (e.g. for the life insurance companies) the specific entity may assess recoverability over a longer period, subject to a higher level of sensitivity testing.	n/a[2]

[1]Refer to note 4(a) in the financial statements included within the Group's 2019 Annual Report and Accounts.
[2]Refer to note 28 in the financial statements included within the Group's 2019 Annual Report and Accounts.

During the year, the Group reassessed its critical accounting estimates and judgements and no longer considers the judgements and estimates relating to the classification and measurement of insurance contracts to be critical to the Group, following the sale of the QLA business (see note 3(b) for further details of the sale). In addition, the estimates and judgements involved in the recognition and measurement of the voluntary customer remediation provision is no longer relevant to the Group as the provision was part of the QLA net assets sold.

2: New standards, amendments to standards, and interpretations adopted by the Group

The Group adopted IFRS 16 *Leases* for the first time in 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the period prior to initial adoption. The impact of adopting this new standard is explained in detail in note 4(s) of the consolidated financial statements within the Group's 2019 Annual report and accounts.

The Group has also adopted IFRIC 23 *Uncertainty over Income Tax Treatments* during the year ended 31 December 2019. This interpretation sets out how to determine taxable profits/losses, tax bases, unused tax losses, unused tax credits and tax rates (collectively referred to as the "accounting tax position") where there is uncertainty over treatment. In applying IFRIC 23, the Group has made judgements on whether tax authorities will accept the Group's tax filing position and estimated the likely impact on the Group's tax assets and liabilities. The adoption of this interpretation during 2019 has had no material impact on the Group's consolidated financial statements other than a reduction in unrecognised deferred tax assets.

Other standards:

In addition to IFRS 16 and IFRIC 23, the following amendments to the accounting standards, issued by the International Accounting Standards Board ("IASB") and endorsed by the EU, have been adopted by the Group from 1 January 2019 with no material impact on the Group's consolidated results, financial position or disclosures:

- Amendments to IFRS 9 *Financial Instruments* – Prepayment features with negative compensation.
- Amendments to IAS 28 *Investments in Associates* – Long-term interests in associates and joint ventures.
- Amendments to IAS 19 *Employee Benefits* – Plan amendments, curtailments or settlements.
- Annual improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

Notes to the consolidated financial statements

For the year ended 31 December 2019

3: Acquisitions, disposals and discontinued operations

This note provides details of the Group's acquisitions and disposals of subsidiaries during the financial periods covered by these financial statements.

3(a): Business acquisitions

Business acquisitions completed during the year ended 31 December 2019

Charles Derby Group Limited acquisition:

On 14 February 2019, the Group acquired the Charles Derby Group ("CDG") of companies (recently rebranded "Quilter Financial Advisers"). CDG is a financial planning business based in the UK. The acquisition complements the growth of Quilter Private Client Advisers which serves upper affluent and high net worth customers. CDG has over 200 restricted advisers (as at 31 December 2018), and represents the next stage of Quilter's ambition to broaden out its national advice business.

Prior to acquisition, the Group had previously invested £2 million for a 10% stake in CDG. At December 2018, the business was valued at £34 million, resulting in a fair value gain of £1 million being recognised, representing the increase in the value on the 10% share in the business. Immediately prior to acquisition, CDG undertook a share issue to other shareholders, which diluted the Group's stake to 6%, with a fair value of £2 million. The resulting fair value loss of £1 million (reducing the carrying value from £3 million to £2 million) has been recognised by the Group in 'Other operating and administrative expenses' in the consolidated income statement in 2019. On acquisition, the Group acquired the remaining share capital and associated voting rights.

The table below sets out the consolidated assets and liabilities acquired:

	Acquiree's carrying amount £m	Fair value £m
Assets		
Intangible assets	1	15
Loans and advances	1	1
Cash and cash equivalents	1	1
Trade, other receivables and other assets	2	2
Total assets	**5**	**19**
Liabilities		
Deferred tax liabilities	–	(2)
Trade, other payables and other liabilities	(9)	(9)
Total liabilities	**(9)**	**(11)**
Total net (liabilities)/assets acquired	**(4)**	**8**
Total consideration		**31**
Goodwill recognised		**23**

After an initial cash payment of £15 million at acquisition, a further payment of £5 million was made on 1 April 2019. Further contingent payments based on a percentage of the level of assets under administration at 2020 and 2022 are expected to be made. Management's best estimate of the net present value of these payments total £9 million. These amounts exclude the £2 million value of the 6% stake already held.

The purchase price has been allocated based on the fair value of assets acquired and liabilities at the date of acquisition determined in accordance to IFRS 3 *Business Combinations*. The allocation required significant use of assumptions regarding cash flows, profit margin and discount, attrition and growth rates.

Based on the purchase price of £31 million and the fair value of net liabilities acquired of £5 million (excluding acquired intangible assets of £1 million), the value of goodwill and intangible assets is £36 million. Intangible assets representing the value of customer advice contracts have been valued at £15 million, less an associated deferred tax liability of £(2) million, with an estimated useful life of 8 years over which the intangible assets and the associated tax provision will be amortised on a straight line basis. The balance of £23 million is recognised as goodwill in the statement of financial position.

The goodwill recognised is not expected to be deductible for tax purposes, and represents:

- net client cash flow and fee earning productivity of the acquired advisers;
- quality and experience of the existing executive team;
- creation of scale and increased service range to the National channel proposition; and
- ability to generate growth in Restricted Financial Planners and client numbers.

The carrying value of tangible assets and liabilities in CDG's consolidated statement of financial position on acquisition date approximates the fair value of these items determined by the Group.

As part of the acquisition of CDG, a Long Term Incentive Plan scheme was set up with a maximum value up to £10 million worth of Quilter plc shares. Vesting of awards is up to 50% after three years (31 December 2021), 25% after 4 years, and 25% after 5 years.

The fair value at grant date was £1.39 per share, with an estimated fair value of £7 million. The cost of the awards is expected to be £2 million per annum across years 1 – 3 and £1 million in year 4.

3: Acquisitions, disposals and discontinued operations *continued*

3(a): Business acquisitions *continued*

Transaction costs of £1 million relating to the acquisition have been recognised within other operating and administrative expenses in the Group's consolidated income statement. These costs are not included within adjusted profit.

No contingent liabilities have been acquired.

The post-acquisition results from the business, excluding integration costs of £2 million, have been consolidated since the date of acquisition, contributing £6 million of revenue (£3 million, net of cost of sales) and a loss of £6 million to the Group's consolidated profit after tax.

Lighthouse Group plc acquisition:

On 3 April 2019, the Group made a cash offer to acquire the entire share capital (and associated voting rights) of Lighthouse Group plc ("Lighthouse"), and the acquisition completed on 12 June 2019. This acquisition helps to position Quilter as the best place for trusted financial advice in the UK, bringing together Quilter's strengths in its new platform with Lighthouse's strength in its customer relationships and partnerships, covering more than 6 million affluent and mass affluent customers in the UK.

There were 139,864,270 shares in issue for which the offer was 33 pence per share, valuing the business at £46 million.

The Group held 3.99% of the issued share capital of Lighthouse prior to acquisition. This holding was valued at £2 million, based on the 33 pence per share offer.

The purchase price has been allocated based on a provisional estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition determined in accordance to IFRS 3 *Business Combinations*. The provisional allocation required significant use of assumptions regarding cash flows, profit margin and discount, attrition and growth rates. It is possible that the preliminary estimates may change as the purchase price allocations are finalised. The accounting must be finalised within 12 months of the acquisition date.

Based on the purchase price of £46 million and fair value of net tangible liabilities acquired of £8 million (excluding acquired intangible assets of £5 million), the value of goodwill and intangible assets is £54 million. Intangible assets representing the value of customer advice contracts have been valued at £21 million (£24 million gross, less an associated deferred tax liability of £(3) million), with an estimated useful life of 8 years over which the intangible and associated tax provision will be amortised on a straight line basis. The balance of £33 million is recognised as goodwill in the Group's statement of financial position.

The goodwill recognised is not expected to be deductible for tax purposes, and represents:

- synergies arising from the alignment of the advisers into a restricted model;
- generation of additional net client cash flows into the integrated solutions offered through the wider Quilter Group; and
- cost saving synergies arising through de-listing the business and integrating with Quilter Financial Planning.

Transaction costs of £2 million relating to the acquisition have been recognised within 'Other operating and administrative expenses' in the Group's consolidated income statement, but not included within adjusted profit.

No contingent liabilities have been recognised in the fair value statement of financial position.

The table below sets out the consolidated assets and liabilities acquired:

	Acquiree's carrying amount £m	Fair value £m
Assets		
Intangible assets	5	24
Property, plant and equipment	2	2
Investments and securities	1	1
Cash and cash equivalents	7	7
Trade, other receivables and other assets	7	7
Total assets	**22**	**41**
Liabilities		
Deferred tax liabilities	–	(3)
Trade, other payables and other liabilities	(13)	(13)
Provision in respect of British Steel pension scheme members complaints	(12)	(12)
Total liabilities	**(25)**	**(28)**
Total net (liabilities)/assets acquired	**(3)**	**13**
Total consideration		**46**
Goodwill recognised		**33**

The post-acquisition results from the business, excluding integration costs of £3 million, have been consolidated since the date of acquisition, contributing £9 million of revenue and a profit of £1 million to the Group's consolidated profit after tax.

As disclosed in notes 15, 16 and 19, the Group was advised after the reporting date of a number of complaints received in respect of pension transfer advice provided to certain Lighthouse clients between 2016 and 2018, prior to the Group's acquisition of Lighthouse in June 2019. As the advice was provided before the Group's acquisition of Lighthouse, any redress costs will be recognised as a pre-acquisition liability within the fair value of the net assets acquired, with a corresponding increase in goodwill. A provision of £12 million has been calculated for the potential redress of the complaints received to date together with related legal and professional costs, which is reflected in the acquisition balance sheet above, along with the corresponding increase in goodwill. Any additional liability in respect of any other cases remains uncertain, as explained further in note 16. If further information is received by June 2020, the 12 month point post acquisition, further adjustments will be made to the acquisition balance sheet as appropriate.

3: Acquisitions, disposals and discontinued operations *continued*

3(a): Business acquisitions *continued*

Acquisition of adviser businesses by Quilter Financial Planning ("QFP")

During the year, the Group continued the expansion of the Quilter Private Client Advisers ("QPCA") business, with the acquisition of a further seven adviser businesses, including the acquisition of Prescient Financial Intelligence Limited on 20 December 2019. 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 £22 million, of which £14 million was cash consideration and up to £8 million in contingent consideration. The amount of contingent consideration, which is expected to be paid in full (discounted to net present value), is dependent upon meeting certain performance targets, generally relating to the value of funds under management and levels of on-going fee income. Tangible net assets of £1 million were acquired in these purchases. Total intangible assets of £9 million (£10 million gross, less an associated deferred tax liability of £(1) million) in respect of customer relationships and goodwill of £12 million have been recognised as a result of the acquisitions.

Transaction costs of £1 million relating to these acquisitions have been recognised within other operating expenses in the Group's consolidated income statement, but not included within adjusted profit.

Impact of acquisitions on Group revenue and profit

If all of the above acquisitions had occurred on 1 January 2019, management estimates that the Group's consolidated revenues would have been £10 million higher at £7,774 million, and consolidated profit after tax for the year would have been £5 million lower at £141 million.

Business acquisitions completed during year ended 31 December 2018

Acquisition of Skandia UK Limited from Old Mutual plc

The Group acquired the Skandia UK Limited group of entities from Old Mutual plc on 31 January 2018, comprising 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 was a £566 million receivable which had a corresponding equivalent payable within the Group's 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.

