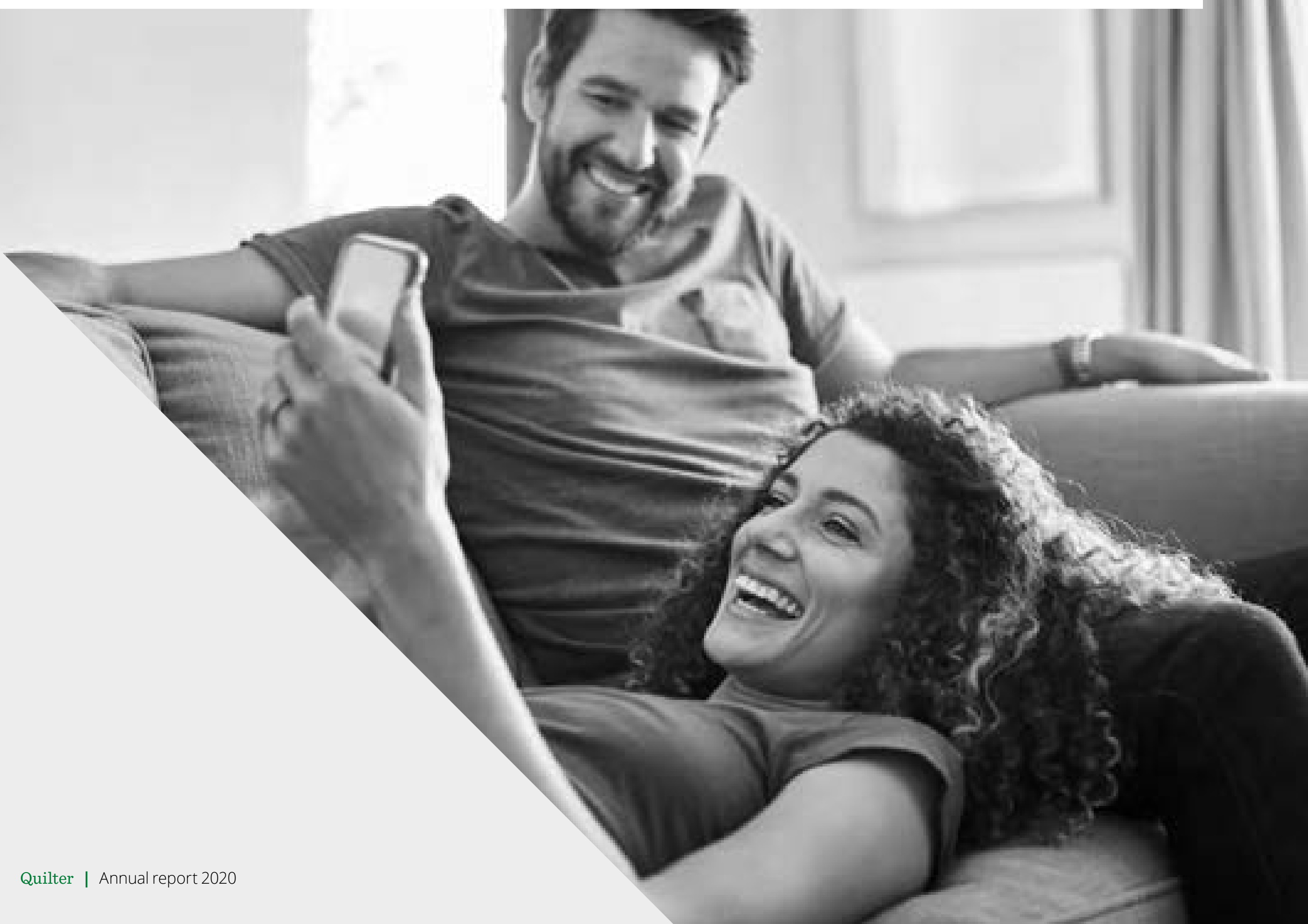
Index to the consolidated financial statements

For the year ended 31 December 2020



Statement of Directors' responsibilities

in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with international financial reporting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

- select suitable accounting policies and then apply them consistently;
- state whether, for the Group and Company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent Company will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent Company and enable them to ensure that its financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board

Paul Feeney
Chief Executive Officer
10 March 2021

Mark Satchel
Chief Financial Officer

Independent auditors' report to the members of Quilter plc

Opinion

In our opinion, Quilter plc's Group financial statements and parent Company financial statements (the "financial statements"):

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

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

Our opinion is consistent with our reporting to the Board Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the Group financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Context

We were appointed as auditors by the Directors on 19 May 2020. In planning for our first year audit of Quilter plc ("the Group"), we met with the Board Audit Committee and members of management across the business, to discuss and understand significant changes during the year, and to understand their perspectives on associated business risks. We used this insight, in addition to our assessment of the previous auditor's approach, when forming our own views regarding the business, as part of developing our audit plan and when scoping and performing our audit procedures. Due to the volatility of global equity markets during the period under audit, we consider that the valuation of level 3 financial assets has become inherently more subjective and therefore this has been included as a key audit matter for the current year. Over the year further progress has been made in relation to the skilled person review for the Lighthouse pension transfer advice provision resulting in a revision to the provision recognised. As the review remains ongoing there is a high degree of estimation involved in calculating this provision and as such we consider this to also be an additional key audit matter this year. The audit for the year ended 31 December 2020 has been carried out fully remotely as a result of the COVID-19 pandemic; we have utilised virtual technologies and collaborative workflow tools to obtain sufficient, appropriate audit documentation whilst working in this environment.

Overview

Audit scope

- The Group, during the year to 31 December 2020, was structured along two operating segments in addition to the head office activities, each of which contain several reporting components. We conducted audit testing over eleven components in total, which we selected based on their financial significance to the consolidated results.
- Six components were subject to an audit of their complete financial information.
- Specific audit procedures were also performed on certain balances and transactions in respect of a further five components.
- Taken together, the procedures we performed over the six components provided us with coverage of over 46% of adjusted profit before tax on an absolute basis, 82% of total revenue and 81% of the total assets.

Key audit matters

- Goodwill impairment assessment (Group)
- Valuation of level 3 assets (Group)
- Lighthouse pension transfer advice provision (Group)
- Impairment assessment of investments in subsidiaries (parent)
- Impact of COVID-19 (Group and parent)

Materiality

- Overall Group materiality: £7,918,000 based on 5% of Adjusted profit before tax from continuing operations.
- Overall parent Company materiality: £31,000,000 based on 1% of total assets.
- Performance materiality: £5,938,500 (Group) and £23,250,000 (parent Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and unsuitable or prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to either inflate revenue or reduce expenditure of the Group and the Company, and management bias in accounting estimates and judgemental areas of the financial statements, such as provisions. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with the Board, management, internal audit, management involved in the risk and compliance functions and the Group and Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Reviewing correspondence between the Group and the PRA and FCA in relation to compliance with laws and regulations.
- Assessment of matters reported on the Group's whistleblowing register including the quality and results of management's investigation of such matters.
- Reviewing Board minutes as well as relevant meeting minutes, including those of the Board Audit Committee, Board Remuneration Committee, the Board Technology and Operations Committee and the Board Risk Committee.
- Reviewing data regarding policyholder complaints, the Group's and Company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Challenging assumptions made by management in accounting estimates and judgements, in particular in relation to the impairment assessments of goodwill and investments in subsidiaries, valuation of the Lighthouse pension transfer advice provision, and the valuation of level 3 assets as described in the related key audit matters below.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, such as a credit to revenue and a debit to the statement of financial position (other than to expected accounts), which may be indicative of the overstatement or manipulation of revenue.
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.
- Detailed testing over the classification of costs allocated to business transformation costs, which are considered as one-off and added back to calculate the adjusted profit measure, in order to identify any inappropriate classification which could be indicative of a material manipulation of the adjusted profit measure.

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment (Group) Refer to page 110 of the Board Audit Committee Report and note 14 to the financial statements. The goodwill balance of £356m (2019: £350m) is subject to an annual impairment review. No impairment charge has been recorded by management against the goodwill balance in the current year. Management analyse discounted cash flows at the operating segment level to calculate the value in use for each operating segment. Judgement is used to determine the appropriate level at which to perform the impairment assessment. Cash flow forecasts are an area of particular focus given the judgements relating to future adjusted profit growth and discount rate assumptions. This has not been determined to be a significant audit risk due to the large amount of headroom available in the model. However, this has been an area of audit focus due to the inherent subjectivity in the assumptions used within the model, particularly forecasting the impact of COVID-19 in the future cash flows.	We checked that the cash flow forecasts used by management in the assessment of goodwill impairment were consistent with the approved three year business plan. We evaluated the historical accuracy of the cash flow forecasts, including a comparison of the current year actual results with the FY20 figures included in the prior year forecast. For certain key assumptions which underpinned the forecast performance, such as growth of assets under management and the expected impact of COVID-19 in the business plan period, we corroborated these against external market data where available. We challenged management on the inclusion of certain cash flows where these looked to include future enhancements (such as revenues from new products) or future restructuring activity. We found that the forecasts have been completed on a basis consistent with prior years and were an appropriate basis upon which management could base their conclusions. We considered the appropriateness of performing the impairment assessment at the operating segment level. This included consideration of whether any impairment indicators existed at a more disaggregated level, of which none were identified. We engaged our internal valuation specialists to independently calculate a reasonable range for both the discount rate and long term growth rate assumptions. We found both of these assumptions to be more conservative than our expected range, which is consistent with management's conclusion that no impairment is required. We obtained and understood management's sensitivity calculations over the impairment assessment, as well as performing further sensitivity scenarios ourselves. We determined that the impairment assessment was not highly sensitive to any of the key assumptions, being the discount rate and the forecast growth (including the long term growth rate) of cash flows. For each operating segment we calculated the degree to which these assumptions would need to move before an impairment was triggered. We discussed the likelihood of such a movement with management and agreed with their conclusion that there was no reasonable possible change that would give rise to an impairment.
Valuation of level 3 assets (Group) Refer to notes 19 and 20 of the financial statements. Level 3 assets have a higher degree of subjectivity to the valuation process due to the lack of an active market to base prices on. The level 3 asset balance as at 31 December 2020 is £1,822m (2019: £1,717m) of which £1,820m (2019: £1,717m) is held within linked policyholder funds where all of the investment risk is borne by policyholders and the value of the assets is exactly matched by a corresponding liability to policyholders. The majority of the assets held are stale priced assets, suspended funds and private equity investments. The value in the financial statements reflects the year end price received from the relevant external party. In the absence of an active market there is an inherently higher estimation uncertainty involved in considering the appropriateness of the valuation, particularly where these funds invest in higher risk assets such as property. Due to the increased level of market volatility seen in the current financial year as a result of COVID-19, combined with the materiality of these assets, we have determined this to be a significant audit risk.	The majority of level 3 assets are held within linked policyholder funds, as such they have been tested using a specific overall materiality level of £534m which we have determined based on the guidance set out in Practice Note 20 issued by the Financial Reporting Council ("FRC") for audits of insurers. Our work to address the valuation of the level 3 assets included the following procedures. For those level 3 investments where publically available prices can be obtained we have utilised our internal specialist pricing team to reprice these investments as at 31 December 2020 and investigated any differences identified. We have confirmed the valuation of a sample of level 3 assets, based on targeting the largest fund values, directly with the relevant external party (such as the fund administrator or private Company). Where confirmations were not returned we performed alternative procedures, these procedures included obtaining the custodian statements which were sent from the private companies to the Group and confirming the value per these custodian statements to the value held by the Group. For a sample of level 3 assets, obtained the most recent audited financial statements for the fund ensuring that there have been no adverse opinions and agreeing the price held as at the audited financial statement date to the price available in the fund audited financial statements. Movements between the prices as at the audited financial statements date and the year end date of 31 December 2020 were reviewed against market movements to ensure that these were in line with expectation. Obtained the ISAE 3402 controls reports for each fund administrator (where possible) and reviewed any exceptions which may impact our audit of the level 3 assets. Based on the audit procedures performed and evidence obtained, we concluded that the valuation of level 3 assets was appropriate.

Key audit matter	How our audit addressed the key audit matter
Lighthouse pension transfer advice provision (Group) Refer to page 110 of the Board Audit Committee Report and note 28 to the financial statements. The Group holds a number of provisions, including relating to customer redress. The most significant redress provision relates to unsuitable advice provided to British Steel Pension Scheme members who transferred from that scheme to a Defined Contribution scheme. As at 31 December 2020, the total provision in respect of the British Steel members was c.£28m. This represented c.£25m for redress and c.£3m for professional fees. The estimation of provision in relation to unsuitable advice for Defined Benefit to Defined Contribution pension scheme transfer cases requires detailed information on individual members as well as significant judgement and subjectivity to be applied in relation to key assumptions, especially where data is not fully available and actual patterns of behaviour are unknown. Material assumptions include: Actuarial valuations of defined benefit obligations under prospective and actual loss scenarios; estimation of the current value of assets held by members; estimating the likelihood of complaints to arise as well as the proportion of complaints that are likely to be upheld; and estimating the proportion of customers within the population who are eligible for drawing down on their pension who may have drawn down on or prior to 31 December 2020.	We have assessed and challenged the Group's methodology and the assumptions applied in arriving at the provisions. In demonstrating professional scepticism we independently estimated the Lighthouse British Steel redress provision and compared our calculation to management's. We estimated potential defined benefit valuations as at 31 December 2020 with the support of our internal actuarial experts. They used data from British Steel Pension Scheme Transfer Packs to provide indicative valuations of members interests. These outputs were compared with management's expert's calculations to understand any material differences. Furthermore we obtained evidence from management's expert in relation to actual asset performance and used this to rebase transfer values of scheme members assets. We also obtained data in relation to the split between prospective and actual loss cases observed from management's experts and used this as an indication of how members may have behaved in the wider population. Our redress calculation output was therefore weighted on a similar basis to experience to date. We applied reasonable sensitivities (estimated return on assets and proportion of customers that may have drawn down) to key assumptions within the provision calculation to understand their impact. We read management's disclosure in relation to this provision in the context of the requirements of IAS 37 and considered the suitability of the sensitivities disclosed. Although not material to the calculation, further adjustments were made in arriving at individual redress estimates for advisor charges, personal tax and interest. In relation to the completeness of such defined benefit to defined contribution redress provisions, we: Considered management's accounting policy and recognition criteria in the context of the requirements of IAS 37; reviewed the listing of complaints as at year end for any evidence of material omissions of similar cases; read the output of internal reviews over suitability performed by management; read any relevant correspondence with regulators in relation to unsuitable advice for DB to DC transfers; checked the population of cases identified by management's expert where a redress calculation had been performed against our own listing; and where cases of potentially unsuitable advice for DB to DC schemes had been internally identified, discussed with management and considered whether a provision should be recognised in the context of IAS 37 and our materiality. The calculation of redress is a complex and market sensitive calculation. As noted by management the appointed Skilled Person (and management's expert for the purposes of our audit) will be calculating the actual redress payable to individual members. Therefore the final redress payable may be materially different to the amount recognised as at 31 December 2020 as a result of market movements and changes in actual behaviour of drawdown as more data emerges. We are satisfied that the methodology applied by management in the context of IAS 37 in estimating redress provisions did not result in a material difference to our independent estimate.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of investments in subsidiaries (parent) Refer to note 4 of the parent Company financial statements. The Company holds investments in subsidiaries of £2,254m (2019: £2,235m). Whilst these eliminate on consolidation in the Group financial statements, they are recorded in the Company financial statements. We have determined the impairment assessment over the investments in subsidiaries to be a significant risk in light of the Group market capitalisation being lower than the Company equity value at the balance sheet date. Management have concluded that no impairment was required.	The impairment assessment leveraged management's calculations for the Group goodwill impairment assessment referred to above. The key judgement used by management in their impairment assessment is the underlying assumption that the Company's investments in Old Mutual Wealth Holdings and Quilter Investors represents the lowest level at which largely independent cash inflows are generated. This assumption allows headroom to be transferred between subsidiary entities. We challenged management over this assumption on the basis that the business plan is prepared at a more disaggregated level and requested management to provide us with further analyses to demonstrate the significant degree of integration between the businesses included in their defined cash generating unit. We have corroborated the explanations we received through discussion with the relevant component audit teams and review of relevant correspondence with the regulator identifying some of the interdependencies. Overall we are satisfied that there is enough evidence to support the basis of management's impairment assessment and therefore agree with the conclusion that no impairment is required.
Impact of COVID-19 (Group and parent) Refer to the disclosures in the Strategic report and notes 4 and 37 of the financial statements. The emergence of COVID-19 in 2020 resulted in a significant change to the business environment and impacted the value of assets under management/administration during the year with adverse impact being seen on equity market levels whereby there has been significant volatility in the financial markets. Management has considered the impact of COVID-19 on the financial statements, including specifically looking at the impact on going concern for the Group. The Directors have concluded that the Group and its active subsidiaries are, and will continue to be for the foreseeable future, a going concern. In reaching this conclusion the Directors have performed impairment assessments of goodwill and the Company's investment in subsidiaries, and conducted stress testing against emerging risks, concluding that the Group can withstand a severe but plausible downside scenario for at least the next 12 months.	In assessing management's consideration of the impact of COVID-19 on the Quilter plc Group and its subsidiaries we have performed the following procedures. Obtained management's updated going concern assessment and challenged the rationale for assumptions on growth of assets under management/administration as well as asset returns. We used our knowledge of Quilter's business performance, and corroborated to external market evidence where available. Our assessment included reviewing management's stress testing as described in the Viability Statement on pages 78 and 79 and ensuring that appropriate consideration had been given to the potential impacts of COVID-19. Inquired and understood the actions taken by management to mitigate the impacts of COVID-19, including review of Board Risk Committee and Board Audit Committee minutes. Obtained management's estimated Solvency capital position and evaluated these for consistency of available information and against managements own target capital ratios. We found that the Group maintained internal targets for its Group Solvency Capital Requirement (SCR) ratio and remained compliant with all external regulatory capital requirements as at the date of reporting. Assessed the impact of remote working on the design and operating effectiveness of key controls impacting the preparation of financial information, including obtaining and reading relevant internal audit reports. Assessed the disclosures performed by management in the financial statements and checked the consistency of the disclosures with our knowledge of the Group and markets based on our audit and other procedures. Based on the audit procedures performed and evidence obtained, nothing has come to our attention that suggests the use of the going concern basis of preparation is inappropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent Company, the accounting processes and controls, and the industry in which they operate.

Quilter plc has two operating segments. Within these segments there are around 70 reporting units, of which six are considered financially significant due to their contribution to Group adjusted profit before tax, and were subject to an audit of their complete financial information. In addition, a further five reporting entities were in scope for specific audit procedures, as these components contributed a significant proportion of certain financial statement line items. Our scoping ensured that all six of the Group's business units had reporting components that were subject to audit procedures over their financial information. Together with the procedures performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, and goodwill impairment assessment, gave us the evidence we needed for our opinion on the financial statements as a whole.

A significant proportion of the Group's trading is based in the UK resulting in the majority of the audit procedures being performed locally by the UK audit team. Of the eleven components we have performed audit procedures over, one of these components was based outside the UK, in the Isle of Man, and therefore we receive inter-firm reporting over the complete financial information of this component from PwC Isle of Man.

We applied materiality of £534 million to the classification of unit-linked assets and liabilities in the consolidated statement of financial position, the related line items in the consolidated income statement and related notes, determined with reference to a benchmark of total assets, of which it represents 1%. This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items, in accordance with FRC Practice Note 20 The audit of Insurers in the United Kingdom.

The Group contains several regulated trading entities and is a regulated insurance Group itself. Some activities are outsourced to third party providers across the Group, such as investment administration. In respect of the outsourced service providers we were able to gain appropriate audit evidence through a combination of evaluating the providers' published assurance reports on internal control and performing substantive procedures.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Key audit matter	Financial statements – Group	Financial statements – parent Company
Overall materiality	£7,918,000.	£31,000,000.
How we determined it	5% of Adjusted profit before tax from continuing operations	1% of total assets
Rationale for benchmark applied	Based on the benchmarks used in the annual report, adjusted profit before tax is the primary measure used by shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark where the exclusions in arriving at the measure are non-recurring in nature. We have reviewed the items excluded in calculating adjusted profit before tax and have confirmed that all significant reconciling items are either one-off in nature or introduce volatility to the income statement (namely policyholder tax adjustments). However, a small number appear to be recurring in nature (namely finance costs) and therefore we have not excluded these when arriving at our adjusted profit benchmark for the purposes of calculating materiality.	A benchmark of total assets has been used as the Company's primary purpose is to act as a holding Company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure was not considered appropriate.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £1,842,000 to £7,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £5,938,500 for the Group financial statements and £23,250,000 for the parent Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £500,000 (Group audit) and £1,550,000 (parent Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the parent Company's ability to continue to adopt the going concern basis of accounting included:

- Obtained the Directors' updated going concern assessment and challenged the rationale for assumptions on growth of assets under management/administration and asset returns using our knowledge of Quilter's business performance, and corroborating to external market evidence where available. Our assessment included reviewing management's stress testing and scenario analyses.
- Consideration of the impact of COVID-19 on the Directors' assessment to continue to adopt the going concern basis of accounting as set out in the key audit matters of this report.
- Obtained management's estimated Solvency capital position and evaluated these for consistency of available information and against management's own target capital ratios. We found that the Group maintained internal targets for its Group Solvency Capital Requirement (SCR) ratio, and is forecast to remain compliant with all external regulatory capital requirements for the period covered by the going concern assessment; and
- Confirmed compliance with the debt covenants of the Groups' borrowings, and the forecast continued compliance for the duration of the period covered by the going concern assessment.

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

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

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

In relation to the parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Directors' Remuneration

In our opinion, the part of the Annual Report on Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Group's and parent Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and parent Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and parent Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Board Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report and the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the parent Company financial statements and the part of the Annual Report on Remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board Audit Committee, we were appointed by the Directors on 14 May 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Mark Pugh

Mark Pugh
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 March 2021

Consolidated income statement

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £m	Year ended 31 December 2019 restated[1] £m
Income			
Fee income and other income from service activities	9(a)	795	837
Investment return	9(b)	3,896	6,566
Other income		20	16
Total income		**4,711**	**7,419**
Expenses			
Insurance contract claims and changes in liabilities		(1)	(1)
Change in investment contract liabilities	27	(3,328)	(5,810)
Fee and commission expenses, and other acquisition costs	10(a)	(147)	(167)
Change in third-party interest in consolidated funds		(440)	(634)
Other operating and administrative expenses	10(b)	(692)	(745)
Finance costs	10(e)	(17)	(17)
Total expenses		**(4,625)**	**(7,374)**
Profit before tax from continuing operations		**86**	**45**
Tax expense attributable to policyholder returns	11(a)	(36)	(98)
Profit/(loss) before tax attributable to equity holders from continuing operations		**50**	**(53)**
Income tax credit/(expense)	11(a)	3	(66)
Less: tax expense attributable to policyholder returns		36	98
Tax credit attributable to equity holders		39	32
Profit/(loss) after tax from continuing operations		**89**	**(21)**
(Loss)/profit after tax from discontinued operations	6(c)	(1)	167
Profit after tax		**88**	**146**
Attributable to:			
Equity holders of Quilter plc		**88**	**146**

Earnings per Ordinary Share on profit attributable to Ordinary Shareholders of Quilter plc

	Notes	Year ended 31 December 2020	Year ended 31 December 2019 restated[1]
Basic			
From continuing operations (pence)	12(b)	5.1	(1.1)
From discontinued operations (pence)	6(c)	(0.1)	9.1
Basic earnings per Ordinary Share (pence)	12(b)	**5.0**	**8.0**
Diluted			
From continuing operations (pence)	12(b)	5.0	(1.1)
From discontinued operations (pence)	6(c)	(0.1)	8.9
Diluted earnings per Ordinary Share (pence)	12(b)	**4.9**	**7.8**

[1]See note 4(b) for details of changes to comparative amounts.

The notes on pages 172 to 255 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Profit after tax		88	146
Exchange losses on translation of foreign operations		–	(1)
Items that may be reclassified subsequently to income statement		–	(1)
Measurement movements on defined benefit plans	33	–	(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		**88**	**139**
Attributable to:			
Continuing operations		89	(28)
Discontinued operations	6(d)	(1)	167
Equity holders of Quilter plc		**88**	**139**

The notes on pages 172 to 255 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2020

31 December 2020	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Share-based payments reserve £m	Other reserves £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2020		**133**	**58**	**–**	**149**	**45**	**1**	**1,685**	**2,071**
Profit for the year		–	–	–	–	–	–	88	88
Total comprehensive income		–	–	–	–	–	–	**88**	**88**
Dividends	13	–	–	–	–	–	–	(81)	(81)
Shares repurchased in the buyback programme[1]	25	(8)	–	8	–	–	–	(179)	(179)
Movement in own shares[2]		–	–	–	–	–	–	(44)	(44)
Equity share-based payment transactions	26(e)	–	–	–	–	(3)	–	28	25
Dividend equivalents paid on vested shares		–	–	–	–	–	–	(2)	(2)
Total transactions with the owners of the Company		**(8)**	**–**	**8**	**–**	**(3)**	**–**	**(278)**	**(281)**
Balance at 31 December 2020		**125**	**58**	**8**	**149**	**42**	**1**	**1,495**	**1,878**

31 December 2019	Notes	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)		–	–	–	–	–	(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	13	–	–	–	–	–	(92)	(92)
Release of merger reserve		–	–	(439)	–	–	439	–
Movement in own shares		–	–	–	–	–	(2)	(2)
Equity share-based payment transactions	26(e)	–	–	–	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**

[1]On 11 March 2020 the Company announced a share buyback programme to purchase shares up to a maximum value of £375 million, in order to reduce the share capital of the Company. The programme commenced on 11 March 2020 and will continue into 2021. During the year ended 31 December 2020, the Company acquired 118.3 million shares for a total consideration of £153 million and incurred additional costs of £4 million. The shares, which have a nominal value of £8 million, have subsequently been cancelled, giving rise to a capital redemption reserve of the same value as required by the Companies Act 2006. In December 2020, the committed remaining share buyback for which irrevocable instruction had been provided by the Board, of £22 million, was accrued as a liability against retained earnings.
[2]Movement in own shares includes 16.3 million shares repurchased for total consideration of £21 million in respect of the previously announced Odd-lot Offer.

The notes on pages 172 to 255 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

At 31 December 2020

	Notes	At 31 December 2020 £m	At 31 December 2019 restated[1] £m	At 1 January 2019 restated[1] £m
Assets				
Goodwill and intangible assets	14	556	592	550
Property, plant and equipment	15	142	143	17
Investments in associated undertakings		1	1	2
Deferred acquisition costs[2]		–	–	11
Contract costs	23	413	455	551
Loans and advances	16	219	217	222
Financial investments	17	63,274	57,207	58,054
Reinsurers' share of insurance policyholder liabilities[2]		–	–	2,162
Deferred tax assets	29(a)	78	43	38
Current tax receivable	29(c)	24	13	47
Trade, other receivables and other assets	22	701	605	718
Derivative assets	18	43	22	34
Cash and cash equivalents	24	1,921	2,253	2,305
Total assets		**67,372**	**61,551**	**64,711**
Equity and liabilities				
Equity				
Ordinary Share capital	25(a)	125	133	133
Ordinary Share premium reserve	25(a)	58	58	58
Capital redemption reserve	25(a)	8	–	–
Merger reserve	25(b)	149	149	588
Share-based payments reserve	26(e)	42	45	34
Other reserves		1	1	1
Retained earnings		1,495	1,685	1,191
Total equity		**1,878**	**2,071**	**2,005**
Liabilities				
Insurance contract liabilities[2]		–	–	602
Investment contract liabilities	27	57,407	52,455	56,450
Third-party interests in consolidated funds		6,513	5,318	3,833
Provisions	28	77	64	94
Deferred tax liabilities	29(b)	106	88	59
Current tax payable	29(c)	1	6	5
Borrowings and lease liabilities	30	319	335	197
Trade, other payables and other liabilities	31	672	801	979
Contract liabilities	32	379	403	456
Derivative liabilities	18	20	10	31
Total liabilities		**65,494**	**59,480**	**62,706**
Total equity and liabilities		**67,372**	**61,551**	**64,711**

[1]See note 4(b) for details of changes to comparative amounts.
[2]The consolidated statement of financial position at 1 January 2019 includes balances for Deferred acquisition costs, Reinsurers' share of insurance policyholder liabilities and Insurance contract liabilities relating to the Quilter Life Assurance ("QLA") business that was sold on 31 December 2019.

The consolidated financial statements on pages 167 to 255 were approved by the Board of Directors and authorised for issue on 10 March 2021 and signed on its behalf:

Paul Feeney
Chief Executive Officer

Mark Satchel
Chief Financial Officer

The notes on pages 172 to 255 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2020

The cash flows presented in this statement cover all the Group's activities (including cash flows within the Group's discontinued operations) 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 (as shown in note 24(a)).

	Notes	Year ended 31 December 2020 £m	Year ended 31 December 2019 restated[1] £m
Cash flows from operating activities			
Cash flows from/(used in) operating activities		1,473	(2,035)
Taxation paid		(28)	(37)
Total net cash from/(used in) operating activities	24(b)	**1,445**	**(2,072)**
Cash flows from investing activities			
Net (acquisitions)/disposals of financial investments		(1,419)	2,159
Acquisition of property, plant and equipment	15	(28)	(8)
Acquisition of intangible assets	14(a)	(4)	(5)
Acquisition of interests in subsidiaries[2]	6(a)	(20)	(87)
Net (payments)/proceeds from the disposal of interests in subsidiaries		(3)	78
Total net cash (used in)/from investing activities		**(1,474)**	**2,137**
Cash flows from financing activities			
Dividends paid to ordinary equity holders of the Company	13	(81)	(92)
Finance costs on external borrowings	10(e)	(10)	(10)
Payment of interest on lease liabilities		(2)	(3)
Payment of principal lease liabilities	30(b)	(14)	(13)
Repurchase of shares[3]		(41)	–
Repurchase and cancellation of shares[4]		(157)	–
Total net cash used in financing activities	24(c)	**(305)**	**(118)**
Net decrease in cash and cash equivalents		(334)	(53)
Cash and cash equivalents at the beginning of the year		2,253	2,305
Effects of exchange rate changes on cash and cash equivalents		2	1
Cash and cash equivalents at end of the year	24(a)	**1,921**	**2,253**

[1]See note 4(b) for details of changes to comparative amounts.
[2]The acquisition of interests in subsidiaries balance includes £20 million of contingent consideration payments relating to historical acquisitions (31 December 2019: £21 million).
[3]Repurchase of shares includes shares acquired under the Odd-lot Offer as explained in the consolidated statement of changes in equity, together with other shares acquired for use within the Group's employee share schemes.
[4]Repurchase and cancellation of shares are in respect of cash movements associated with the share buyback programme. Further details are included within the consolidated statement of changes in equity.

