Quilter

CRD IV Pillar 3 Disclosures as at 31 December 2018

Quilter ICAAP Group

Contents

Section A - Introduction and Purpose

A1 Name and legal form of the undertaking

This disclosure is in respect of the consolidation of entities within the Quilter plc (Quilter) Internal Capital Adequacy Assessment Process (ICAAP) prudential consolidation group (referred to within this document as the 'Quilter ICAAP Group'). This consolidation includes a subset of the entities within the Quilter legal group.

The Quilter ICAAP Group includes entities within the Quilter legal group which are classified as investment firms, asset management firms, advice firms, financial holding companies and mixed financial holding companies. Insurance firms, insurance holding companies and service companies which primarily provide services to insurance firms are excluded from the scope of the Quilter ICAAP Group.

All companies in the Quilter ICAAP Group are wholly owned subsidiaries of Quilter (some entities are subsidiaries of other intermediate holding companies). Quilter is a publically listed company.

On 25 June 2018, Quilter demerged from Old Mutual plc and listed on the London Stock Exchange (LSE) and Johannesburg Stock Exchange (JSE). Quilter intends to rebrand its businesses over a period of approximately two years following separation from Old Mutual plc. Company names throughout this report are correct as at 31 December 2018.

A2 Name and contact details of the supervisory authority

Financial Conduct Authority (FCA)
12 Endeavour Square
London
E20 1JN

A3 Name and contact details of the external auditor

KPMG LLP
Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

A4 Qualifying holdings in the undertaking

With the exception of Quilter, which is publically listed, for every company within the Quilter ICAAP Group, 100% of the voting rights were held by the immediate parent company throughout the relevant period of ownership.

As at 31 December 2018 there was one shareholder in Quilter with a holding that exceeded 10% of the voting rights, thereby meeting the definition of a "qualifying holding", this being Coronation Asset Management (Pty) Limited which held 11.06% of the issued shares.

A5 Background

The Capital Requirements Directive IV (CRD IV) is the EU implementation of Basel III which is a global Accord via the Basel Committee on Banking Supervision in response to the financial crisis. Basel III contains a package of proposals to increase the prudential soundness of Banks, and its implementation in the EU also covers certain Markets in Financial Instruments Directive (MiFID) Investment Firms.

Basel III has three pillars:

- Pillar 1: The minimum capital requirements of firms to cover credit, market and operational risk;
- Pillar 2: Designed to complement the existing Pillar 1 requirements by assessing the need to hold additional capital under a more risk based assessment called the Internal Capital Adequacy Assessment Process (ICAAP) which is confidential between the undertaking and the supervisory authority; and
- Pillar 3: A set of disclosure requirements which enable the market to assess information on a firm's risks, capital and risk management procedures.

CRD IV entirely replaced previous Capital Requirements Directives and introduced new prudential requirements.

The 'CRD IV Package' is comprised of:

- CRD IV (Directive 2013/36/EU)
- The Capital Requirements Regulations (Regulation (EU) No 575/2013).

The Capital Requirements Regulation (CRR) is directly binding on 'in scope' firms, and did not need to be implemented by the FCA (or via UK Regulation). However, the FCA transposed the Directive into the FCA Handbook via UK Regulation.

A6 Frequency

Pillar 3 disclosures will be made on an annual basis.

A7 Location

The Pillar 3 disclosure report is published on the Quilter website (www.quilter.com).

A8 CRD IV reporting currency

The Quilter ICAAP Group reports on a CRD IV basis in Great British Pounds (GBP).

A9 Reporting period

This report covers the financial position at 31 December 2018.

A10 Verification

The disclosures are unaudited but have been reviewed internally. To the extent that the disclosures have been made in the Report and Financial Statements of Quilter they have been subject to external verification. These disclosures explain how the Board have calculated certain capital requirements and information about risk management generally. They do not constitute financial statements and should not be relied upon in making judgements about Quilter or for any other purpose than that for which they are intended.

Section B - Governance and Risk Management

B1 Governance Framework

B1.1 Quilter Board and Committees

The Quilter Board is the decision-making body for all matters of such importance as to be of significance to Quilter as a whole because of their strategic, financial or reputational implications or consequences. The Board has documented a summary of the matters that are reserved for its decision, including Board appointments, Quilter's strategy, financial statements, capital expenditure and any major acquisitions, mergers or disposals.

The Quilter Board has delegated some of its responsibilities to five Board Committees which comprise the Board Audit Committee, Board Corporate Governance and Nominations Committee, Board IT Committee, Board Remuneration Committee and Board Risk Committee. Each Committee has specific responsibilities delegated to it by the Board recorded in their Terms of Reference which have been approved by the Board.

The Matters Reserved to the Board and its Committee's Terms of Reference are reviewed on an annual basis and are available on the Quilter website.

Board of Directors

Board IT Committee | Board Risk Committee | Board Audit Committee

Board Remuneration Committee | Board Corp. Gov. & Nominations Committee

Chief Executive

ExCo

Executive Risk Forum

First Line of Defence
Risk Origination, Ownership and Management
Business Operations

The primary responsibility of risk management lies with business management and all employees, who are responsible for managing risk as part of their day to day activities. They are responsible for identifying and evaluating the significant risks to the business, for designing and operating suitable controls and reporting risks and issues that arise in their areas.

Includes:

1. Set Risk Management Strategy
2. Set and deliver tone at the top
3. Implementation and ownership of policies
4. Implementation and monitoring of risk appetite and risk limits
5. Ongoing management of risks
6. Compliance and risk aware operating practices
7. Performance management

Accountable:

1. CEO / CFO / COO
2. Executive Management
3. All employees

Second Line of Defence
Risk Oversight, Challenge and Advice
Risk and Compliance Functions

The second line responsibilities are around the provision of frameworks, advice and support to the business. Risk's role includes reviewing and challenging the business on how well the framework has been implemented and providing additional insights on the main risks being run, the controls around these and the capital held.