Acquisition of adviser businesses by Quilter Financial Planning ("QFP")

During 2018 the Group completed the acquisition of fourteen adviser businesses as part of the expansion of the QPCA business. The total cash consideration paid was an initial £5 million with additional potential contingent consideration of £6 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. Goodwill of £5 million, other intangible assets of £7 million and a deferred tax liability of £1 million were recognised as a result of the transaction. The contingent consideration was capitalised in the calculation of goodwill recognised.

Contingent consideration arising from business combinations

The table below details the movements in the contingent consideration balance during the current and prior year arising from the business acquisitions detailed above and in earlier years.

	31 December 2019 £m	31 December 2018 £m
Opening balance at 1 January	37	35
Acquisitions during the year	22	7
Payments	(21)	(7)
Financing interest charge	3	2
Other movements	(2)	–
Closing balance at 31 December	**39**	**37**

Contingent consideration represents management's best estimate of the amount payable in relation to each acquisition discounted to net present value. The basis of each acquisition varies but includes payments based upon a percentage of the level of assets under administration, funds under management and levels of on-going fee income at future dates. Management estimate a provision sensitivity of +/- 5% (£2 million).

3(b): Business disposals

Year ended 31 December 2019

On 31 December 2019, the Group completed the sale of the Quilter Life Assurance ("QLA") business (consisting two of the Group's subsidiary undertakings: Old Mutual Wealth Life Assurance Limited and Old Mutual Wealth Pensions Trustee Limited) to ReAssure Group for total consideration of £446 million. The Group has recognised a profit on the disposal of QLA of £103 million. Provisions established in respect of this disposal are shown in note 15.

Year ended 31 December 2018

On 29 June 2018, the Group completed the sale of its Single Strategy Asset Management business ("Single Strategy business") for a total consideration of £583 million, comprising cash consideration of £540 million on completion, with an additional £7 million payable before 2022 as surplus capital associated with the separation from the Group is released in the 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"). The contingent consideration was 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.

3: Acquisitions, disposals and discontinued operations *continued*

3(b): Business disposals *continued*

The results of the Single Strategy business continued to be included as part of the Group up until the date of sale on the 29 June 2018. The Group recognised a post tax profit on disposal of the Single Strategy business of £292 million.

Profit on sale of operations

	Year ended 31 December 2019	Year ended 31 December 2018
	Quilter Life Assurance £m	Single Strategy business and Old Mutual Wealth Italy adjustment £m
Consideration received[1]	446	546
Less: transaction and separation costs[2]	(19)	(20)
Plus: release of accrued expenses in relation to OMW Italy S.p.A disposal	–	2
Net proceeds from sale	427	528
Carrying value of net assets disposed	(294)	(155)
Goodwill allocated and disposed	(30)	(83)
Profit on sale of operations before tax	103	290
Tax on disposals	–	4
Profit on sale of operations after tax	**103**	**294**

[1]Consideration received in 2018 in respect of the Single Strategy business comprises £540 million of cash received together with the discounted contingent consideration of £6 million, and excludes the £36 million pre-completion dividend received in June 2018.
[2]Of the £19 million transaction and separation costs relating to the sale of the QLA business in year ended 31 December 2019, £7 million has been expensed, with £12 million of accruals and provisions remaining at 31 December 2019.

Carrying value of net assets disposed

	Year ended 31 December 2019	Year ended 31 December 2018
	Quilter Life Assurance £m	Single Strategy business £m
Assets		
Deferred acquisition costs	8	–
Contract costs	39	5
Financial investments	8,646	–
Reinsurers' share of policyholder liabilities	1,341	–
Deferred tax assets	–	5
Current tax receivable	14	–
Trade, other receivables and other assets	45	74
Cash and cash equivalents	361	170
Total assets	**10,454**	**254**
Liabilities		
Long-term business insurance policyholder liabilities	736	–
Investment contract liabilities	9,183	–
Provisions	12	3
Deferred tax liabilities	70	–
Current tax payable	7	3
Trade, other payables and other liabilities	129	93
Contract liabilities	23	–
Total liabilities	**10,160**	**99**
Carrying value of net assets disposed	**294**	**155**

3: Acquisitions, disposals and discontinued operations *continued*

3(c): Discontinued operations – income statement

During 2019, the Group's discontinued operations consisted solely of the QLA business up to its disposal date of 31 December 2019 and the associated profit on sale of that business. For 2018, in addition to QLA's profit after tax, the Group's discontinued operations also included the profit after tax of the Single Strategy business up to the date of disposal on 29 June 2018 and the related profit on sale of that business.

	Notes	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Revenue			
Gross earned premiums		145	147
Premiums ceded to reinsurers		(86)	(87)
Net earned premiums		59	60
Fee income and other income from service activities[1]		164	206
Investment return[1,2]		1,386	(770)
Other income		–	2
Total revenue		**1,609**	**(502)**
Expenses			
Claims and benefits paid		(98)	(86)
Reinsurance recoveries		72	60
Net insurance claims and benefits incurred		(26)	(26)
Change in reinsurance assets and liabilities		121	103
Change in insurance contract liabilities		(134)	(109)
Change in investment contract liabilities[2]	14(c)	(1,364)	772
Fee and commission expenses, and other acquisition costs		(45)	(84)
Other operating and administrative expenses		(8)	(102)
Finance costs		–	(1)
Total expenses		**(1,456)**	**553**
Profit on sale of operations before tax	3(b)	103	290
Profit before tax from discontinued operations		**256**	**341**
Tax (expense)/credit attributable to policyholder returns	6(a)	(76)	97
Profit before tax from discontinued operations attributable to equity holders		**180**	**438**
Income tax (expense)/credit	6(a)	(89)	81
Less: tax expense/(credit) attributable to policyholder returns		76	(97)
Tax expense attributable to equity holders		(13)	(16)
Profit after tax from discontinued operations		**167**	**422**
Attributable to:			
Equity holders of Quilter plc		**167**	**422**

Earnings per ordinary share on profit attributable to ordinary shareholders of Quilter plc			
Basic – from discontinued operations (pence)	7(b)	9.1	23.1
Diluted – from discontinued operations (pence)	7(b)	8.9	23.0

[1]In the year ended 31 December 2018, the Group has reclassified £36 million from Fee income and other income from service activities to Investment return to conform with current year presentation.
[2]In the year ended 31 December 2018, the Group has reclassified £35 million from Investment return to Change in investment contract liabilities to conform with current year presentation.

Operating and administration expenses shown within discontinued operations for the current and prior year have been amended in order to reallocate costs historically charged to QLA from Group service entities (31 December 2019: £26 million and 31 December 2018: £28 million) back to the Group's continuing operations. This principally reflects those costs previously recharged from Group central support functions to QLA that the Group will continue to incur after the disposal of QLA but will no longer be recharged to that business subsequent to its disposal. For more information on these costs and related revenues in 2020 (as part of the Transitional Service Arrangement ("TSA") with ReAssure ("The Acquirer", in respect of QLA)) see the Financial Review.

3(d): Discontinued operations – Statement of comprehensive income

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Profit after tax	167	422
Total comprehensive income for the year from discontinued operations	**167**	**422**

3: Acquisitions, disposals and discontinued operations *continued*

3(e): Discontinued operations – Net cash flows

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Total net cash used in operating activities	(3,789)	(2,437)
Total net cash from investing activities	3,765	2,529
Total net cash used in financing activities	(130)	(46)
Net (decrease)/increase in cash and cash equivalents	**(154)**	**46**

4: Segmental information

4(a): Segmental presentation

The Group's operating segments comprise Advice and Wealth Management and Wealth Platforms, which is consistent with the way in which the Group is structured and managed. For all reporting periods, these segments have been classified as continuing operations in the income statement. Head Office includes certain revenues and central costs that are not allocated to the segments.

Adjusted profit is an Alternative Performance Measure ("APM") reported to the Group's management and Board. Management and the Board use additional APMs to assess the performance of each of the segments, including net client cash flows, assets under management and administration, revenue and operating margin.

Consistent with internal reporting, assets, liabilities, revenues and expenses that are not directly attributable to a particular segment are allocated between segments where appropriate. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Intra-group recharges in respect of operating and administration expenses within businesses disclosed as discontinued operations are not adjusted for potential future changes to the level of those costs resulting from the disposal of those businesses.

The segmental information in this note reflects the adjusted and IFRS profit measures and the assets and liabilities for each operating segment as provided to management and the Board.

Continuing operations:

Advice and Wealth Management

This segment comprises Quilter Investors, Quilter Cheviot and Quilter Financial Planning.

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 the Group and third party clients. It has several fund ranges which vary in breadth of underlying asset class.

Quilter Cheviot provides discretionary investment management predominantly 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 operations in the Channel Islands and the Republic of Ireland.

Quilter Financial Planning is a restricted and independent financial adviser network, including Quilter Private Client Advisers ("QPCA"), CDG and Lighthouse, providing mortgage and financial planning advice and financial solutions for both individuals and businesses through a network of intermediaries. It operates 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 International.

Quilter Wealth Solutions is a leading investment platform provider of advice-based wealth management products and services in the UK, which serves a largely affluent customer base through advised multi-channel distribution.

Quilter International is a cross-border business, focusing on high net worth and affluent local customers and expatriates in the UK, Asia, the Middle East, Europe and Latin America.

Head office

In addition to the two operating segments, Head Office comprises the investment return on centrally held assets, central support function expenses, central core structural borrowings and certain tax balances in the segmental statement of financial position.

Discontinued operations:

The disposal of Quilter Life Assurance ("QLA") on 31 December 2019, previously part of the Wealth Platforms operating segment, has resulted in its classification as a discontinued operation. For the year ended 31 December 2018, the Single Strategy Asset Management business (disposed of on 29 June 2018) is also included as a discontinued operation. The results of these two businesses, along with the profits on disposal, have been presented as discontinued operations. See note 3(b) and note 3(c) for further information.

4: Segmental information *continued*

4(b)(i): Adjusted profit statement – segmental information for the year ended 31 December 2019

This reconciliation presents the Group's operating segments' IFRS income statements and reconcile to pre-tax adjusted profit and to the Group's consolidated income statement, including the 'Profit/(loss) before tax attributable to equity holders' (for continuing operations only).

		Operating segments					
Continuing operations	Notes	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Reallocation of QLA costs[1] £m	Consolidation adjustments[2] £m	Consolidated income statement £m
Revenue							
Fee income and other income from service activities		486	438	–	–	12	**936**
Investment return		10	5,823	3	–	1,030	**6,866**
Other income		1	160	6	–	(145)	**22**
Segmental revenue		**497**	**6,421**	**9**	**–**	**897**	**7,824**
Expenses							
Insurance contract claims and changes in liabilities		–	(1)	–	–	–	**(1)**
Change in investment contract liabilities	14(c)	–	(5,810)	–	–	–	**(5,810)**
Fee and commission expenses, and other acquisition costs		(73)	(110)	–	–	(111)	**(294)**
Change in third party interest in consolidated funds		–	–	–	–	(917)	**(917)**
Other operating and administrative expenses		(368)	(409)	(68)	(26)	131	**(740)**
Finance costs		(4)	(3)	(10)	–	–	**(17)**
Segmental expenses		**(445)**	**(6,333)**	**(78)**	**(26)**	**(897)**	**(7,779)**
Profit/(loss) before tax from continuing operations		**52**	**88**	**(69)**	**(26)**	**–**	**45**
Tax attributable to policyholder returns		–	(98)	–	–	–	**(98)**
Profit/(loss) before tax attributable to equity holders from continuing operations		**52**	**(10)**	**(69)**	**(26)**	**–**	**(53)**
Adjusted for non-operating items:							
Goodwill impairment and impact of acquisition accounting	5(a)(i)	52	1	1	–	–	**54**
Business transformation costs	5(a)(ii)	(1)	58	20	–	–	**77**
Managed Separation costs	5(a)(iii)	–	1	5	–	–	**6**
Finance costs	5(a)(iv)	–	–	10	–	–	**10**
Policyholder tax adjustments	5(a)(v)	–	62	–	–	–	**62**
Adjusting items before tax		51	122	36	–	–	**209**
Adjusted profit/(loss) before tax – continuing operations		**103**	**112**	**(33)**	**(26)**	**–**	**156**
Adjusted profit before tax – discontinued operations		–	53	–	26	–	79
Total adjusted profit/(loss) before tax		**103**	**165**	**(33)**	**–**	**–**	**235**