The notes on pages 172 to 255 form an integral part of these consolidated financial statements.

Basis of preparation and significant accounting policies

For the year ended 31 December 2020

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 Senator House, 85 Queen Victoria Street, London, EC4V 4AB.

1: Basis of preparation

The consolidated financial statements of Quilter plc for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with International Financial Reporting Standards adopted pursuant to *Regulation (EC) No 1606/2002* as it applies in the European Union.

These 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.

The separate financial statements of the Company are on pages 256 to 265. The Company financial statements are prepared in accordance with the Group's accounting policies, other than for investments in subsidiaries, which are stated at cost less impairments in accordance with IAS 27 *Separate Financial Statements*.

Going concern

The Directors have considered the resilience of the Group, taking into account its current financial position, the principal risks facing the business and the effectiveness of the mitigating strategies which are or could be applied. This included an assessment of capital, liquidity and solvency over a three-year planning period, which considered the impact of COVID-19, and concluded that the Group can withstand a severe but plausible downside scenario for at least the next 12 months after the date of signing the 2020 financial statements. This assessment incorporated a number of stress tests covering a broad range of scenarios, including economic and market shocks, new business growth scenarios, severe business interruption, and a progression of the COVID-19 pandemic, equivalent to 1-200 year events. 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.

Basis of consolidation

The Group's consolidated financial statements incorporate the assets, liabilities and the results of the Company and its subsidiaries. Subsidiaries are those entities, including investment funds, controlled by the Group. More information on how the Group assesses whether it has control over an entity is provided in accounting policy 5(a). Subsidiaries are consolidated from the date the Group obtains control and are excluded from consolidation from the date the Group loses control.

Where necessary, adjustments are made to financial statements of subsidiaries to bring the accounting policies used in line with Group policies. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation.

Liquidity analysis of the statement of financial position

The Group's statement of financial position is in order of liquidity as is permitted by IAS 1 *Presentation of Financial Statements*. For each asset and liability line item, those amounts expected to be recovered or settled after more than twelve months after the reporting date are disclosed separately in the notes to 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 net assets and liabilities at the date of the financial statements. The Board 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 net profit and net assets recognised in the Group's financial statements.

Critical accounting estimates and judgements continued

Area	Critical accounting judgements	Related notes
Recognition of insurance recovery asset in respect of Lighthouse defined benefit pension advice	For Lighthouse DB pension transfer advice provided, management have applied judgement in order to determine whether an asset can be reasonably estimated, and the measurement of such asset, in relation to an insurance recovery under Lighthouse's professional indemnity policies ("PI Policies"). Under the PI Policies, Lighthouse is entitled to be indemnified for a "Claim" (and defence costs) in respect of legal liabilities arising in connection with Lighthouse's DB pension transfer advice activities; however, at the current time the insurers have not confirmed coverage for legal liabilities.	28

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 net 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
Provision for cost of Lighthouse defined benefit pension advice	An estimation of the provision required for the British Steel DB pension transfer redress was determined based upon calculations performed as part of the skilled person review, which was considered representative of the broader population to form a reasonable estimate. The estimation per case is based upon FCA guidelines and modelling performed, and factors including pension transfer value, date of retirement, discount rate and retail price indexation. The calculations were then extrapolated to the entire population of British Steel DB cases that were advised on by Lighthouse advisers. The proportion of cases to be upheld, and therefore which requires redress payments to be made, was estimated based upon the current position of the review performed by the skilled person of the Lighthouse DB pension transfers.	28
Insurance recovery asset in respect of Lighthouse defined benefit pension advice	For Lighthouse DB pension transfer advice provided, management have determined its best estimate of the insurance recovery asset under Lighthouse's professional indemnity policies. Under the PI Policies, Lighthouse is entitled to be indemnified for a "Claim" (and defence costs) in respect of legal liabilities arising in connection with Lighthouse's DB pension transfer advice activities; however, at the current time the insurers have not confirmed coverage for legal liabilities.	28
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 AuMA, which are subject to a large number of factors including global 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 three-year planning horizon. Where credible longer-term profit forecasts are available, the specific entity may assess recoverability over a longer period, subject to a higher level of sensitivity testing. Following the impact that COVID-19 has had on global markets and, in particular, on the Group's expected future levels of AuMA, management have reassessed the sensitivity on the recoverability of deferred tax assets based on the latest forecast cash flows.	29

Other principal estimates

The Group's assessment of goodwill and intangible assets for impairment uses the latest cash flow forecasts from the Group's three-year business plan. These forecasts include estimates relating to equity market levels and growth in AuMA in future periods, together with levels of new business growth, net client cash flow, revenue margins, and future expenses and discount rates (see note 14). Management do not believe that the use of these estimates have a significant risk of causing a material adjustment to the carrying amount of the assets within the next financial year.

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

There were no new standards or interpretations which became effective from 1 January 2020.

Amendments to standards:

The following amendments to the accounting standards, issued by the International Accounting Standards Board ("IASB") and in conformity with the requirements of the Companies Act 2006 and, for the Group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, have been adopted by the Group from 1 January 2020 with no material impact on the Group's consolidated results, financial position or disclosures:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 *Business Combinations – Definition of a Business*
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*
- Amendments to IFRS 16 *Leases – COVID-19-Related Rent Concessions*

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

Certain new standards, interpretations and amendments to existing standards have been published by the IASB that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2021. The Group has not early adopted these standards, interpretations and amendments, nor does the Group expect these to have a material impact on the Group's consolidated financial statements.

– **IFRS 17 Insurance contracts**

The IASB issued IFRS 17 *Insurance Contracts* in May 2017, and *Amendments to IFRS 17* in June 2020. When IFRS 17 is endorsed in conformity with the requirements of the Companies Act 2006 and, for the Group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, it will replace its interim predecessor, IFRS 4 *Insurance Contracts*. IFRS 17 is a comprehensive standard which provides a single accounting model for all insurance contracts. IFRS 17 will replace a wide range of different accounting practices previously permitted, improving transparency and enabling investors and regulators to understand and compare the financial position and performance of an insurer, irrespective of where they are based geographically.

The Group completed the sale of QLA to ReAssure on 31 December 2019. Following the sale, the impact of IFRS 17 is significantly reduced for the Group with only a small number of insurance contracts remaining in the Quilter International business. Therefore, the impact of IFRS 17 is not expected to be material.

The measurement model

The use of current estimates at each reporting date and an explicit risk adjustment to measure obligations created by insurance contracts, provides up to date information about cash flows and associated risk and timing. "Day one" profits are deferred and recognised in the income statement through the release of the contractual service margin ("CSM"), which has the effect of recognising revenue as services are provided. This principle is consistent with the treatment in IFRS 15.

Presentation and disclosure

Insurers' financial statements will be presented differently under IFRS 17. Insurers will be required to provide information about sources of profit or losses from insurance and investment related services, comprising insurance revenue and insurance service expenses (underwriting activity), as well as finance income or expense (investing activity). New performance metrics and KPIs will be required to explain business results to the investment community. Disclosure requirements focus on amounts recognised in the financial statements, significant judgements and changes in those judgements, as well as information about the nature and extent of risks that arise from insurance contracts.

Effective date

The IASB issued Amendments to IFRS 17 in June 2020, which defers the effective date of IFRS 17, such that it applies to entities with annual reporting periods beginning on or after 1 January 2023. The standard is yet to be endorsed by the EU (draft endorsement issued in September 2020).

4: Significant changes in the year

4(a): Impacts of COVID-19

The Group's focus in managing the response to COVID-19 has been to ensure colleagues' health and safety, maintain operational resilience with high levels of client service and provide good outcomes for shareholders. When the scale of the COVID-19 pandemic became apparent, the Group responded quickly to the challenges faced, with 98% of the Group's colleagues working remotely from late March 2020 and the accelerated delivery of IT and remote telephony solutions allowing Quilter to maintain high client service levels and to support customers and advisers.

The Group reviewed its financial budgets and operating plans in response to the challenges arising from COVID-19 and the unpredictable operating outlook. The Group is operationally resilient and remains focused on completing its principal strategic projects. The continued volatility in financial markets and the impact of more limited face-to-face contact within the advice segment is creating a challenging revenue environment and the Group has updated its future cash flows accordingly. Against this backdrop, the Group has undertaken a number of management actions to reduce expenses but has acknowledged that future operating margin outcomes will likely be below previous target guidance provided by management. The Group did not use the support measures made available to companies by the UK Government.

An impairment assessment of the Group's goodwill was performed at 30 June 2020, as the impact of COVID-19 was deemed to be an indicator of impairment, and again at 31 December 2020 as part of the annual impairment assessment. The assessments were carried out using the most recent Board approved forecasts which incorporated market levels and future assumptions considered relevant in the current market conditions. The assessment concluded that no impairment was required. A sensitivity analysis demonstrated that further significant changes to key assumptions would be necessary before an impairment is required. Full details are included in note 14.

The Group has assessed the recoverable amount of deferred tax assets based on the taxable profits contained in the most recent Board approved three-year forecasts which, as noted above, incorporate market levels and assumptions that reflect the impact of COVID-19 and concluded that the Group has sufficient future taxable profits and reversal of taxable temporary differences to support the £78 million deferred tax asset recognised at 31 December 2020. Further details are included in note 29.

There have been no major changes to the Group's capital and financial risk management as a result of COVID-19. Full capital and financial risk management disclosures are included within note 37.

Detailed discussion of the Group's performance and financial position to 31 December 2020 are included in the Financial Review.

4: Significant changes in the year continued

4(b): Changes to comparative amounts

Changes to comparative amounts have been made in respect of consolidated investment funds and fee income receivable. The changes are explained in detail in notes 4(b)(i) and 4(b)(ii) respectively, with no impact to the Group's profit, equity or alternative performance measures. The changes to the statement of financial position for the prior periods presented are shown below:

Consolidated statement of financial position (extract)

	31 December 2019				1 January 2019			
	As reported £m	Consolidated funds Note 4(b)(i) £m	Fee income receivable Note 4(b)(ii) £m	Restated £m	As reported £m	Consolidated funds Note 4(b)(i) £m	Fee income receivable Note 4(b)(ii) £m	Restated £m
Financial investments	59,345	(2,138)	–	57,207	59,219	(1,165)	–	58,054
Trade, other receivables and other assets	424	(31)	212	605	530	(42)	230	718
Derivative assets	32	(10)	–	22	46	(12)	–	34
Cash and cash equivalents	2,473	(220)	–	2,253	2,395	(90)	–	2,305
Other[1]	1,464	–	–	1,464	3,600	–	–	3,600
Total assets	**63,738**	**(2,399)**	**212**	**61,551**	**65,790**	**(1,309)**	**230**	**64,711**
Third-party interests in consolidated funds	7,675	(2,357)	–	5,318	5,116	(1,283)	–	3,833
Trade, other payables and other liabilities	836	(35)	–	801	999	(20)	–	979
Contract liabilities	191	–	212	403	226	–	230	456
Derivative liabilities	17	(7)	–	10	37	(6)	–	31
Other[1]	52,948	–	–	52,948	57,407	–	–	57,407
Total liabilities	**61,667**	**(2,399)**	**212**	**59,480**	**63,785**	**(1,309)**	**230**	**62,706**
Total equity	**2,071**	**–**	**–**	**2,071**	**2,005**	**–**	**–**	**2,005**

[1] 'Other' represents remaining assets and liabilities not impacted by the changes to comparative amounts.

Changes in respect of consolidated investment funds have also impacted the Group's consolidated income statement in the prior year. There are no prior year income statement impacts arising from the fee income receivable reclassification.

Consolidated income statement (extract)

	Year ended 31 December 2019		
	As Reported £m	Consolidated funds Note 4(b)(i) £m	Restated £m
Fee income and other income from service activities	936	(99)	837
Investment return	6,866	(300)	6,566
Other income	22	(6)	16
Total income	**7,824**	**(405)**	**7,419**
Fee and commission expenses and other acquisition costs	(294)	127	(167)
Change in third-party interest in consolidated funds	(917)	283	(634)
Other operating and administrative expenses	(740)	(5)	(745)
Other[1]	(5,828)	–	(5,828)
Total expenses	**(7,779)**	**405**	**(7,374)**
Profit before tax from continuing operations	**45**	**–**	**45**

[1] 'Other' represents remaining expenses not impacted by the changes to comparative amounts.

4: Significant changes in the year continued
4(b): Changes to comparative amounts continued

The impact to the Group's consolidated statement of cash flows in respect of changes in consolidated investment funds in the prior year is shown below. There are no prior year cash flow statement impacts arising from the fee income receivable reclassification.

Consolidated statement of cash flows (extract)

	Year ended 31 December 2019		
	As Reported £m	Consolidated funds Note 4(b)(i) £m	Restated £m
Cash flows from/(used in) operating activities	(2,006)	(29)	(2,035)
Total net cash from/(used in) operating activities	**(2,043)**	**(29)**	**(2,072)**
Net (acquisitions)/disposals of financial investments	2,260	(101)	2,159
Total net cash (used in)/from investing activities	**2,238**	**(101)**	**2,137**
Net increase/(decrease) in cash and cash equivalents	77	(130)	(53)
Cash and cash equivalents at the beginning of the year	2,395	(90)	2,305
Cash and cash equivalents at end of the year	**2,473**	**(220)**	**2,253**

4(b)(i): Consolidated funds
Following a review of the Group's consolidated investment funds methodology, corrections to previously reported values have been made on the consolidated statement of financial position and consolidated income statement (with corresponding impacts on the consolidated statement of cash flows). There has been no impact on profit or equity for any of the periods presented. The nature of the changes is as follows:

Statement of financial position impacts:
- Changes to the calculation of minority ownership of certain fund investments have been made, reflecting a re-evaluation of the status of nominee holdings, held by the Group on behalf of its clients, that had historically been included in the control assessment. This has resulted in a restatement of fund assets and liabilities attributable to the Group, and an adjustment to de-consolidate a number of investment funds where the Group was incorrectly deemed to have been the controlling entity in previous periods.

Income statement impacts:
- The changes to the calculation of minority ownership described above have resulted in changes to a number of line items in the Group's consolidated income statement for the year ending 31 December 2019, as shown in the table above.
- In addition, fund management fee income received from consolidated funds and previously included within 'Fee income and other income from service activities' has been eliminated on consolidation, resulting in it being re-presented primarily as investment return.
- A correction has been made in respect of realised and unrealised gains and losses on investments within a limited number of funds being previously presented within the Group's fee and commission expenses rather than investment return.

4(b)(ii): Fee income receivable
Fee Income Receivable ("FIR") relates to premium based establishment fee income, where income is taken over an initial period of the contract. When a policy is written, future income is capitalised, and the resulting asset is subsequently amortised as the cash proceeds are received.

Deferred Fee Income ("DFI") is the initial fee income, including FIR, which is deferred over the expected life of the contract as the services are provided. DFI is recognised as a contract liability.

In the prior year, the Group's FIR (all written within investment contracts in the Group's International business which is part of the Group's Wealth Platforms segment) and DFI were reported net within the statement of financial position within contract liabilities. This interpretation was made as both balances arise within individual contracts and FIR was assumed to represent a contract asset (which are permitted to be presented net with contract liabilities) rather than an unconditional receivable.

Following a review performed during the year, these FIR balances have been reclassified from a contract asset (previously netted within contract liabilities) to a receivable, as consideration is only conditional upon the passage of time. The prior year balance has been restated accordingly. This has no impact on reported profits or equity at the beginning or end of the prior year.

The impact of the changes to the consolidated statement of financial position is summarised in the table above.

5: Significant accounting policies

The Group's significant accounting policies are described below. There have been no changes to the Group's significant accounting policies as a result of changes in accounting standards during the year.

5(a): Group accounting

Subsidiaries

Subsidiary undertakings are those entities (investees) controlled by the Group. The Group controls an investee if, and only if, the Group has all of the following three elements of control:
- power over the investee;
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to affect those returns through its power over the investee.

For operating entities this usually arises with a shareholding in the entity of 50% or more. The Group also consolidates certain of its interests in open-ended investment companies ("OEICs"), unit trusts, mutual funds and similar investment vehicles (collectively "investment funds"). Where, as is often the case with investment funds, voting or similar rights are not the dominant factor in deciding who controls the investee, other factors are considered in the control assessment. These are described in more detail below.

The Group continually assesses any changes to facts and circumstances to determine, in the context of the three elements of control listed above, whether it still controls investees and is required to consolidate them.

Associates

Associates are entities in which the Group holds an interest and over which it has significant influence but not control, and are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee.

The Group has classified one entity, 360 Dot Net Limited, as an associate company in the prior and current year.

Investment funds

The Group invests in a wide range of investment funds such as OEICs and unit trusts generally in respect of its unit-linked investment contracts where investments are made to match clients' investment choices. For some of these funds it also acts as fund manager. These funds invest predominantly in equities, bonds, cash and cash equivalents. The Group holds interests in these investment funds mainly through the receipt of fund management fees, in the case where the Group acts as fund manager, which provide a variable return based on the value of the funds under management and other criteria, and in the case of third-party funds where fund performance has an impact on fund based fees within unit-linked investment contracts and other similar client investment products. Where the Group acts as fund manager it may also hold investments in the underlying funds, through acquiring units or shares. Where these investments are held in unit-linked funds, the Group has a secondary exposure to variable returns through the management fees that it deducts from unit-linked policyholders' account balances. The Group's percentage ownership can fluctuate from day to day according to the Group's participation in them as clients' underlying investment choices change.

When assessing control of investment funds, the Group considers the purpose and design of the fund, scope of its decision making authority, including its ability to direct relevant activities and to govern the operations of a fund so as to obtain variable returns from that fund and its ability to use its power to affect these returns, both from the perspective of an investor and an asset manager. In addition, the Group assesses rights held by other parties including substantive removal ("kick-out") rights that may affect the Group's ability to direct relevant activities.

On consolidation, the interests of parties other than the Group are classified as a liability in the Group's statement of financial position and are described as "Third-party interests in consolidated funds". Such interests are not recorded as non-controlling interests ("NCIs") as they meet the liability classification requirement set out in IAS 32 *Financial Instruments: Presentation*. These liabilities are regarded as current, as they are repayable on demand, although it is not expected that they will be settled in a short time period.

5: Significant accounting policies continued

5(a): Group accounting continued

Business combinations

The Group is required to use the acquisition method of accounting for business combinations. Business combinations are accounted for at the date that control is achieved (the acquisition date). The cost of a business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts. Where provisional amounts are reported these are adjusted during the measurement period which extends up to a maximum of 12 months from the acquisition date. Additional assets or liabilities may also be recognised during this period, to reflect any new information obtained about the facts and circumstances that existed at the date of acquisition that, if known, would have affected the amounts recognised as on that date.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired entity at the date of acquisition. Acquisition related costs are expensed as incurred.

Upon disposal, the Group derecognises a subsidiary or disposal group on the date on which control passes. The consolidated income statement includes the results of a subsidiary or disposal group up to the date of disposal. The difference between the proceeds from the disposal of a subsidiary undertaking and its carrying amount as at the date of disposal, including the cumulative amount of any related exchange differences that are recognised in the foreign currency translation reserve, is recognised in the consolidated income statement as the gain or loss on disposal of the subsidiary undertaking.

Common control combinations

Merger accounting is used by the Group for common control combinations, which are transactions between entities that are ultimately controlled by the same party or parties. This method treats the merged entities as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations result in the recognition of a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of any new shares issued by the parent Company for the acquisition of the shares of the subsidiary and the subsidiary's Net Asset Value ("NAV"). Such transactions attract merger relief under section 612 of the Companies Act 2006.

5(b): Fair value measurement

The Group uses fair value to measure the majority of its assets and liabilities. Fair value is a market-based measure and is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a financial instrument, the best evidence of fair value at initial recognition is normally the transaction price, which represents the fair value of the consideration given or received.

Where observable market prices in an active market, such as bid or offer (ask) prices are unavailable, fair value is measured using valuation techniques based on the assumptions that market participants would use when pricing the asset or liability. If an asset or a liability measured at fair value has a bid or an offer price, the price within the bid-offer spread that is most representative of fair value is used as the basis of the fair value measurement.

The quality of the fair value measurement for financial instruments is disclosed by way of the fair value hierarchy, whereby Level 1 represents a quoted market price for identical financial assets and liabilities, Level 2 financial assets and liabilities are valued using inputs other than quoted prices in active markets included in Level 1, either directly or indirectly, and Level 3 whereby financial assets and liabilities are valued using valuation techniques where one or more significant inputs are unobservable.

Classifying financial instruments into the three levels outlined above provides an indication about the reliability of inputs used in determining fair value. More information is provided in note 20.

5(c): Product classification

The Group's life assurance contracts included in the Wealth Platforms segment are categorised as either insurance contracts or investment contracts, in accordance with the classification criteria set out in the paragraphs below.

Insurance contracts

The Group's insurance contracts include traditional life and health insurance contracts including for the latter stand-alone critical illness and long-term care policies (all within the disposed QLA business until its disposal at 31 December 2019), as well as the unbundled insurance component of unit-linked contracts (described in more detail below in the "Hybrid insurance and investment contracts – unbundling" section). Life assurance contracts are categorised as insurance contracts at the inception of the contract only if the contract transfers significant insurance risk. Insurance risk is significant if, and only if, an insured event could cause the Group to make significant additional payments in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. It is possible to reclassify contracts as insurance contracts after inception if insurance risk becomes significant.

IFRS accounting for insurance contracts in UK companies was "grandfathered" at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice on Accounting for Insurance Business (issued by the Association of British Insurers and subsequently withdrawn from 1 January 2015), which adjusted Solvency I balances to remove certain regulatory reserves and margins in assumptions.

Investment contracts

Investment contracts do not meet the definition of an insurance contract as they do not transfer significant insurance risk from the policyholder to the insurer. Unit-linked investment contracts are separated into two components, being an investment management services component and a financial liability. The financial liability component is designated at fair value through profit or loss ("FVTPL") as it is managed on a fair value basis, and its value is directly linked to the market value of the underlying portfolio of assets. The Group does not directly benefit economically from returns from the assets held to match policyholder liabilities, apart from secondary exposure to future annual management fees that the Group expects to receive over the life of the policy.

"Hybrid" insurance and investment contracts – unbundling

Generally, life and pensions contracts allow for a single classification at product class level. For those contracts containing both an insurance component and an investment component, the Group has elected to unbundle these contracts and account for each component separately. This approach has been applied to a number of the Group's unit-linked assurance business contract types where a significant component of insurance risk exists.

5(d): Fee income and other income from service activities

Fee income and other income from service activities represent the fair value of services provided, net of value added tax. Within Quilter, all businesses act as a principal with the only exception to this being in Quilter Investors, where the management of certain funds is outsourced to external fund managers.

Premium based fees

This relates to non-refundable fees taken on receipt of clients' investments and recognised on receipt over the life of the contract, in line with the performance obligation associated with the contract in respect of the administration of the underlying client records and client benefits. Where fees are received, either at inception or over an initial period for services not yet provided, the income is deferred and recognised as contract liabilities on the statement of financial position and released to the income statement as services are provided over the lifetime of the contract (see note 32 for further information).

In addition this also includes fees in respect of advice provided to clients, when the advice has been provided to the client and the financial adviser's performance obligation has been fully delivered. Accordingly, fee income is recognised at the inception of the financial product sold.

Fund based fees

This is periodic fee income based on the market valuation of the Group's investment contracts. It is calculated and recognised on a daily basis in line with the provision of investment management services.

Fixed fees

This is periodic fee income which is fixed in value according to underlying contract terms and relates to the provision of services and transactional dealing fees. It is recognised on provision of the transaction or service.

Surrender fees

Surrender fee income relates to client charges received on the surrender of an investment contract or insurance contract, which is based on the value of the policy and recognised on surrender of the policy.

5: Significant accounting policies continued
5(d): Fee income and other income from service activities continued

Other fee and commission income
This includes charges taken from unit-linked funds to meet future policyholder tax liabilities. Depending on the nature of the tax liability, the charges are either recognised at the point a transaction occurs on the unit-linked fund, or annually. This also includes fee and commission income within consolidated funds' income statements.

5(e): Investment return
Investment return comprises two elements: (a) investment income and (b) realised and unrealised gains and losses on investments held at FVTPL.

Investment income
Investment income includes dividends on equity securities which are recorded as revenue on the ex-dividend date and interest income which is recognised using the effective interest rate method which allocates interest and other finance costs at a constant rate over the expected life of the financial instrument.

Realised and unrealised gains and losses
A gain or loss on a financial investment is only realised on disposal or transfer and represents the difference between the proceeds received, net of transaction costs, and its original cost (or amortised cost). Unrealised gains or losses, arising on investments which have not been disposed or transferred, represent the difference between carrying value at the year end and the carrying value at the previous year end or purchase value (if this occurs during the year), less the reversal of previously recognised unrealised gains or losses in respect of disposals made during the year.

Gains and losses resulting from changes in both market value and foreign exchange on investments classified at FVTPL are recognised in the consolidated income statement in the period in which they occur.

5(f): Premiums
Premiums receivable under insurance contracts are shown in the income statement gross of commission and exclude sales-based taxes and levies. For regular (and recurring) premium contracts, receivables are recognised when payments are due. Premiums in respect of other insurance contracts are recognised in the income statement when receivable, apart from premiums received in respect of unit-linked insurance contracts (see below). Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

Premiums received in respect of unit-linked insurance contracts are recognised when the corresponding liability to the policyholder is established. For single premium business, this is the date from which the policy is effective.

5(g): Deferred acquisition costs and contract costs
Investment contracts
Incremental costs, including fee and commission expenses, that are directly attributable to securing either unit-linked investment contracts or other asset management services are deferred and recognised as contract costs. Contract costs are linked to the contractual right to benefit from providing investment management services; they are therefore amortised through the income statement consistent with the transfer to the customer of the services to which the contract relates.

Insurance contracts
Incremental costs directly attributable to securing an insurance contract, such as initial commission and the costs of obtaining and processing such business are deferred and a deferred acquisition cost ("DAC") asset recognised, to the extent that they are expected to be recovered out of future margins.

Insurance DAC is amortised as an expense on a straight line basis, adjusted for expected persistency, over the expected life of the contract, as the services are provided (equal service provision assumed) but subject to a restriction whereby it is no longer than the period in which such costs are expected to be recoverable out of future margins.

At the end of each reporting period, contract costs and DAC are reviewed for recoverability, by category of business, against future margins from the related contracts. They are impaired in the income statement when they are no longer considered to be recoverable.

5(h): Investment contract liabilities

The majority of the Group's investment contracts are unit-linked contracts. At inception, investment contract liabilities for unit-linked business are classified as financial liabilities and measured at FVTPL. For these contracts, the fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets in the fund. The FVTPL classification reflects the fact that the matching investment portfolio, that backs the unit-linked liabilities, is managed, and its performance evaluated, on a fair value basis.

Contributions received on investment contracts are treated as policyholder deposits and credited directly to investment contract liabilities on the statement of financial position, as opposed to being reported as revenue in the consolidated income statement. This practice is known as deposit accounting. Withdrawals paid out to policyholders on investment contracts are treated as a reduction to policyholder deposits, reducing the investment contract liabilities on the statement of financial position, as opposed to being recognised as expenses in the consolidated income statement.

5(i): Insurance contract liabilities

Following the disposal of the Group's QLA business (see note 6(b) for further details), insurance contract liabilities within the Group are £nil at year ended 31 December 2019 and year ended 31 December 2020, with only the Group's income statement for year end 31 December 2019 impacted.

Claims

Insurance business claims reflect the cost of all claims arising during the year and include payments for maturities, annuities, surrender, death and disability claims, as well as claims handling costs, incurred in connection with the negotiation and settlement of claims. They are recognised as expenses in the income statement. Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified. Reinsurance recoveries, in respect of these claims, are accounted for in the same period as the related claim.

Insurance contract liabilities

The Group calculates its long-term insurance contract liabilities, based on local regulatory requirements and actuarial principles consistent with those applied in the local market. Liabilities are calculated using the gross premium valuation method, which is based on the amount of contractual premiums receivable and includes explicit assumptions for interest and discount rates, as well as for mortality, morbidity, persistency and future expenses. These assumptions are based on market data, internal experience data and also external data where either no internal experience data exists or where internal data is too sparse to give credible estimates of the true expectation of experience. Anticipated future trends have been allowed for in deriving mortality and morbidity assumptions. The liability for contractual benefits that are expected to be paid in the future is determined as the discounted value of the excess of future expected outgoings over future expected income. Future expected outgoings include claim costs, direct expenses and commissions. Future expected income includes premiums payable by policyholders. For anticipated future claims that have been incurred but not yet paid, the Group establishes a provision for outstanding claims.

The method used to determine these liabilities makes allowance for the level of risk and uncertainty inherent in the business by the use of margins for caution within the assumptions used to project future income and outgoings. The portion of premiums received that relates to unexpired risks as at the reporting period end is reported within the long-term insurance liabilities. The change in insurance contract liabilities, comprising the full movement in the corresponding liabilities during the period, is recognised in the income statement.