[1]Reallocation of QLA costs includes £26 million of costs previously reported as part of the QLA business which has been reallocated from discontinued to continuing operations as these costs do not transfer to ReAssure on disposal at 31 December 2019. See note 3(c) for further information.
[2]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

4: Segmental information *continued*

4(b)(ii): Adjusted profit statement – segmental information for the year ended 31 December 2018

Continuing operations	Notes	Operating segments: Advice and Wealth Management £m	Operating segments: Wealth Platforms £m	Head Office £m	Reallocation of QLA costs[1] £m	Consolidation adjustments[2] £m	Consolidated income statement £m
Revenue							
Fee income and other income from service activities		547	402	–	–	5	954
Investment return		9	(2,478)	3	–	(246)	(2,712)
Other income		2	101	6	–	(74)	35
Segmental revenue		**558**	**(1,975)**	**9**	**–**	**(315)**	**(1,723)**
Expenses							
Insurance contract claims and changes in liabilities		–	(1)	–	–	–	(1)
Change in investment contract liabilities	14(c)	–	2,499	–	–	–	2,499
Fee and commission expenses, and other acquisition costs		(163)	(117)	–	–	(118)	(398)
Change in third party interest in consolidated funds		–	–	–	–	369	369
Other operating and administrative expenses		(358)	(360)	(68)	(28)	64	(750)
Finance costs		(3)	–	(13)	–	–	(16)
Segmental expenses		**(524)**	**2,021**	**(81)**	**(28)**	**315**	**1,703**
Profit/(loss) before tax from continuing operations		**34**	**46**	**(72)**	**(28)**	**–**	**(20)**
Tax attributable to policyholder returns		–	61	–	–	–	61
Profit/(loss) before tax attributable to equity holders from continuing operations		**34**	**107**	**(72)**	**(28)**	**–**	**41**
Adjusted for non-operating items:							
Goodwill impairment and impact of acquisition accounting	5(a)(i)	49	1	–	–	–	50
Business transformation costs	5(a)(ii)	19	58	7	–	–	84
Managed Separation costs	5(a)(iii)	–	1	23	–	–	24
Finance costs	5(a)(iv)	–	–	13	–	–	13
Policyholder tax adjustments	5(a)(v)	–	(64)	–	–	–	(64)
Reallocation of central costs[3]		–	2	(2)	–	–	–
Adjusting items before tax		68	(2)	41	–	–	107
Adjusted profit/(loss) before tax – continuing operations		**102**	**105**	**(31)**	**(28)**	**–**	**148**
Adjusted profit before tax – discontinued operations		26	57	–	28	–	111
Total adjusted profit/(loss) before tax		**128**	**162**	**(31)**	**–**	**–**	**259**

[1]Reallocation of QLA costs includes £28 million of costs previously reported as part of the QLA business which has been reallocated from discontinued to continuing operations as these costs do not transfer to ReAssure on disposal at 31 December 2019. See note 3(c) for further information.
[2]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.
[3]Reallocation of central costs reverses management reallocations included within adjusted profit to reconcile back to IFRS profit.

4: Segmental information *continued*

4(c)(i): Statement of financial position – segmental information at 31 December 2019

	Notes	Advice & Wealth Management £m	Wealth Platforms £m	Head Office £m	Discontinued Operations £m	Consolidation Adjustments[1] £m	Total £m
Assets							
Goodwill and intangible assets	9	458	134	–	–	–	**592**
Property, plant and equipment		30	111	2	–	–	**143**
Investments in associated undertakings		–	–	1	–	–	**1**
Contract costs		–	455	–	–	–	**455**
Loans and advances		31	180	6	–	–	**217**
Financial investments	10	1	52,249	–	–	7,095	**59,345**
Deferred tax assets		11	22	10	–	–	**43**
Current tax receivable		–	–	13	–	–	**13**
Trade, other receivables and other assets		207	177	3	–	37	**424**
Derivative assets		–	–	–	–	32	**32**
Cash and cash equivalents	13(a)	383	725	838	–	527	**2,473**
Inter-segment funding – assets		–	12	–	–	(12)	**–**
Total assets		**1,121**	**54,065**	**873**	**–**	**7,679**	**63,738**
Liabilities							
Investment contract liabilities	14	–	52,455	–	–	–	**52,455**
Third-party interests in consolidated funds		–	–	–	–	7,675	**7,675**
Provisions	15	28	26	10	–	–	**64**
Deferred tax liabilities		38	50	–	–	–	**88**
Current tax payable/(receivable)[2]		1	(7)	12	–	–	**6**
Borrowings and lease liabilities[3]		26	108	201	–	–	**335**
Trade, other payables and other liabilities		322	477	37	–	–	**836**
Contract liabilities and deferred revenue		1	190	–	–	–	**191**
Derivative liabilities		–	–	–	–	17	**17**
Inter-segment funding – liabilities		–	–	12	–	(12)	**–**
Total liabilities		**416**	**53,299**	**272**	**–**	**7,680**	**61,667**
Total equity							**2,071**
Total equity and liabilities							**63,738**

[1]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.
[2]Current tax payable/(receivable) includes Group relief payable and receivable that net to £nil on a consolidated basis but may appear as a receivable within individual segments.
[3]The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the time of initial application.

4: Segmental information *continued*

4(c)(ii): Statement of financial position – segmental information at 31 December 2018

	Notes	Advice & Wealth Management £m	Wealth Platforms £m	Head Office £m	Discontinued Operations £m	Consolidation Adjustments[1] £m	Total £m
Assets							
Goodwill and intangible assets	9	386	164	–	–	–	**550**
Property, plant and equipment		10	7	–	–	–	**17**
Investments in associated undertakings		–	–	2	–	–	**2**
Deferred acquisition costs		–	–	–	11	–	**11**
Contract costs		–	498	–	53	–	**551**
Loans and advances		27	188	7	–	–	**222**
Financial investments	10	3	44,950	2	9,686	4,578	**59,219**
Reinsurers' share of policyholder liabilities		–	–	–	2,162	–	**2,162**
Deferred tax assets		7	22	9	–	–	**38**
Current tax receivable		–	23	1	23	–	**47**
Trade, other receivables and other assets[2]		241	151	8	30	100	**530**
Derivative assets		–	–	–	–	46	**46**
Cash and cash equivalents	13(a)	358	599	440	514	484	**2,395**
Inter-segment funding – assets		–	12	–	–	(12)	**–**
Total assets		1,032	46,614	469	12,479	5,196	**65,790**
Liabilities							
Insurance contract liabilities	14	–	–	–	602	–	**602**
Investment contract liabilities	14	–	45,211	–	11,239	–	**56,450**
Third-party interests in consolidated funds		–	–	–	–	5,116	**5,116**
Provisions	15	26	20	9	39	–	**94**
Deferred tax liabilities		40	–	–	19	–	**59**
Current tax payable/(receivable)[3]		9	5	(18)	9	–	**5**
Borrowings		–	–	197	–	–	**197**
Trade, other payables and other liabilities		340	425	20	158	56	**999**
Contract liabilities and deferred revenue		1	194	–	31	–	**226**
Derivative liabilities		–	1	–	–	36	**37**
Inter-segment funding – liabilities		–	–	12	–	(12)	**–**
Total liabilities		416	45,856	220	12,097	5,196	**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.
[2]The Group's contract assets are now included within Trade, other receivables and other assets, having previously been shown separately on the statement of financial position.
[3]Current tax payable/(receivable) includes Group relief payable and receivable that net to £nil on a consolidated basis but may appear as a receivable within individual segments.

5: Alternative performance measures ("APMs")

5(a): Adjusted profit and adjusting items

In determining adjusted profit before tax, certain adjustments are made to IFRS profit before tax to reflect the underlying performance of the Group. These are detailed below.

5(a)(i): 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 *Business Combinations*). The Group excludes any impairment of goodwill from adjusted profit as well as the amortisation and impairment of acquired other intangible assets, any acquisition costs and finance costs related to the discounting of contingent consideration.

The effect of these adjustments to determine adjusted profit are summarised below. All adjustments are in respect of continuing operations.

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Amortisation of other acquired intangible assets	9(a)	45	41
Acquisition costs[1]		6	5
Impairment of other intangible assets		–	1
Unwinding of discount on contingent consideration		3	3
Total goodwill impairment and impact of acquisition accounting		**54**	**50**

[1]Acquisition costs include items such as transaction costs or deferred incentives arising on the acquisition of businesses.

5: Alternative performance measures (“APMs”) *continued*

5(a)(ii): Business transformation costs

Business transformation costs include four items: costs associated with the UK Platform Transformation Programme, build out costs incurred within Quilter Investors as a result of the sale of the Single Strategy business, restructuring costs incurred as a result of the sale of Quilter Life Assurance, and the Optimisation Programme costs. All items are within the Group’s continuing operations and are described in detail below. For the year ended 31 December 2019, these costs totalled £77 million (31 December 2018: £84 million) in aggregate.

UK Platform Transformation Programme – 31 December 2019: £57 million, 31 December 2018: £58 million

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 will be migrated to FNZ under a long-term outsourcing agreement. The costs of developing the new technology do not meet the criteria for capitalisation and have therefore been expensed. These direct costs and the costs of decommissioning existing technology and migrating of services to FNZ are excluded from adjusted profit.

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 during 2020.

Quilter Investors’ build out costs – 31 December 2019: £(1) million, 31 December 2018: £19 million

In March 2016, the Group’s former parent company, Old Mutual plc, announced its Managed Separation strategy that sought to unlock and create significant long-term value for Old Mutual plc 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 business was sold to its management and TA Associates on 29 June 2018. As a result, the Group incurred £24 million of one-off costs in the year ended 31 December 2018, £5 million of which were included in profit on disposal within discontinued operations and £19 million is an adjusting item within continuing business. During 2019, the build has been substantially completed resulting in the release of £1 million of the provision established to complete the build.

Optimisation Programme costs – 31 December 2019: £18 million, 31 December 2018: £7 million

The Group initiated a phased, multi-year Optimisation Programme in March 2019 targeting a 4 percentage point uplift in the Group’s operating margin by 2021. Phase 1 is aiming to unify and simplify the Group through a number of efficiency initiatives that will deliver improvements in operational performance.

A number of quick win tactical efficiencies have been delivered, which included targeted staff restructuring, third party contract renegotiation and termination, and property and facilities savings. Some more complex initiatives, such as the insourcing of certain technology capabilities as well as the simplification of certain group support functions, have also been delivered. All the planned programmes that will transform our business through technology enablement, such as the consolidation and modernisation of our general ledgers and other associated finance, HR and procurement modules, have been initiated. The use of robotics to automate manual operational processes in our International business as well as streamlining and automating some of the processes used in our advice business, are also underway.

Restructuring costs following disposal of Quilter Life Assurance – 31 December 2019: £3 million, 31 December 2018: £nil

As a result of the disposal of QLA on the 31 December 2019, the Group has recognised £3 million as an adjusting item principally in respect of redundancy costs incurred during the year. The Group expects to incur further restructuring costs during the following two years, including the cost of decommissioning IT systems as the TSA runs off and the remaining business is restructured following the disposal.

5(a)(iii): Managed Separation costs

One-off costs related to the Managed Separation from Old Mutual plc, 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 its Managed Separation strategy. For the year ended 31 December 2019 these costs were £6 million (31 December 2018: £24 million). In 2019 these costs primarily relate to post-listing rebranding. These costs are not expected to persist in the long term as they relate to a fundamental restructuring of the Group.