Liability adequacy test

At each reporting date, the Group assesses whether the recognised insurance contract liabilities are adequate in light of current estimates of future cash flows. This liability adequacy test is performed by comparing the carrying value of the insurance contract liabilities and the discounted projections of future cash flows. If the carrying value is less than the future expected cash flows, the deficiency is initially recognised by writing down the DAC asset. The recoverability of the DAC asset is tested against present value of in-force ("PVIF") business, determined on a best estimate basis, with any deficit written off the DAC asset immediately. Any required write down in excess of the value of the DAC asset is recognised in the income statement with a corresponding additional provision in the statement of financial position.

5: Significant accounting policies continued

5(j): Reinsurance

Following the disposal of the QLA business on 31 December 2019 (see note 6(b) for further details), the Group's reinsurance arrangements are immaterial. As a result, the accounting policy below refers to the impacts of such reinsurance arrangements within the Group's 2019 comparative results.

Insurance contracts

The Group cedes reinsurance in the normal course of business for the purpose of limiting its claims costs. Ceded reinsurance contracts include arrangements where regular risk premiums are paid by the Group to the reinsurer and an agreed share of claims are paid by the reinsurer to the Group. These arrangements are in respect of underlying policies that are classified as insurance contracts. Accordingly, contracts with reinsurers are assessed to establish whether they contain significant insurance risk to justify such a classification. Only rights under contracts that give rise to a transfer of significant insurance risk are accounted for as reinsurers' share of policyholder liabilities.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. Reinsurance recoveries are recognised in the income statement in the same period as the related claim.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in other receivables and other payables respectively unless a right of offset exists, in which case the net amount is reported on the consolidated statement of financial position. Assets, liabilities, income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the underlying insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

The value of the benefits that the Group is entitled to under the ceded reinsurance arrangements are reported as "reinsurers' share of policyholder liabilities" in the statement of financial position. This is calculated as the difference between the insurance contract liability assuming no reinsurance arrangement exists (the gross basis) and the liability with explicit allowance for all cash flows relating to the reinsurance arrangement (the net basis). Insurance contract liabilities are calculated quarterly on the gross and net bases taking into account all relevant experience effects. The reinsurers' share of insurance provisions is updated consistently with these calculations. Any resulting movement in the reinsurers' share of insurance provisions is recognised in the income statement.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due to it under the terms of the contract and that the event has an impact that can be measured reliably in respect of amounts expected to be received from the reinsurer. The reinsurers' share of policyholder liabilities is updated for any impairment. Any resulting movement in the reinsurers' share of policyholder liabilities is recognised in the income statement.

Investment contracts

Investments held on behalf of policyholders recognised by the Group that are fully managed by a third-party reinsurer are shown on the statement of financial position within reinsurers' share of investment contract liabilities, with the corresponding liability to the policyholder included within liabilities for linked investment contracts.

5(k): Financial instruments (other than derivatives)

Financial instruments cover a wide range of financial assets, including financial investments, trade receivables and cash and cash equivalents and certain financial liabilities, including investment contract liabilities, trade payables, and borrowings. Derivatives, which are also financial instruments, are covered by accounting policy 5(m). Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to receive cash flows have expired or been forfeited by the Group. A financial liability is derecognised when the liability is extinguished.

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best represents the way the business is managed and information is reported to management. The assessment considers the stated portfolio policies and objectives. The Group determines its strategy in holding the financial asset, particularly considering whether the Group earns contractual interest revenue, for example to match the duration of financial assets to the duration of liabilities that are funding those assets or to realise cash flows through the sale of the assets. The frequency, volume and timing of sales in prior periods may be reviewed, along with the reasons for such sales and expectations about future sales activity. These factors enable management to determine which financial assets should be measured at FVTPL.

Initial measurement

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Subsequent measurement
The classification of financial assets depends on (i) the purpose for which they were acquired, (ii) the business model in which a financial asset is managed, and (iii) its contractual cash flow characteristics. Two categories are applicable to the Group's financial assets: FVTPL and amortised cost. This classification determines the subsequent measurement basis. The following accounting policies apply to the subsequent measurement of financial assets.

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

Amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and unless recognised as FVTPL on initial recognition applying the Fair Value Option (see below):
– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

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

All other financial assets that are not measured at amortised cost are classified and measured at FVTPL.

Financial investments
Derivative financial assets (the majority of which are as a result of the consolidated funds, as described in note 5(a)) are classified and measured at FVTPL. In addition, on initial recognition, the Group may irrevocably designate a financial asset at FVTPL that otherwise meets the requirements to be measured at amortised cost, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (the Fair Value Option).

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

Fixed term deposits with a maturity profile exceeding three months are categorised as financial investments and are measured at amortised cost.

The Group recognises purchases and sales of financial investments on trade date, which is the date that the Group commits to purchase or sell the assets. The costs associated with investment transactions are included within expenses in the consolidated income statement.

Loans and advances
Loans with fixed maturities, including policyholder loans, are recognised when cash is advanced to borrowers or policyholders. Policyholder loans are interest free and are mandatorily at FVTPL since they are taken from the policyholder's unit-linked account and thereby matched to underlying unit-linked liabilities held at FVTPL, which are unaffected by the transaction. Other loans and advances are carried at amortised cost using the effective interest rate method. These assets are subject to the impairment requirements outlined below.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, call deposits, money market collective investment funds and other short-term deposits with an original maturity of three months or less.

Cash and cash equivalents held within money market collective investment funds are classified as FVTPL. All other cash and cash equivalents are classified as amortised cost which means they are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method and are subject to the impairment requirements outlined below. The carrying amount of cash and cash equivalents, other than money market collective investment funds which are measured at fair value, approximates to their fair value.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. At inception, investment contract liabilities for unit-linked business are recognised as financial liabilities and measured at FVTPL. Other financial liabilities, including the Group's borrowings and trade payables, are measured at amortised cost using the effective interest method.

5: Significant accounting policies continued
5(k): Financial instruments (other than derivatives) continued

Trade payables and receivables
Trade payables and receivables are classified at amortised cost. Due to their short-term nature, their carrying amount is considered to be the same as their fair value.

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

Impairment of financial assets
The expected loss accounting model for credit losses applies to financial assets measured at amortised cost, but not to financial assets at FVTPL. Financial assets at amortised cost include trade receivables, cash and cash equivalents (excluding money market collective investment funds which are measured at fair value), fixed term deposits and loans and advances.

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

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

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

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

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

Application of the impairment model
The Group applies the ECL model to all financial assets that are measured at amortised cost:
- Trade receivables, to which the simplified approach prescribed by IFRS 9 is applied. This approach requires the recognition of a Lifetime ECL allowance on day one and thereafter.
- Loans, cash and cash equivalents, and fixed term deposits at amortised cost, to which the general three stage model (described above) is applied, whereby a 12 month ECL is recognised initially and the balance is monitored for significant increases in credit risk which triggers the recognition of a Lifetime ECL allowance.

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

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

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

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

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

5(l): Contract assets
Contract assets are classified as non-financial. Due to their short-term nature, their carrying amount is considered to be the same as their fair value.

The expected loss accounting model for credit losses applies to contract assets, The Group applies the ECL model to contract assets, which are measured at amortised cost. The simplified approach prescribed by IFRS 9 is applied to contract assets. This approach requires the recognition of a Lifetime ECL allowance on day one and thereafter.

5(m): Derivatives
The Group uses derivative financial instruments to manage well-defined foreign exchange risks arising out of the normal course of business and has used forward foreign exchange contracts to reduce the currency risk on certain US Dollar, Euro and Swedish Krona denominated future revenues and accounts receivables. Management determines the classification of derivatives at initial recognition and classifies derivatives as mandatorily at FVTPL. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The only other derivatives recognised in the Group's statement of financial position are as a result of the consolidation of funds (described in note 5(a)).

5(n): Employee benefits
Pension obligations
The Group operates two types of pension plans which have been established for eligible employees of the Group:

Defined contribution schemes where the Group makes contributions to members' pension plans but has no further payment obligations once the contributions have been paid.

Defined benefit plans which provide pension payments upon retirement to members as defined by the plan rules. The Group has funded these liabilities by ring-fencing assets in trustee-administered funds.

Defined contribution pension obligation
Under a defined contribution plan, the Group's legal or constructive obligation is limited to the amount it agrees to contribute to a pension fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. Contributions in respect of defined contribution schemes for current service are expensed in the income statement as staff costs and other employee-related costs when incurred.

Defined benefit pension obligation
A defined benefit pension plan typically defines the amount of pension benefit that an employee will receive on retirement. For these plans, the Group's defined benefit obligation is calculated by independent actuaries using the projected unit credit method, which measures the pension obligation as the present value of estimated future cash outflows. The discount rate used is determined based on the yields for investment grade corporate bonds that have maturity dates approximating to the terms of the Group's obligations. Plan assets are measured at their fair value at the reporting date. The net surplus or deficit of the defined benefit plan is recognised as an asset or liability in the statement of financial position and represents the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets.

An asset is recognised only where there is an unconditional right to future benefits. The current and past service cost curtailments and settlements are charged to other expenses in the income statement.

5: Significant accounting policies continued
5(n): Employee benefits continued

Remeasurements which comprise gains and losses as a result of experience adjustments and changes in actuarial assumptions, the actual return on plan assets (excluding interest) and the effect of the asset ceiling are recognised immediately in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the income statement in subsequent periods. Administration costs (other than the costs of managing plan assets) are recognised in the income statement when the service is provided.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the income statement when the plan amendment or curtailment occurs.

Employee share-based payments
The Group operates a number of share incentive plans for its employees. These involve an award of shares or options in the Group (equity-settled share-based payments).

The Group's incentive plans have conditions attached before the employee becomes entitled to the award. These can be performance and/or service conditions (vesting conditions) or conditions that are often wholly within the control of the employee, for example where the employee has to provide funding during the vesting period, which is then used to exercise share options (non-vesting condition).

Performance conditions may be market-based or non-market based. Market performance conditions are those related to an entity's equity, such as achieving a specified share price or target based on a comparison of the entity's share price with an index of share prices. Non-market performance conditions are those related to an entity's profit or revenue targets, an example of which would be Earnings per Share ("EPS"). Market-based performance conditions and non-vesting conditions are taken into account when estimating the fair value of the share or option awards at the measurement date. The fair value of the share awards or options is not adjusted to take into account non-market performance features. These are taken into consideration by adjusting the number of equity instruments in the share-based payment measurement and this adjustment is made each period until the equity instruments vest.

The fair value of share-based payment awards granted is recognised as an expense in the income statement over the vesting period which accords with the period for which related services are provided by the employee. A corresponding increase in equity is recognised for equity-settled plans and a corresponding financial liability for cash-settled plans.

For equity-settled plans, the fair value is determined at grant date and not subsequently re-measured. For cash-settled plans, the fair value is re-measured at each reporting date and the date of settlement, with any changes in fair value recognised in the profit or loss for the period and the liability adjusted accordingly.

At each period end the Group reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the income statement with a corresponding adjustment to the share-based payments reserve in equity.

At the time the equity instruments vest, the amount recognised in the share-based payments reserve in respect of those equity instruments is transferred to retained earnings.

5(o): Tax
Current tax
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years. Current tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or in other comprehensive income.

Deferred tax
Deferred taxes are calculated according to the statement of financial position method, based on temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

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

Deferred tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or in other comprehensive income. In certain circumstances, as permitted by accounting guidance, deferred tax balances are not recognised. In particular, where the liability relates to the initial recognition of goodwill, or transactions that are not a business combination and at the time of their occurrence affect neither accounting nor taxable profit. Note 29(b) includes further detail of circumstances in which the Group does not recognise temporary differences.

Policyholder tax
Certain products are subject to tax on the policyholder investment returns. This 'policyholder tax' is an element of the Group's total tax expense. To make the tax expense more meaningful, tax attributable to policyholder returns and tax attributable to equity holders' profits is shown separately.

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' profits.

5(p): Goodwill and intangible assets
The recognition of goodwill arises on the acquisition of a business and represents the premium paid over the fair value of the Group's share of the identifiable assets and liabilities acquired at the date of acquisition. Intangible assets include intangible assets initially recognised as part of a business combination, purchased assets and internally generated assets, such as software development costs related to amounts recognised for in-house systems development.

Goodwill and goodwill impairment
Goodwill arising on the Group's investments in subsidiaries is shown as a separate asset, while that on associates, where it arises, is included within the carrying value of those investments. Goodwill is recognised as an asset at cost at the date when control is achieved (the acquisition date) and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to annual impairment reviews.

Goodwill is allocated to one or more cash-generating units ("CGUs") expected to benefit from the synergies of the combination, where the CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Goodwill is reviewed for impairment at least once annually, as a matter of course even if there is no indication of impairment, and whenever an event or change in circumstances occurs which indicates a potential impairment. For impairment testing, the carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of an operation within a group of CGUs to which goodwill has been allocated, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal. It is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Intangible assets acquired as part of a business combination
Intangible assets acquired as part of a business combination are recognised where they are separately identifiable and can be measured reliably. Acquired intangible assets consist primarily of contractual relationships such as customer relationships and distribution channels. Such items are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships acquired at the date of acquisition. Brands and similar items acquired as part of a business combination are capitalised at their fair value based on a 'relief from royalty' valuation methodology.

Subsequent to initial recognition, acquired intangible assets are measured at cost less amortisation and any recognised impairment losses. Amortisation is recognised at rates calculated to write off the cost or valuation less estimated residual value, using a straight-line method over their estimated useful lives as set out below:

– Distribution channels	8 years
– Customer relationships	7-10 years
– Brands	5 years

The economic lives are determined by considering relevant factors such as usage of the asset, product life cycles, potential obsolescence, competitive position and stability of the industry. The amortisation period is re-evaluated at the end of each financial year end.

Internally developed software
There are a number of factors taken into account when considering whether internally developed software meets the recognition criteria in IAS 38 *Intangible Assets*. Where, for example, a third-party provider retains ownership of the software, this will not meet the control criterion in the standard (i.e. the power to obtain benefits from the asset) and the costs will be expensed as incurred.

Where it is capitalised, internally developed software is held at cost less accumulated amortisation and impairment losses. Such software is recognised in the statement of financial position if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Group and its cost can be measured reliably.

Costs incurred in the research phase are expensed, whereas costs incurred in the development phase are capitalised, subject to meeting specific criteria, as set out in the relevant accounting guidance, the main one being that future economic benefits can be identified as a result of the development expenditure. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the relevant software, which range between three and five years, depending on the nature and use of the software.

5: Significant accounting policies continued

5(p): Goodwill and intangible assets continued

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Impairment testing for intangible assets

For intangible assets with finite lives, impairment charges are recognised where evidence of impairment is observed. Indicators of impairment can be based on external factors, such as significant adverse changes to the asset as part of the overall business environment and internal factors, such as worse than expected performance reflected in the Group's three-year Business Plan. If an indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is calculated as the higher of fair value less costs to sell and value in use. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an intangible asset is not yet available for use, it is subject to an annual impairment test by comparing the carrying value with the recoverable amount. The recoverable amount is estimated by considering the ability of the asset to generate sufficient future economic benefits to recover the carrying value.

5(q): Assets and liabilities held for sale and discontinued operations

Assets (and disposal groups) are classified as held for sale if their carrying amount is expected to be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year of the date of classification. Assets and liabilities held for sale are presented separately in the consolidated statement of financial position.

Assets and liabilities (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. No depreciation or amortisation is charged on a non-current asset while classified as held for sale or while part of a disposal group once it has been classified as held for sale.

The Group classifies areas of the business as discontinued operations where they have been disposed of, or are classified as held for sale at the year end, which either represent a separate major line of business or geographical area, or are part of a plan to dispose of one, or are subsidiaries acquired exclusively with a view to resale.

When an asset (or disposal group) ceases to be classified as held for sale, the individual assets and liabilities cease to be shown separately in the statement of financial position at the end of the year in which the classification changes. Comparatives are not restated. If the line of business was previously presented as a discontinued operation and subsequently ceases to be classified as held for sale, profit and loss and cash flows of the comparative period are restated to show that line of business as a continuing operation. Further information can be found in note 6.

5(r): Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of the time value of money is material, provisions are discounted and represent the present value of the expected expenditure. Provisions are not recognised for future operating costs or losses.

The Group recognises specific provisions where they arise for the situations outlined below:

- Client compensation and related costs, when the Group compensates clients in the context of providing fair customer outcomes.
- Onerous contracts, when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.
- Corporate restructuring, only if the Group has approved a detailed formal plan and raised a valid expectation among those parties directly affected, that the plan will be carried out either by having commenced implementation or by publicly announcing the plan's main features. Such provisions include the direct expenditure arising from the restructuring, such as employee termination payments but not those costs associated with the ongoing activities of the Group.
- Legal uncertainties and the settlement of other claims.

Contingent liabilities are possible obligations of the Group of which the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the consolidated statement of financial position, unless they are assumed by the Group as part of a business combination. They are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and recognised as a liability.

Contingent assets, which are possible benefits to the Group, are only disclosed if it is probable that the Group will receive the benefit. If such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the consolidated statement of financial position as an asset.

6: Acquisitions, disposals and discontinued operations

6(a): Business acquisitions

Business acquisitions completed during the year ended 31 December 2020
There have been no material acquisitions during the year ended 31 December 2020.

Business acquisitions completed during the year ended 31 December 2019
Charles Derby Group Limited ("CDG") acquisition on 14 February 2019

The purchase price of £31 million was allocated based on the fair value of net assets acquired at the date of acquisition, determined in accordance with IFRS 3 *Business Combinations*. These allocations are now final and the Group recognised goodwill of £23 million in relation to this acquisition.

Lighthouse Group plc ("Lighthouse") acquisition on 12 June 2019
The estimated fair value of net assets acquired in Lighthouse of £13 million, included a provision of £12 million 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 a result of an investigation by the FCA into defined benefit ("DB") pension transfer advice, including advice provided to British Steel employees by Lighthouse, and an additional number of complaints received during 2020, the Group increased its scope for the provision to include all British Steel customers, rather than only those who have raised a complaint, and performed a detailed case review (further details of which are included in note 28). This resulted in an increase to the provision at acquisition of a further £12 million, which brought the provision balance to £24 million. An insurance recovery asset of £3 million related to the provision was recognised at 30 June 2020, representing management's assessment of the fair value on a best estimate basis. Discussions with Lighthouse's insurers remain ongoing. A further review of the tax treatment resulted in the recognition of a deferred tax asset of £2 million. The impact upon the fair value of net assets acquired as a result of the British Steel DB pension transfer advice provision, insurance recovery asset and deferred tax asset at acquisition is a net liability of £19 million, which is an increase in the net liability of £7 million from the £12 million estimated balance reported recognised at 31 December 2019.

The final determination of the fair value of net assets acquired in Lighthouse is assessed as £6 million, and the Group has recognised goodwill of £40 million in relation to this acquisition, which is an increase in goodwill of £7 million from the estimated balance recognised at 31 December 2019. No further adjustments can be made to the fair value of net assets acquired as the Group is now beyond the 12-month post-acquisition period permitted for such entries under IFRS 3 *Business Combinations*.

Contingent consideration arising from business combinations
The table below details the movements in the contingent consideration balance (see note 31) during the current and prior year arising from the business acquisitions in earlier years detailed above.

	31 December 2020 £m	31 December 2019 £m
Opening balance	39	37
Acquisitions during the year	–	22
Payments	(20)	(21)
Financing interest charge	2	3
Other movements	(5)	(2)
Closing balance	**16**	**39**

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 ongoing fee income at future dates. Management estimate that a 20% increase/(decrease) in these key underlying assumptions would have resulted in a £3 million/£(4) million movement in the year-end contingent consideration balance.

6: Acquisitions, disposals and discontinued operations continued

6(b): Business disposals

Year ended 31 December 2020

There have been no disposals during the year ended 31 December 2020.

Year ended 31 December 2019

On 31 December 2019, the Group completed the sale of the Quilter Life Assurance ("QLA") business (consisting of 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 recognised a profit on the disposal of QLA of £103 million. Provisions established in respect of this disposal are shown in note 28.

(Loss)/profit on sale of operations

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
	Quilter Life Assurance and Single Strategy business £m	Quilter Life Assurance £m
Consideration received	–	446
Less: transaction and separation costs[1]	(1)	(19)
Net (costs)/proceeds from sale	(1)	427
Carrying value of net assets disposed	–	(294)
Goodwill allocated and disposed	–	(30)
(Loss)/profit on sale of operations after tax	**(1)**	**103**

[1] An additional £1 million of transaction and separation costs relating to the historical sales of the QLA and Single Strategy businesses have been recognised in the year ended 31 December 2020.

6(c): Discontinued operations – income statement

The Group's discontinued operations principally relate to the QLA business that was disposed of on 31 December 2019 and the associated profit on sale.

	Notes	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Income			
Gross earned premiums		–	145
Premiums ceded to reinsurers		–	(86)
Net earned premiums		–	59
Fee income and other income from service activities	9(a)	–	164
Investment return	9(b)	–	1,386
Total income		**–**	**1,609**
Expenses			
Claims and benefits paid		–	(98)
Reinsurance recoveries		–	72
Net insurance claims and benefits incurred		–	(26)
Change in reinsurance assets and liabilities		–	121
Change in insurance contract liabilities		–	(134)
Change in investment contract liabilities	27	–	(1,364)
Fee and commission expenses, and other acquisition costs	10(a)	–	(45)
Other operating and administrative expenses	10(b)	–	(8)
Total expenses		**–**	**(1,456)**
(Loss)/profit on sale of operations before tax	6(b)	(1)	103
(Loss)/profit before tax from discontinued operations		**(1)**	**256**
Tax expense attributable to policyholder returns	11(a)	–	(76)
(Loss)/profit before tax attributable to equity holders from discontinued operations		**(1)**	**180**
Income tax expense	11(a)	–	(89)
Less: tax expense attributable to policyholder returns		–	76
Tax expense attributable to equity holders		–	(13)
(Loss)/profit after tax from discontinued operations		**(1)**	**167**
Attributable to:			
Equity holders of Quilter plc		**(1)**	167

Earnings per Ordinary Share on profit attributable to Ordinary Shareholders of Quilter plc

Basic – from discontinued operations (pence)	12(b)	**(0.1)**	**9.1**
Diluted – from discontinued operations (pence)	12(b)	**(0.1)**	**8.9**

6: Acquisitions, disposals and discontinued operations continued

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

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
(Loss)/profit after tax	(1)	167
Total comprehensive (expense)/income for the year from discontinued operations	**(1)**	**167**

6(e): Discontinued operations – Net cash flows

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Total net cash flows used in operating activities	–	(3,789)
Total net cash (used in)/from investing activities	(10)	3,765
Total net cash used in financing activities	–	(130)
Net decrease in cash and cash equivalents	**(10)**	**(154)**

7: Alternative performance measures ("APMs")

7(a): Adjusted profit and reconciliation to profit after tax

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 Group's IFRS profit for specified items as detailed in note 7(b). The definition of adjusted profit is unchanged from the last annual financial statements.

		Year ended 31 December 2020			Year ended 31 December 2019		
	Notes	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations[1] £m	Total £m
Advice and Wealth Management		90	–	90	103	–	103
Wealth Platforms		114	–	114	112	53	165
Head Office		(36)	–	(36)	(33)	–	(33)
Adjusted profit before tax		**168**	**–**	**168**	**182**	**53**	**235**
Reallocation of QLA costs		–	–	–	(26)	26	–
Adjusted profit before tax after reallocation	8(b)	**168**	**–**	**168**	**156**	**79**	**235**
Adjusting items:							
Impact of acquisition and disposal related accounting	7(b)(i)	(42)	–	(42)	(54)	–	(54)
(Loss)/profit on business disposals	6(b)	–	(1)	(1)	–	103	103
Business transformation costs	7(b)(ii)	(70)	–	(70)	(77)	–	(77)
Managed Separation costs	7(b)(iii)	–	–	–	(6)	–	(6)
Finance costs	7(b)(iv)	(10)	–	(10)	(10)	–	(10)
Policyholder tax adjustments	7(b)(v)	9	–	9	(62)	(12)	(74)
Customer remediation	7(b)(vi)	(5)	–	(5)	–	10	10
Total adjusting items before tax		**(118)**	**(1)**	**(119)**	**(209)**	**101**	**(108)**
Profit/(loss) before tax attributable to equity holders		**50**	**(1)**	**49**	**(53)**	**180**	**127**
Tax attributable to policyholder returns	11(a)	36	–	36	98	76	174
Income tax credit/(expense)	11(a),(b)	3	–	3	(66)	(89)	(155)
Profit/(loss) after tax[2]		**89**	**(1)**	**88**	**(21)**	**167**	**146**

[1]Discontinued operations includes the results of the Quilter Life Assurance ("QLA") business in 2019.
[2]IFRS profit/(loss) after tax.

7(b): 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.

7(b)(i): Impact of acquisition and disposal related 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, finance costs related to the discounting of contingent consideration and incidental items relating to past disposals.

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 2020 £m	Year ended 31 December 2019 £m
Amortisation of other acquired intangible assets	14(a)	45	45
Fair value gains on revaluation of contingent consideration		(4)	–
Acquisition and disposal related (income)/costs[1]		(1)	6
Unwinding of discount on contingent consideration		2	3
Total impact of acquisition and disposal related accounting		**42**	**54**

[1]Acquisition and disposal related (income)/costs in the year ended 31 December 2020 includes a £(1) million acceleration of discounting unwind following the settlement of a loan receivable from TA Associates that related to deferred consideration arising from the sale of the Single Strategy Asset Management business. Other acquisition and disposal related (income)/costs include items such as transaction costs or deferred incentives arising on the acquisition of businesses.

7(b)(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, Optimisation Programme costs, and restructuring costs incurred as a result of the sale of Quilter Life Assurance. All items are within the Group's continuing operations. For the year ended 31 December 2020, these costs totalled £70 million (31 December 2019: £77 million) in aggregate, the principal components of which are described below:

UK Platform Transformation Programme – 31 December 2020: £38 million, 31 December 2019: £57 million

The second major migration of client assets completed in November 2020 and the final migration completed successfully in February 2021 with all Quilter Investment Platform assets now live on the new platform. The total costs of the programme are expected to be approximately £200 million, in line with previous guidance.

Optimisation Programme costs – 31 December 2020: £33 million, 31 December 2019: £18 million

The Optimisation programme has delivered notable efficiencies and improvements in operational performance for the Group through greater technology utilisation and integration activity. Technology enabled transformation over 2020 included successful deployment of new finance and procurement modules as part of our general ledger consolidation and modernisation activity effective from January 2021, with £33 million of total costs for the Optimisation programme incurred for the year ended 31 December 2020. The Group also continued to leverage support function centres of excellence to achieve cost savings and reduce spend across the business by introducing tighter supplier management practices, insourcing capabilities and rationalising and consolidating technology and other suppliers across the Group.

Quilter Investors' build out costs – 31 December 2020: £(1) million, 31 December 2019: £(1) million

As part of the Group's strategy to separate from Old Mutual plc in 2018, the Group incurred build out costs to develop Quilter Investors as a separate business distinct from the Single Strategy business, which was subsequently sold on 29 June 2018. The build was substantially completed in 2019, resulting in the release of £1 million of the provision established to complete the build in 2019, with a further £1 million release in 2020.

Restructuring costs following disposal of Quilter Life Assurance – 31 December 2020: £nil, 31 December 2019: £3 million

As a result of the disposal of QLA on 31 December 2019, the Group recognised £3 million as an adjusting item principally in respect of redundancy costs. The Group expects to incur further restructuring costs during the following 12 months, including the cost of decommissioning IT systems, as the Transitional Service Agreement with ReAssure (the acquirer) runs off during 2021 and the remaining Quilter business is restructured following the disposal.

7: Alternative performance measures ("APMs") continued
7(b): Adjusting items continued

7(b)(iii): Managed Separation costs
One-off costs related to the Managed Separation from Old Mutual plc have been excluded from adjusted profit on the basis that they relate to a fundamental restructuring of the Group and are therefore not representative of the operating activity of the Group. For the year ended 31 December 2020 these costs were £0.1 million (31 December 2019: £6 million). The costs incurred in 2020 were in respect of rebranding and further rebranding costs are expected to be incurred in 2021.

7(b)(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 period ended 31 December 2020 finance costs were £10 million (31 December 2019: £10 million). See note 10(e) for further details of the Group's finance costs.

7(b)(v): Policyholder tax adjustments
For the year ended 31 December 2020 the total policyholder tax adjustments to adjusted profit is £9 million (31 December 2019: £(74) million) relating to both continuing and discontinued operations, as shown in note 11(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 income) 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 profit/(loss) before tax attributable to equity holders. For a further explanation of the impact of markets on the policyholder tax charge see note 11(a). Adjustments are also made to remove policyholder tax distortions from other non-operating adjusting items.

7(b)(vi): Customer remediation
Lighthouse pension transfer advice provision – 31 December 2020 £5 million, 31 December 2019 £nil
With regard to the provision for redress payable and related costs established within the fair value of the Lighthouse assets and liabilities acquired in June 2019 in relation to advice provided to British Steel Pension Scheme members, a further £5 million (31 December 2019: £nil) increase in the provision has been recognised in the income statement in the year ended 31 December 2020, reflecting the impact of post-acquisition market and discount rate movements. This has been excluded from adjusted profit on the basis that the costs are not representative of the operating activity of the Group. Further details of the provision are provided in note 28.

QLA voluntary client remediation provision – 31 December 2020 £nil, 31 December 2019 £10 million
Within QLA (disposed of on 31 December 2019), a voluntary customer remediation provision was established in 2017 following product reviews and 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, £10 million of the provision was released (as detailed in note 28).

7(c): 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 (page 122) and KPIs (page 41).

	Notes	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Profit/(loss) before tax attributable to equity holders – continuing operations		**50**	**(53)**
(Loss)/profit before tax attributable to equity holders – discontinued operations	6(c)	**(1)**	**180**
Adjusted for the following:			
Loss/(profit) on business disposals	6(b)	1	(103)
Impact of acquisition and disposal related accounting	7(b)(i)	42	54
Policyholder tax adjustments	7(b)(v)	(9)	74
Customer remediation	7(b)(vi)	5	(10)
Quilter Investors' build out costs	7(b)(ii)	(1)	(1)
IFRS profit before tax (excluding amortisation, policyholder tax adjustments and other one-off items)		**87**	**141**

7: Alternative performance measures ("APMs") continued

7(d): Reconciliation of IFRS income and expenses to "Total net fee revenue" and "Operating expenses" within adjusted profit

This reconciliation shows how each line of the Group's consolidated IFRS income statement is allocated to the Group's APMs: Net management fees, Total net fee revenue and Operating expenses, which are all defined on page 271 and form the Group's adjusted profit for continuing operations. The IFRS income statement column in the table below, down to "Profit/(loss) before tax attributable to equity holders from continuing operations", reconciles to each line of the Group's consolidated income statement. Allocations are determined by management and aim to show the Group's sources of profit (net of relevant directly attributable expenses). These allocations remain consistent from period to period to ensure comparability, unless otherwise stated.

Year ended 31 December 2020	Net mgmt fees[1] £m	Other revenue[1] £m	Total net fee revenue[1] £m	Operating expenses[1] £m	Adjusted profit before tax £m	Consol. of funds[2] £m	IFRS income statement £m
Income							
Fee income and other income from service activities	680	195	875	–	875	(80)	795
Investment return	–	3,340	3,340	–	3,340	556	3,896
Other income	–	1	1	15	16	4	20
Total income	**680**	**3,536**	**4,216**	**15**	**4,231**	**480**	**4,711**
Expenses							
Insurance contract claims and changes in liabilities	–	(1)	(1)	–	(1)	–	(1)
Change in investment contract liabilities	–	(3,328)	(3,328)	–	(3,328)	–	(3,328)
Fee and commission expenses, and other acquisition costs	(70)	(74)	(144)	–	(144)	(3)	(147)
Change in third-party interest in consolidated funds	–	–	–	–	–	(440)	(440)
Other operating and administrative expenses	(13)	(2)	(15)	(640)	(655)	(37)	(692)
Finance costs[4]	–	(1)	(1)	(16)	(17)	–	(17)
Total expenses	**(83)**	**(3,406)**	**(3,489)**	**(656)**	**(4,145)**	**(480)**	**(4,625)**
Tax expense attributable to policyholder returns	(36)	–	(36)	–	(36)	–	(36)
Profit/(loss) before tax attributable to equity holders from continuing operations	**561**	**130**	**691**	**(641)**	**50**	**–**	**50**
Adjusting items:							
Impact of acquisition and disposal related accounting	–	–	–	42	42		
Business transformation costs	–	–	–	70	70		
Finance costs	–	–	–	10	10		
Customer remediation	–	–	–	5	5		
Policyholder tax adjustments	(9)	–	(9)	–	(9)		
Adjusting items	**(9)**	**–**	**(9)**	**127**	**118**		
Total Group – continuing operations	**552**	**130**	**682**	**(514)**	**168**		

7: Alternative performance measures ("APMs") continued

7(d): Reconciliation of IFRS income and expenses to 'Total net fee revenue' and 'Operating expenses' within adjusted profit continued

In the Group's 2019 Annual Report, the reconciliation for year ended 31 December 2019 included the results of the QLA business within adjusted profit before tax. QLA is now excluded from this reconciliation for comparability with the current period following its disposal on 31 December 2019, which now presents continuing operations only.

Year ended 31 December 2019 (restated)[3]	Net mgmt fees[1] £m	Other revenue[1] £m	Total net fee revenue[1] £m	Operating expenses[1] £m	Adjusted profit before tax £m	Consol. of funds[2,3] £m	IFRS income statement[3] £m
Income							
Fee income and other income from service activities	689	230	919	–	919	(82)	837
Investment return	40	5,795	5,835	–	5,835	731	6,566
Other income	–	1	1	–	1	15	16
Total income	**729**	**6,026**	**6,755**	**–**	**6,755**	**664**	**7,419**
Expenses							
Insurance contract claims and changes in liabilities	–	(1)	(1)	–	(1)	–	(1)
Change in investment contract liabilities	–	(5,810)	(5,810)	–	(5,810)	–	(5,810)
Fee and commission expenses, and other acquisition costs	(100)	(77)	(177)	–	(177)	10	(167)
Change in third-party interest in consolidated funds	–	–	–	–	–	(634)	(634)
Other operating and administrative expenses	(14)	(1)	(15)	(690)	(705)	(40)	(745)
Finance costs[4]	–	(4)	(4)	(13)	(17)	–	(17)
Total expenses	**(114)**	**(5,893)**	**(6,007)**	**(703)**	**(6,710)**	**(664)**	**(7,374)**
Tax expense attributable to policyholder returns	(98)	–	(98)	–	(98)	–	(98)
Profit/(loss) before tax attributable to equity holders from continuing operations	**517**	**133**	**650**	**(703)**	**(53)**	**–**	**(53)**
Adjusting items:							
Impact of acquisition and disposal related accounting	–	–	–	54	54		
Business transformation costs	–	–	–	77	77		
Managed Separation costs	–	–	–	6	6		
Finance costs	–	–	–	10	10		
Policyholder tax adjustments	62	–	62	–	62		
Adjusting items	**62**	**–**	**62**	**147**	**209**		
Adjusted profit before tax after reallocation	579	133	712	(556)	156		
Reallocation of QLA costs	–	–	–	26	26		
Total Group – continuing operations	**579**	**133**	**712**	**(530)**	**182**		

[1]The APMs "Net Management Fees", "Other revenue", "Total net fee revenue" and "Operating expenses" are commented on within the Financial Review and defined on page 271.
[2]Consolidation of funds shows the grossing up impact to the Group's consolidated income statement as a result of the consolidation of funds requirements, as described within note 5(a). This grossing up is excluded from the Group's adjusted profit.
[3]See note 4(b) for details of changes to comparative amounts.
[4]During the year ended 31 December 2020, management reassessed the presentation of lease interest expenses within the adjusted profit analysis in the table above. These expenses have historically been reported within "Other revenue" and are now reported within "Operating expenses" for adjusted profit.

8: Segmental information

8(a): Segmental presentation

The Group's operating segments comprise Advice and Wealth Management and Wealth Platforms, which is consistent with the manner 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. There have been no changes to the basis of segmentation for the periods presented within these consolidated financial statements.

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, income and expenses that are not directly attributable to a particular segment are allocated between segments where appropriate. The Group accounts for inter-segment income 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 remaining costs following 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. Income is further segmented into the geographic location of the businesses in note 9(a).

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 Advisors ("QPCA"), Quilter Financial Advisers ("QFA") 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 Investment Platform ("QIP") and Quilter International.

Quilter Investment Platform 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, resulted in that business being classified as a discontinued operation. The results of that business, along with the profit on disposal, have been presented as discontinued operations. See note 6 for further information.

Notes to the consolidated financial statements

For the year ended 31 December 2020 continued

8: Segmental information continued

8(b)(i): Adjusted profit statement – segmental information for the year ended 31 December 2020

The table below presents the Group's continuing operations split by operating segment, reconciling the segmented IFRS income statement (to "Profit/(loss) before tax attributable to equity holders from continuing operations") to adjusted profit before tax.

		Operating segments				
	Notes	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Consolidation adjustments[1] £m	Consolidated income statement £m
Income						
Fee income and other income from service activities	9(a)	456	426	–	(87)	795
Investment return	9(b)	4	3,335	1	556	3,896
Other income		4	117	5	(106)	20
Segmental income		**464**	**3,878**	**6**	**363**	**4,711**
Expenses						
Insurance contract claims and changes in liabilities		–	(1)	–	–	(1)
Change in investment contract liabilities	27	–	(3,328)	–	–	(3,328)
Fee and commission expenses, and other acquisition costs	10(a)	(50)	(101)	–	4	(147)
Change in third-party interest in consolidated funds		–	–	–	(440)	(440)
Other operating and administrative expenses	10(b)	(370)	(324)	(71)	73	(692)
Finance costs	10(e)	(3)	(4)	(10)	–	(17)
Segmental expenses		**(423)**	**(3,758)**	**(81)**	**(363)**	**(4,625)**
Profit/(loss) before tax from continuing operations		**41**	**120**	**(75)**	**–**	**86**
Tax attributable to policyholder returns		–	(36)	–	–	(36)
Profit/(loss) before tax attributable to equity holders from continuing operations		**41**	**84**	**(75)**	**–**	**50**
Adjusted for non-operating items:						
Impact of acquisition and disposal related accounting	7(b)(i)	44	–	(2)	–	42
Business transformation costs	7(b)(ii)	–	39	31	–	70
Finance costs	7(b)(iv)	–	–	10	–	10
Policyholder tax adjustments	7(b)(v)	–	(9)	–	–	(9)
Customer remediation	7(b)(vi)	5	–	–	–	5
Adjusting items before tax		49	30	39	–	118
Adjusted profit/(loss) before tax – continuing operations		**90**	**114**	**(36)**	**–**	**168**

[1]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

8: Segmental information continued

8(b)(ii): Adjusted profit statement – segmental information for the year ended 31 December 2019 restated[3]

	Notes	Operating segments: Advice and Wealth Management £m	Operating segments: Wealth Platforms £m	Head Office £m	Reallocation of QLA costs[1] £m	Consolidation adjustments[2,3] £m	Consolidated income statement[3] £m
Income							
Fee income and other income from service activities	9(a)	486	438	–	–	(87)	837
Investment return	9(b)	10	5,823	3	–	730	6,566
Other income		1	160	6	–	(151)	16
Segmental income		**497**	**6,421**	**9**	**–**	**492**	**7,419**
Expenses							
Insurance contract claims and changes in liabilities		–	(1)	–	–	–	(1)
Change in investment contract liabilities	27	–	(5,810)	–	–	–	(5,810)
Fee and commission expenses, and other acquisition costs	10(a)	(73)	(110)	–	–	16	(167)
Change in third-party interest in consolidated funds		–	–	–	–	(634)	(634)
Other operating and administrative expenses	10(b)	(368)	(409)	(68)	(26)	126	(745)
Finance costs	10(e)	(4)	(3)	(10)	–	–	(17)
Segmental expenses		**(445)**	**(6,333)**	**(78)**	**(26)**	**(492)**	**(7,374)**
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:							
Impact of acquisition and disposal related accounting	7(b)(i)	52	1	1	–	–	54
Business transformation costs	7(b)(ii)	(1)	58	20	–	–	77
Managed Separation costs	7(b)(iii)	–	1	5	–	–	6
Finance costs	7(b)(iv)	–	–	10	–	–	10
Policyholder tax adjustments	7(b)(v)	–	62	–	–	–	62
Adjusting items before tax		51	122	36	–	–	209
Adjusted profit/(loss) before tax after reallocation[1]		**103**	**112**	**(33)**	**(26)**	**–**	**156**
Reallocation of QLA costs[1]		–	–	–	26	–	26
Adjusted profit/(loss) before tax – continuing operations		**103**	**112**	**(33)**	**–**	**–**	**182**

[1]As disclosed in the Group's 2019 Annual Report, Reallocation of QLA costs includes £26 million of costs previously reported as part of the QLA business which was reclassified from discontinued to continuing operations as these costs did not transfer to ReAssure on disposal at 31 December 2019.
[2]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of funds.
[3]See note 4(b) for details of changes to comparative amounts.

8: Segmental information continued

8(c)(i): Statement of financial position – segmental information at 31 December 2020

	Notes	Advice & Wealth Management £m	Wealth Platforms £m	Head Office £m	Consolidation Adjustments[1] £m	Total £m
Assets						
Goodwill and intangible assets	14	423	133	–	–	556
Property, plant and equipment	15	13	129	–	–	142
Investments in associated undertakings		–	–	1	–	1
Contract costs	23	–	413	–	–	413
Loans and advances	16	33	186	–	–	219
Financial investments	17	–	57,162	–	6,112	63,274
Deferred tax assets	29(a)	10	25	43	–	78
Current tax receivable	29(c)	–	10	14	–	24
Trade, other receivables and other assets	22	228	430	2	41	701
Derivative assets	18	–	–	–	43	43
Cash and cash equivalents	24	310	690	614	307	1,921
Inter-segment funding – assets		63	34	20	(117)	–
Total assets		**1,080**	**59,212**	**694**	**6,386**	**67,372**
Liabilities						
Investment contract liabilities	27	–	57,407	–	–	57,407
Third-party interests in consolidated funds		–	–	–	6,513	6,513
Provisions	28	53	15	9	–	77
Deferred tax liabilities	29(b)	36	70	–	–	106
Current tax payable/(receivable)[2]	29(c)	21	(12)	(8)	–	1
Borrowings and lease liabilities	30	15	105	199	–	319
Trade, other payables and other liabilities	31	268	396	34	(26)	672
Contract liabilities	32	–	379	–	–	379
Derivative liabilities	18	–	–	–	20	20
Inter-segment funding – liabilities		–	20	97	(117)	–
Total liabilities		**393**	**58,380**	**331**	**6,390**	**65,494**
Total equity						**1,878**
Total equity and liabilities						**67,372**

[1]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of 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.

8: Segmental information continued

8(c)(ii): Statement of financial position – segmental information at 31 December 2019 restated[3]

	Notes	Advice & Wealth Management £m	Wealth Platforms restated[3] £m	Head Office £m	Consolidation Adjustments[1,3] £m	Total restated[3] £m
Assets						
Goodwill and intangible assets	14	458	134	–	–	592
Property, plant and equipment	15	30	111	2	–	143
Investments in associated undertakings		–	–	1	–	1
Contract costs	23	–	455	–	–	455
Loans and advances	16	31	180	6	–	217
Financial investments	17	1	52,249	–	4,957	57,207
Deferred tax assets	29(a)	11	22	10	–	43
Current tax receivable	29(c)	–	–	13	–	13
Trade, other receivables and other assets	22	207	389	3	6	605
Derivative assets	18	–	–	–	22	22
Cash and cash equivalents	24	383	725	838	307	2,253
Inter-segment funding – assets		–	12	–	(12)	–
Total assets		**1,121**	**54,277**	**873**	**5,280**	**61,551**
Liabilities						
Investment contract liabilities	27	–	52,455	–	–	52,455
Third-party interests in consolidated funds		–	–	–	5,318	5,318
Provisions	28	28	26	10	–	64
Deferred tax liabilities	29(b)	38	50	–	–	88
Current tax payable/(receivable)[2]	29(c)	1	(7)	12	–	6
Borrowings	30	26	108	201	–	335
Trade, other payables and other liabilities	31	322	477	37	(35)	801
Contract liabilities	32	1	402	–	–	403
Derivative liabilities	18	–	–	–	10	10
Inter-segment funding – liabilities		–	–	12	(12)	–
Total liabilities		**416**	**53,511**	**272**	**5,281**	**59,480**
Total equity						**2,071**
Total equity and liabilities						**61,551**

[1]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of 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]See note 4(b) for details of changes to comparative amounts.

9: Details of revenue

This note gives further detail on the items appearing in the revenue section of the consolidated income statement.

9(a): Geographic segmental information

This note analyses the Group's total income, split by geographic location of our businesses (UK and International) and further analyses the Group's fee income and other income from service activities, based on the type of fees earned. The Group also earns an immaterial amount of income through operations based in the Republic of Ireland and the Channel Islands.

	UK			International			UK
Year ended 31 December 2020	**Advice and Wealth Management £m**	**Wealth Platforms £m**	**Head Office £m**	**Wealth Platforms £m**	**Consolidation adjustments £m**	**Total continuing operations £m**	**Discontinued operations £m**
Premium based fees	113	–	–	70	–	183	–
Fund based fees[1]	343	168	–	88	(93)	506	–
Retrocessions received, intragroup	–	2	–	6	(8)	–	–
Fixed fees	–	2	–	29	–	31	–
Exit fees	–	–	–	13	–	13	–
Other fee and commission income	–	48	–	–	14	62	–
Fee income and other income from service activities	**456**	**220**	**–**	**206**	**(87)**	**795**	**–**
Investment return	4	2,273	2	1,062	555	3,896	–
Other income	4	143	5	–	(132)	20	–
Total income	**464**	**2,636**	**7**	**1,268**	**336**	**4,711**	**–**

	UK			International			UK
Year ended 31 December 2019 (restated)[2]	Advice and Wealth Management £m	Wealth Platforms £m	Head Office £m	Wealth Platforms £m	Consolidation adjustments[2] £m	Total continuing operations[2] £m	Discontinued operations £m
Gross earned premiums	–	–	–	1	–	1	145
Premiums ceded to reinsurers	–	–	–	(1)	–	(1)	(86)
Net earned premiums	**–**	**–**	**–**	**–**	**–**	**–**	**59**
Premium based fees	103	–	–	72	–	175	11
Fund based fees[1]	383	175	–	101	(95)	564	65
Retrocessions received, intragroup	–	2	–	2	(4)	–	10
Fixed fees	–	3	–	28	–	31	2
Exit fees	–	–	–	16	–	16	1
Other fee and commission income	–	39	–	–	12	51	75
Fee income and other income from service activities	**486**	**219**	**–**	**219**	**(87)**	**837**	**164**
Investment return	10	3,825	3	1,998	730	6,566	1,386
Other income	1	161	6	(1)	(151)	16	–
Total income	**497**	**4,205**	**9**	**2,216**	**492**	**7,419**	**1,609**

[1]Income from fiduciary activities is included within fund based fees.
[2]See note 4(b) for details of changes to comparative amounts.

9: Details of revenue continued

9(b): Investment return

This note analyses the investment return from the Group's investing activities.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 restated[2] £m
Interest and similar income		
Loans and advances	1	–
Investments and securities	90	54
Cash and cash equivalents[1]	9	23
Total interest and similar income	**100**	**77**
Dividend income	99	116
Foreign currency gains and losses	–	(1)
Total gains on financial instruments mandatorily recognised at fair value through profit or loss[2]	3,697	6,374
Net investment income – continuing operations	**3,896**	**6,566**
Net investment income – discontinued operations	**–**	**1,386**
Total net investment income	**3,896**	**7,952**

[1]Included within cash and cash equivalents is £1 million of interest arising from assets held at amortised cost (2019: £2 million). The remainder is from assets at FVTPL.
[2]See note 4(b) for details of changes to comparative amounts.

10: Details of expenses

This note provides further details in respect of the items appearing in the expenses section of the consolidated income statement.

10(a): Fee and commission expenses, and other acquisition costs

This note analyses the fee and commission expenses and other acquisition costs.

	Note	Year ended 31 December 2020 £m	Year ended 31 December 2019 restated[1] £m
Fee and commission expense[1]		3	1
Acquisition commission costs – investment contracts		30	36
Renewal commission – investment contracts		45	71
Retrocessions paid		25	19
Changes in contract costs	23	44	40
Fee and commission expenses, and other acquisition costs – continuing operations		**147**	**167**
Fee and commission expenses, and other acquisition costs – discontinued operations		**–**	**45**
Total fee and commission expenses, and other acquisition costs		**147**	**212**

[1]See note 4(b) for details of changes to comparative amounts.

10: Details of expenses continued

10(b): Other operating and administrative expenses

This note provides further details in respect of the items included within other operating and administrative expenses section of the consolidated income statement.

	Notes	Year ended 31 December 2020 £m	Year ended 31 December 2019 restated[1] £m
Staff costs	10(c)(i)	361	399
Depreciation charge on right-of-use assets	15	15	13
Depreciation on other plant and equipment	15	5	6
Impairment of right-of-use assets	15	3	–
Amortisation of purchased software	14(a)	2	2
Amortisation of other acquired intangibles	14(a)	45	45
Administration and other expenses		261	280
Other operating and administrative expenses – continuing operations		**692**	**745**
Other operating and administrative expenses – discontinued operations		**–**	**8**
Total other operating and administrative expenses		**692**	**753**

[2]See note 4(b) for details of changes to comparative amounts.

Administration and other expenses include business transformation costs for the year ended 31 December 2020 of £38 million (2019: £57 million) in relation to the UK Platform Transformation Programme and £33 million (2019: £18 million) in relation to Optimisation project costs as well as general operating expenses such as IT related costs, premises and marketing. Discontinued operations includes £10 million provision release for the year ended 31 December 2019 in relation to the voluntary customer remediation provision.

10(c): Staff costs and other employee-related costs
10(c)(i): Staff costs

	Note	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Salaries		250	250
Bonus and incentive remuneration		33	57
Social security costs		26	29
Retirement obligations – Defined contribution plans		15	14
Share-based payments – Equity-settled	26(e)	25	25
Other		12	24
Staff costs – continuing operations		361	399
Staff costs – discontinued operations		–	13
Total staff costs		**361**	**412**

10(c)(ii): Employee numbers

	Year ended 31 December 2020 Number	Year ended 31 December 2019 Number
The average number of persons employed by the Group was:		
Advice and Wealth Management[1]	1,799	1,648
Wealth Platforms	2,441	2,476
Head Office	85	79
Continuing operations	**4,325**	**4,203**
Discontinued operations	**–**	**299**
Total average number of employees during the year	**4,325**	**4,502**

[1]The 2019 monthly average for Advice and Wealth Management has been restated (previously reported as 1,516) following the inclusion of all staff attributable to acquisitions during that year.

The monthly average number of persons employed by the Group is based on permanent employees and fixed term contractors.

10(d): Auditors' remuneration

Included in other operating and administrative expenses are fees paid to the Group's auditors. These can be categorised as follows:

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Fees payable for audit services		
Group and parent Company	1.8	1.0
Subsidiaries	2.8	2.7
Additional fees payable to KPMG LLP related to the prior year audit of the Group	0.7	–
Total fees for audit services	5.3	3.7
Fees for audit-related assurance services	1.6	1.1
Total Group auditors' remuneration – continuing operations	**6.9**	**4.8**
Total Group auditors' remuneration – discontinued operations	**–**	**0.2**
Total Group auditors' remuneration	**6.9**	**5.0**

10(e): Finance costs

This note analyses the interest costs on our borrowings and similar charges, all of which are valued at amortised cost. Finance costs comprise:

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Term loans and other external debt	1	1
Subordinated debt securities (Tier 2 bond)	9	9
Interest payable on borrowed funds	**10**	**10**
Interest expense on lease liabilities	4	3
Other	3	4
Total finance costs	**17**	**17**

Finance costs represent the cost of interest and finance charges on the Group's borrowings from a number of relationship banks. More details regarding borrowed funds, including the interest rates payable, are shown in note 30. These costs are excluded from adjusted profit within the "Finance costs" adjusting item.

Within other finance costs above is £2 million (2019: £3 million) relating to the impact of unwinding the discount rate on contingent consideration payable as a result of various acquisitions. These costs are excluded from adjusted profit within the "Impact of acquisition and disposal related accounting" adjusting item as shown in note 7(b)(i).

11: Tax

11(a): Tax charged to the income statement

	Note	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Current tax			
United Kingdom		18	33
International		2	5
Adjustments to current tax in respect of prior years		(7)	(11)
Total current tax charge		**13**	**27**
Deferred tax			
Origination and reversal of temporary differences		(20)	40
Effect on deferred tax of changes in tax rates		–	2
Adjustments to deferred tax in respect of prior years		4	(3)
Total deferred tax (credit)/charge		**(16)**	**39**
Total tax (credited)/charged to income statement – continuing operations		**(3)**	**66**
Total tax charged to income statement – discontinued operations	6(c)	**–**	**89**
Total tax (credited)/charged to income statement		**(3)**	**155**
Attributable to policyholder returns – continuing operations		36	98
Attributable to equity holders – continuing operations		(39)	(32)
Total tax (credited)/charged to income statement – continuing operations		**(3)**	**66**
Attributable to policyholder returns – discontinued operations	6(c)	–	76
Attributable to equity holders – discontinued operations		–	13
Total tax charged to income statement – discontinued operations		**–**	**89**
Total tax (credited)/charged to income statement		**(3)**	**155**

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 credit on continuing operations was £(3) million for the year ended 31 December 2020, compared to an expense of £66 million for the prior year. This income tax (credit)/expense 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 income) 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 7(b)(v).

Market movements during the year ended 31 December 2020 resulted in investment gains of £170 million on products subject to policyholder tax. The gain is a component of the total "investment return" gain of £3,896 million shown in the income statement. The impact of the £3,896 million investment return gain is the primary reason for the £36 million tax expense attributable to policyholder returns in respect of the continuing operations for the year ended 31 December 2020 (31 December 2019: £98 million expense in respect of continuing operations and £76 million expense in respect of discontinued operations).

First time recognition of deferred tax asset on accrued interest expense

Within the £(16) million total deferred tax credit and the £(39) million tax credit attributable to equity holders (continuing operations) above, the Group has recognised a £(39) million deferred tax credit for the first time in respect of accrued interest expense. At 31 December 2019, acknowledging the fact that the tax authorities may challenge the Group's tax treatment, management exercised judgement concluding that the tax treatment of the accrued interest expense was an uncertain tax position. Following full disclosure to the tax authorities and after assessing recoverability against forecast future profits the Group reassessed the accounting tax position at 31 December 2020 and recognised a deferred tax asset.

11(b): Reconciliation of total income tax expense

The income tax charged/credited 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 2020 £m	Year ended 31 December 2019 £m
Profit before tax from continuing operations		**86**	**45**
Tax at UK standard rate of 19% (2019: 19%)		16	9
Different tax rate or basis on overseas operations		(8)	(6)
Untaxed and low taxed income		(1)	1
Expenses not deductible for tax		2	3
Adjustments to current tax in respect of prior years		(7)	(11)
Net movements on unrecognised deferred tax assets[1]		(39)	(11)
Effect on deferred tax of changes in tax rates		–	2
Adjustments to deferred tax in respect of prior years		4	(3)
Income tax attributable to policyholder returns (net of tax relief)		30	82
Total tax (credited)/charged to income statement – continuing operations		**(3)**	**66**
Total tax charged to income statement – discontinued operations	6(c)	**–**	**89**
Total tax (credited)/charged to income statement		**(3)**	**155**

[1]Includes first time recognition of accrued interest expense as explained in note 11(a).

11: Tax continued

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

	Notes	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Income tax (credit)/expense on continuing operations[1]		**(3)**	**66**
Reversal of income tax credit on the reallocation of QLA costs		–	5
Income tax (credit)/expense on continuing operations before the reallocation of QLA costs		**(3)**	**71**
Tax on adjusting items			
Impact of acquisition and disposal related accounting		3	8
Business transformation costs		13	14
Managed Separation costs		–	1
Finance costs		2	2
Customer remediation		1	–
Tax adjusting items			
Policyholder tax adjustments	7(b)(v)	9	(62)
Other shareholder tax adjustments[2]		36	24
Tax on adjusting items – continuing operations		**64**	**(13)**
Less: tax attributable to policyholder returns within adjusted profit – continuing operations[3]		(45)	(36)
Tax charged on adjusted profit – continuing operations		**16**	**22**
Income tax credit on the reallocation of QLA costs		–	(5)
Tax charged on adjusted profit – continuing operations after the reallocation of QLA costs		**16**	**17**
Income tax expense on discontinued operations[1]	6(c)	**–**	**89**
Reversal of income tax expense on the reallocation of QLA costs		–	(5)
Income tax expense on discontinued operations before the reallocation of QLA costs		**–**	**84**
Tax on adjusting items			
Customer remediation		–	(2)
Tax adjusting items			
Policyholder tax adjustments	7(b)(v)	–	(12)
Other shareholder tax adjustments[2]		–	(3)
Tax on adjusting items – discontinued operations		**–**	**(17)**
Less: Tax attributable to policyholder returns within adjusted profit – discontinued operations[3]		–	(64)
Tax charged on adjusted profit – discontinued operations		**–**	**3**
Income tax expense on the reallocation of QLA costs		–	5
Tax charged on adjusted profit – discontinued operations after the reallocation of QLA costs		**–**	**8**
Tax charged on total adjusted profit		**16**	**25**

[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 7(b)(v) and shareholder tax adjustments for one-off items in line with the Group's adjusted profit policy.
[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.

12: 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 earnings per share ("HEPS") 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 year.

The Group is also required to calculate HEPS in accordance with the Johannesburg Stock Exchange ("JSE") Listing Requirements, determined by reference to the South African Institute of Chartered Accountants' circular 1/2019 *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 2020 Pence	Year ended 31 December 2019 Pence
Basic earnings per share	IFRS	12(b)	5.0	8.0
Diluted basic earnings per share	IFRS	12(b)	4.9	7.8
Adjusted basic earnings per share	Group policy	12(b)	8.6	11.4
Adjusted diluted earnings per share	Group policy	12(b)	8.5	11.3
Headline basic earnings per share (net of tax)	JSE Listing Requirements	12(c)	5.2	2.3
Headline diluted earnings per share (net of tax)	JSE Listing Requirements	12(c)	5.1	2.3

12(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 2020 Millions	Year ended 31 December 2019 Millions
Weighted average number of Ordinary Shares	1,842	1,902
Treasury shares including those held in EBTs	(82)	(67)
Basic weighted average number of Ordinary Shares	**1,760**	**1,835**
Adjustment for dilutive share awards and options	37	28
Diluted weighted average number of Ordinary Shares	**1,797**	**1,863**

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

		Year ended 31 December 2020			Year ended 31 December 2019		
	Notes	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Profit after tax		89	(1)	88	(21)	167	146
Total adjusting items before tax	7(a)	118	1	119	209	(101)	108
Tax on adjusting items	11(c)	(64)	–	(64)	13	17	30
Less: Policyholder tax adjustments	11(c)	9	–	9	(62)	(12)	(74)
Adjusted profit after tax after reallocation		**152**	**–**	**152**	**139**	**71**	**210**
Reversal of:							
Reallocation of QLA costs[1]		–	–	–	26	(26)	–
Income tax on reallocation of QLA costs	11(c)	–	–	–	(5)	5	–
Adjusted profit after tax		**152**	**–**	**152**	**160**	**50**	**210**

[1]Reallocation of QLA costs included £26 million of costs previously reported as part of the QLA business which were reclassified from discontinued to continuing operations in 2019 as these costs did not transfer to ReAssure (the acquirer) on disposal at 31 December 2019.