5(a)(iv): 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 external borrowings are removed when calculating adjusted profit. For the year ended 31 December 2019 finance costs were £10 million (31 December 2018: £13 million).

5(a)(v): Policyholder tax adjustments

For the year ended 31 December 2019 the total of policyholder tax adjustments to adjusted profit is £74 million (31 December 2018: £(101) million) relating to both continuing and discontinued operations, as shown in note 5(c). 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 recognition of the income received from policyholders (which is included within the Group’s revenue) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding tax expense, creating volatility to the Group’s IFRS (loss)/profit before tax attributable to equity holders. For a further explanation of the impact of markets on the policyholder tax charge see note 6(a). Adjustments are also made to remove policyholder tax distortions from other non-operating adjusting items.

5(a)(vi): Voluntary customer remediation

Within QLA, the voluntary customer remediation provision was established in 2017 following product reviews consistent with recommendations from the Financial Conduct Authority’s (“FCA”) thematic review and the FCA’s guidance FG16/8 Fair treatment of long-standing customers in the life assurance sector. During 2019 the components of the remaining provision have been reviewed and £10 million of the provision released (as detailed in note 15), wholly relating to discontinued operations and hence the remaining provision is not included in the Group’s statement of financial position as at 31 December 2019.

5: Alternative performance measures ("APMs") *continued*

5(b): IFRS profit before tax (excluding amortisation, policyholder tax adjustments and other one-off items)

For remuneration purposes, the Group uses IFRS profit before tax adjusted to exclude agreed non-operating, one-off items as shown below. For further details please refer to the remuneration report and KPIs section within the Group's 2018 ARA.

	Notes	Year ended 31 December 2019 £m	Year ended 31 December 2018[1] £m
(Loss)/profit before tax attributable to equity holders - continuing operations		**(53)**	**41**
Profit before tax attributable to equity holders - discontinued operations	3(c)	**180**	**438**
Adjusted for the following:			
Profit on business disposals	3(b)	(103)	(290)
Goodwill impairment and impact of acquisition accounting	5(a)(i)	54	50
Policyholder tax adjustments	5(a)(v)	74	(101)
Voluntary customer remediation provision	5(a)(vi)	(10)	–
Quilter Investors' build out costs	5(a)(ii)	(1)	19
2018 Single Strategy business profit before tax		–	(26)
IFRS profit before tax (excluding amortisation, policyholder tax adjustments and other one-off items)		**141**	**131**

[1]The 2018 comparative has been restated from £112 million to £131 million to include the adjustment for the Quilter Investors' build out costs of £19 million (as shown in the table above.

5(c): Reconciliation of IFRS revenue and expenses to adjusted profit total fee revenue and expenses

This reconciliation shows how each line of the Group's consolidated IFRS income statement is allocated to the Group's APMs: Net management fee, Total net fee revenue and Expenses as part of the Group's adjusted profit. Allocations are determined by management and aim to show the sources of profit (net of relevant directly attributable expenses). These allocations remain consistent from period to period to ensure comparability.

Year ended 31 December 2019	Net mgmt fees[1] £m	Other revenue[2] £m	Total net fee revenue[3] £m	Expenses £m	Adjusted profit incl. QLA £m	Consol. of funds[4] £m	Deduct QLA (incl. interco elims)[5] £m	IFRS income statement[6] £m
Revenue								
Net earned premiums	–	59	59	–	59	–	(59)	–
Fee income and other income from service activities	871	203	1,074	–	1,074	17	(155)	936
Investment return	–	7,384	7,384	–	7,384	1,031	(1,549)	6,866
Other income	–	1	1	–	1	21	–	22
Total revenue	**871**	**7,647**	**8,518**	**–**	**8,518**	**1,069**	**(1,763)**	**7,824**
Expenses								
Insurance contract claims and changes in liabilities	–	(40)	(40)	–	(40)	–	39	(1)
Change in investment contract liabilities	–	(7,339)	(7,339)	–	(7,339)	–	1,529	(5,810)
Fee and commission expenses, and other acquisition costs	(108)	(103)	(211)	–	(211)	(117)	34	(294)
Change in third-party interest in consolidated funds	–	–	–	–	–	(917)	–	(917)
Other operating and administrative expenses	(14)	(2)	(16)	(697)	(713)	(35)	8	(740)
Finance costs	–	(4)	(4)	(13)	(17)	–	–	(17)
Total expenses	**(122)**	**(7,488)**	**(7,610)**	**(710)**	**(8,320)**	**(1,069)**	**1,610**	**(7,779)**
Tax (expense)/credit attributable to policyholder returns	(174)	–	(174)	–	(174)	–	76	(98)
Total before adjusting items	**575**	**159**	**734**	**(710)**	**24**	**–**	**(77)**	**(53)**
Adjusting items:								
Goodwill impairment and impact of acquisition accounting	–	–	–	54	54			
Business transformation costs	–	–	–	77	77			
Managed Separation costs	–	–	–	6	6			
Finance costs	–	–	–	10	10			
Policyholder tax adjustments	74	–	74	–	74			
Voluntary customer remediation provision	–	–	–	(10)	(10)			
Adjusting items	**74**	**–**	**74**	**137**	**211**			
Adjusted profit before tax – continuing operations and QLA	**649**	**159**	**808**	**(573)**	**235**			

5: Alternative performance measures (“APMs”) *continued*

5(c): Reconciliation of IFRS revenue and expenses to adjusted profit total fee revenue and expenses *continued*

Year ended 31 December 2018	Net mgmt fees[1] £m	Other revenue[2] £m	Total net fee revenue[3] £m	Expenses £m	Adjusted profit incl. QLA £m	Consol. of funds[4] £m	Deduct QLA (incl. interco elims)[5] £m	IFRS income statement[6] £m
Revenue								
Net earned premiums	–	60	60	–	60	–	(60)	–
Fee income and other income from service activities[8]	801	195	996	–	996	14	(56)	954
Investment return[8,9]	10	(3,245)	(3,235)	–	(3,235)	(246)	769	(2,712)
Other income	–	6	6	–	6	29	–	35
Total revenue	811	(2,984)	(2,173)	–	(2,173)	(203)	653	(1,723)
Expenses								
Insurance contract claims and changes in liabilities	–	(33)	(33)	–	(33)	–	32	(1)
Change in investment contract liabilities[9]	–	3,271	3,271	–	3,271	–	(772)	2,499
Fee and commission expenses, and other acquisition costs	(199)	(112)	(311)	–	(311)	(126)	39	(398)
Change in third-party interest in consolidated funds	–	–	–	–	–	369	–	369
Other operating and administrative expenses	(22)	–	(22)	(710)	(732)	(40)	22	(750)
Finance costs	–	(1)	(1)	(16)	(17)	–	1	(16)
Total expenses	(221)	3,125	2,904	(726)	2,178	203	(678)	1,703
Tax credit/(expense)attributable to policyholder returns	158	–	158	–	158	–	(97)	61
Total before adjusting items	748	141	889	(726)	163	–	(122)	41
Adjusting items:								
Goodwill impairment and impact of acquisition accounting	–	–	–	50	50			
Business transformation costs	–	–	–	84	84			
Managed Separation costs	–	–	–	24	24			
Finance costs	–	–	–	13	13			
Policyholder tax adjustments	(101)	–	(101)	–	(101)			
Adjusting items	(101)	–	(101)	171	70			
Adjusted profit before tax – continuing operations and QLA[7]	647	141	788	(555)	233			

[1]Net Management Fees are commented on within the Financial Review and explained in the Alternative Performance Measures within the Group’s 2019 ARA.
[2]Other revenue is commented on within the Financial Review and explained in the Alternative Performance Measures on page 202 within the Group’s 2019 ARA.
[3]Total net fee revenue is commented on within the Financial Review and explained in the Alternative Performance Measures on page 202 within the Group’s 2019 ARA.
[4]Consol of funds shows the grossing up impact to the Group’s consolidated income statement as a result of the consolidation of funds. This grossing up is excluded from the Group’s adjusted profit.
[5]The results of QLA are deducted in order to reconcile to the Group’s consolidated income statement. QLA is presented as a discontinued operation. This includes intercompany eliminations that are required when the Group’s results are split between continuing and discontinued operations.
[6]The IFRS income statement column in the table above, down to Total before adjusting items, reconciles to each line of the Group’s consolidated income statement down to (Loss)/profit before tax attributable to equity holders.
[7]Adjusted profit before tax – continuing operations and QLA of £233 million for year ended 31 December 2018 represents the Group’s total adjusted profit before tax of £259 million (see “Reconciliation of adjusted profit to profit after tax” statement), less £26 million of adjusted profit before tax attributable to the Single Strategy business.
[8]In the year ended 31 December 2018, the Group has reclassified £36 million from Fee income and other income from service activities to Investment return to conform with current year presentation.
[9]In the year ended 31 December 2018, the Group has reclassified £35 million from Investment return to Change in investment contract liabilities to conform with current year presentation.

6: Tax

6(a): Tax charged to the income statement

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Current tax			
United Kingdom		33	(10)
International		5	3
Adjustments to current tax in respect of prior periods		(11)	(11)
Total current tax		**27**	**(18)**
Deferred tax			
Origination and reversal of temporary differences		40	(61)
Effect on deferred tax of changes in tax rates		2	–
Adjustments to deferred tax in respect of prior periods		(3)	(7)
Total deferred tax		**39**	**(68)**
Total tax charged/(credited) to income statement – continuing operations		**66**	**(86)**
Total tax charged/(credited) to income statement – discontinued operations	3(c)	**89**	**(81)**
Total tax charged/(credited) to income statement		**155**	**(167)**
Attributable to policyholder returns – continuing operations		98	(61)
Attributable to equity holders – continuing operations		(32)	(25)
Total tax charged/(credited) to income statement – continuing operations		**66**	**(86)**
Attributable to policyholder returns – discontinued operations		76	(97)
Attributable to equity holders – discontinued operations		13	16
Total tax charged/(credited) to income statement – discontinued operations		**89**	**(81)**
Total tax charged/(credited) to income statement		**155**	**(167)**

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 are 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.

The Group's income tax expense on continuing operations was £66 million for the year ended 31 December 2019, compared to a credit of £(86) million for the prior year. This income tax expense/(credit) can vary significantly period on period as a result of market volatility and the impact this has on policyholder tax. The recognition of the income received from policyholders (which is included within the Group's revenue) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding policyholder tax expense, creating volatility to the Group's IFRS profit before tax attributable to equity holders. An adjustment is made to adjusted profit to remove these distortions, as explained further in note 5(a)(v).

Significant market volatility during the year ended 31 December 2018 led to large investment losses that have reversed in 2019, resulting in investment gains of £833 million on products subject to policyholder tax. The gain is a component of the total "investment return" gain of £6,806 million shown in the income statement and £1,386 million shown in the discontinued operations income statement. The impact of the £833 million investment return gain is the primary reason for the £174 million tax charge attributable to policyholder returns in respect of both continuing (£98 million) and discontinued (£76 million) operations for the year ended 31 December 2019 (31 December 2018: £(61) million credit in respect of continuing operations and £(97) million in respect of discontinued operations).

First time recognition of deferred tax asset on accelerated depreciation

Within the £39 million total deferred tax charge and the £(32) million tax credit attributable to equity holders (continuing operations) above, the Group has recognised a £7 million deferred tax credit for the first time in the current year. This is in respect of a change in recognition of deferred tax assets where the Group now recognises the future reversal of temporary differences in respect of capital allowances against matching temporary differences in respect of amortisation of acquired intangible assets. Had this been in place in the prior year, the equivalent adjustment in 2018 would have been a £9 million deferred tax credit, with a corresponding £2 million charge in the current year.

6: Tax *continued*

6(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 2019 £m	Year ended 31 December 2018 £m
Profit before tax from continuing operations		**45**	**(20)**
Tax at UK standard rate of 19% (2018: 19%)		9	(4)
Different tax rate or basis on overseas operations		(6)	(5)
Untaxed and low taxed income		1	(8)
Disallowable expenses		3	6
Adjustments to current tax in respect of prior years		(11)	(11)
Net movement on deferred tax assets not recognised		(11)	(11)
Effect on deferred tax of changes in tax rates		2	–
Adjustments to deferred tax in respect of prior years		(3)	(7)
Income tax attributable to policyholder returns		82	(46)
Total tax charged/(credited) to income statement – continuing operations		**66**	**(86)**
Total tax charged/(credited) to income statement – discontinued operations	3(c)	**89**	**(81)**
Total tax charged/(credited) to income statement		**155**	**(167)**

6(c): Reconciliation of income tax expense in the income statement to income tax on adjusted profit

	Notes	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Income tax expense/(credit) on continuing operations[1]		**66**	**(86)**
Tax on adjusting items			
Goodwill impairment and impact of acquisition accounting		8	8
Business transformation costs		14	16
Managed Separation costs		1	2
Finance costs		2	2
Tax adjusting items			
Policyholder tax adjustments	5(a)(v)	(62)	64
Other shareholder tax adjustments[2]		24	5
Tax on adjusting items – continuing operations		(13)	97
Less: Tax attributable to policyholder returns within adjusted profit – continuing operations[3]		(36)	(3)
Tax charged on adjusted profit – continuing operations		17	8
Reversal of income tax expense on the reallocation of QLA costs		5	5
Tax charged on adjusted profit – continuing operations before the reallocation of QLA costs		**22**	**13**
Income tax expense/(credit) on discontinued operations[1]	3(c)	**89**	**(81)**
Tax on adjusting items			
Profit on business disposals		–	4
Voluntary customer remediation provision		(2)	–
Tax adjusting items			
Policyholder tax adjustments	5(a)(v)	(12)	37
Other shareholder tax adjustments[2]		(3)	(17)
Tax on adjusting items – discontinued operations		(17)	24
Less: Tax attributable to policyholder returns within adjusted profit – discontinued operations[3]		(64)	60
Tax charged on adjusted profit – discontinued operations		**8**	**3**
Reversal of income tax credit on the reallocation of QLA costs		(5)	(5)
Tax charged/(credited) on adjusted profit – discontinued operations before the reallocation of QLA costs		**3**	**(2)**
Tax charged on total adjusted profit		**25**	**11**

[1]Includes both tax attributable to policyholders and shareholders, in compliance with IFRS reporting.
[2]Other shareholder tax adjustments comprise the reallocation of adjustments from policyholder tax as explained in note 5(a)(v) together with other adjustments made to deferred tax to remove distortions arising from timing differences in respect of acquisition accounting. As such, the £7 million deferred tax credit in respect of a change of deferred tax asset recognition described in note 6(a) has been removed from the tax charge on adjusted profit.
[3]Adjusted profit treats policyholder tax as a pre-tax charge (this includes policyholder tax under IFRS and the policyholder tax adjustments) and is therefore removed from tax charge on adjusted profit.

7: Earnings per share

The Group calculates earnings per share ("EPS") on a number of different bases. IFRS requires the calculation of basic and diluted EPS. Adjusted EPS reflects earnings that are consistent with the Group's adjusted profit measure before and after the reallocation of QLA costs, and Headline EPS is a requirement of the Johannesburg Stock Exchange. The Group's EPS (in aggregate, including both continuing and discontinued operations) on these different bases are summarised below.

Basic EPS is calculated by dividing profit after tax 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 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 ("Own shares"). Own shares are deducted for the purpose of calculating both basic and diluted EPS.

Diluted EPS recognises the dilutive impact of shares awarded and options granted to employees under share-based payment arrangements, 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 period.

The Group is also 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*. Disclosure of HEPS is not a requirement of IFRS, but it is a commonly used measure of earnings in South Africa.

	Source of guidance	Notes	Year ended 31 December 2019 Pence	Year ended 31 December 2018 Pence
Basic earnings per share	IFRS	7(b)	8.0	26.6
Diluted basic earnings per share	IFRS	7(b)	7.8	26.5
Adjusted basic earnings per share	Group policy	7(b)	11.4	13.5
Adjusted diluted earnings per share	Group policy	7(b)	11.3	13.5
Headline basic earnings per share (net of tax)	JSE Listing Requirements	7(c)	2.3	10.6
Headline diluted earnings per share (net of tax)	JSE Listing Requirements	7(c)	2.3	10.5

7(a): Weighted average number of Ordinary Shares

The table below summarises the calculation of the weighted average number of Ordinary Shares for the purposes of calculating basic and diluted earnings per share for each profit measure (IFRS, adjusted and headline profit):

	Year ended 31 December 2019 Millions	Year ended 31 December 2018 Millions
Weighted average number of Ordinary Shares	1,902	1,902
Own shares including those held in EBTs	(67)	(70)
Basic weighted average number of Ordinary Shares	**1,835**	**1,832**
Adjustment for dilutive share awards and options	28	7
Diluted weighted average number of Ordinary Shares	**1,863**	**1,839**

7(b): Basic and diluted EPS (IFRS and adjusted profit)

The table below shows the profit measures used in the EPS calculations.

		Year ended 31 December 2019			Year ended 31 December 2018		
	Notes	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
(Loss)/profit after tax		(21)	167	146	66	422	488
Total adjusting items before tax		209	(101)	108	107	(327)	(220)
Tax on adjusting items	6(c)	13	17	30	(97)	(24)	(121)
Less: Policyholder tax adjustments	6(c)	(62)	(12)	(74)	64	37	101
Adjusted profit after tax		**139**	**71**	**210**	**140**	**108**	**248**
Reversal of:							
Reallocation of QLA costs[1]		26	(26)	–	28	(28)	–
Income tax on reallocation of QLA costs	6(c)	(5)	5	–	(5)	5	–
Adjusted profit after tax before reallocation		**160**	**50**	**210**	**163**	**85**	**248**

[1]Adjusted profit from continuing operations includes £26 million of costs (2018: £28 million) previously reported as part of the QLA business which has been reallocated from discontinued to continuing operations as these costs do not transfer to ReAssure on disposal at 31 December 2019. See note 3(b) for further information.

7: Earnings per share *continued*

7(b): Basic and diluted EPS (IFRS and adjusted profit) *continued*

	Post-tax profit measure used	Year ended 31 December 2019			Year ended 31 December 2018		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
		Pence	Pence	Pence	Pence	Pence	Pence
Basic EPS	IFRS profit	(1.1)	9.1	8.0	3.5	23.1	26.6
Diluted EPS	IFRS profit	(1.1)	8.9	7.8	3.5	23.0	26.5
Adjusted basic EPS	Adjusted profit	7.5	3.9	11.4	7.6	5.9	13.5
Adjusted diluted EPS	Adjusted profit	7.5	3.8	11.3	7.6	5.9	13.5
Adjusted basic EPS before reallocation	Adjusted profit before reallocation	8.7	2.7	11.4	8.9	4.6	13.5
Adjusted diluted EPS before reallocation	Adjusted profit before reallocation	8.6	2.7	11.3	8.9	4.6	13.5

7(c): Headline earnings per share

	Year ended 31 December 2019		Year ended 31 December 2018	
	Gross £m	Net of tax £m	Gross £m	Net of tax £m
Profit attributable to ordinary equity holders		**146**		**488**
Adjusting items:				
Less: profit on business disposals	(103)	(103)	(290)	(294)
Headline earnings	**(103)**	**43**	**(290)**	**194**
Headline basic EPS (pence)		**2.3**		**10.6**
Headline diluted EPS (pence)		**2.3**		**10.5**

8: Dividends

	Payment date	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
2018 Special interim dividend paid – 12.0p per ordinary share	21 September 2018	–	221
2018 Final dividend paid – 3.3p per ordinary share	20 May 2019	61	–
2019 Interim dividend paid – 1.7p per ordinary share	20 September 2019	31	–
Dividends paid to ordinary shareholders		**92**	**221**

Subsequent to year ended 31 December 2019, the Directors proposed a final dividend for 2019 of 3.5 pence per Ordinary Share amounting to £65 million in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 18 May 2020. In compliance with the rules issued by the Prudential Regulation Authority ("PRA") in relation to the implementation of the Solvency II ("SII") 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 18 May 2020 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.

9: Goodwill and intangible assets

9(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 £m	Other intangible assets £m	Total £m
Gross amount				
1 January 2018	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[1]	4	(1)	–	3
31 December 2018	314	100	380	794
Acquisitions through business combinations	68	–	49	117
Additions	–	5	–	5
Disposals	(30)	(4)	(4)	(38)
Other movements[2]	(2)	–	3	1
31 December 2019	**350**	**101**	**428**	**879**
Amortisation and impairment losses				
1 January 2018	–	(92)	(108)	(200)
Amortisation charge for the year	–	(4)	(41)	(45)
Impairment of other acquired intangibles	–	–	(1)	(1)
Other movements	–	1	1	2
31 December 2018	–	(95)	(149)	(244)
Amortisation charge for the year	–	(2)	(45)	(47)
Disposals	–	4	4	8
Other movements[2]	–	–	(4)	(4)
31 December 2019	**–**	**(93)**	**(194)**	**(287)**
Carrying amount				
31 December 2018	314	5	231	550
31 December 2019	**350**	**8**	**234**	**592**

[1]Goodwill 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 Quilter Financial Planning acquisitions.
[2]During the year, there has been a gross up of fully amortised intangible assets in the Quilter Financial Planning and Quilter Cheviot businesses arising from previous business combinations.

9(b): Analysis of other intangible assets

	31 December 2019 £m	31 December 2018 £m	Average estimated useful life	Average period remaining
Net carrying value				
Distribution channels	22	28	8 years	4 years
Customer relationships	211	199	10 years	6 years
Brand	1	4	5 years	1 year
Total other intangible assets	**234**	**231**		

Distribution channel assets are in relation to various Quilter Financial Planning businesses. Customer relationship assets are largely in relation to the Quilter Cheviot and Quilter Financial Planning businesses, the latter element increasing due to the 2019 acquisitions of Charles Derby Group and Lighthouse plc, of which Lighthouse plc is still a provisional calculation and therefore the apportionment between goodwill and other intangibles for this acquisition is subject to change. The brand asset is in relation to the Quilter Cheviot business.

9(c): Allocation of goodwill to cash generating units ("CGUs") and impairment testing

The Group's CGUs are based on the Advice and Wealth Management and Wealth Platforms operating segments, as defined in note 4(a). Goodwill is allocated to these CGUs as follows:

	31 December 2019 £m	31 December 2018 £m
Goodwill (net carrying amount)		
Advice and Wealth Management	219	153
Wealth Platforms	131	161
Total goodwill	**350**	**314**

9: Goodwill and intangible assets *continued*

9(c): Allocation of goodwill to cash generating units ("CGUs") and impairment testing *continued*

Annual impairment review

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, or earlier if an indicator of impairment exists, 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. If applicable, an impairment charge is recognised when the recoverable amount is less than the carrying value. Goodwill impairment indicators include sudden stock market falls, the absence of NCCF, significant falls in profit and an increase in the discount rate.

The annual impairment test performed in November 2019 continued to show that there was significant headroom in the recoverable amount over the carrying value of the CGUs. The goodwill model is subject to stress tests, including the impact of a 20% and 40% decrease in profitability and the impact of an increase in discount rates. None of the stress test scenarios have resulted in any indication of impairment.

The impact on expected future profits resulting from muted flows and the IFRS loss after tax for continuing operations of £21 million in the year has been partially offset by the effect of a 0.8% decrease in the Group's cost of capital rate, used as part of the value-in-use calculation, from 10.8% in 2018 to 10.0% in 2019. The significant headroom in the recoverable amount over the carrying value for both CGUs also means the impact of the lower NCCF and IFRS loss from continuing operations in the current year are not considered sufficiently material to be indicators of impairment.