12: Earnings per share continued
12(b): Basic and diluted EPS (IFRS and adjusted profit) continued

		Year ended 31 December 2020			Year ended 31 December 2019		
	Post-tax profit measure used	Continuing operations Pence	Discontinued operations Pence	Total Pence	Continuing operations Pence	Discontinued operations Pence	Total Pence
Basic EPS	IFRS profit	5.1	(0.1)	5.0	(1.1)	9.1	8.0
Diluted EPS	IFRS profit	5.0	(0.1)	4.9	(1.1)	8.9	7.8
Adjusted basic EPS	Adjusted profit	8.6	–	8.6	8.7	2.7	11.4
Adjusted diluted EPS	Adjusted profit	8.5	–	8.5	8.6	2.7	11.3
Adjusted basic EPS after reallocation[1]	Adjusted profit after reallocation	N/A	N/A	N/A	7.5	3.9	11.4
Adjusted diluted EPS after reallocation[1]	Adjusted profit after reallocation	N/A	N/A	N/A	7.5	3.8	11.3

[1]Reallocation of QLA costs included £26 million of costs previously reported as part of the QLA business which were reclassified from discontinued to continuing operations in 2019 as these costs did not transfer to ReAssure (the acquirer) on disposal at 31 December 2019.

12(c): Headline earnings per share

		Year ended 31 December 2020 £m		Year ended 31 December 2019 £m	
	Notes	Gross	Net of tax	Gross	Net of tax
Profit attributable to ordinary equity holders			**88**		**146**
Adjusted for:					
Loss/(profit) on business disposals	6(b)	1	1	(103)	(103)
Impairment loss on right-of-use assets	15	3	2	–	–
Headline earnings			**91**		**43**
Headline basic EPS (pence)			**5.2**		**2.3**
Headline diluted EPS (pence)			**5.1**		**2.3**

13: Dividends

	Payment date	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
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
2019 Final dividend paid – 3.5p per Ordinary Share	18 May 2020	64	–
2020 Interim dividend paid – 1.0p per Ordinary Share	21 September 2020	17	–
Dividends paid to Ordinary Shareholders		**81**	**92**

Subsequent to year ended 31 December 2020, the Directors proposed a final dividend for 2020 of 3.6 pence per Ordinary Share amounting to £61 million in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 17 May 2021. In compliance with the rules issued by the Prudential Regulation Authority ("PRA") in relation to the implementation of the Solvency II regime and other regulatory requirements to which the Group is subject, the dividend is required to remain cancellable at any point prior to it becoming due and payable on 17 May 2021 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.

14: Goodwill and intangible assets

14(a): Analysis of goodwill and intangible assets

The table below shows the movements in cost and amortisation of goodwill and intangible assets.

	Goodwill £m	Software development costs £m	Other intangible assets £m	Total £m
Gross amount				
1 January 2019	314	100	380	794
Acquisitions through business combinations	68	–	49	117
Additions	–	5	–	5
Disposals	(30)	(4)	(4)	(38)
Other movements[1]	(2)	–	3	1
31 December 2019	350	101	428	879
Acquisitions through business combinations[2]	6	–	1	7
Additions	–	4	–	4
31 December 2020	**356**	**105**	**429**	**890**
Accumulated amortisation and impairment losses				
1 January 2019	–	(95)	(149)	(244)
Amortisation charge for the year	–	(2)	(45)	(47)
Disposals	–	4	4	8
Other movements[1]	–	–	(4)	(4)
31 December 2019	–	(93)	(194)	(287)
Amortisation charge for the year	–	(2)	(45)	(47)
31 December 2020	**–**	**(95)**	**(239)**	**(334)**
Carrying amount				
31 December 2019	350	8	234	592
31 December 2020	**356**	**10**	**190**	**556**

[1]During 2019, there was a gross up of fully amortised intangible assets in the Quilter Financial Planning and Quilter Cheviot businesses arising from previous business combinations.
[2]During 2020, there have been fair value adjustments of £7 million made to the net assets acquired in Lighthouse, with corresponding movements in goodwill of £7 million, other intangible assets of £1 million and associated deferred tax liabilities of £(1) million. Refer to note 6(a) for further details. Other fair value adjustments of £(1) million have been made to goodwill in relation to acquisitions within the Quilter Private Client Adviser business.

14(b): Analysis of other intangible assets

	At 31 December 2020 £m	At 31 December 2019 £m	Average estimated useful life	Average period remaining
Net carrying value				
Distribution channels – Quilter Financial Planning	15	22	8 years	3 years
Customer relationships				
Quilter Cheviot	114	141	10 years	4 years
Quilter Financial Planning	54	61	8 years	6 years
Other	7	9	8 years	4 years
Brand – Quilter Cheviot	–	1	n/a	n/a
Total other intangible assets	**190**	**234**		

14: Goodwill and intangible assets continued

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

The Group considers that there are two groups of CGUs for goodwill impairment testing purposes. Goodwill is allocated to these groups of CGUs as follows:

	At 31 December 2020 £m	At 31 December 2019 £m
Goodwill (net carrying amount)		
Advice and Wealth Management	225	219
Wealth Platforms	131	131
Total goodwill	**356**	**350**

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 Net Client Cash Flows ("NCCF"), significant falls in profits and an increase in the discount rate.

The significant volatility in global financial markets resulting from the COVID-19 pandemic and the effect this has on the Group's AuMA and revenue, provided an indicator of impairment at 30 June 2020 and consequently the goodwill balance was assessed, concluding that, whilst there was a reduction in the surplus of the recoverable amount over the carrying value since 31 December 2019, no impairment was required.

At 31 December 2020, the annual impairment assessment was performed, using the latest cash flow forecasts from the Group's three-year business plan, approved by the Board. The Group's business plan takes into consideration the partial recovery in equity markets experienced in H2 2020, which has resulted in an increase in the Group's AuMA and revenue. As a result, the surplus of the recoverable amount of the CGUs over the carrying amount has increased since the previous impairment test was carried out at 30 June 2020.

The following table details the separate percentage change required in each key assumption before the carrying value would exceed the recoverable amount, assuming all other variables remain the same. There has been an increase in the percentage changes required since 30 June 2020, reflecting the impact of the partial recovery in equity markets. The table continues to demonstrate that further adverse movements to the key assumptions used in the CGU value-in-use calculation would be required before impairment is indicated.

	Advice and Wealth Management	Wealth Platforms
Reduction in forecast cash flows	46%	69%
Increase in discount rate required	21% (from 9% to 30%)	27% (from 9% to 36%)

Forecast cash flows are impacted by movements in underlying assumptions, including equity market levels, revenue margins and NCCF. The Group considers that forecast cash flows are most sensitive to movements in equity markets because they have a direct impact on the level of the Group's fee income, as demonstrated by the recent volatility resulting from COVID-19. The most significant impact is seen within the Advice and Wealth Management segment, where AuMA is more correlated to equity market levels and is the key driver for future cash flows.

The principal sensitivity within equity market level assumptions relates to the estimated growth in equity market indices included in the three-year revenue forecasts. Management forecast equity market growth for each business using estimated asset specific growth rates that are supported by internal research, historical performance, Bank of England forecasts and other external estimates.

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 cash flows arising from the in-force business, together with the expected cash flows from future new business derived from the business plans. Future cash flow elements allow for the cost of capital needed to support the business.

The net tangible assets and future cash flows 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 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 cash flows from existing and expected future new business.

14: Goodwill and intangible assets continued

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

The cash flows that have been used to determine the value-in-use of the CGUs are based on the most recent management approved three-year profit forecasts, which incorporate the impact of COVID-19 and anticipated equity market growth on the Group's future cash flows. These cash flows change 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 cash flows are forecast to grow faster than the more mature businesses. Post the three-year forecasts, 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 0.6% (2019: 1.7%). Market share and market growth information are also used to inform the expected volumes of future new business.

IAS 36 does not permit any cost savings linked to future restructuring activity to be included within the value-in-use calculation unless an associated restructuring provision has also been recognised. Consequently, for the purpose of the value-in-use calculation, a number of planned cost savings (and the related implementation costs), primarily in relation to the Optimisation programme, have been removed from the future cash flows.

The Group uses a single cost of capital of 9.0% (2019: 10.0%) to discount future expected business plan cash flows across its two groups of 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 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 and property lease 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.

15: Property, plant and equipment

	Right-of-use assets £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Gross amount				
1 January 2019	–	13	79	92
Implementation of IFRS 16	143	(3)	–	140
Acquisitions through business combinations	1	1	1	3
Additions[1]	60	–	8	68
31 December 2019	204	11	88	303
Additions[1]	6	–	28	34
Disposals	(44)	(3)	(4)	(51)
31 December 2020	**166**	**8**	**112**	**286**
Accumulated amortisation and impairment losses				
1 January 2019	–	(8)	(67)	(75)
Implementation of IFRS 16	(67)	2	–	(65)
Acquisitions through business combinations	–	–	(1)	(1)
Depreciation charge for the year	(13)	(1)	(5)	(19)
31 December 2019	(80)	(7)	(73)	(160)
Depreciation charge for the year	(15)	(1)	(4)	(20)
Impairment loss	(3)	–	–	(3)
Disposals	33	3	3	39
31 December 2020	**(65)**	**(5)**	**(74)**	**(144)**
Carrying amount				
31 December 2019	124	4	15	143
31 December 2020	**101**	**3**	**38**	**142**

[1]The majority of additions in both the current and prior year relate to the lease for Senator House, the Group's new London property.

The carrying value of right-of-use assets at 31 December 2020 relate to £101 million of property leases (31 December 2019: £123 million). 2019 also included £1 million of motor vehicle leases (31 December 2020: £nil).

16: Loans and advances

This note analyses the loans and advances the Group has made. The carrying amounts of loans and advances were as follows:

	31 December 2020 £m	31 December 2019 £m
Loans to policyholders	186	180
Loans to brokers, advisers and other loans to clients	33	31
Other loans	–	6
Total net loans and advances	**219**	**217**
To be recovered within 12 months	195	190
To be recovered after 12 months	24	27
Total net loans and advances	**219**	**217**

Policyholder loans are amounts taken from an individual policyholder's unit-linked accounts and loaned to the same policyholder. Policyholder loans are non-interest bearing and are considered to be risk free from a shareholder perspective as the policyholder retains all associated risks. Policyholder loans are considered to be recoverable within 12 months as they have no repayment schedule. Policyholder loans are measured at fair value.

Loans to advisers are made on individual commercial terms. The loan agreement with the adviser details the dates on which the repayments of the loan are to be made. Where an adviser is due commission payments from Quilter, these commission payments are offset against the loan repayments due from the adviser. In certain circumstances, the loan agreement period may be extended where agreed by both Quilter and the adviser. Should the adviser terminate their terms of business agreement with Quilter, the loan balance becomes immediately repayable in full. Loans to advisers are measured at amortised cost. The carrying amount of loans to advisers approximates to their fair value which is measured as the principal amounts receivable under the loan agreements.

Other loans in 2019 represent a loan to TA Associates in respect of the deferred consideration receivable arising from the sale of the Single Strategy Asset Management business. The loan was repaid in June 2020.

17: 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).

	31 December 2020 £m	31 December 2019 restated[1] £m
Government and government-guaranteed securities	632	558
Other debt securities, preference shares and debentures	1,952	1,897
Equity securities	14,163	8,560
Pooled investments	46,518	46,177
Short-term funds and securities treated as investments	9	15
Total financial investments	**63,274**	**57,207**
Recoverable within 12 months	63,274	57,206
Recoverable after 12 months	–	1
Total financial investments	**63,274**	**57,207**

[1] See note 4(b) for details of changes to comparative amounts.

The financial investments recoverability profile is based on the intention with which the financial assets are held. These assets are held to cover the liabilities for linked investment contracts, all of which can be withdrawn by policyholders on demand.

18: Derivative financial instruments – assets and liabilities

The Group has limited involvement with derivative instruments and does not use them for speculation purposes. Derivative instruments have been used to manage well-defined foreign exchange risks arising out of the normal course of business. The Group enters into forward foreign exchange contracts to reduce currency risk on accounts receivable and future revenues. The Group does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate non-performance by counterparties. The Group only deals with highly rated counterparties.

The majority of derivatives included within the statement of financial position relate to instruments included as a consequence of the consolidation of investment funds. These are detailed within the segmented statement of financial position (note 8(c)).

19: 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 20. The Group's exposure to various risks associated with financial instruments is discussed in note 37.

31 December 2020

	Fair value				
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	186	–	33	–	219
Financial investments	63,248	1	25	–	63,274
Trade, other receivables and other assets	–	–	444	257	701
Derivative assets	43	–	–	–	43
Cash and cash equivalents	1,064	–	857	–	1,921
Total assets that include financial instruments	64,541	1	1,359	258	66,159
Total other non-financial assets	–	–	–	1,213	1,213
Total assets	**64,541**	**1**	**1,359**	**1,471**	**67,372**
Liabilities					
Investment contract liabilities	–	57,407	–	–	57,407
Third-party interests in consolidation of funds	6,513	–	–	–	6,513
Borrowings and lease liabilities	–	–	319	–	319
Trade, other payables and other liabilities	–	–	590	82	672
Derivative liabilities	20	–	–	–	20
Total liabilities that include financial instruments	6,533	57,407	909	82	64,931
Total other non-financial liabilities	–	–	–	563	563
Total liabilities	**6,533**	**57,407**	**909**	**645**	**65,494**

[1]Investments in associated undertakings classified as non-financial assets and liabilities are equity accounted.

19: Categories of financial instruments continued

31 December 2019 (restated)[3]

	Fair value				
Measurement basis	Mandatorily at FVTPL[3] £m	Designated at FVTPL[2] £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	57,205	2	–	–	57,207
Trade, other receivables and other assets[2]	–	–	342	263	605
Derivative assets	22	–	–	–	22
Cash and cash equivalents	1,159	–	1,094	–	2,253
Total assets that include financial instruments	58,566	2	1,473	264	60,305
Total other non-financial assets	–	–	–	1,246	1,246
Total assets	**58,566**	**2**	**1,473**	**1,510**	**61,551**
Liabilities					
Investment contract liabilities[2]	–	52,455	–	–	52,455
Third-party interests in consolidation of funds	5,318	–	–	–	5,318
Borrowings and lease liabilities	–	–	335	–	335
Trade, other payables and other liabilities	–	–	695	106	801
Derivative liabilities	10	–	–	–	10
Total liabilities that include financial instruments	5,328	52,455	1,030	106	58,919
Total other non-financial liabilities	–	–	–	561	561
Total liabilities	**5,328**	**52,455**	**1,030**	**667**	**59,480**

[1]Investments in associated undertakings classified as non-financial assets and liabilities are equity accounted.
[2]Following a review of the Group's presentation of financial liabilities held at FVTPL, comparative amounts have been restated from those previously reported. The review identified amounts presented within mandatorily at FVTPL that are now presented as designated at FVTPL in the table above. These liabilities were previously shown as mandatorily at fair value through profit or loss ("FVTPL") as they form part of the Group's unit-linked business model. These liabilities are now classified as designated at FVTPL as they are managed on a fair value basis (in that their value is directly linked to the market value of the matching portfolio of unit-linked assets) therefore avoiding an accounting mismatch. There is no change to the underlying calculation of the fair value of these liabilities.
[3]See note 4(b) for details of changes to comparative amounts.

20: 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 20(b)), prescribed under IFRS, provides an indication about the reliability of inputs used in determining fair value.

20(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:

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.

20: Fair value methodology continued
20(a): Determination of fair value continued

Financial investments
Financial investments include government and government-guaranteed securities, listed and unlisted debt securities, preference shares and debentures, listed and unlisted equity securities, listed and unlisted pooled investments (see below), short-term funds and securities treated as investments and certain other securities.

Pooled investments represent the Group's holdings of shares/units in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles. Pooled investments are recognised at fair value. The fair values of pooled investments are based on widely published prices that are regularly updated.

Other financial investments that are measured at fair value 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.

20(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, policyholder loans (where they form part of a policyholder's unit-linked policy) 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 which meet the definition of Level 2 financial instruments.
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.

20: Fair value methodology continued
20(b): Fair value hierarchy continued

When allocating investments within consolidated investment funds to the fair value hierarchy, management have adopted a simplified approach whereby investments (outside of those identified as Level 3) in listed equities and securities are allocated to fair value Level 1, and investments in unlisted equity and debt securities are allocated to Level 2, to align to the classifications set out in the table above.

20(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 £9 million from Level 1 to Level 2 during the year (31 December 2019: £139 million). There were transfers of financial investments of £3 million from Level 2 to Level 1 during the year (31 December 2019: £76 million). These movements are matched exactly by transfers of investment contract liabilities. See note 20(e) for the reconciliation of Level 3 financial instruments.

20(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 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.

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 19 for full details).

	31 December 2020		31 December 2019 restated[1]	
	£m	%	£m	%
Financial assets measured at fair value				
Level 1	56,927	88.2%	48,009	82.0%
Level 2	5,793	9.0%	8,842	15.1%
Level 3	1,822	2.8%	1,717	2.9%
Total	**64,542**	**100.0%**	**58,568**	**100.0%**
Financial liabilities measured at fair value				
Level 1	55,135	86.3%	50,315	87.0%
Level 2	6,985	10.9%	5,751	10.0%
Level 3	1,820	2.8%	1,717	3.0%
Total	**63,940**	**100.0%**	**57,783**	**100.0%**

[1]See note 4(b) for details of changes to comparative amounts.

20: Fair value methodology continued

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

The tables below further analyse the Group's financial assets and liabilities measured at fair value by the fair value hierarchy described in note 20(b):

31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value				
Mandatorily (fair value through profit or loss)	56,926	5,793	1,822	64,541
Loans and advances[2]	186	–	–	186
Financial investments	55,676	5,750	1,822	63,248
Cash and cash equivalents	1,064	–	–	1,064
Derivative assets	–	43	–	43
Designated (fair value through profit or loss)	1	–	–	1
Financial investments	1	–	–	1
Total assets measured at fair value	**56,927**	**5,793**	**1,822**	**64,542**
Financial liabilities measured at fair value				
Mandatorily (fair value through profit or loss)	–	6,533	–	6,533
Third-party interests in consolidated funds	–	6,513	–	6,513
Derivative liabilities	–	20	–	20
Designated (fair value through profit or loss)	55,135	452	1,820	57,407
Investment contract liabilities	55,135	452	1,820	57,407
Total liabilities measured at fair value	**55,135**	**6,985**	**1,820**	**63,940**

31 December 2019 (restated)[1]	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value				
Mandatorily (fair value through profit or loss)	48,007	8,842	1,717	58,566
Loans and advances[2]	180	–	–	180
Financial investments	46,668	8,820	1,717	57,205
Cash and cash equivalents	1,159	–	–	1,159
Derivative assets	–	22	–	22
Designated (fair value through profit or loss)	2	–	–	2
Financial investments	2	–	–	2
Total assets measured at fair value	**48,009**	**8,842**	**1,717**	**58,568**
Financial liabilities measured at fair value				
Mandatorily (fair value through profit or loss)	–	5,328	–	5,328
Third-party interests in consolidated funds	–	5,318	–	5,318
Derivative liabilities	–	10	–	10
Designated (fair value through profit or loss)	50,315	423	1,717	52,455
Investment contract liabilities[3]	50,315	423	1,717	52,455
Total liabilities measured at fair value	**50,315**	**5,751**	**1,717**	**57,783**

[1]See note 4(b) for details of changes to comparative amounts.
[2]Loans and advances mandatorily at fair value through profit or loss, included within fair value Level 1, solely relate to policyholder loans. See note 16 for further details.
[3]Following a review of the Group's presentation of financial liabilities held at FVTPL, comparative amounts have been restated from those previously reported. The review identified amounts presented within mandatorily at FVTPL that are now presented as designated at FVTPL in the table above.

20: Fair value methodology continued

20(e): Level 3 fair value hierarchy disclosure

The majority of the assets classified as Level 3 are held within linked policyholder funds. Where this is the case, all of the investment risk associated with these assets is borne by policyholders and 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.

During the year ended 31 December 2020, Level 3 assets also include a shareholder investment in suspended funds to the value of £2 million (31 December 2019: £nil); this is not matched by a corresponding liability and therefore any changes in market value are recognised in the Group's consolidated income statement.

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

	31 December 2020 £m	31 December 2019 £m
At beginning of the year[1]	1,717	1,154
Fair value losses charged to income statement	(121)	(20)
Purchases	16	314
Sales	(8)	(24)
Transfers in	930	369
Transfers out	(714)	(71)
Foreign exchange and other	2	(5)
Total Level 3 financial assets	**1,822**	**1,717**
Unrealised fair value losses charged to income statement relating to assets held at the year end	(110)	(20)

[1]The opening balance for 2019 includes a £3 million shareholder investment in an unlisted equity, the Charles Derby Group; 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 in 2019, 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.

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 £930 million (31 December 2019: £369 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 a significant increase in suspended funds previously shown within Level 1, predominantly due to the COVID-19 pandemic resulting in a number of property fund suspensions. Suspended funds are valued based on external valuation reports received from fund managers. Transfers out of Level 3 assets in the current year of £714 million (31 December 2019: £71 million) result from a transfer to Level 2 assets relating to assets that are now being actively repriced (that were previously stale) and where fund suspensions have been lifted following the market recovery during the second half of the year. During 2020 a suspended fund with a value of £85 million has been wound up and cash returned to policyholders, resulting in the cash being placed in a cash fund within Level 1 assets.

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

	31 December 2020 £m	31 December 2019 £m
Pooled investments	522	361
Unlisted and stale price pooled investments	87	133
Suspended funds	435	228
Private equity investments	1,300	1,356
Total Level 3 financial assets	**1,822**	**1,717**

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.

20: Fair value methodology continued
20(e): Level 3 fair value hierarchy disclosure continued

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

	31 December 2020 £m	31 December 2019 £m
At beginning of the year	1,717	1,151
Fair value losses charged to income statement	(120)	(20)
Purchases	16	314
Sales	(8)	(24)
Transfers in	927	369
Transfers out	(714)	(71)
Foreign exchange and other	2	(2)
Total Level 3 financial liabilities	**1,820**	**1,717**
Unrealised fair value losses charged to income statement relating to liabilities held at the year end	(110)	(20)

20(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 20(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 2019: 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 £182 million to the reported fair value of Level 3 assets, both favourable and unfavourable (31 December 2019: £172 million). As described in note 20(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.

20(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.

Fixed term deposits, which are included within Financial investments, are held at amortised cost and therefore not carried at fair value. The fixed term deposits 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.

21: Structured entities

21(a): Group's involvement in structured entities

Some investment vehicles are classified as structured entities because they have a narrow and well-defined purpose. In structured entities, voting rights are not the predominant factor in deciding who controls the entity but rather it is the Group's exposure to the variability of returns from these entities.

The Group invests in collective investment vehicles, including open-ended investment companies ("OEICs") and unit trusts, in order to match unit-linked investment contract liabilities. This means that all of the investment risk associated with these assets is borne by policyholders and that the value of these assets is closely 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.

Shareholder funds are also invested in collective investment vehicles, principally in respect of money market funds as an alternative to bank deposits. These structured entities are not consolidated where the Group determines that it does not have control.

The Group's holdings in collective investment vehicles are subject to the terms and conditions of the respective investment vehicles' offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. All of the investment vehicles in the investment portfolios are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee, and is reflected in the valuation of the investment vehicles.

21(b): Interests in unconsolidated structured entities

The Group invests in unconsolidated structured entities as part of its normal investment and trading activities. The Group's total interest in unconsolidated structured entities is classified as financial investments mandatorily at fair value through profit or loss. The table below provides a summary of the carrying value of the Group's interests in unconsolidated structured entities:

	31 December 2020 £m	31 December 2019 restated[1] £m
Financial investments	43,737	41,004
Cash and cash equivalents	1,064	1,159
Total Group interest in unconsolidated structured entities	**44,801**	42,163

[1]See note 4(b) for details of changes to comparative amounts.

The Group's maximum exposure to loss with regard to the interests presented above is the carrying amount of the Group's investments. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are mostly less than 50% and as such the net asset value of these structured entities is likely to be significantly higher than their carrying value.

21(c): Consolidation considerations for structured entities managed by the Group

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of decision-making rights as fund manager, the investor's rights to remove the fund manager and the aggregate economic interests of the Group in the fund in the form of interest held and exposure to variable returns.

In most instances the Group's decision-making authority, in its capacity as fund manager, with regard to these funds is regarded to be well-defined. Discretion is exercised when decisions regarding the relevant activities of these funds are being made. For funds managed by the Group where the investors have the right to remove the Group as fund manager without cause, the fees earned by the Group are considered to be market related. These agreements include only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis. The Group has concluded that it acts as agent on behalf of the investors in all instances.

The Group is considered to be acting as principal where the Group is the fund manager and is able to make the investment decisions on behalf of the unit holders and earn a variable fee, and there are no kick out rights that would remove the Group as fund manager.

There have been no changes in facts or circumstances which have changed the Group's conclusion on the consolidation of funds. The Group has not provided any non-contractual support to any consolidated or unconsolidated structured entities.

21(d): Other interests in unconsolidated structured entities

There are no investments at the current or prior reporting date managed by the Group in which it has no holding.

22: Trade, other receivables and other assets

This note analyses total trade, other receivables and other assets.

	31 December 2020 £m	31 December 2019 restated[1] £m
Outstanding settlements	277	245
Other receivables	120	47
Accrued interest	4	2
Accrued income	31	34
Fee income receivable	192	212
Other accruals and prepayments	49	30
Contract assets	12	19
Management fees	16	16
Total trade, other receivables and other assets	**701**	**605**
To be settled within 12 months	555	444
To be settled after 12 months	146	161
Total trade, other receivables and other assets	**701**	**605**

[1]See note 4(b) for details of changes to comparative amounts.

Other receivables mainly relate to trade debtors, tax debtors and other debtors.

There have been no non-performing receivables or material impairments in the financial year that require disclosure. Information about the Group's expected credit losses on trade receivables is included in note 37(b). None of the receivables reflected above have been subject to the renegotiation of terms.

23: Deferred acquisition costs and contract costs

Deferred acquisition costs (on insurance contracts) and contract costs (on investment contracts and asset management contracts) relate to costs that the Group incurs to obtain new business. These acquisition costs are capitalised in the statement of financial position and are amortised in profit or loss over the life of the contracts. The table below analyses the movements in these balances relating to insurance, investment and asset management contracts.

	Deferred acquisition costs	Contract costs		
	Insurance contracts £m	Investment contracts £m	Asset management £m	Total £m
1 January 2019	11	547	4	562
New business	–	36	–	36
Amortisation	–	(75)	(1)	(76)
Continuing operations movement	–	(39)	(1)	(40)
Foreign exchange	–	(3)	–	(3)
Discontinued operations movement	(3)	(14)	–	(17)
Disposal of subsidiaries	(8)	(39)	–	(47)
31 December 2019	–	452	3	455
New business	–	30	–	30
Amortisation	–	(73)	(1)	(74)
Continuing operations movement	–	(43)	(1)	(44)
Foreign exchange	–	2	–	2
31 December 2020	**–**	**411**	**2**	**413**

24: Cash and cash equivalents

24(a): Analysis of cash and cash equivalents

	31 December 2020 £m	31 December 2019 restated[1] £m
Cash at bank	550	787
Money market funds	1,064	1,159
Cash and cash equivalents in consolidated funds	307	307
Total cash and cash equivalents per statement of financial position	**1,921**	**2,253**

[1]See note 4(b) for details of changes to comparative amounts.

Except for cash and cash equivalents subject to consolidation of funds of £307 million (2019: £307 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.

24(b): Analysis of net cash flows from operating activities:

	Notes	31 December 2020 £m	31 December 2019 restated[1] £m
Cash flows from operating activities			
Profit before tax from continuing operations		86	45
(Loss)/profit before tax from discontinued operations	6(c)	(1)	256
		85	301
Adjustments for			
Depreciation and impairment of property, plant and equipment	15	23	19
Movement on deferred acquisition and contract costs	23	44	57
Movement on contract liabilities and fee income receivable	32	(7)	(13)
Amortisation and impairment of intangibles	14	47	48
Fair value and other movements in financial assets		(3,319)	(7,650)
Fair value movements in investment contract liabilities	27	2,632	6,518
Other change in investment contract liabilities		2,187	(1,209)
Loss/(profit) on sale of subsidiaries	6(b)	1	(103)
Other movements		40	65
		1,648	(2,268)
Net changes in working capital			
Increase in derivatives		(11)	(10)
(Increase)/decrease in loans and advances	16	(5)	5
Increase/(decrease) in provisions	28	1	(28)
Movement in other assets/liabilities[2]		(245)	(35)
		(260)	(68)
Taxation paid		(28)	(37)
Net cash flows from/(used in) operating activities		**1,445**	**(2,072)**

[1]See note 4(b) for details of changes to comparative amounts.
[2]Working capital changes in respect of other assets and liabilities primarily relate to consolidated funds.