Following the sale of the QLA business in the year, there has been a £30 million disposal of associated goodwill. This represented the share of goodwill in the Wealth Platforms CGU applicable to QLA, based on its fair value relative to the fair values of the other businesses within that CGU. The annual impairment assessment performed in November 2019 excluded the impact of QLA in the Wealth Platforms CGU. This resulted in a small decrease in headroom in the Wealth Platforms CGU, as the value-in-use of QLA was only slightly higher than its carrying value.

Value-in-use methodology

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 the 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 business plan, the growth rate used to determine the terminal value of the CGUs in the annual assessment approximates to the UK long-term growth rate of 1.7% (2018: 2.1%). 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 10.0% (2018: 10.8%) 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 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.

10: Financial investments

The table below analyses the investments and securities that the Group invests in, either on its own proprietary behalf (shareholder funds) or on behalf of third parties (policyholder funds).

	Notes	31 December 2019 £m	31 December 2018 £m
Government and government-guaranteed securities		1,018	1,175
Other debt securities, preference shares and debentures	10(a)	2,160	2,095
Equity securities	10(b)	12,051	10,006
Pooled investments		44,101	45,931
Short-term funds and securities treated as investments		15	12
Total financial investments		**59,345**	**59,219**
Recoverable within 12 months		59,344	59,044
Recoverable after 12 months		1	175
Total financial investments		**59,345**	**59,219**

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.

10: Financial investments *continued*

10(a): Other debt securities, preference shares and debentures

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.

10(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.

11: 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 12. The Group's exposure to various risks associated with financial instruments is discussed in note 17(b).

	Fair value				
31 December 2019 – 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[1]	–	–	–	1	1
Loans and advances	180	–	37	–	217
Financial investments	59,343	2	–	–	59,345
Trade, other receivables and other assets	–	–	373	51	424
Derivative assets	32	–	–	–	32
Cash and cash equivalents	1,159	–	1,314	–	2,473
Total assets that include financial instruments	60,714	2	1,724	52	62,492
Total other non-financial assets	–	–	–	1,246	1,246
Total assets	**60,714**	**2**	**1,724**	**1,298**	**63,738**
Liabilities					
Investment contract liabilities	52,455	–	–	–	52,455
Third-party interests in consolidation of funds	7,675	–	–	–	7,675
Borrowings and lease liabilities[2]	–	–	335	–	335
Trade, other payables and other liabilities	–	–	730	106	836
Derivative liabilities	17	–	–	–	17
Total liabilities that include financial instruments	60,147	–	1,065	106	61,318
Total other non-financial liabilities	–	–	–	349	349
Total liabilities	**60,147**	**–**	**1,065**	**455**	**61,667**

[1]Investments in associated undertakings classified as non-financial assets and liabilities are equity accounted.
[2]The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

11: Categories of financial instruments *continued*

31 December 2018 – Measurement basis	Fair value				
	Mandatorily at FVTPL £m	Designated at FVTPL £m	Amortised cost £m	Non-financial assets and liabilities £m	Total £m
Assets					
Investments in associated undertakings[1]	–	–	–	2	2
Loans and advances	189	–	33	–	222
Financial investments	59,052	167	–	–	59,219
Reinsurers' share of policyholder liabilities	1,671	–	–	491	2,162
Trade, other receivables and other assets[2]	–	–	486	44	530
Derivative assets	46	–	–	–	46
Cash and cash equivalents	1,361	–	1,034	–	2,395
Total assets that include financial instruments	62,319	167	1,553	537	64,576
Total other non-financial assets	–	–	–	1,214	1,214
Total assets	**62,319**	**167**	**1,553**	**1,751**	**65,790**
Liabilities					
Insurance contract liabilities	–	–	–	602	602
Investment contract liabilities	56,450	–	–	–	56,450
Third-party interests in consolidation of funds	5,116	–	–	–	5,116
Borrowings	–	–	197	–	197
Trade, other payables and other liabilities	–	–	840	159	999
Derivative liabilities	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]Investments in associated undertakings classified as non-financial assets and liabilities are equity accounted.
[2]The Group's contract assets are now included within Trade, other receivables and other assets, having previously been shown separately on the statement of financial position.

12: 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 of fair value hierarchy (see note 12(b)), prescribed under IFRS, provides an indication about the reliability of inputs used in determining fair value.

12(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 or within consolidated investment funds 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. Where assets are valued by the Group, 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.

12: Fair value methodology *continued*

12(a): Determination of fair value *continued*

Other financial investments that are measured at fair value use 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. The fair value of the Group's over the counter forward foreign exchange contracts is determined by the underlying foreign currency exchange rates.

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 interest in consolidated funds

Third-party interests in consolidated funds are measured at the attributable net asset value of each fund.

Borrowings and lease liabilities

Borrowings and lease liabilities are stated at amortised cost.

12(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.

12(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. Transfers from Levels 3 or 2 to Level 1 are also possible when assets become actively priced.

There were transfers of financial investments of £139 million from Level 1 to Level 2 during the year (31 December 2018: £13 million). There were transfers of financial investments of £76 million from Level 2 to Level 1 during the year (31 December 2018: £107 million). These movements are matched exactly by transfers of investment contract liabilities. See note 12(e) for the reconciliation of Level 3 financial instruments.

12(d): Financial assets and liabilities measured at fair value, classified according to fair value hierarchy

The majority of the Group's financial assets are measured using quoted market prices for identical instruments in active markets (Level 1) and there have been no significant changes during the year.

The linked 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.

Differences between assets and liabilities within the respective levels of the fair value hierarchy also arise due to the mix of underlying assets and liabilities within consolidated funds. In addition, third-party interests in consolidated funds are classified as Level 2.

12: Fair value methodology *continued*

12(d): Financial assets and liabilities measured at fair value, classified according to fair value hierarchy *continued*

The table below presents 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 (see note 11 for full details).

	31 December 2019		31 December 2018	
	£m	%	£m	%
Financial assets measured at fair value				
Level 1	46,904	77.3%	52,060	83.4%
Level 2	12,095	19.9%	9,272	14.8%
Level 3	1,717	2.8%	1,154	1.8%
Total	**60,716**	**100.0%**	**62,486**	**100.0%**
Financial liabilities measured at fair value				
Level 1	50,315	83.6%	54,944	89.2%
Level 2	8,115	13.5%	5,508	8.9%
Level 3	1,717	2.9%	1,151	1.9%
Total	**60,147**	**100.0%**	**61,603**	**100.0%**

The tables below further analyse the Group's financial assets and liabilities measured at fair value by the fair value hierarchy described in note 12(b):

31 December 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value				
Mandatorily (fair value through profit or loss)	46,902	12,095	1,717	60,714
Loans and advances	180	–	–	180
Financial investments	45,563	12,063	1,717	59,343
Cash and cash equivalents	1,159	–	–	1,159
Derivative assets	–	32	–	32
Designated (fair value through profit or loss)	2	–	–	2
Financial investments	2	–	–	2
Total assets measured at fair value	**46,904**	**12,095**	**1,717**	**60,716**
Financial liabilities measured at fair value				
Mandatorily (fair value through profit or loss)	50,315	8,115	1,717	60,147
Investment contract liabilities	50,315	423	1,717	52,455
Third-party interests in consolidated funds	–	7,675	–	7,675
Derivative liabilities	–	17	–	17
Total liabilities measured at fair value	**50,315**	**8,115**	**1,717**	**60,147**

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 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 liabilities	–	37	–	37
Total liabilities measured at fair value	**54,944**	**5,508**	**1,151**	**61,603**

12: Fair value methodology *continued*

12(e): Level 3 fair value hierarchy disclosure

All 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.

In the prior year, included within the assets classified as Level 3 was a shareholder investment in an unlisted equity (31 December 2018: £3 million); this was not matched by a corresponding liability and therefore any changes in market value were recognised in the Group's income statement. Following the acquisition of the Charles Derby Group during the year, the Group's investment is no longer held as a Level 3 financial investment, but instead as an investment in subsidiary which is eliminated on consolidation.

The table below reconciles the opening balance of Level 3 financial assets to the closing balance at each year end:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
At beginning of the year	1,154	1,169
Total net fair value gains recognised in:		
– profit or loss	(20)	54
Purchases	314	38
Sales	(24)	(25)
Transfers in	369	69
Transfers out	(71)	(151)
Foreign exchange and other	(5)	–
Total Level 3 financial assets	**1,717**	**1,154**
Unrealised fair value gains/(losses) relating to assets held at the year end recognised in:		
– profit or loss	**(20)**	**54**

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 in the current year total £369 million (31 December 2018: £69 million). This is due to a combination 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, and an increase in suspended funds previously showed within Level 1. Suspended funds are valued based on external valuation reports received from fund managers. Transfers out of Level 3 assets in the current year comprise £71 million (31 December 2018: £151 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.

The table below analyses the type of Level 3 financial assets held:

	31 December 2019 £m	31 December 2018 £m
Pooled investments	361	86
Unlisted and stale price pooled investments	133	82
Suspended funds	228	4
Private equity investments	1,356	1,068
Total Level 3 financial assets	**1,717**	**1,154**

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 each year end:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
At beginning of the year	1,151	1,167
Total net fair value gains recognised in:		
– profit or loss	(20)	53
Purchases	314	38
Sales	(24)	(25)
Transfers in	369	69
Transfers out	(71)	(151)
Foreign exchange and other	(2)	–
Total Level 3 financial liabilities	**1,717**	**1,151**
Unrealised fair value gains/(losses) relating to liabilities held at the year end recognised in:		
– profit or loss	(20)	53

12: Fair value methodology *continued*

12(f): Effect of changes in significant unobservable assumptions to reasonable possible alternatives

Details of the valuation techniques applied to the different categories of financial instruments can be found in note 12(a) above, including the valuation techniques applied when significant unobservable assumptions are used to value Level 3 assets.

The majority of the Group's Level 3 assets are held within private equity investments, where the valuation of these assets is 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. For this reason, no reasonable alternative assumptions are applicable and management therefore performs a sensitivity test of an aggregate 10% change in the value of the financial asset or liability (31 December 2018: 10%), representing 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 this sensitivity will be in the range of £172 million to the reported fair value of Level 3 assets, both favourable and unfavourable (31 December 2018: £115 million). As described in note 12(e), 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.

12(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:

Trade, other receivables, and other assets	Level 3
Trade, other payables, and other liabilities	Level 3

Cash and cash equivalents (excluding money market funds) are held at amortised cost and therefore not carried at fair value. The cash and cash equivalents that are held at amortised cost would be classified as Level 1 in the fair value hierarchy.

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. The loans and advances that are 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.

Lease liabilities valued under IFRS 16 are held at amortised cost and therefore not carried at fair value. They would be classified as Level 3 in the fair value hierarchy.

13: Cash and cash equivalents

13(a): Analysis of cash and cash equivalents

	31 December 2019 £m	31 December 2018 £m
Cash at bank	787	550
Money market funds	1,159	1,361
Cash and cash equivalents in consolidated funds	527	484
Total cash and cash equivalents	**2,473**	**2,395**

Except for cash and cash equivalents subject to consolidation of funds of £527 million (2018: £484 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.

14: Insurance and investment contract liabilities

The following table provides a summary of the Group's insurance and investment contract liabilities and related reinsurance assets. Following the sale of QLA (see note 3) the Group has no pure insurance contracts (unbundled elements of linked investment contracts are included within "unit linked investment contracts and similar contracts") and as a result the Group no longer has any insurance liabilities or related reinsurance assets.

		31 December 2019			31 December 2018		
	Notes	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Insurance contract liabilities							
Life assurance policyholder liabilities	14(a)	–	–	–	588	(478)	110
Outstanding claims		–	–	–	14	(13)	1
Insurance contract liabilities		**–**	**–**	**–**	**602**	**(491)**	**111**
Investment contract liabilities	14(c)	**52,455**	**–**	**52,455**	**56,450**	**(1,671)**	**54,779**
Total life assurance policyholder liabilities		**52,455**	**–**	**52,455**	**57,052**	**(2,162)**	**54,890**

14: Insurance and investment contract liabilities *continued*

14(a): Insurance contract liabilities

Movements in the amounts outstanding in respect of life assurance policyholder liabilities, other than outstanding claims, are set out below:

		31 December 2019			31 December 2018		
	Note	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Carrying amount at 1 January		**588**	**(478)**	**110**	**480**	**(375)**	**105**
Impact of new business		4	(11)	(7)	2	(10)	(8)
Impact of experience effects[1]		36	(24)	12	38	(26)	12
Impact of assumption changes		91	(86)	5	69	(68)	1
Other movements		–	–	–	(1)	1	–
Movement shown in discontinued operations income statement[2]	3(c)	131	(121)	10	108	(103)	5
Disposal of subsidiaries		(719)	599	(120)	–	–	–
Life assurance policyholder liabilities		**–**	**–**	**–**	**588**	**(478)**	**110**

[1]Impact of experience effects includes the difference between the assumptions made and the actual experience during the period.
[2]The movement in gross insurance contract liabilities for 2019 of £131 million is a £134 million change in insurance contract liabilities and a £(3) million claim reported within gross premiums in the discontinued operations income statement.

14(b): 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. 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.

	Mortality/morbidity		Interest rates	
Class of business	2019	2018	2019	2018
Non-linked protection business (pre 1 January 2013)[1] excluding stand-alone critical illness policies	Based on relevant CMI tables		0.993%	1.378%
Non-linked protection business (post 31 December 2012)[1] and all stand-alone critical illness policies	Based on relevant CMI tables		1.242%	1.724%
Pension annuity payment	100% PA92 (C2030) ult. projected using the long-term cohort basis[2]		1.050%	1.420%

[1]On 1 January 2013, the discount rate was impacted by the Finance Act 2012 amendments to the life tax rules.
[2]PA92 (C2030) ult. is the CMI reference for the relevant Pension Annuity table.

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 did not make allowance for the amortisation of the DAC asset. A separate liability adequacy test was 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 annually and updated as appropriate. The impact of the assumption changes on the Group's annual IFRS profit before tax are as follows:

2019	Impact on IFRS profit before tax (before reinsurance) £m	Impact of reinsurance £m	Impact on IFRS profit before tax (after reinsurance) £m
Assumption			
Mortality/morbidity rates	5	(5)	–
Maintenance expense inflation	1	–	1
Interest rates	(104)	90	(14)
Methodology changes	8	–	8
Persistency rates	(1)	1	–
Total	**(91)**	**86**	**(5)**

14: Insurance and investment contract liabilities *continued*

14(b): Assumptions – life assurance *continued*

2018	Impact on IFRS profit before tax (before reinsurance) £m	Impact of reinsurance £m	Impact on IFRS profit before tax (after reinsurance) £m
Assumption			
Mortality/morbidity rates	(86)	81	(5)
Maintenance expense	2	–	2
Interest rates	21	(18)	3
Persistency rates	(6)	5	(1)
Total	**(69)**	**68**	**(1)**

The sensitivity of IFRS profit before tax to variations in key assumptions are shown below. The values for 2018 have been determined by varying the relevant assumption as at the reporting date and considering the consequential impact assuming other assumptions remain unchanged. Sensitivities have not been included for 2019 due to the disposal of QLA.

	2018	
(Decrease)/Increase in IFRS profit before tax	+10% £m	-10% £m
Mortality/morbidity rates	(3.3)	3.4
Maintenance expenses	(2.2)	2.2
Persistency rates	2.6	(2.8)

14(c): Investment contract liabilities

Movements in the amounts outstanding in respect of unit-linked and other investment contracts are set out below:

	31 December 2019			31 December 2018		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Carrying amount at 1 January	56,450	(1,671)	54,779	59,139	(2,525)	56,614
From continuing operations						
Fair value movements	5,091	–	5,091	(3,109)	–	(3,109)
Investment income	719	–	719	610	–	610
Movements arising from investment return	5,810	–	5,810	(2,499)	–	(2,499)
From discontinued operations						
Fair value movements	1,427	(205)	1,222	(1,010)	78	(932)
Investment income[1]	142	–	142	160	–	160
Movements arising from investment return	1,569	(205)	1,364	(850)	78	(772)
Contributions received[1]	5,718	1,148	6,866	7,152	774	7,926
Maturities	(166)	–	(166)	(183)	–	(183)
Withdrawals and surrenders	(7,419)	–	(7,419)	(6,091)	–	(6,091)
Claims and benefits	(205)	–	(205)	(234)	–	(234)
Other movements	2	(1)	1	(2)	2	–
Change in liability	5,309	942	6,251	(2,707)	854	(1,853)
Currency translation (gain)/loss	(121)	–	(121)	18	–	18
Disposal of subsidiaries	(9,183)	729	(8,454)	–	–	–
Investment contract liabilities	**52,455**	**–**	**52,455**	**56,450**	**(1,671)**	**54,779**

[1]In the year ended 31 December 2018, within discontinued operations, the Group has reclassified £35 million from Investment income to Contributions received to conform with current year presentation.

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 has reduced to £nil (2018: £1,671 million) due to the disposal of QLA. Reinsurance contributions received of £1,148 million are disclosed net of withdrawals, reflecting the total of payments made to and settlements received from the reinsurer. The underlying movements in the investment funds to which the reinsurance arrangements relate indicate contributions received of £(219) million (2018: £(202) million) and withdrawals of £1,367 million (2018: £976 million). In the prior year the reinsurers' share of policyholder liabilities were rated according to the credit ratings in note 17.

14: Insurance and investment contract liabilities *continued*

14(d): 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.

15: Provisions

31 December 2019	Sale of QLA £m	Compensation provisions £m	Sale of Single Strategy business £m	Other £m	Total £m
Balance at beginning of the year	–	54	20	20	94
Adjustment on initial application of IFRS 16	–	–	–	(5)	(5)
Additions from business combinations	–	14	–	1	15
Charge to income statement[1]	6	9	1	7	23
Utilised during the year	–	(19)	(11)	(1)	(31)
Unused amounts reversed	–	(13)	–	(4)	(17)
Reclassification within Statement of Financial Position	–	(3)	–	–	(3)
Disposals	–	(11)	–	(1)	(12)
Balance at 31 December 2019	**6**	**31**	**10**	**17**	**64**

31 December 2018	Compensation provisions £m	Sale of Single Strategy business £m	Other £m	Total £m
Balance at beginning of the year	82	–	22	104
Additions from business combinations	–	–	1	1
Charge to income statement[1]	11	25	3	39
Utilised during the year	(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**

[1]Part of the charge to income statement in both 2019 and 2018 is included within the discontinued operations income statement.

Provisions arising on the disposal of Quilter Life Assurance

The QLA business was sold on 31 December 2019 (see note 3), resulting in a number of provisions totalling £6 million being established in respect of the costs of disposing the business and the related costs of business separation.

The costs of business separation arise from the process to separate QLA's infrastructure, which is complex and covers a wide range of areas including people, IT systems, data, contracts and facilities. A programme team has been established to ensure the transition of these areas to the acquirer. These provisions have been based on external quotations and estimations, and estimates of the time required for incremental resource costs to achieve the separation.

The most significant element of the provision is the cost of migration of IT systems and data to the acquirer. Work will take place during 2020 and 2021. Calculation of the provision is based on management's best estimate of the work required, the time it is expected to take, the number and skills of the staff required and their cost, and the cost of related external IT services to support the work. In reaching these judgements and estimates, management have made use of their past experience of previous IT migrations following business disposals. Management estimate a provision sensitivity of +/-25% (£1.5 million).

Of the total £6 million provision, £2 million is estimated to be payable after one year.

Compensation provisions

Compensation provisions total £31 million (31 December 2018: £54 million), and are comprised of the following:

QLA Voluntary client remediation provision of £nil (31 December 2018: £38 million)

This provision was established within the QLA business and has therefore formed part of the Group's discontinued operations, which were subsequently disposed of on 31 December 2019.

During 2017, as part of its 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 with certain legacy products, establishing a provision 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 was utilised against programme costs and pension remediation incurred. In addition £4 million was reclassified to "investment contract liabilities", reflecting the capping of early encashment charges on live pension plans. At the end of 2018 there was £38 million of the provision remaining, including £6 million of programme costs.

During 2019, the components of the remaining provision were reviewed as refinements in supporting data emerged together with improvements in estimation methodology and modelling, resulting in a £10 million release. A further £14 million (31 December 2018: £27 million) was utilised during the year, with £3 million reclassified as "Trade, other payables and other liabilities". The remaining £11 million provision prior to the sale of QLA was transferred to the acquirer on 31 December 2019.

15: Provisions *continued*

Lighthouse pension transfer advice complaints of £12 million (31 December 2018: £nil)

A provision was established within the fair value of the Lighthouse assets and liabilities acquired. The provision relates to approximately 30 complaints received on advice provided by Lighthouse in respect of pension transfers for British Steel pension scheme members, prior to the Group's acquisition of Lighthouse in June 2019. All the complaints received relate to transfers before that date.

The Group has performed a detailed case file review of a sample of 5 of the complaints, as a sample representative of the overall population. The loss per client as a proportion of the transfer value of the pension was determined and extrapolated to the overall complaint population. The methodology employed to assess the probable redress payable uses assumptions and estimation techniques which are consistent with principles under the FCA's FG17/9 "*Guidance for firms on how to calculate redress for unsuitable defined benefit pension transfers*". A provision of £9 million has been calculated for the potential redress of all complaints received to date. The final costs of redress for complaints upheld will depend on specific calculations on a case-by-case basis and therefore may vary from the currently provided amounts. Further details are provided in note 16.

An additional provision for £3 million has been established in respect of the cost of legal and professional fees related to the complaints and redress process, which includes the anticipated costs to review advice provided of a similar nature in relation to cases that management believe may have similar characteristics.

No reduction in the provision has been recognised at the reporting date in relation to recoverability of any redress or other costs under Lighthouse's professional indemnity insurance policy.

Compensation provisions (other) of £19 million (31 December 2018: £16 million)

Other compensation provisions of £19 million are all held within the Group's continuing operations and include 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 management's best estimate 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. Management estimate a provision sensitivity of +/-25% (£5 million).

Sale of Single Strategy Asset Management business provision

In 2018, 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 provision established for restructuring was £19 million, of which £5 million was utilised during 2018. In 2019, a further £11 million of the restructuring provision was utilised and therefore £3 million of the provision remains at year end 31 December 2019. Management estimate a provision sensitivity of +/-20% (£0.6 million).

Additional provisions totalling £6 million were also made in the year ended 31 December 2018 as a consequence of the sale of the Single Strategy Asset Management business. These were 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. A further £1 million was added to the provision during 2019, bringing the closing balance to £7 million at 31 December 2019.

The provision takes into account sensitivities including potential scenarios which would result in a reduction in Group assets under management held in Merian (Single Strategy Asset Management business) funds, leading to a reduction in the management fees paid to Merian. The maximum potential exposure is £29 million, arising between 2020 and 2022.

Of the total £10 million provision outstanding, £3 million (2018: £6 million) is estimated to be payable after one year.

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 (up to the end of 31 December 2018) 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. During 2019, provisions related to dilapidations were removed as part of the establishment of right-of-use assets and lease liabilities under IFRS 16 *Leases*. Management estimate a provision sensitivity of +/-20% (£3 million).