24: Cash and cash equivalents continued

24(c): Cash flows from financing activities is further analysed below:

31 December 2020	Liabilities: Borrowings and lease liabilities £m	Liabilities: Deposits from reinsurers £m	Equity[1]: Changes in equity £m	Total £m
	Note 30	Note 31		
Opening balance at 1 January 2020	**335**	**16**	**2,071**	**2,422**
Cash flows from financing activities				
Liability related:				
Finance costs on external borrowings	(9)	(1)	–	(10)
Equity related:				
Dividends paid to ordinary equity holders of the Company	–	–	(81)	(81)
Repurchase of own shares	–	–	(198)	(198)
Payment of lease liabilities	(16)	–	–	(16)
Cash flows from financing activities	**(25)**	**(1)**	**(279)**	**(305)**
Other changes				
External debt interest accrual	9	–	–	9
Changes in lease liabilities	(1)	–	–	(1)
Other changes in liabilities	1	(15)	–	(14)
Liability related	9	(15)	–	(6)
Equity related	–	–	86	86
31 December 2020	**319**	**–**	**1,878**	**2,197**

31 December 2019	Liabilities: Borrowings and lease liabilities £m	Liabilities: Deposits from reinsurers £m	Equity[1]: Changes in equity £m	Total £m
	Note 30	Note 31		
Opening balance at 1 January 2019	197	16	2,005	2,218
Cash flows from financing activities				
Liability related:				
Finance costs on external borrowings	(9)	(1)	–	(10)
Equity related:				
Dividends paid to ordinary equity holders of the Company	–	–	(92)	(92)
Payment of lease liabilities	(16)	–	–	(16)
Cash flows from financing activities	**(25)**	**(1)**	**(92)**	**(118)**
Other changes				
External debt interest accrual	4	–	–	4
Changes in lease liabilities	64	–	–	64
Other changes in liabilities	6	1	–	7
Liability related	74	1	–	75
Equity related	89	–	158	247
31 December 2019	335	16	2,071	2,422

[1]Full details of changes in equity are shown in the consolidated statement of changes in equity.

25: Share capital, capital redemption reserve and merger reserve

25(a): Share capital

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. The parent Company's equity capital currently comprises 1,783,969,051 Ordinary Shares of 7p each with an aggregated nominal value of £124,877,834 (31 December 2019: 1,902,251,098 Ordinary Shares of 7p each with an aggregated nominal value of £133,157,577).

This note gives details of the Company's Ordinary Share capital and shows the movements during the year:

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2019	1,902,251,098	133	58
At 31 December 2019	1,902,251,098	133	58
Shares cancelled through share buyback programme	(118,282,047)	(8)	–
At 31 December 2020	**1,783,969,051**	**125**	**58**

On 11 March 2020 the Company announced a share buyback programme to purchase shares up to a maximum value of £375 million, in order to reduce the share capital of the Company. The programme commenced on 11 March 2020 and will continue into 2021. During the year ended 31 December 2020, the Company acquired 118.3 million shares for a total consideration of £153 million and incurred additional costs of £4 million. The shares, which have a nominal value of £8 million, have subsequently been cancelled, giving rise to a capital redemption reserve of the same value as required by the Companies Act 2006. In December 2020, the committed remainder of £22 million was accrued as a liability against retained earnings.

25(b): Merger reserve

On 31 January 2018, the Group acquired the Skandia UK Limited group of entities from its then parent company Old Mutual plc. This comprised of seven Old Mutual plc group entities with a net asset value of £591 million. The transfer was effected by the issue of one share and with the balance giving rise to a merger reserve of £591 million in the consolidated statement of financial position, being the difference between the nominal value of the share issued by the parent company for the acquisition of the shares of the subsidiaries and the subsidiaries' net asset value. No debt was taken on as a result of this transaction. The most significant asset within these entities was a £566 million receivable which corresponded to an equivalent payable within the Group's consolidated statement of financial position. The net effect of this transaction for the Group was to replace a payable due to Old Mutual plc with equity.

Following the acquisition the Company allotted 315,731,886 bonus Ordinary Shares of £0.01 each to the existing shareholders of the Company (with any fractional entitlements arising to be aggregated and allotted to Old Mutual plc), with a total nominal value of £3 million. This had the effect of reducing the merger reserve by £3 million to £588 million at 31 December 2018.

This transaction attracted merger relief under section 612 of the Companies Act 2006.

During the year ended 31 December 2019, there was a partial repayment of the receivable and a subsequent dividend paid by Skandia UK Limited up to its parent Quilter plc. The resulting decrease in Skandia UK Limited's net asset value gave rise to a £439 million impairment of Quilter plc's investment in Skandia UK Limited and an associated release of the merger reserve reducing it to £149 million.

26: Share-based payments

During the year ended 31 December 2020, the Group participated in a number of share-based payment arrangements. This note describes the nature of the plans and how the share options and awards are valued.

26(a): Description of share-based payment arrangements

The Group operates the following share-based payment schemes with awards over Quilter plc shares: the Quilter plc Performance Share Plan, the Quilter plc Share Reward Plan, the Quilter plc Share Incentive Plan, and the Quilter plc Sharesave Plan.

The Old Mutual Wealth Phantom Share Reward Plan originally with awards over notional Old Mutual plc shares was transferred to awards over Quilter plc shares on 25 June 2018 and continues to the original vesting dates.

26: Share-based payments continued

26(a): Description of share-based payment arrangements continued

Scheme	Restricted shares	Conditional shares	Options	Other	Dividend entitlement[1]	Contractual life (years)	Typical service (years)	Performance (measure)
	Description of award					Vesting conditions		
Quilter plc Performance Share Plan	–	–	✓	–	✓	Up to 10	3	AP EPS CAGR[2] and Relative Total Shareholder Return
Quilter plc Performance Share Plan	–	✓	–	–	✓	Not less than 3	3	Conduct, Risk & Compliance Underpins
Quilter plc Share Reward Plan	–	✓	–	–	✓	Typically 3	3	–
Quilter plc Share Incentive Plan	✓	–	–	–	✓	Not less than 3	2	–
Quilter plc Sharesave Plan[3]	–	–	✓	✓	–	3½ – 5½	3 & 5	–
Old Mutual Wealth Phantom Share Reward Plan[4]	–	✓	–	–	✓	Typically 3	3	–
Charles Derby Group Performance Share Plan	–	–	✓	–	✓	Up to 10	5	AP EPS CAGR

[1]Participants are entitled to actual dividends for the Share Incentive Plan. For all other schemes, participants are entitled to dividend equivalents.
[2]Adjusted Profit compound annual growth rate ("CAGR").
[3]The Quilter plc Sharesave Plan is linked to a savings plan.
[4]Awards granted under the Phantom Share Reward Plan prior to the demerger of Quilter plc were made over notional Ordinary Shares in Old Mutual plc that were settled in cash on the vesting date. Upon the demerger and listing of Quilter plc, all unvested notional share awards were converted to conditional awards over Ordinary Shares in Quilter plc, which will be settled in Quilter plc shares on the normal vesting dates.

26(b): Reconciliation of movements in options

The movement in options outstanding under the Performance Share Plans and Sharesave Plan arrangements during the year is detailed below:

Options over Shares (London Stock Exchange)	Year ended 31 December 2020 Number of options	Year ended 31 December 2020 Weighted average exercise price	Year ended 31 December 2019 Number of options	Year ended 31 December 2019 Weighted average exercise price
Outstanding at beginning of the year	24,707,734	£0.65	2,468,964	£0.00
Granted during the year	3,016,429	£0.00	23,632,437	£0.73
Forfeited during the year	(976,874)	£0.85	(624,694)	£0.30
Exercised during the year	(620,349)	£0.51	(175,789)	£0.00
Expired during the year	(287,816)	£1.25	(39,120)	£1.25
Cancelled during the year	(941,029)	£1.25	(554,064)	£1.25
Outstanding at end of the year	**24,898,095**	**£0.54**	**24,707,734**	**£0.65**
Exercisable at end of the year	**–**	**–**	**–**	**–**

The weighted average fair value of options at the measurement date for options granted during the year ended 31 December 2020 is £0.95, and for the year ended 31 December 2019 was £0.73.

The options outstanding at 31 December 2020 have exercise prices of £nil for both the Quilter plc Performance Share Plan and Charles Derby Group Performance Share Plan, and £1.25 for the Quilter plc Sharesave Plan, with a weighted average remaining contractual life of 1.8 years. At 31 December 2019 the exercise price was £nil for both the Quilter plc Performance Share Plan and Charles Derby Group Performance Share Plan, and £1.25 for the Quilter plc Sharesave Plan, with a weighted average remaining contractual life of 2.7 years.

26(c): Measurements and assumptions

In determining the fair value of equity-settled share-based awards and the related charge to the income statement, the Group makes assumptions about future events and market conditions. Specifically, management makes estimates of the likely number of shares that will vest and the fair value of each award granted which is valued and 'locked in' at the grant date.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted.
The estimate of fair value of share options granted is measured using either a Black-Scholes option pricing model or a Monte Carlo simulation.

26: Share-based payments continued

26(c): Measurements and assumptions continued

The inputs used in the measurement of fair values at the grant date for awards granted during 2020 were as follows:

Scheme	Weighted average share price £	Weighted average expected volatility	Weighted average expected life (years)	Weighted average risk free interest rate	Weighted average expected dividend yield	Expected forfeitures per annum
Quilter plc Performance Share Plan – Share Options (Nil cost options)	1.17	35.1%	3.00	0.1%	0.0%	4%
Quilter plc Performance Share Plan – Conditional Shares	1.17	35.1%	3.02	0.1%	0.0%	4%
Quilter plc Share Reward Plan – Conditional Shares	1.17	36.4%	2.00	0.1%	0.0%	4%

The expected volatility used was based on the historical volatility of the share price over the period for which trading history is available. The risk-free interest rate was based on the yields available on UK Government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the share awards.

26(d): Share grants

The following summarises the fair value of Restricted Shares and Conditional Shares granted by the Group during the year:

	Year ended 31 December 2020		Year ended 31 December 2019	
Instruments granted during the year	Number granted	Weighted average fair value	Number granted	Weighted average fair value
Quilter plc Performance Share Plan – Conditional Shares	4,911,597	£1.17	4,048,663	£1.39
Quilter plc Share Reward Plan – Conditional Shares	13,471,153	£1.17	10,314,569	£1.39

26(e): Financial impact

The share-based payment reserve of £42 million (2019: £45 million) represents the cumulative expense of the Group for the unsettled portion of equity awarded schemes.

The total expense recognised in the year arising from equity compensation plans was as follows:

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Expense arising from equity-settled share and share option plans – continuing operations	25	25
Expense arising from equity-settled share and share option plans – discontinued operations	–	1
Total expense arising from share and share option plans	25	26

27: Investment contract liabilities

The following table provides a summary of the Group's investment contract liabilities:

	31 December 2020 £m			31 December 2019 £m		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Carrying amount at 1 January	**52,455**	**–**	**52,455**	**56,450**	**(1,671)**	**54,779**
From continuing operations						
Fair value movements	2,632	–	2,632	5,091	–	5,091
Investment income	696	–	696	719	–	719
Movements arising from investment return	3,328	–	3,328	5,810	–	5,810
From discontinued operations						
Fair value movements	–	–	–	1,427	(205)	1,222
Investment income	–	–	–	142	–	142
Movements arising from investment return	–	–	–	1,569	(205)	1,364
Contributions received	4,871	–	4,871	5,718	1,148	6,866
Maturities	(97)	–	(97)	(166)	–	(166)
Withdrawals and surrenders	(3,226)	–	(3,226)	(7,419)	–	(7,419)
Claims and benefits	(59)	–	(59)	(205)	–	(205)
Other movements	2	–	2	2	(1)	1
Change in liability	**4,819**	**–**	**4,819**	**5,309**	**942**	**6,251**
Currency translation loss/(gain)	133	–	133	(121)	–	(121)
Disposal of subsidiaries	–	–	–	(9,183)	729	(8,454)
Investment contract liabilities	**57,407**	**–**	**57,407**	**52,455**	**–**	**52,455**

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 reduced to £nil in 2019 due to the disposal of QLA.

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.

Following the sale of QLA in 2019 (see note 6(b)) the Group no longer has any pure insurance contracts. Within the Group's International business, insurance contracts are unbundled. The insurance component does not give rise to any future liabilities and the deposit component is presented in investment contract liabilities. As a result, the Group no longer has any insurance liabilities or reinsurance assets. In the year ended 31 December 2020 unbundled insurance premiums of £1 million (31 December 2019: £1 million) are offset by £(1) million (31 December 2019: £(1) million) of premiums ceded to reinsurers.

28: Provisions

31 December 2020	Compensation provisions £m	Sale of QLA £m	Sale of Single Strategy business £m	Clawback and other provisions £m	Total £m
Balance at beginning of the year	31	6	10	17	64
Additions from business combinations	12	–	–	–	12
Charge to income statement	10	–	–	1	11
Utilised during the year	(5)	(3)	(1)	(4)	(13)
Unused amounts reversed	(6)	–	(2)	(3)	(11)
Reclassification within statement of financial position[1]	–	–	–	14	14
Balance at 31 December 2020	**42**	**3**	**7**	**25**	**77**

31 December 2019	Compensation provisions £m	Sale of QLA £m	Sale of Single Strategy business £m	Clawback and other provisions £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[2]	9	6	1	7	23
Utilised during the year	(19)	–	(11)	(1)	(31)
Unused amounts reversed	(13)	–	–	(4)	(17)
Disposals	(11)	–	–	(1)	(12)
Reclassification within statement of financial position	(3)	–	–	–	(3)
Balance at 31 December 2019	31	6	10	17	64

[1]Clawback provision was disclosed on a net basis in 2019. In 2020 the balance has been reclassified, with the liability due to product providers on indemnity commission disclosed within provisions and the recoverable amount from brokers disclosed within receivables.
[2]Part of the charge to income statement in 2019 is included within the discontinued operations income statement.

Compensation provisions

Compensation provisions total £42 million (31 December 2019: £31 million), and are comprised of the following:

Lighthouse pension transfer advice provision of £28 million (31 December 2019: £12 million)

A provision for pension transfer advice was established within the fair value of the Lighthouse assets and liabilities acquired. As at 31 December 2019, the provision related 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 related to transfers before that date.

During 2020, the FCA reported the results of their thematic review into the general market of pension transfers, which included British Steel pension transfers. The FCA review determined that the percentage of unsuitable files for British Steel transfers was higher than those for other pension scheme transfers in their sample. The FCA review included a sample of British Steel pension transfer advice provided by Lighthouse. Additionally, approximately 45 further complaints have been received from British Steel Pension Scheme members subsequent to the publication of the Group's 2019 Annual Report. As such, the Group has extended the provision to include consideration of the full population of 265 British Steel transfers on which Lighthouse advisers provided advice and the relevant customers proceeded to make a transfer, in order to determine a more reliable approximation of the estimated redress payable.

In April 2020, the Group was informed by the FCA that it would be required to appoint a skilled person to review the British Steel pension transfers. A skilled person has been appointed, and they have performed provisional redress calculations on a significant portion of the British Steel complaints received by Lighthouse where the advice given was not suitable. The redress calculated on the complaints has been extrapolated to the entire population of British Steel transfers, by subdividing the population into cohorts with similar characteristics, including dividing into transfers pre and post June 2017 when the Trustees of the British Steel Pension Scheme changed the basis on which transfer values were calculated. The timing of any benefits withdrawn by the member after the transfer also has an impact upon the redress calculated. The estimated redress per client as a proportion of the transfer value of the pensions was determined for each cohort and extrapolated to the overall population of cases where advice was provided, and that advice was then acted upon. The methodology employed to assess the calculated 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*".

28: Provisions continued
Compensation provisions continued

A total provision of £28 million (31 December 2019: £12 million) has been calculated for the potential redress of all British Steel cases, including anticipated costs associated with the redress activity. This is comprised of two parts:

(a) Client redress provision of £25 million (31 December 2019: £9 million). As noted above, this provision was increased during 2020 following the publication of the FCA thematic review and additional client complaints received.
(b) Anticipated costs associated with redress activity of £3 million (31 December 2019: £3 million). This provision is recognised in respect of the anticipated costs of legal and professional fees related to the cases and redress process, which includes the expected costs to review advice provided of a similar nature in relation to cases that management believe may have similar characteristics. £1 million of the legal and professional fees provision has been utilised during the year, and the provision was increased by a further £1 million during the year.

The recognition of the total provision before utilisation of £29 million has been further apportioned between the fair value of net assets of Lighthouse at acquisition and the expenses of the Group:

(a) £24 million (31 December 2019: £12 million) is recognised within the fair value of net assets acquired and impacts the goodwill balance recognised upon acquisition.
(b) The increase in the provision subsequent to acquisition of £5 million has been recognised within expenses of the Group.

The table below shows the change in this provision and how the amounts have been recognised:

	Notes	31 December 2020 £m	Utilised during the year £m	Balance before utilisation £m	Increase in 2020 £m	31 December 2019 £m
Client redress provision		25	–	25	16	9
Anticipated costs		3	(1)	4	1	3
Total Lighthouse pension transfer advice complaints provision		**28**	(1)	29	17	12
Recognised within fair value of acquired net assets	6(a)	24		24	12	12
Recognised within expenses	7(b)(vi)	5		5	5	–

Additionally, the recognition of the fair value of acquired assets has been increased by management's estimate of the fair value of the insurance recoverable of £3 million and the deferred tax asset receivable of £2 million (both described in note 6(a)) which, taken together with the £12 million increase in client redress provision described above, results in a net decrease of £7 million to the fair value of the acquired net assets, which has been recognised as an increase in the goodwill balance in the year ending 31 December 2020.

Management has not changed the £3 million insurance recoverable that has been included in the fair value of the acquired net assets of Lighthouse. Discussion with insurers is ongoing and management will review the recoverable amount as and when they receive further certainty. The insurance asset at 31 December 2020 is disclosed within "Trade, other receivables and other assets".

The final costs of redress for cases upheld will depend on specific calculations on a case-by-case basis, which are impacted by market movements and other parameters affecting the defined contribution scheme asset, and therefore exposed to volatility from this, and may vary from the amounts currently provided. The skilled person review is expected to conclude in the second half of 2021, after which settlements to customers will be made.

The key assumptions which have an impact upon the redress payable calculation are the discount rate, changes in market levels and proportion of cases where redress is estimated to be payable. For the purpose of the redress calculation, changes in the discount rate impact the valuation of the defined benefit ("DB") scheme at the reporting date, and market level changes impact the valuation of the personal pension scheme for each client.

The following table presents the potential change to the provision balance at 31 December 2020 as a result of movements in the key assumptions:

	31 December 2020 £m	
	Increase	Decrease
Change in discount rate to value the DB pension liability of 0.25%	(4)	4
Change in market levels of 5%	(2)	2
Change in number of cases upheld of 10%	1	(1)

A further assumption which has an impact upon the provision is the timing of benefits taken. The uncertainty regarding the timing of benefits taken by each member for the cases not yet determined by the skilled person has a potentially material future impact upon the provision. The range of outcomes for the provision, including anticipated costs, varies from £25 million to £36 million at each extremity of possible timing of benefits taken.

28: Provisions continued
Compensation provisions continued

Compensation provisions (other) of £14 million (31 December 2019: £19 million)
Other compensation provisions of £14 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, any associated litigation costs and the related costs to compensate previous or existing policyholders and customers. This provision represents management's best estimate of expected outcomes based upon previous experience, and a review of the details of each case. Due to the nature of the provision, the timing of the expected cash outflows is uncertain. The best estimate of timing of outflows is that the majority of the balance is expected to be settled within 12 months. Estimates are reviewed annually and adjusted as appropriate for new circumstances. Management estimate a reasonably possible change of +/- £4 million, based upon a review of the cases and the range of potential outcomes.

Provisions arising on the disposal of Quilter Life Assurance
The QLA business was sold on 31 December 2019 (see note 6(c)), 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, together with 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 has taken place during 2020 and will continue into 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 reasonably possible change of +/- £1 million, based upon the time it takes to complete the work, which is expected to conclude in 2021.

During the year £3 million of the provision has been utilised.

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 and a further £11 million utilised in 2019. During 2020, further utilisation of £1 million has been incurred, and £2 million has been reversed, and therefore the provision at year end 31 December 2020 is £nil.

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 for the seller in future years arising from funds invested by customers of Quilter. A further £1 million was added to the provision during 2019, bringing the closing balance to £7 million at 31 December 2019. The balance remains at £7 million at 31 December 2020.

The provision considers 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 scenarios are based upon assumptions determined considering historical outflows over the past three years, expectation of outflows in the next two years and the latest information received from Merian. Per the conditions of the sale agreement, the maximum remaining potential exposure is £17 million, based on business periods between 2020 and 2022. The expected range of payments based upon the latest information received from Merian and management's reasonable expectations of AUM invested within Merian funds during the assessment periods is between £5 million to £12 million.

Of the total £7 million provision outstanding, £2 million is expected to be settled in the first half of 2021 related to the 2020 measurement year, and the remaining £5 million (2019: £3 million) is estimated to be payable after one year, with expected final settlement due in the first half of 2023.

Clawback and other provisions
Other provisions include amounts for the resolution of legal uncertainties and the settlement of other claims raised by contracting parties 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.

28: Provisions continued
Clawback and other provisions continued

Included within the balance in 2020 is £18 million of clawback provisions in respect of potential refunds due to product providers on indemnity commission, within the Quilter Financial Planning business. This provision, which is estimated and charged as a reduction of revenue on the income statement at the point of sale of each policy, is based upon assumptions determined from historical experience of the proportion of policyholders cancelling their policies, which requires Quilter to refund a portion of commission previously received. Reductions to the provision result from the payment of cash to product providers as refunds or the recognition of revenue where a portion of the provision is assessed as no longer payable. The provision has been assessed at the reporting date and adjusted for the latest cancellation information available. At 31 December 2020, an associated balance of £13 million recoverable from brokers is included within "Trade, other receivables and other assets". At 31 December 2019 the associated asset of £14 million was offset within the provision balance.

Management estimate a reasonably possible change of +/- £6 million, based upon the potential range of outcomes for the proportion of cancelled policies within the clawback provision, and a detailed review of the other provisions.

Of the total £25 million provision outstanding, £13 million is estimated to be payable within one year (2019: £17 million).

29: Tax assets and liabilities

Deferred income taxes are calculated on all temporary differences at the tax rate applicable to the jurisdiction in which the timing differences arise and are all non-current.

Deferred tax summary

	31 December 2020 £m	31 December 2019 £m
Deferred tax assets	78	43
Deferred tax liabilities	106	88
Net deferred tax liability	**28**	**45**

On the 3 March 2021 the Chancellor of the Exchequer announced in the Budget a future increase in the Corporation Tax rate from 19% to 25%, effective from 1 April 2023. The change in rate has not yet been substantially enacted but had it been at 31 December 2020 the impact on the deferred tax assets and liabilities would be a decrease in the net deferred tax liabilities of £5 million.

29(a): Deferred tax assets

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable, being where, on the basis of all available evidence, it is considered more likely than not that there will be suitable taxable profits against which the reversal of the deferred tax asset can be deducted.

The movement on recognised deferred tax assets is as follows:

31 December 2020	At beginning of the year £m	Income statement (charge)/ credit £m	(Charged)/ credited to equity £m	Acquisition /disposal of subsidiaries £m	At end of the year £m
Tax losses carried forward	19	(4)	–	–	15
Accelerated depreciation	19	–	–	–	19
Accrued interest expense and other temporary differences	3	38	–	–	41
Share-based payments	8	1	–	–	9
Deferred expenses	7	(1)	–	–	6
Provisions	–	1	–	–	1
Netted against liabilities	(13)	–	–	–	(13)
Deferred tax assets at 31 December 2020	**43**	**35**	**–**	**–**	**78**

29: Tax assets and liabilities continued
29(a): Deferred tax assets continued

31 December 2019	At beginning of the year £m	Income statement (charge)/ credit £m	(Charged)/ credited to equity £m	Acquisition/ disposal of subsidiaries £m	At end of the year £m
Tax losses carried forward	19	(1)	–	1	19
Accelerated depreciation	13	6	–	–	19
Other temporary differences	4	(3)	2	–	3
Share-based payments	4	4	–	–	8
Contract liabilities	2	(1)	–	(1)	–
Deferred expenses	35	(15)	–	(13)	7
Netted against liabilities	(39)	12	–	14	(13)
Deferred tax assets at 31 December 2019	38	2	2	1	43

The credit to the income statement of £(38) million in 2020 in respect of Accrued interest expense and other temporary differences includes a credit of £(39) million relating to first time recognition of a deferred tax asset on accrued interest expenses, as explained in note 11(a).

The recognition of deferred tax assets is subject to the estimation of future taxable profits, which is based on the annual business planning process and in particular on estimated levels of assets under management, which are subject to a large number of factors including global stock market movements and related movements in foreign exchange rates, together with estimates of net client cash flow, 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 three 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.

Deferred tax assets have been recognised to the extent they are supported by the Group's business plans. The sensitivity of these assets is such that any decrease in profitability over the assessment period would result in a write down in the deferred tax assets.

Unrecognised deferred tax assets
The amounts for which no deferred tax asset has been recognised comprises:

	31 December 2020 £m		31 December 2019 £m	
	Gross amount	Tax	Gross amount	Tax
Expiring in less than a year	–	–	–	–
Expiring between one and five years	–	–	–	–
Expiring after five years	780	146	472	80
Unrelieved tax losses	780	146	472	80
Accelerated depreciation	–	–	28	5
Other timing differences	5	1	7	2
Total unrecognised deferred tax assets	**785**	**147**	**507**	**87**

Movements in unrecognised deferred tax assets
The value of unrecognised deferred tax assets has increased by £60 million during the year. This is primarily as a result of the increase in losses related to the Group's Managed Separation from previous parent (Old Mutual plc) under the terms of the Separation Agreement.

29: Tax assets and liabilities continued

29(b): Deferred tax liabilities

The movement on deferred tax liabilities is as follows:

31 December 2020	At beginning of the year £m	Income statement (credit)/ charge £m	Acquisition/ disposal of subsidiaries £m	At end of the year £m
Other acquired intangibles	39	(4)	1	36
Other temporary differences	–	4	(2)	2
Investment gains	62	19	–	81
Netted against assets	(13)	–	–	(13)
Deferred tax liabilities at 31 December 2020	**88**	**19**	**(1)**	**106**

31 December 2019	At beginning of the year £m	Income statement (credit)/ charge[1] £m	Acquisition/ disposal of subsidiaries £m	At end of the year £m
Deferred acquisition costs	11	(3)	(8)	–
Other acquired intangibles	40	(8)	7	39
Other temporary differences	1	(1)	–	–
Investment gains	46	92	(76)	62
Netted against assets	(39)	12	14	(13)
Deferred tax liabilities at 31 December 2019	59	92	(63)	88

[1]In the year ended 31 December 2019, of the £92 million income statement credit, £41 million relates to continuing operations and £51 million relates to discontinued operations.

29(c): Current tax receivables and payables

Current tax receivables and current tax payables at 31 December 2020 were £24 million (2019: £13 million) and £1 million (2019: £6 million), respectively.

30: Borrowings and lease liabilities

The following table analyses the Group's borrowings and lease liabilities:

	Notes	31 December 2020 £m	31 December 2019 £m
Subordinated debt: fixed rate loan at 4.478%	30(a)	199	198
Lease liabilities	30(b)	120	137
Total borrowings and lease liabilities		**319**	**335**

30(a): Borrowings

Borrowed funds are repayable on demand and categorised in terms of IFRS 9 *Financial Instruments* as "Financial liabilities at amortised cost". The carrying value of the Group's borrowings is considered to be materially in line with the fair value. All amounts outstanding at 31 December 2020 are payable to a number of relationship banks.

On 28 February 2018, the Group issued a £200 million subordinated debt security in the form of a 10-year Tier 2 bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478% (the "Tier 2 Bond"). The bond was remarketed and sold to the secondary market in full on 13 April 2018. It is now listed and regulated under the terms of the London Stock Exchange. The bond matures in 2028 with the option to redeem in 2023.

In addition, the Group entered into a £125 million revolving credit facility which remains undrawn and is being held for contingent funding purposes.

30(b): Lease liabilities

The Group has entered into commercial non-cancellable leases on certain property, plant and equipment where it is not in the best interest of the Group to purchase these assets. Such leases have varying terms, escalation clauses and renewal rights.

Termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of termination options held are exercisable only by the Group and not by the respective lessor.

30: Borrowings and lease liabilities continued
30(b): Lease liabilities continued

As at 31 December 2020, future undiscounted cash outflows of £22 million (2019: £26 million) have been included in the lease liability which will occur beyond termination option dates on three of the Group's principal property leases, as it is reasonably certain that these leases will not be terminated. The lease term is reassessed if an option is exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

During the year, certain lease terms were reassessed to reflect the expectation that termination options will now be exercised. The financial effect of this reassessment was a decrease in recognised lease liabilities and right-of-use assets of £7 million (2019: £nil). These are the only significant property leases where the term is modelled up to a termination option date.

Lease liabilities represent the obligation to pay lease rentals as required by IFRS 16 and are categorised as financial liabilities at amortised cost.

	31 December 2020 £m	31 December 2019 £m
Opening balance	137	–
Implementation of IFRS 16	–	89
Acquisitions through business combinations	–	1
Additions[1]	6	60
Disposals and adjustments to lease liabilities	(11)	–
Interest charge for the year	4	3
Payment for interest portion of lease liability	(2)	(3)
Payment for principal portion of lease liability	(14)	(13)
Closing balance	**120**	**137**
To be settled within 12 months	9	13
To be settled after 12 months	111	124
Total lease liabilities	**120**	**137**
Maturity analysis[2]		
Within one year	11	15
One to five years	57	50
More than five years	75	99
Total lease liabilities – undiscounted	**143**	**164**

[1]The majority of additions during 2019 relate to the lease for Senator House, the Group's new London property.
[2]The maturity analysis of lease liabilities is on an undiscounted basis.

31: Trade, other payables and other liabilities

	31 December 2020 £m	31 December 2019 restated[1] £m
Claims outstanding	131	182
Amounts owed to intermediaries	8	11
Amounts payable on direct insurance business	139	193
Deposits received from reinsurers	–	16
Accounts payable on reinsurance business	–	1
Outstanding settlements	255	270
Accruals and deferred income	111	160
Trade creditors	41	41
Deferred consideration	16	39
Other liabilities[1]	110	81
Total trade, other payables and other liabilities	**672**	**801**
To be settled within 12 months[1]	666	797
To be settled after 12 months	6	4
Total trade, other payables and other liabilities	**672**	**801**

[1]See note 4(b) for details of changes to comparative amounts.

32: Contract liabilities

Contract liabilities relate to non-refundable front-end fee income, comprising fees received at inception or receivable over an initial period for services not yet provided, and is deferred through the creation of a contract liability on the statement of financial position and released to income as the services are provided. Equal service provision is assumed over the lifetime of the contract and, as such, the contract liability is amortised on a linear basis over the expected life of the contract, adjusted for expected persistency. The contract liability principally comprises fee income already received in cash. The table below analyses the movements in contract liabilities.

	Insurance and Investments £m	Asset Management £m	Total £m
1 January 2019 (as originally stated)	225	1	226
Fee income receivable reclassification[1]	230	–	230
1 January 2019 restated[1]	455	1	456
Fees and commission income deferred	44	–	44
Amortisation	(62)	(1)	(63)
Foreign exchange	(3)	–	(3)
Continuing operations movements	(21)	(1)	(22)
Discontinued operations movements	(8)	–	(8)
Disposal of subsidiaries	(23)	–	(23)
31 December 2019 restated[1]	403	–	403
Fees and commission income deferred	35	–	35
Amortisation	(62)	–	(62)
Foreign exchange	3	–	3
Continuing operations movements	(24)	–	(24)
31 December 2020	379	–	379

	31 December 2020 £m	31 December 2019 restated[1] £m
The Group expects to recognise the above contract liability balances as revenue in the following years:		
Within one year	61	60
One to five years	184	192
More than five years	134	151
Total contract liabilities	**379**	**403**

[1]See note 4(b) for details regarding the restatement of the Group's fee income receivable.

33: Post-employment benefits

The Group operates a number of defined contribution and defined benefit pension schemes in the UK, the Channel Islands and Ireland.

Defined contribution pension schemes

The Group's defined contribution schemes require contributions to be made to funds held in trust, separate from the assets of the Group. Participants receive either a monthly pension supplement to their salaries or contributions to personal pension plans. For the defined contribution schemes, the Group pays contributions to separately administered pension schemes. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in current service cost in the consolidated income statement as staff costs and other employee-related costs when they are due.

Defined benefit schemes

The Group operates two defined benefit schemes: The Quilter Cheviot Limited Retirement Benefits Scheme and the Quilter Cheviot Channel Islands Retirement Benefits Scheme which are both closed to new members. The assets of these schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions payable to each pension scheme, together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The Group's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax regulations. The schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied.

In 2019, the Trustees of the Quilter Cheviot Limited Retirement Benefits scheme purchased a bulk annuity from Aviva to de-risk the defined benefit pension scheme obligation. This investment strategy was intended to equally match the assets and liabilities of the scheme. This covers all remaining insured scheme benefits following previous bulk annuity transactions in 2013, 2014 and 2015. The Group injected a capital contribution of £7 million to effect this transaction.

Further details explaining the considerations behind the Group's decision to fund the buy-in are included in the 2019 Annual Report.

IAS 19 Employee Benefits disclosures

This note gives full IAS 19 *Employee Benefits* disclosures for the above schemes.

33(a): Liability for defined benefit obligations

The IAS 19 value of the assets and the scheme obligations are as follows:

	31 December 2020 £m	31 December 2019 £m
Changes in retirement benefit obligations		
Total IAS 19 retirement benefit obligation opening balance	(38)	(44)
Interest cost on benefit obligation	(1)	(1)
Effect of changes in actuarial assumptions	–	(2)
Actuarial losses	(4)	(6)
Benefits paid	2	15
Total IAS 19 retirement benefit obligations closing balance	**(41)**	**(38)**
Change in plan assets		
Total IAS 19 fair value of scheme assets opening balance	39	56
Actual return on plan assets	5	(8)
Company contributions	–	6
Benefits paid	(2)	(15)
Total IAS 19 fair value of scheme assets closing balance	**42**	**39**
Net IAS 19 asset recognised in statement of financial position		
Funded status of plan	1	1
Unrecognised assets	(1)	(1)
Net IAS 19 amount recognised in statement of financial position	**–**	**–**

33: Post-employment benefits continued

33(a): Liability for defined benefit obligations continued

Contributions for the year to the defined benefit schemes totalled £nil (2019: £6 million), and £1 million was accrued at 31 December 2020 (2019: £1 million). The Group expects to contribute £1 million in the next financial year, based upon the current funded status and the expected return assumption for the next financial year.

	31 December 2020 £m	31 December 2019 £m
Changes in the asset ceiling		
Opening unrecognised asset due to asset ceiling	1	12
Changes in asset ceiling	–	(11)
Closing unrecognised asset due to the asset ceiling	**1**	**1**

33(b): Income/expense recognised in the income statement

The total pension charge to staff costs for all of the Group's defined benefit schemes for the year ended 2020 was £nil (2019: £nil).

Actuarial gains and losses and the effect of the limit to the pension asset under IAS 19 *Employee Benefits* paragraph 58 have been reported in other comprehensive income.

The cumulative amount of actuarial losses recognised in other comprehensive income is £33 million (2019: £33 million).

Assumptions

The expected long-term rate of return on assets represents the Group's best estimate of the long-term return on the scheme assets and is generally estimated by computing a weighted average return of the underlying long-term expected returns on the different asset classes, based on the target asset allocations. The expected long-term return on assets is a long-term assumption that is generally expected to remain the same from one year to the next unless there is a significant change in the target asset allocation, the fees and expenses paid by the plan or market conditions.

The Group, in consultation with its independent investment consultants and actuaries, determined the asset allocation targets based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics and related risk factors. Other relevant factors, including industry practices, long-term historical and prospective capital market returns, were also considered.

The scheme return objectives provide long-term measures for monitoring the investment performance against growth in the pension obligations. The overall allocation is expected to help protect the plan's funded status while generating sufficiently stable real returns (net of inflation) to help cover current and future benefit payments.

Both the equity and fixed income portions of the asset allocation use a combination of active and passive investment strategies and different investment styles. The fixed income asset allocation consists of longer duration fixed income securities in order to help reduce plan exposure to interest rate variation and to better correlate assets with obligations. The longer duration fixed income allocation is expected to help stabilise plan contributions over the long run.

The weighted average duration of the defined benefit obligation is 20 years, based upon actual cash flows.

The following table presents the principal actuarial assumptions at the end of the reporting year:

	2020 %	2019 %
Discount rate	1.4	2.1
Rate of increase in defined benefit funds	3.5	3.5
Inflation	2.9	2.8

The mortality assumptions used give the following life expectancy at 65:

		Life expectancy at 65 for male member currently		Life expectancy at 65 for female member currently	
	Mortality table	Aged 65	Aged 45	Aged 65	Aged 45
31 December 2020	**S2PA Light**	**23.40**	**25.50**	**24.50**	**26.70**
31 December 2019	S2PA Light	23.40	25.40	24.40	26.70

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and rate of mortality.

33: Post-employment benefits continued

33(b): Income/expense recognised in the income statement continued

The sensitivities regarding the principal assumptions used to measure the defined benefit obligations are described below. Reasonably possible changes at the reporting date to one of the principal actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation as follows:

	31 December 2020 £m		31 December 2019 £m	
	Increase	Decrease	Increase	Decrease
Discount rate (0.1% movement)	(0.7)	0.7	(0.7)	0.7
Inflation rate (0.1% movement)	0.3	(0.3)	0.3	(0.3)
Rate of mortality (increase by 1 year)	1.7	–	1.6	–

33(c): Scheme assets allocation

Scheme assets are stated at their fair values. Total scheme assets are comprised as follows:

	31 December 2020 %	31 December 2019 %	31 December 2020 £m	31 December 2019 £m
Equity securities	7	4	3	2
Debt securities	93	94	39	36
Cash and other assets	–	2	–	1
Total IAS 19 fair value of scheme assets	**100**	**100**	**42**	**39**

Equity instruments, debt instruments and investment fund assets have a quoted market price. All other assets, including the value of the bulk annuity policy, do not have a quoted market price. The bulk annuity policy, where assets are matched to the value of liabilities, is included at values provided by the insurer in accordance with relevant guidelines.

34: Master netting or similar agreements

The Group offsets financial assets and liabilities in the statement of financial position when it has a legal, enforceable right to do so and intends to settle on a net basis simultaneously. Currently, the only such offsetting within the Group relates to the pooling of bank accounts and, in some circumstances a bank account may be overdrawn and therefore offset.

The following tables present information on the potential effect of netting offset arrangements after taking into consideration these types of agreements.

31 December 2020	Gross amounts £m	Amounts offset in the statement of financial position £m	Net amounts reported in the statement of financial position £m
Financial assets			
Cash and cash equivalents	1,999	(78)	1,921
Financial liabilities			
Trade, other payables and other liabilities	78	(78)	–

31 December 2019 (restated)[1]	Gross amounts £m	Amounts offset in the statement of financial position £m	Net amounts reported in the statement of financial position £m
Financial assets			
Cash and cash equivalents	2,331	(78)	2,253
Financial liabilities			
Trade, other payables and other liabilities	78	(78)	–

[1]See note 4(b) for details of changes to comparative amounts.

35: 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 28). 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*.

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. In April 2020, the Group was informed by the FCA that it would be required to appoint a skilled person, under section 166(3)(a) of the Financial Services and Markets Act 2000 ("FSMA") in relation to Lighthouse Defined Benefit ("DB") pension transfer advice. The review covers Lighthouse Advisory Services Limited only, and no other companies within the Group. The review covers the period from 1 April 2015 to 27 January 2020, which is the date that Lighthouse converted to the Quilter Financial Planning advice process for their Defined Benefit transfer activity. The review will cover British Steel DB pension transfer advice activity undertaken by Lighthouse, and a representative sample of other Lighthouse DB pension transfer advice activity. The skilled person will also calculate redress, following the FCA's FG17/9 *"Guidance for firms on how to calculate redress for unsuitable defined benefit pension transfers"* guidance. The skilled person will also review the redress methodology applied by Lighthouse to any complaints already upheld. The skilled person's final report is expected to be submitted to the FCA in the third quarter of 2021.

For the British Steel cases, management currently consider that the likelihood of redress is probable on the majority of the cases, but this is subject to confirmation through the ongoing skilled person review process. An estimate of the amount of redress payable has been made and is included within Provisions in note 28. For the non-British Steel cases, it is possible that further costs of redress may be incurred following the outcome of the skilled person review. At present, there is no indication of redress payable in relation to non-British Steel cases. Any further redress costs related to non-British Steel cases, and any differences between the provision and final payment to be made for British Steel cases, will be recognised as an expense or credit in the Income Statement, following the finalisation of the acquisition balance sheet of Lighthouse in June 2020.

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. This may include amounts relating to first time recognition of a deferred tax asset on accrued interest expenses, as explained in notes 11(a) and 29(a).

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.

36: Commitments

The Group has contractual commitments in respect of funding arrangements which will be payable in future periods. These commitments are not recognised in the Group's statement of financial position.

37: Capital and financial risk management

37(a): Capital management

The Group manages its capital with a focus on capital efficiency and effective risk management. The capital management 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, strategic initiatives and regulatory requirements in all businesses in the Group. Capital forecasts have been reviewed regularly during 2020 in response to the emerging impacts of the COVID-19 pandemic which has evolved over the year and, where appropriate, management actions have been taken in response to these forecasts.

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.

37: Capital and financial risk management continued

37(a): Capital management continued

The primary sources of capital used by the Group are equity shareholders' funds of £1,878 million (31 December 2019: £2,071 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.

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

The Group is subject to Solvency II group supervision by the PRA. The Central Bank of Ireland is Quilter's lead supervisor within the European Union and exercises a limited form of Solvency II group supervision over the Group. 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 (solvency capital requirement or "SCR").

The Group's Solvency II surplus is £1,021 million at 31 December 2020 (2019: £1,168 million), representing a Solvency II ratio of 217% (2019: 221%) calculated under the standard formula. The Solvency II regulatory position for the year ended 31 December 2020 allows for the impact of the recommended final dividend payment of £61 million (2019: £64 million). The disclosure does not include the impact of Tranche 3 of the share buyback which had not been approved by the Group's regulators at the reporting date.

The Solvency II results for the year ended 31 December 2020 (unaudited estimate) and 31 December 2019 were as follows:

	31 December 2020[1] £m	31 December 2019[2] £m
Own funds	1,897	2,132
Solvency capital requirement (SCR)	876	964
Solvency II surplus	1,021	1,168
Solvency II coverage ratio	**217%**	**221%**

[1]Based on preliminary estimates. Filing of annual regulatory reporting forms due by 20 May 2021.
[2]As represented within the Quilter plc Group Solvency and Financial Condition Report for the year ended 31 December 2019.

The Group's 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 2020 £m	31 December 2019 £m
Tier 1[1]	1,688	1,925
Tier 2[2]	209	207
Total Group Solvency II own funds	**1,897**	**2,132**

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

The Group's insurance subsidiaries based in the UK and Ireland are also subject to Solvency II at entity level. Other regulated entities in the Group are subject to the locally applicable entity-level capital requirements in the jurisdictions in which they operate. In addition, the Group's asset management and advice businesses are subject to group supervision by the FCA under the CRD IV regime.

The solvency and capital requirements for the Group and its regulated subsidiaries are reported and monitored through monthly Capital Management Forum meetings. Throughout 2020, the Group has complied with the regulatory capital requirements that apply at a consolidated level and Quilter's insurance undertakings and investment firms have complied with the regulatory capital requirements that apply at entity level.

37(a)(ii): Loan covenants

Under the terms of the revolving credit facility agreement, the Group is required to comply with the following financial covenant: the ratio of total net borrowings to consolidated equity shareholders' funds shall not exceed 0.5.

	Note	31 December 2020 £m	31 December 2019 £m
Total external borrowings of the Company	30	199	198
Less: cash and cash equivalents of the Company		(314)	(559)
Total net external borrowings of the Company		(115)	(361)
Total shareholders' equity of the Group		1,878	2,071
Tier 2 bond	30	199	198
Total Group equity (including Tier 2 bond)		2,077	2,269
Ratio of Company net external borrowings to Group equity		**-0.055**	**-0.159**

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

37(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.

37(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.

37: Capital and financial risk management continued
37(b): Credit risk continued

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 2020, 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.

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 also 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.

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 £31 million (2019: £37 million) and other receivables subject to lifetime expected credit losses ("lifetime ECL") are £525 million (2019 restated – see note 4(b)(i): £458 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.

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.

The table below represents the Group's exposure to credit risk from cash and cash equivalents.

	Credit rating relating to cash and cash equivalents that are neither past due nor impaired £m						
31 December 2020	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Not rated[1]**	**Carrying value**
Cash at amortised cost, subject to 12 month ECL	–	81	464	1	4	307	857
Money market funds at FVTPL	1,062	–	–	–	2	–	1,064
Total cash and cash equivalents	**1,062**	**81**	**464**	**1**	**6**	**307**	**1,921**

	Credit rating relating to cash and cash equivalents that are neither past due nor impaired £m						
31 December 2019 (restated)[2]	AAA	AA	A	BBB	<BBB	Not rated[1]	Carrying value
Cash at amortised cost, subject to 12 month ECL	–	272	511	2	2	307	1,094
Money market funds at FVTPL	1,156	–	–	3	–	–	1,159
Total cash and cash equivalents	**1,156**	**272**	**511**	**5**	**2**	**307**	**2,253**

[1]Cash included in the consolidation of funds is not rated (see note 24(a)).
[2]See note 4(b) for details of changes to comparative amounts.

Impairment allowance
Assets that are measured and classified at amortised cost are monitored for any expected credit loss ("ECL") on either a 12 month or lifetime ECL model. The majority of such assets within the 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
Balance at 1 January 2019	(0.9)
Additions due to increased broker loans	(0.3)
31 December 2019	(1.2)
Reduction due to reassessment of broker loans impairment modelling	0.4
31 December 2020	**(0.8)**

37(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, including assessment of the potential implications of climate related risks and opportunities, and to assist in the identification of management actions.

37(c)(i): Equity and property price risk
In accordance with the market risk policy, the Group does not generally 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 2020 £m	31 December 2019 £m
Impact of 10% increase in equity and property prices	32	32
Impact of 10% decrease in equity and property prices	(32)	(32)

37(c)(ii): Interest rate risk
Interest rate risk arises primarily from bank balances held with financial institutions. A small amount of the Group's 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.

37: Capital and financial risk management continued
37(c): Market risk continued

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.

Conversely, a reduction in interest rates would cause a rise in the value of investments in fixed income securities within unit-linked funds. It would also reduce the interest rate earned on bank balances, and could potentially result in the Group incurring interest charges on these balances, if interest rates become negative.

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.

Impact on profit after tax and shareholders' equity	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Impact of 1% increase in interest rates	16	16
Impact of 1% decrease in interest rates	(8)	(12)

37(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 operations. Where currency risk is considered material, risk mitigation techniques are adopted, such as using derivative financial instruments such as forward foreign exchange contracts. After risk mitigation, the Group does not have material foreign currency risk exposure.

37(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.

Throughout the COVID-19 pandemic experienced in 2020 all of the subsidiaries and the Group Holding Companies have operated above their individual liquidity targets and there were no new liquidity stresses identified over this period to include in the liquidity monitoring process. Daily liquidity monitoring continues across the Group to enable timely identification of any emerging issues.

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 17.

The Group has a £125 million five year Revolving Credit Facility with a five-bank club that represents a form of contingency liquidity for the Group. No drawdown on this facility has been made since inception or through the period of the COVID-19 pandemic. The Group has exercised the option to extend the facility for a further two-year period, to February 2025, and has continued to meet all the covenants attached to its financing arrangements.

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 30.

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

37(e): Insurance Risk

37(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 does not offer general insurance business and therefore does not take on other forms of insurance risk such as motor and property insurance risks.

Insurance risk arises through exposure to variable claims experience on life assurance, exposure to variable operating experience in respect of factors such as persistency levels and management expenses. Unfavourable persistency, expenses and mortality 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.

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, 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 risk exposures; and
- the Group does not offer group insurance business in order to avoid risk concentrations of insurance risk.

Mortality

Mortality risk is the risk that death claims experience is higher than the rates assumed when pricing 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.

37(e)(ii): Sensitivity analysis

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at 31 December 2020 and 31 December 2019. Interest rate and equity and property price sensitivities are included within the Group market sensitivities above.

37: Capital and financial risk management continued
37(e): Insurance Risk continued

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 £11 million after tax (2019: £13 million).

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

37(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 and Information Security 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), poorly managed responses to regulatory change, which in the future may include transitional financial risks from climate change, 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 the development and implementation of action plans designed to manage risk levels within acceptable tolerances and to resolve issues identified.

37(g): Contractual maturity analysis
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 at the end of 2019 the Group has no pure insurance contracts (unbundled elements of linked investment contracts are included within "unit-linked investment contracts and similar contracts").

38: Fiduciary activities
The Group provides custody, trustee, corporate administration and investment management and advisory services to third parties that involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group may be accused of misadministration or under-performance.

39: 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.

39(a): Transactions with key management personnel, remuneration and other compensation
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group. Details of the compensation paid to the Board of Directors as well as their shareholdings in the Company are disclosed in the Remuneration Report on page 122.

39: Related party transactions continued

39(a)(i): Key management personnel compensation

	31 December 2020 £'000	31 December 2019 £'000
Salaries and other short-term employee benefits	5,503	10,230
Post-employment benefits	62	131
Share-based payments	5,263	7,005
Termination benefits	51	2
Total compensation of key management personnel	**10,879**	**17,368**

39(a)(ii): Key management personnel transactions

Key management personnel and members of their close family have undertaken transactions with the Group in the normal course of business.

The Group's products are available to all employees of the Group on preferential staff terms, the impact of which is material to the Group's financial statements. During the year ended 31 December 2020, key management personnel and their close family members contributed £2 million to Group pensions and investments (in both internal and external funds). The total value of investments in Group pensions and investment products by key management personnel serving at any point during the year and their close family members was £14 million at the end of the year.

During the year ended 31 December 2019, key management personnel and their close family members contributed £4 million (restated from £2 million previously reported) and the value of their investments in Group pensions and investment products totalled £18 million (restated from £16 million previously reported). The prior year comparatives have been restated due to the subsequent identification of additional investments in Group products associated with key management personnel in the year.

39(b): Associates

In the current and prior year, IT services were provided by 360 Dot Net Limited, an associate company. The impact on the financial statements of the Group is immaterial.

39(c): Other related parties

Details of the Group's staff pension schemes are provided in note 33. Transactions made between the Group and the Group's staff pension schemes are made in the normal course of business.

The Group used the consulting services of Manchester Square Partners LLP, a company which is jointly controlled by one of the Group's non-executive Directors (who resigned from the Quilter plc Board in May 2020). The transactions between the Group and Manchester Square Partners LLP amounted to £54,000 for that period in 2020 (2019: £359,000). Amounts were billed based on market rates for such services and were due and payable under normal payment terms. The outstanding balance with Manchester Square Partners LLP was £nil at 31 December 2020 (2019: £18,000).

Appendix A: Other accounting policies

Investments in associates

An associate is an entity over which the Group has significant influence, but not control or joint control, through its participation in the entity's financial and operating policy decisions. Significant influence is generally demonstrated by the Group holding between 20% and 50%, of the voting rights. Where voting rights are irrelevant, all other factors, contractual or otherwise, are assessed in determining whether the Group has the ability to exercise significant influence.

The results, assets and liabilities of associates, other than those that are measured at FVTPL (see below) are incorporated into these consolidated financial statements using the equity method of accounting from the date that significant influence commences until the date it ends. Under this method, the cost of the investment in an associate together with the Group's share of that entity's post-acquisition changes to shareholders' funds is included as an asset in the consolidated statement of financial position. The cost includes goodwill recognised on acquisition. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associate until the date on which significant influence ceases. Where a Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment. Investments in associates that are held with a view to subsequent resale are accounted for as non-current assets held for sale.

Where the Group has an investment in an associate, a portion of which is held by, or is held indirectly through a unit trust or similar entity, including investment-linked insurance funds, that portion of the investment is measured at FVTPL.

Foreign currency translation

The Group's presentation currency is pounds sterling (£). The functional currency of the Group's foreign operations is the currency of the primary economic environment in which these entities operate. The parent Company functional currency is pounds sterling (£). Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year and their statements of financial position are translated at the year-end exchange rates. Exchange rate differences arising from the translation of the net investment in foreign subsidiaries and associates are recognised in other comprehensive income and taken to the currency translation reserve within equity. To the extent that these gains and losses are effectively hedged, the cumulative effect of such gains and losses arising on the hedging instruments are also included in that component of shareholders' equity. On disposal of a foreign entity, exchange differences are transferred out of this reserve to the income statement as part of the gain or loss on sale.

Foreign currency transactions are converted into the relevant functional currency at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at exchange rates prevailing at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates prevailing at the dates the fair values were determined. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are converted into the functional currency at the rate of exchange ruling at the date of the initial recognition of the asset and liability and are not subsequently retranslated.

Exchange gains and losses on the translation and settlement during the period of foreign currency assets and liabilities are recognised in profit or loss. Exchange differences for non-monetary items are recognised in the statement of other comprehensive income when the changes in the fair value of the non-monetary item are recognised in the statement of other comprehensive income, and in profit or loss if the changes in fair value of the non-monetary item are recognised in profit or loss.

Leases

Under IFRS 16, the Group assesses whether a contract is or contains a lease at inception of the contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess where a contract conveys the right to control the use of an identified asset, the Group assesses whether:
- the contract involves the use of an identified asset which may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

For lessee contracts, the right-of-use asset is initially measured at cost, which comprises the initial amount of lease liability, adjusted for any lease payments made at or before the commencement date, and any initial direct costs incurred. Adjustments are also made, where appropriate, for dilapidation requirements and lease incentives received such as rent free periods. The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the asset-specific incremental borrowing rates.

Subsequent to lease commencement, the Group measures the right-of-use asset using a cost model, whereby the asset is held at cost less accumulated depreciation and any accumulated impairment. Depreciation is charged to the income statement on a straight-line basis to write down the cost of the right-of-use asset to its residual value over its estimated useful life which is dependent on the length of the lease. In addition, the carrying amount of the right-of-use asset may be adjusted for certain remeasurements of the lease liability. The lease liability is subsequently measured at amortised cost using the effective interest method and also reflects any lease modifications or reassessments.

Appendix A: Other accounting policies continued
Leases continued

The Group presents its right-of-use assets within "Property, plant and equipment" and lease liabilities within "Borrowings and lease liabilities" in the statement of financial position. The Group does not have any right-of-use assets that would meet the definition of investment property.

The Group currently has material lease commitments of varying durations for the rental of numerous office buildings. The future lease cash outflows within the Group are not exposed to variable lease payments, low value or short-term leases, residual value guarantees, restrictions or covenants imposed by a lease contract or sale and leaseback transactions.

Property, plant and equipment
Property, plant and equipment consists principally of computer equipment, and fixtures and fittings, and is stated at cost less accumulated depreciation and any recognised impairment losses. Cost includes the original purchase price of the asset and the costs of bringing the asset to its working condition for its intended use. Depreciation is charged to profit or loss on a straight-line basis to write down the cost of the asset to its residual value over its estimated useful life, ranging between 2 and 24 years depending on the length of time the Group expects to derive benefit from the asset.

Management determines useful lives and residual values for assets when they are acquired, based on experience of similar assets and taking into account other relevant factors such as any expected changes in technology. The Group assesses and adjusts (if required) the useful life, residual value and depreciation method for property plant and equipment on an annual basis.

Items of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which represents the higher of the asset's fair value less costs of disposal and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the income statement. Impaired non-financial assets, except goodwill, are reviewed for possible reversal of the impairment at each reporting date. On de-recognition of an item of equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the period of the de-recognition. Items of property and equipment that are not owned by the Group, but are held under lease arrangements are accounted for in accordance with the accounting policy on leases.

Share Capital
Equity instruments
Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The value of the Company's share capital consists of the number of Ordinary Shares in issue multiplied by their nominal value. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in share premium.

Share issue costs
Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

Dividends
Dividends are distributions of profit to holders of the Group's share capital and as a result are recognised as a deduction in equity. Dividends payable to holders of equity instruments are recognised in the period in which they are authorised or approved. Interim dividends payable to holders of the Group's Ordinary Share capital are announced with the half year results and authorised by the Directors of the parent Company. The final dividend is announced with the Annual Report and typically requires shareholder approval at the Annual General Meeting. For this reason it is not included in the annual consolidated financial statements.

Shares held by trusts
Shares in the parent Company that are held by the Employee Benefit Trust ("EBT") are treated as "Own shares". The EBT purchases shares in the parent Company for delivery to employees under employee incentive plans. Purchased shares are recognised as a deduction from equity at the price paid for them.

Earnings per share
Basic earnings per share are calculated by dividing the profit attributable to the Ordinary Shareholders of the parent Company by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by various share trusts of the Group and held as own shares.

Diluted earnings per share is calculated by increasing the weighted average number of Ordinary Shares outstanding to assume conversion of all dilutive potential Ordinary Shares, notably those related to employee share schemes.

Appendix B: Related undertakings

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings which is set out in this note. Related undertakings comprise subsidiaries, joint ventures, associates and other significant holdings. Significant holdings are where the Group either has a shareholding greater than or equal to 20% of the nominal value of any share class, or a book value greater than 20% of the Group's assets.

The definition of a subsidiary undertaking in accordance with the Companies Act 2006 is different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. Refer to accounting policies note 5(a) Group Accounting for further detail on the principles of consolidation.

The Group's related undertakings along with the country of incorporation, the registered address, the classes of shares held and the effective percentage of equity owned at 31 December 2020 are disclosed below.