The total £17 million provision outstanding is all estimated to be payable within one year (2018: £6 million).

16: 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 15). 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.

16: Contingent liabilities *continued*

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 and claims, and enters into 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 assesses contingent liabilities arising from matters such as litigation, warranties and indemnities relating to past acquisitions and disposals.

Prior to the Group's acquisition of Lighthouse in June 2019, Lighthouse provided pension transfer advice to around 300 British Steel pension scheme members between 2016 and 2018. The Group was advised after the reporting date of a number of complaints on the advice given by Lighthouse. The Group has initiated a review of all cases advised by Lighthouse, prior to its acquisition by Quilter in June 2019, to assess the standard of advice given to British Steel pension scheme members.

For the cases where a complaint has been received on the advice given by Lighthouse, the likelihood of redress is probable. An estimate of the amount of redress payable has been made and is included within Provisions in note 15. For the remaining cases, it is possible that further costs of redress may be incurred following the outcome of the reviews. Of the pension transfers Lighthouse advised on between 2016 and 2018, approximately 80 cases were undertaken prior to mid-2017 after which the British Steel pension scheme was restructured and transfer values were enhanced considerably.

As the advice was provided before the Group's acquisition of Lighthouse, any further redress costs will be recognised as a pre-acquisition liability within the fair value of the net assets acquired (as disclosed in note 3), with a corresponding increase in the goodwill recognised. Any adjustments to the acquisition balance sheet must be finalised within 12 months after the acquisition, in June 2020.

17: Capital and financial risk management

17(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 of £2,071 million (31 December 2018: £2,005 million) and subordinated debt which was issued at £200 million in February 2018. 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.

17(a)(i): Regulatory capital (unaudited)

The Group is subject to Solvency II group supervision by the 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 £1,168 million at 31 December 2019 (2018: £1,059 million), representing a Solvency II ratio of 221% (2018: 190%) calculated under the standard formula. The Solvency II regulatory position for the year ended 31 December 2019 allows for the impact of the recommended final dividend payment of £65 million (2018: £61 million). The disclosure does not include the impact of any future distribution of the net surplus proceeds from the QLA sale to shareholders or the impact of the odd-lot offer.

The Solvency II estimated results for year ended 31 December 2019 (unaudited) and 31 December 2018 were as follows:

	31 December 2019[1] £m	31 December 2018[2] £m
Own funds	2,132	2,237
Solvency capital requirement (SCR)	964	1,178
Solvency II surplus	1,168	1,059
Solvency II coverage ratio	**221%**	**190%**

[1]Based on preliminary estimates. Formal annual filing due to the PRA by 19 May 2020.
[2]As represented within the Quilter plc Group Solvency and Financial Condition report for the year ended 31 December 2018.

The Group own funds include the Quilter plc issued subordinated debt security which qualifies as capital under Solvency II. The composition of own funds by tier is presented in the table below.

Group own funds	31 December 2019 £m	31 December 2018 £m
Tier 1[1]	1,925	2,036
Tier 2[2]	207	201
Total Group Solvency II own funds	**2,132**	**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.

17: Capital and financial risk management *continued*

17(a): Capital management *continued*

The Group's insurance subsidiaries based in the UK and in Ireland are also subject to Solvency II at entity level. The Group's asset management and advisory businesses are subject to group supervision by the FCA under the Capital Requirement Directive IV regime ("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 2019, the Group and each of its regulated subsidiaries have complied with the applicable regulatory capital requirements.

17(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.

	31 December 2019 £m	31 December 2018 £m
Total external borrowings of the Company	198	197
Less: cash and cash equivalents of the Company	(559)	(281)
Total net external borrowings of the Company	(361)	(84)
Total shareholders' equity of the Group	2,071	2,005
Tier 2 bond	198	197
Total Group equity (including Tier 2 bond)	2,269	2,202
Ratio of Company net external borrowings to Group equity	**-0.159**	**-0.038**

The Group has complied with the covenant since the facility was created in February 2018.

17(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 provides 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 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 and 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 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 and 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 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.

17(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 2019, 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.

17: Capital and financial risk management *continued*

17(b): Credit risk *continued*

Reinsurance arrangements

The Group has reinsurance arrangements in place to mitigate the risk of excessive claims on unit-linked and, prior to the sale of QLA, non-linked protection contracts. Also specific to QLA before its disposal, reinsurance arrangements were 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 in respect of reinsurance counterparties 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 company. 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 company'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.

Details of the age analyses and credit quality of reinsurance assets in respect of insurance contracts and investment contracts are included below.

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
- on-going 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 Group's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the financial statements.

Loans and advances subject to 12 month expected credit losses ("12 month ECL") are £37 million (2018: £33 million) and other receivables subject to lifetime expected credit losses ("lifetime ECL") are £246 million (2018: £335 million). These balances are not rated; they 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 table below represents the Group's exposure to credit risk from cash and cash equivalents.

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 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						
31 December 2019	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated[1] £m	Carrying value £m
Cash at amortised cost, subject to 12 month ECL	–	272	511	2	2	527	1,314
Money market funds at FVTPL	1,156	–	–	3	–	–	1,159
Total cash and cash equivalents	1,156	272	511	5	2	527	2,473

	Credit rating relating to financial assets that are neither past due nor impaired						
31 December 2018	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated[1] £m	Carrying value £m
Cash at amortised cost, subject to 12 month ECL	–	60	451	1	3	519	1,034
Money market funds at FVTPL	1,358	–	–	–	3	–	1,361
Total cash and cash equivalents	**1,358**	**60**	**451**	**1**	**6**	**519**	**2,395**

[1]Cash included in the consolidation of funds is not rated.

17: Capital and financial risk management *continued*

17(b): Credit risk *continued*

Impairment allowance

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.

Impairment allowance	£m
2018 Opening impairment allowance under IAS 39	(0.3)
Impact upon adoption of IFRS 9	(0.2)
Additions due to increased broker loans	(0.4)
31 December 2018	(0.9)
Additions due to increased broker loans	(0.3)
31 December 2019	**(1.2)**

17(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 sets 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.

17(c)(i): Equity and property price risk

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

- 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 to the Group.

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. 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 and shareholders' equity	
	31 December 2019 £m	31 December 2018 £m
Impact of 10% increase in equity and property prices	32	36
Impact of 10% decrease in equity and property prices	(32)	(36)

17(c)(ii): Interest rate risk

Interest rate risk arises primarily from bank balances held with financial institutions. A small amount of the company assets are held in fixed interest UK government bonds, which are exposed to fluctuations in interest rates. Fixed interest UK government bonds are mainly held to match liabilities by durations and so the exposure to interest rate risk is not material.

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 Group's 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 any fixed interest assets backing the liabilities. The sensitivity of profit to changes in interest rates is provided.

17: Capital and financial risk management *continued*

17(c): Market risk *continued*

	Impact on profit after tax and shareholders' equity	
	31 December 2019 £m	31 December 2018 £m
Impact of 1% increase in interest rates	16	19
Impact of 1% decrease in interest rates	(12)	(12)

17(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 Sterling, which accounts for the majority of the Group's transactions, but the Group also has minor exposures to foreign exchange risk in respect to accounts receivable and future revenues denominated in US Dollars, Euros 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.

17(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 on a daily basis 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
- monitoring a number of key risk indicators to help in the identification of a liquidity stress.

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 set in line with the Group Risk Appetite Statement.

The Group maintains contingency funding arrangements to provide liquidity support to businesses in the event of liquidity stresses that are greater than their risk appetite. Contingency Funding Plans are in place for each individual business in order to set out the approach and management actions that would be taken should liquidity levels fall below minimum liquidity requirements. The plans undergo an annual review and testing cycle to ensure they are fit for purpose and can be relied upon during a liquidity stress.

Information on the nature of the investments and securities held is given in note 10.

The Group has a £125 million 5 year Revolving Credit Facility with a 5 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 2 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 29 of the financial statements within the Group's 2019 Annual report and accounts.

The Group does not have material liquidity exposure to special purpose entities or investment funds.

17(e): Insurance Risk

17(e)(i): Overview

The Group assumes insurance risk by providing life assurance cover to customers within insurance policies, 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 and, within QLA prior to its disposal, offered critical illness 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. The QLA business was part of the Group until it was sold on 31 December 2019. Therefore, the insurance risks associated with this business were managed by the Group throughout the year and so are described below.

Insurance risk arises through exposure to variable claims experience on life assurance and critical illness, 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 three standards to support 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 capital management processes.

17: Capital and financial risk management *continued*

17(e): Insurance Risk *continued*

The Group manages its insurance risks through the following mechanisms:

- management of expense levels relative to approved budgets;
- pricing of insurance contracts utilising analysis of mortality and morbidity, persistency and expense experience;
- underwriting of mortality risks;
- reinsurance, which is used to limit the Group's exposure to large single claims and catastrophes through transfer of mortality and morbidity risk exposures; and
- the Group does not offer group insurance business in order to avoid risk concentrations of insurance risk.

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.

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 the level of surrenders or withdrawals on insurance policies occur at levels that are different to the levels assumed in the pricing process and relative to the levels assumed in determination of technical provisions. Persistency statistics are monitored monthly and a detailed persistency analysis at a product group 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.

17(e)(ii): Sensitivity analysis

Changes in key assumptions used to value contracts would result in increases or decreases to the 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 2019 and 31 December 2018. 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 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 £13 million after tax (2018: £15 million).

Mortality

Mortality risk is not material as the Group does not provide material mortality insurance on its products and mortality benefits are reinsured.

17(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 issues identified.

17: Capital and financial risk management *continued*

17(g): Contractual maturity analysis

The following table provides a maturity analysis of liability cash flows based on the 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 these liabilities 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. Following the sale of QLA (see note 3) the Group has no pure insurance contracts (unbundled elements of linked investment contracts are included within "Investment contracts and similar contracts").

		Undiscounted cash flows				
31 December 2019	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
Investment contracts						
Investment contracts and similar contracts	52,455	52,455	–	–	–	52,455
Total policyholder liabilities	**52,455**	**52,455**	**–**	**–**	**–**	**52,455**

		Undiscounted cash flows				
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
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						
Investment contracts and similar contracts	56,450	56,450	–	–	–	56,450
Total policyholder liabilities	**57,052**	**56,471**	**11**	**46**	**992**	**57,520**

18: Related party transactions

In the normal course of business, the Group enters into transactions with related parties. Loans to related parties 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 in 2018. The nature of the related party transactions of the Group has not changed over the course of the year. Full details of transactions with related parties, including key management personnel compensation is included within note 38 of the financial statements within in the Group's 2019 Annual Report and Accounts ("ARA"). The Group's interests in subsidiaries and related undertakings are set out in Appendix B of the financial statements within the Group's 2019 ARA.

19: Events after the reporting date

Complaints provision and contingent liability

The Group was advised after the reporting date of a number of complaints received in respect of pensions transfer advice given to clients of Lighthouse, for advice provided between 2016 and 2018, prior to the Group's acquisition of Lighthouse in June 2019. Further details are provided in notes 3(a), 15 and 16.

Coronavirus

In early 2020, the existence of a new coronavirus ("COVID-19") was confirmed which has since spread across a significant number of countries, leading to disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on the Group or to provide a quantitative estimate of this impact.

Share buyback programme

Following the sale of QLA to ReAssure, on 2 January 2020 the Group announced that it intends to return the £375 million net surplus proceeds of the sale to shareholders via a share buyback programme. This will be conducted concurrently on the London and Johannesburg stock exchanges. The buyback is dependent on regulatory and Board approval and the renewal of share repurchase authorities at the Group's 2020 Annual General Meeting ("AGM"), and will be subject to periodic Board review to ensure that this remains the most effective and timely method of returning capital to shareholders. Given the size of the capital return relative to the current trading liquidity in Quilter shares, the Group currently expect the buyback programme to complete by the time of the 2021 AGM.