Company Name	Share Class	% Held
United Kingdom		
Senator House, 85 Queen Victoria Street, London, EC4V 4AB		
Charles Jacques Limited	Ordinary	100
Cheviot Capital (Nominees) Limited	Ordinary	100
Commsale 2000 Limited	Ordinary	100
Old Mutual Financial Services (UK) Limited	Ordinary	100
OMFS (GGP) Limited	Ordinary	100
OMLA Holdings Limited	Ordinary	100
Prescient Financial Intelligence Limited	Ordinary	100
Quilpep Nominees Limited	Ordinary	100
Quilter Cheviot Holdings Limited	Ordinary	100
Quilter Cheviot Limited	Ordinary	100
Quilter CoSec Services Limited	Ordinary	100
Quilter Financial Advisers Limited	Ordinary	100
Quilter Investors Limited	Ordinary	100
Quilter Investors Portfolio Management Limited	Ordinary	100
Quilter Life & Pensions Limited	Ordinary	100
Quilter Nominees Limited	Ordinary	100
Quilter Pension Trustees Limited	Ordinary	100
Quilter Private Client Advisers Limited	Ordinary	100
Quilter UK Holdings Limited	Ordinary	100
Quilter Wealth Solutions Limited	Ordinary	100
Skandia UK Limited	Ordinary[1]	100
Violet No.2 Limited	Ordinary	100
Old Mutual House, Portland Terrace, Southampton, SO14 7EJ		
IFA Holding Company Limited	Ordinary	100
IFA Services Holdings Company Limited	Ordinary[2]	100
Old Mutual Wealth Holdings Limited	Ordinary[3]	100
Old Mutual Wealth Life & Pensions Limited	Ordinary	100
Old Mutual Wealth Limited	Ordinary	100
Old Mutual Wealth Nominees Limited	Ordinary	100
Old Mutual Wealth UK Holding Limited	Ordinary	100
Quilter Business Services Limited	Ordinary	100
Wiltshire Court, Farnsby Street, Swindon, SN1 5AH		
Blueprint Distribution Limited	Ordinary	100
Blueprint Financial Services Limited	Ordinary	100
Blueprint Organisation Limited	Ordinary	100
Caerus Capital Group Limited	B Shares	100
Caerus Holdings Limited	Ordinary	100
Caerus Wealth Limited	Ordinary	100
Caerus Wealth Solutions Limited	Ordinary	100
Intrinsic Cirilium Investment Company Limited	Various[4]	100
Intrinsic Financial Solutions Limited	Ordinary	100
Intrinsic Wealth Financial Solutions Limited	Ordinary	100
Quilter Financial Limited	Ordinary[5]	100
Quilter Financial Planning Limited	Ordinary[6]	100
Quilter Financial Services Limited	Ordinary	100
Quilter Mortgage Planning Limited	Ordinary	100
Quilter Wealth Limited	Ordinary	100

Company Name	Share Class	% Held
26 Throgmorton Street, London, EC2N 2AN[7]		
Falcon Financial Advice Limited	Ordinary	100
Lighthouse Advisory Services Limited	Ordinary	100
Lighthouse Benefits Limited	Ordinary	100
Lighthouse Corporate Services Ltd	Ordinary	100
Lighthouse Direct Limited	Ordinary	100
Lighthouse Financial Advice Limited	Ordinary	100
Lighthouse Financial Adviser Services Limited	Ordinary	100
Lighthouse Financial Advisers Limited	Ordinary	100
Lighthouse Group plc[8]	Ordinary	100
Lighthouse Pensions Help Limited	Ordinary	100
Lighthouse Support Services Limited	Ordinary	100
Lighthouse Wealth Management Limited	Ordinary	100
Lighthouse+ Limited	Ordinary	100
LighthouseCarrwood Limited	Ordinary	100
Lighthouseplus Limited	Ordinary	100
Lighthousetemple Limited	Ordinary	100
LighthouseWealth Limited	Ordinary	100
LighthouseXpress Limited	Ordinary	100
Luceo Asset Management Limited	Ordinary	100
The Falcon Group Limited	Ordinary	100
6 Tollgate Business Park, Tollgate West, Stanway, Colchester, Essex, CO3 8AB		
Charles Derby Group Limited	Ordinary	100
Charles Derby Private Clients Limited	A Ordinary	100
Charles Derby Wealth Management Limited	Ordinary	100
Forward Thinking Wealth Management Limited	Ordinary	100
Riverside House, The Waterfront, Newcastle upon Tyne, NE15 8NY		
Quilter Financial Planning Solutions Limited	Ordinary[9]	100
Think Synergy Limited	Ordinary	100
Hill House, 1 Little New Street, London, EC4A 3TR		
Caerus Bureau Services Limited (in liquidation 10/03/2020)	Ordinary	100
Freedom Financial Planning (Manchester) Limited (in liquidation 08/10/2020)	Ordinary A	100
Maestro Financial Services Limited (in liquidation 11/09/2019)	Ordinary	100
NPL Financial Limited (in liquidation 11/09/2019)	Ordinary	100
Premier Planning Limited (in liquidation 19/03/2018)	Ordinary	100
Saltire Court, 20 Castle Terrace, Edinburgh, Scotland, EH1 2DB		
D G Pryde Limited (in liquidation 27/02/2020)	Ordinary A	100

Company Name	Share Class	% Held
C/O Addleshaw Goddard LLP, 19 Canning Street, Edinburgh, Scotland, EH3 8EH		
Financial Services Advice & Support Limited	Ordinary	100
Ireland		
Hambleden House, 19-26 Lower Pembroke Street, Dublin 2, D02 WV96		
Pembroke Quilter (Ireland) Nominees Limited	Ordinary	100
Quilter Cheviot Europe Limited	Ordinary	100
Quilter International Ireland dac	Ordinary	100
Isle of Man		
King Edward Bay House, King Edward Road, Onchan, IM99 1NU		
OMF (IOM) LTD	Ordinary	100
Quilter International Business Services Limited	Ordinary	100
Quilter International Holdings Limited	Ordinary	100
Quilter International Isle of Man Limited	Ordinary	100
Quilter International Trust Company Limited	Ordinary	100
Third Floor, St George's Court, Upper Hill Street, Douglas, IM1 1EE		
Quilter Insurance Company Limited	Ordinary	100
Jersey		
3rd Floor, Windward House, La Route de la Liberation, St Helier, JE1 1QJ		
Quilter Cheviot International Limited	Ordinary A	100
C.I.P.M. Nominees Limited	Ordinary	100
QGCI Nominees Limited	Ordinary	100
Singapore		
138 Market Street, #06-01/02 Capita Green, Singapore, 048946		
AAM Advisory PTE. Ltd.	Ordinary	100
Germany		
Thurn-und-Taxis-Platz 6, 60313, Frankfurt		
Old Mutual Europe GmbH	Shares	100
Skandia Retail Europe Holding GmbH	Shares	100
South Africa		
Mutualpark, Jan Smuts Drive, Pinelands, 7405		
Global Edge Technologies (Pty) Limited	Ordinary	100
United Arab Emirates		
7 & 8 Level 2, Gate Village Building 7, Dubai International Financial Centre, Dubai, 482062		
Quilter International Middle East Limited	Ordinary	100
Other		
12-14 Upper Marlborough Road, St Albans, Hertfordshire, AL1 3UR		
360 Dot Net Limited	Ordinary A	17.5

[1]Ordinary £1.00
[2]A Ordinary and Ordinary-B
[3]Ordinary and Partly Paid Ordinary £0.20
[4]A Ordinary, B Ordinary and Preference Shares
[5]Ordinary A, Ordinary-B
[6]Ordinary £1.00
[7]On 26 February 2021 all companies at this registered office moved to Senator House, 85 Queen Victoria Street, London, EC4V 4AB
[8]Re-registered as a private limited company and changed name to Lighthouse Group Limited on 19 February 2021
[9]£0.00016 Ordinary and £0.00026 Ordinary

The International Wealth Platform business purchases shares of privately-held companies on behalf of customers so that those shares can be linked to whole of life assurance bonds for those customers. As the Group legally and beneficially usually owns 100% of the issued share capital of each of the private companies, they are considered to be related undertakings.

Private company shares held on behalf of customers:

Jersey

2nd Floor, Gaspe House, 66-72 Esplanade, St Helier, JE1 1GH
Electrolight Investments Limited
Gaspe House, 66-72 Esplanade, St Helier, JE2 3QT
Tixtan Limited

Isle of Man

Cayman National House, 4-8 Hope Street, Douglas, IM1 1AQ
Tissington Limited

Bahamas

Amicorp Bahamas Management Limited, Shirley & Charlotte Streets, PO Box N-4865
Rosco Bahamas Ltd.

Panama

2nd Floor, MMG Building, East 53rd Street, Marbella, Panama City
Atwood Development S.A.
2nd Floor, Humboldt Tower, East 53rd Street, Urb., Marbella, Panama City, PO Box 0819-09132
Accord Brook S.A.

British Virgin Islands

2nd Floor, O'Neal Marketing Associates Building, PO Box 3174, Wickhams Cay II, Road Town, Tortola, VG1110
Cannon Capital Investment Corp.
Isidro Mayo Corp.
Citco BVI Limited, Flemming House, PO Box 662, Wickhams Cay, Road Town, Tortola, VG1110
Libby Ventures Ltd
Level 1, Palm Grove House, Wickham's Cay I, Road Town, Tortola
Volenda Finance Inc.
MMG Trust (BVI) Corp, Morgan and Morgan Building, Pasea Estate, Road Town, Tortola
Pacific Commercial Services Ltd
DCAF Ltd
OMC Chambers, Wickhams Cay 1, Road Town, Tortola, VG1110
Akito Inc.
Palm Chambers, 197 Main Street, PO Box 3174, Road Town, Tortola, VG1110
Avanna Global Corp.
Tortola Pier Park, Building 1, Second Floor, Wickhams Cay 1, Road Town, Tortola
Elegant Inn Inc
Trident Chambers, P.O. Box 146, Road Town, Tortola, VG1110
South Surrey Investment & Finance S.A.
Trinity Chambers, PO Box 4301, Road Town, Tortola
Seaview Holdings Investment Limited
Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110
Bliss Spring Limited
Epoch Vision Ventures Limited
Grandeur Valley Limited
Sitori Trading Limited
Portcullis Trustnet (BVI) Ltd, Portcullis Trustnet Chambers, Vistra Corporate Services Centre, PO Box 3444 Road Town, Tortola
Neon Bay Ltd

Cyprus

Amathountos, 29 Myria Court, Flat 11 4532, Lemesos
Michael Churm Holdings Limited

Seychelles

Suite 3, Global Village, Jivans Complex, Mont Fleuri, Mahe
Reverades Holding Ltd
Rubyfield Investments Ltd

In addition, the following funds are consolidated and constitute related undertakings, as described in note 5(a).

Share Class	
A	Accumulation
B	Income

Fund Name	Share Class	% Held
United Kingdom		
Senator House, 85 Queen Victoria Street, London, EC4V 4AB		
Quilter Investors Absolute Return Bond Fund	A	64
Quilter Investors Asia Pacific (ex Japan) Equity Fund	A	59
Quilter Investors Asia Pacific (ex Japan) Large-Cap Equity Fund	A&B	57
Quilter Investors Asia Pacific Fund	A	62
Quilter Investors Bond 1 Fund	B	83
Quilter Investors Bond 2 Fund	A&B	72
Quilter Investors Bond 3 Fund	B	97
Quilter Investors China Equity Fund	A	57
Quilter Investors Cirilium Adventurous Blend Portfolio	A	39
Quilter Investors Cirilium Adventurous Passive Portfolio	A	40
Quilter Investors Cirilium Adventurous Portfolio	A	40
Quilter Investors Cirilium Balanced Blend Portfolio	A	47
Quilter Investors Cirilium Balanced Passive Portfolio	A	41
Quilter Investors Cirilium Conservative Blend Portfolio	A	37
Quilter Investors Cirilium Conservative Passive Portfolio	A	38
Quilter Investors Cirilium Conservative Portfolio	A	33
Quilter Investors Cirilium Dynamic Blend Portfolio	A	63
Quilter Investors Cirilium Dynamic Passive Portfolio	A	40
Quilter Investors Cirilium Moderate Passive Portfolio	A	42
Quilter Investors Compass Portfolio 2	A	68
Quilter Investors Compass Portfolio 3	A	63
Quilter Investors Compass Portfolio 4	A	64
Quilter Investors Compass Portfolio 5	A	64
Quilter Investors Corporate Bond Fund	A	59
Quilter Investors Creation Adventurous Portfolio	A	62
Quilter Investors Creation Balanced Portfolio	A	33
Quilter Investors Creation Conservative Portfolio	A	32
Quilter Investors Creation Dynamic Portfolio	A	34
Quilter Investors Creation Moderate Portfolio	A	33
Quilter Investors Diversified Bond Fund	A	58
Quilter Investors Emerging Markets Bond Fund	A	57
Quilter Investors Emerging Markets Equity Fund	A	61
Quilter Investors Emerging Markets Equity Growth Fund	A&B	70
Quilter Investors Emerging Markets Equity Income Fund	A	61
Quilter Investors Equity 1 Fund	A	77
Quilter Investors Equity 2 Fund	A	97
Quilter Investors Europe (ex UK) Equity Fund	A	68
Quilter Investors Europe (ex UK) Equity Growth Fund	A	62
Quilter Investors Europe (ex UK) Equity Income Fund	A	61
Quilter Investors Europe (ex UK) Small/Mid-Cap Equity Fund	A	62
Quilter Investors Generation CPI+ 3 Portfolio	A&B	57
Quilter Investors Gilt Index Fund	A&B	56
Quilter Investors Global Dynamic Equity Fund	A	77
Quilter Investors Global Equity Absolute Return Fund	A	59
Quilter Investors Global Equity Index Fund	A	50
Quilter Investors Global Equity Value Fund	A&B	57
Quilter Investors Investment Grade Corporate Bond Fund	A&B	48
Quilter Investors Japanese Equity Fund	A	58
Quilter Investors Monthly Income Portfolio	A&B	46
Quilter Investors Monthly Income and Growth Portfolio	A&B	51
Quilter Investors Global Equity Growth Fund	A	58
Quilter Investors Natural Resources Equity Fund	A	53
Quilter Investors North American Equity Fund	A	60
Quilter Investors Precious Metals Equity Fund	A	57
Quilter Investors Sterling Corporate Bond Fund	A&B	44
Quilter Investors Sterling Diversified Bond Fund	A&B	57
Quilter Investors UK Equity Fund	A	60
Quilter Investors UK Equity Growth Fund	A	56
Quilter Investors UK Equity Income Fund	A	60
Quilter Investors UK Equity Index Fund	A	43
Quilter Investors UK Equity Large-Cap Income Fund	A&B	60
Quilter Investors UK Equity Opportunities Fund	A	61
Quilter Investors US Equity Growth Fund	A	64
Quilter Investors US Equity Income Fund	A	62
Quilter Investors US Equity Small/Mid-Cap Fund	A	60
Luxembourg		
4, Rue Jean Monnet L-2180, Grand Duchy of Luxembourg		
Golden Hind – GIP Balanced	A	94
Golden Hind – GIP Cautious	A	84
Golden Hind – GIP Dynamic	A	91
Guernsey		
Ground Floor Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT		
M&G Offshore Global High Yield Bond Fund	B	68

Company statement of financial position

At 31 December 2020

	Notes	31 December 2020 £m	31 December 2019 £m
Assets			
Investments in subsidiary undertakings	4	2,254	2,235
Loans and advances	5	496	495
Deferred tax assets	6	–	4
Current tax receivable		7	9
Other receivables and other assets	7	28	7
Cash and cash equivalents	8	314	559
Total assets		**3,099**	**3,309**
Equity and liabilities			
Equity			
Ordinary Share capital		125	133
Ordinary Share premium reserve		58	58
Capital redemption reserve		8	–
Merger reserve	9	1,811	1,811
Share-based payments reserve		42	46
Retained earnings			
Brought forward retained earnings		1,046	644
Profit for the year		30	55
Other movements in retained earnings		(260)	347
Total retained earnings		816	1,046
Total equity		**2,860**	**3,094**
Liabilities			
Provisions	10	7	7
Borrowings	11	201	198
Other payables	12	31	10
Total liabilities		**239**	**215**
Total equity and liabilities		**3,099**	**3,309**

Approved by the Board on 10 March 2021.

Paul Feeney
Chief Executive Officer

Mark Satchel
Chief Financial Officer

Company registered number: 06404270

Company statement of cash flows

For the year ended 31 December 2020

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Cash flows from operating activities		
Profit before tax	33	50
Non-cash movements in profit before tax	(72)	(89)
Net changes in working capital	(10)	3
Taxation received	3	10
Total net cash flows used in operating activities	**(46)**	**(26)**
Cash flows from investing activities		
Dividends received from subsidiary undertakings	83	532
Investment in subsidiaries	(21)	–
Repayment of loan notes	7	–
Total net cash from investing activities	**69**	**532**
Cash flows from financing activities		
Dividends paid to ordinary equity holders of the Company	(81)	(92)
Finance costs	(10)	(10)
Repurchase of own shares	(157)	–
Loan to Employee Benefit Trust	(20)	–
Increase in loans to subsidiary undertakings	–	(100)
Subordinated and other debt repaid	–	(26)
Total net cash used in financing activities	**(268)**	**(228)**
Net (decrease)/increase in cash and cash equivalents	(245)	278
Cash and cash equivalents at beginning of the year	559	281
Cash and cash equivalents at end of the year	**314**	**559**

Company statement of changes in equity

For the year ended 31 December 2020

31 December 2020	Share capital £m	Share premium £m	Merger reserve[1] £m	Share-based payments reserve £m	Capital redemption reserve £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2020	**133**	**58**	**1,811**	**46**	**–**	**1,046**	**3,094**
Profit for the year	–	–	–	–	–	30	30
Total comprehensive income	–	–	–	–	–	30	30
Dividends	–	–	–	–	–	(81)	(81)
Shares repurchased in the buyback programme	(8)	–	–	–	8	(179)	(179)
Equity share-based payment transactions	–	–	–	(4)	–	–	(4)
Total transactions with the owners of the Company	(8)	–	–	(4)	8	(260)	(264)
Balance at 31 December 2020	**125**	**58**	**1,811**	**42**	**8**	**816**	**2,860**

31 December 2019	Note	Share capital £m	Share premium £m	Merger reserve[1] £m	Share-based payments reserve £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2019		**133**	**58**	**2,250**	**35**	**644**	**3,120**
Profit for the year		–	–	–	–	55	55
Total comprehensive income		**–**	**–**	**–**	**–**	**55**	**55**
Dividends		–	–	–	–	(92)	(92)
Release of merger reserve	9	–	–	(439)	–	439	–
Equity share-based payment transactions		–	–	–	11	–	11
Total transactions with the owners of the Company		**–**	**–**	**(439)**	**11**	**347**	**(81)**
Balance at 31 December 2019		**133**	**58**	**1,811**	**46**	**1,046**	**3,094**

[1]Quilter parent entity merger reserve includes £1,662 million relating to Quilter plc's acquisition of trading entities from Old Mutual Wealth UK Holding Limited in 2008, which eliminates on consolidation and so does not form part of the Group merger reserve.

In December 2020, the committed remaining share buyback for which irrevocable instruction had been provided by the Board, of £22 million, was accrued as a liability against retained earnings.

Notes to the financial statements of the Company

For the year ended 31 December 2020

1: General Information

Quilter plc (the "Company") is a public limited company registered in England with number 06404270.

The Company's Registered Office is Senator House, 85 Queen Victoria Street, London EC4V 4AB.

2: Basis of preparation

The financial statements of Quilter plc for the year ended 31 December 2020 have been prepared in accordance with in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for common control transactions which are stated at cost less impairments in accordance with IAS 27, and have been prepared in pounds sterling.

The accounting policies adopted are the same as those set out in Note 1 of the Group financial statements, which have been applied consistently apart from the following.

Investments in subsidiaries

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

Critical accounting estimates and judgements

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

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

Area	Critical accounting judgements	Notes
Provisions – recognition	In assessing whether a provision should be recognised, the Company evaluates the likelihood of a constructive or legal obligation to settle an event that took place in the past and whether a reliable estimate can be made. A significant provision has been made in respect of a revenue warranty associated with the sale of the Single Strategy Asset Management business. The key judgement is in respect of the comparative period.	10
Investment in subsidiaries – measurement	Management have applied judgement in their impairment assessment in respect of determining the cash-generating unit ("CGU"), which is the level at which largely independent cash inflows occur. Given the highly integrated nature of the Group's business model, the advice and wealth management functions are intrinsically linked. The Company's investments in Old Mutual Wealth Holdings Limited and Quilter Investors Limited each contain cash flows generated from these functions and therefore management have taken the judgement that aggregating cash flows from these investments represents the lowest level at which largely independent cash inflows are generated.	4

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement in these financial statements.

Other principal estimates

The Company's assessment of its investment in subsidiaries for impairment uses the latest cash flow forecasts from the Group's three-year business plan to calculate the recoverable value of its trading subsidiaries. These forecasts include estimates relating to equity market levels and growth in AuMA in future periods, together with levels of new business growth, net client cash flow, revenue margins, and future expenses and discount rates (see note 14 in the Group financial statements). Management do not believe that the use of these estimates have a significant risk of causing a material adjustment to the carrying amount of the assets within the next financial year.

Going concern

The financial statements have been prepared on a going concern basis.

The Directors have considered the resilience of the Company, 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. An assessment of the impact of COVID-19 on the going concern for the Company has been completed, concluding that the Company can withstand a severe but plausible downside scenario for at least the next 12 months. This assessment was based on the most recent management approved three-year profit forecasts, and incorporated scenarios that reflected the impact of significant decreases in equity market levels and net client cash flows.

As a result, the Directors believe that the Company 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.

3: Capital and financial risk management
The material risks faced by the Company are described below.

3(a): Operational risk
The Company defines operational risk as the risk of failure of people, process, systems or external events which 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 which the Company undertakes excluding strategic risks and risks resulting from being part of a wider group of companies.

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

The Company is exposed to credit and counterparty risk primarily arising from the investment of its shareholder funds. Sources of credit risk are managed in line with the requirements of the Credit Risk Policy that ensures cash is placed with highly rated counterparties and is appropriately diversified.

3(c): Market risk
Market risk is defined as the risk that a change in the value of the Company's income from any asset is not matched by an equal change in the value of the related liability. Market risk arises from fluctuations in variables such as equity prices, property prices, interest rates and foreign exchange rates, where assets and liabilities are not precisely matched. The Company is subject to material market risk in the following area:

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

An exposure exists as a result of three intercompany loans (see note 5) that are linked to an underlying variable interest rate, LIBOR, and so the value of these interest payments will vary if the underlying interest rate changes.

The Company also has subordinated debt (see note 11) that has a fixed interest rate, where the present value of the loan would vary in the event of a change in interest rates.

The Company monitors the impact of interest rate changes on its financial position, with the risk managed in line with its Market Risk Policy.

3(d): Liquidity risk
Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company manages liquidity by maintaining adequate liquidity resources and banking facilities, regularly monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. The Company maintains and manages its local liquidity requirements according to its business needs, within the overall liquidity framework established by the Company.

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

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

A decrease in interest rate of 1% would have decreased profit and shareholders equity by £4 million (2019: decrease £5 million) after tax; an equal change in the opposite direction would have increased profit by £5 million (2019: increase £7 million) after tax.

4: Investments in subsidiary undertakings

Investments in subsidiaries are stated at cost, less impairment in value. All shares held are Ordinary Shares.

	31 December 2020 £m	31 December 2019 £m
Balance at the beginning of the year	2,235	2,663
Investment in subsidiary undertakings	23	–
Investment in subsidiary undertaking in relation to share-based payments	(4)	11
Impairment of subsidiary undertaking	–	(439)
Balance at the end of the year	**2,254**	**2,235**

Investment in subsidiary

During 2020 the Company increased its investments in the Employee Benefit Trust and Quilter Insurance Company Limited by £21 million and £2 million respectively.

Investment in subsidiary undertakings in relation to share-based payments

Quilter plc grants rights to its equity instruments to employees of its subsidiaries under various share-based payment arrangements. In so doing, the subsidiaries receive services from employees that are paid for by Quilter plc, thereby increasing/(decreasing) the investment that Quilter plc holds in those subsidiaries. Quilter plc recognises the equity-settled share-based payment in equity, with a corresponding increase/(decrease) in its investment in the subsidiaries. The amount recognised as an additional investment is based on the grant date fair value of the share options granted, and is recognised by Quilter plc over the vesting period of the respective share schemes. A decrease to the Investment in subsidiary undertakings is recognised when each share award vests, and shares are delivered to the employees.

During 2020 the Company decreased its investments in subsidiaries in relation to share-based payments as listed below:

	31 December 2020 £m	31 December 2019 £m
Quilter Business Services Limited	(2)	2
Quilter Cheviot Limited	–	5
Quilter Financial Planning Limited	1	2
Quilter Investors Limited	(2)	1
Other subsidiaries	(1)	1
Total investments in subsidiaries	(4)	11

Impairment to investment in subsidiary

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

2019 impairment to investment in subsidiary

On 31 January 2018, the Company acquired the Skandia UK Limited group of entities, which had a net asset value of £591 million. The most significant asset within these entities was a £566 million receivable. On 31 December 2019, there was a partial repayment of this receivable and subsequent dividend paid by Skandia UK Limited to Quilter plc. The resulting decrease in Skandia UK Limited's net asset value gave rise to a £439 million impairment of Quilter plc's investment in Skandia UK Limited.

2020 impairment to investment in subsidiary

No impairments were recognised in Quilter plc for 2020.

5: Loans and advances

This note analyses the loans and advances the Company has made. The carrying amounts of loans and advances were as follows:

	Note	31 December 2020 £m	31 December 2019 £m
Loans to subsidiary undertakings	13	496	489
Loan to third party[1]		–	6
Total net loans and advances		**496**	**495**

[1]Loan to third party was a loan to TA Associates in respect of the deferred consideration receivable arising from the sale of the Single Strategy Asset Management business. The loan was repaid in June 2020.

All loans are held at amortised cost and repayable on demand. The loans to subsidiary undertakings are with Old Mutual Wealth UK Holding Limited and Old Mutual Wealth Holdings Limited and are charged at interest rates of annual LIBOR plus 0.5%, 1-month LIBOR plus 1.304% and 10%. Given the profitability and net assets of these subsidiaries, the credit risk associated with these loans is considered minimal. There have been no non-performing loans, loans subject to renegotiations or material impairments on loans and advances recognised in the financial year.

6: Deferred tax assets

The following are the deferred tax balances recognised by the Company and the movements thereon, during the current and prior year.

31 December 2020	At beginning of the year £m	Income statement charge £m	At end of the year £m
Tax losses	4	(4)	–
Deferred tax assets at 31 December 2020	**4**	**(4)**	**–**

31 December 2019	At beginning of the year £m	Income statement charge £m	At end of the year £m
Tax losses	2	2	4
Deferred tax assets at 31 December 2019	2	2	4

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

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

The value of the deferred tax assets not recognised as at 31 December 2020 was £16 million (2019: £3 million). This relates to gross carried forward losses of £86 million (2019: £16 million).

7: Other receivables and other assets

The note analyses total other receivables and other assets.

	Note	31 December 2020 £m	31 December 2019 £m
Due from subsidiary undertakings	13	28	7
Total other receivables and other assets		**28**	**7**

All amounts due from Group companies are unsecured and settled on demand. The Directors consider that the carrying amount of other receivables approximate their fair value.

8: Cash and cash equivalents

	31 December 2020 £m	31 December 2019 £m
Cash at bank	11	336
Money market funds	303	223
Total cash and cash equivalents per statement of financial position	**314**	**559**

All cash and cash equivalents are current, and recognised at amortised cost, apart from money market investments which are recognised mandatorily at FVTPL.

Investments in money market OEICs are classified as cash and cash equivalents. Management hold these investment funds for short term liquidity purposes. The funds are highly liquid, have a strong credit rating and a very low risk of reduction in value.

9: Merger reserve

2019 Merger reserve

During the year ended 31 December 2019, there was a partial repayment of the receivable and a subsequent dividend paid by Skandia UK Limited to Quilter plc. The resulting decrease in Skandia UK Limited's net asset value gave rise to a £439 million impairment of Quilter plc's investment in Skandia UK Limited and an associated release of the merger reserve.

2020 Merger reserve

There has been no further change to the merger reserve in 2020. These transactions attracted merger relief under section 612 of the Companies Act 2006.

10: Provisions

	31 December 2020 £m	31 December 2019 £m
Balance at beginning of the year	7	6
Additions	–	1
Total provisions	**7**	**7**

Revenue warranty in relation to the sale of the Single Strategy Asset Management business

Provisions totalling £6 million were made in 2018 as a consequence of the sale of the Single Strategy Asset Management business. These were made in relation to various sale related future commitments, the outcome of which was uncertain at the time of the sale and the most significant of which was in respect of the guarantee of revenues for the seller in future years arising from the funds invested by Quilter. Because of the long-term nature of the provision, it was deemed to be a non-current liability.

The provision takes into account sensitivities including potential scenarios which would result in a reduction in Group assets under management held in Merian Global Investors (Single Strategy Asset Management business) funds, leading to a reduction in the management fees paid to Merian Global Investors. The scenarios are based upon assumptions determined considering historical outflows over the past three years, expectation of outflows in the next two years and the latest information received from Merian. Per the conditions of the sale agreement, the maximum remaining potential exposure is £17 million, based on business periods between 2020 and 2022. The expected range of payments based upon the latest information received from Merian and management's reasonable expectations of AUM invested within Merian funds during the assessment periods varies from £5 million to £12 million.

Reassessments of the provision have led to an increase of £1 million in 2019 and £0.3 million decrease in 2020. Of the total provisions recorded above, £5 million is estimated to be payable after more than one year, with expected final settlement due in the first half of 2023.

11: Borrowings

	31 December 2020 £m	31 December 2019 £m
Subordinated debt		
Subordinated loan at 3-month LIBOR + 4.0503%[1]	198	198
Funding – intercompany payables	3	–
Total borrowings	**201**	**198**

[1]Commenced on 28 February 2018 and used for general corporate purposes.

Amounts borrowed are at amortised cost.

On 28 February 2018, the Company issued a £200 million subordinated debt security (held at amortised cost of £198 million) in the form of a 10-year Tier 2 bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478% (the "Tier 2 Bond"). The bond was remarketed and sold to the secondary market in full on 13 April 2018. It is now listed and regulated under the terms of the London Stock Exchange. In addition, the Company entered into a £125 million revolving credit facility which remains undrawn and is being held for contingent funding purposes across the Group.

12: Other payables

	Note	31 December 2020 £m	31 December 2019 £m
Due to subsidiary undertaking	13	6	7
Accruals		25	3
Total other payables		**31**	**10**

Other payables includes an accrual in 2020 for committed share purchases to complete the current tranche of the share buyback programme of £22 million, where the Company does not have the option to terminate the purchases. The tranche completed on 8 March 2021.

All amounts are current and short term, i.e. repayable within one year.

Amounts due to subsidiary undertakings are unsecured, repayable on demand and usually settled quarterly.

13: Related party transactions

Key management personnel transactions

Key management personnel and members of their close family have undertaken transactions with the Group in the normal course of business.

The Directors and key management personnel of the Company are considered to be the same as for the Group. See note 39 of the Group financial statements for further information.

There were no other related party transactions in the year ended 31 December 2020 and 31 December 2019 other than those referenced in note 39 of the Group financial statements.

Transactions with related parties carried out by the Company during the year were as follows:

	Notes	31 December 2020 £m	31 December 2019 £m
Management fees paid to subsidiary undertaking		56	47
Dividends received from subsidiary undertakings		83	532
Interest received from subsidiary undertakings		13	13
Amounts due from subsidiary undertakings	7	28	7
Amounts due to subsidiary undertakings	12	6	7
Investment in subsidiary undertaking	4	23	–
Investment in subsidiary undertaking in relation to share-based payments	4	(4)	11
Loans to subsidiary undertakings	5	496	489
Other borrowings from Group entities	11	3	–

Management services and fixed assets in the current and prior year in the UK are provided by Quilter Business Services Limited, a subsidiary undertaking. Quilter Business Services Limited charges a management fee for costs incurred and services provided. This fee is charged at cost plus a mark up.

14: Commitments

The Company has given letters of support which confirm that the Company will continue to provide financial support to a number of subsidiaries for a period of at least 12 months from the date of approval of the statement of financial position of those subsidiary companies.