Includes:

1. Deliver a clear and well communicated, business-wide risk framework
2. Provide control and monitoring systems
3. Produce risk reports for stakeholders
4. Support adherence to regulation and legislation
5. Advice and support to business
6. Escalate material issues / risks

Accountable:

1. CRO
2. Risk Leadership Team
3. Risk Function

Third Line of Defence
Assurance
Internal Audit

The third line responsibilities owned by Internal Audit (IA) are to provide independent, objective assurance. The scope of IA's activities encompass the examination and evaluation of the design adequacy and operating effectiveness of OMW's system of internal controls and associated risk management processes

Includes:

1. Internal governance structures and processes
2. The setting of and adherence to risk appetite
3. The risk and control culture of the organization
4. The integrity of dealings with customers, interactions with relevant markets
5. Key corporate events including the information being used to support key decisions
6. Lessons learned analysis following significant adverse events

Accountable:

1. Chief Internal Auditor
2. Internal Audit Team

B1.2 Roles and duties of the Quilter Board

The role of the Quilter Board of Directors, in respect of the ICAAP Group, is as follows:

- To oversee the long term prosperity of Quilter by providing independent input, review and constructive challenge of its businesses;
- To constructively challenge and help develop proposals on the Quilter strategy;
- To monitor the progress of Quilter in the development and implementation of strategic plans and material policies;
- To generally oversee Quilter to ensure the maintenance of sound risk controls and governance systems, integrity of financial information, regulatory compliance and sound planning, performance and overall management, either directly or via delegation to its Committees;
- To consider and, if thought fit, approve matters escalated to it, including those escalated from the subsidiary boards under its supervision; and
- Through its Corporate Governance and Nominations Committee, to recommend the appointment of a Chair to each of the Boards of Significant Subsidiaries within Quilter and to agree appropriate policies and processes to apply to the governance of those Significant Subsidiaries and the wider Quilter business.

B1.3 Quilter Executive Responsibility

The Board has delegated sufficient of its authority to the Quilter Chief Executive Officer (CEO) to enable him to manage the day to day operations of the Quilter Group, subject to the Schedule of Matters Reserved to the Board and the authorities granted through the Quilter Group Governance Manual.

To assist the Quilter CEO in the discharge of his responsibilities, an Executive Management team has been appointed and directly reports to the CEO. The Executive Management team, as well as performing key roles within the Quilter Group, form the Quilter Executive Committee.

The Quilter Executive Committee meets primarily on a monthly basis, and also holds update calls primarily on a fortnightly basis.

The Executive Risk Forum assists the Quilter CEO in the review and challenge of risk appetite performance, as set by the Quilter Board, and in overseeing, challenging and monitoring the management of risks, including strategic, business, operational, financial, insurance and regulatory risks, the adequacy of governance arrangements, and the effectiveness of internal controls.

B1.4 Quilter Board of Directors

The table below sets out members of the Quilter Board and their total number of directorships (including Limited Liability Partnerships and trustee positions) as at 31 December 2018. Their date of joining or leaving the Board (where this took place during the year) is also shown.

Note: directorships in organisations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organisations, are excluded and directorships held within the same group (for external directorships) are counted as a single directorship.

NAME	ROLE	NUMBER OF EXTERNAL DIRECTORSHIPS HELD	NUMBER OF DIRECTORSHIPS HELD WITHIN THE QUILTER GROUP
Glyn Jones	Independent Non-Executive Chairman	1	1
Paul Feeney	Chief Executive Officer	0	1
Tim Tookey	Chief Financial Officer	1	1
Rosie Harris	Independent Non-Executive Director	2	2
Bruce Hemphill (resigned 19 April 2018)*	Non-Executive Director	0	3†
Ingrid Johnson (resigned 19 April 2018)*	Non-Executive Director	0	4†
Suresh Kana (appointed 8 August 2018)	Independent Non-Executive Director	3	1
Moira Kilcoyne	Independent Non-Executive Director	1	1
Jonathan Little	Independent Non-Executive Director	1	2
Ruth Markland (appointed 25 June 2018)	Senior Independent Director	2	2
Paul Matthews (appointed 8 August 2018)	Independent Non-Executive Director	0	2
George Reid	Independent Non-Executive Director	1	4
Mark Satchel (resigned 19 April 2018)*	Corporate Finance Director	0	15
Cathy Turner	Independent Non-Executive Director	3	2

*Number of directorships is shown as at date of resignation from the Quilter Board.
†Some of these directorships were held outside of the Quilter Group, but within the wider Old Mutual plc group which Quilter was a part of as at the date Bruce Hemphill and Ingrid Johnson resigned from the Quilter Board.

Recruitment and selection of members of the management body

The Quilter Human Resources Policy requires decisions on recruitment (and other aspects of people management) to be objective and based on merit. Role profiles set out the skills, experience, competencies and knowledge required for the role (and regulatory and firm specific responsibilities for regulated roles).

Prior to employment and regularly thereafter background check s are conducted to ensure individuals are fit and proper.

In determining the composition of the management body we aim to ensure that the individuals have the appropriate skills, experience and as a whole the right blend of skills and experience to carry out the responsibilities of the management body.

All members of the management body are therefore subject to Quilter's Equality & Diversity Principles which are summarised in the following statement:

Quilter will create a working environment which is free from discrimination, victimisation and harassment and which respects the diverse backgrounds and beliefs of employees.

No employee or prospective employee or other individual will receive less favourable treatment or be disadvantaged by any circumstances, conditions or requirements that cannot be justified.

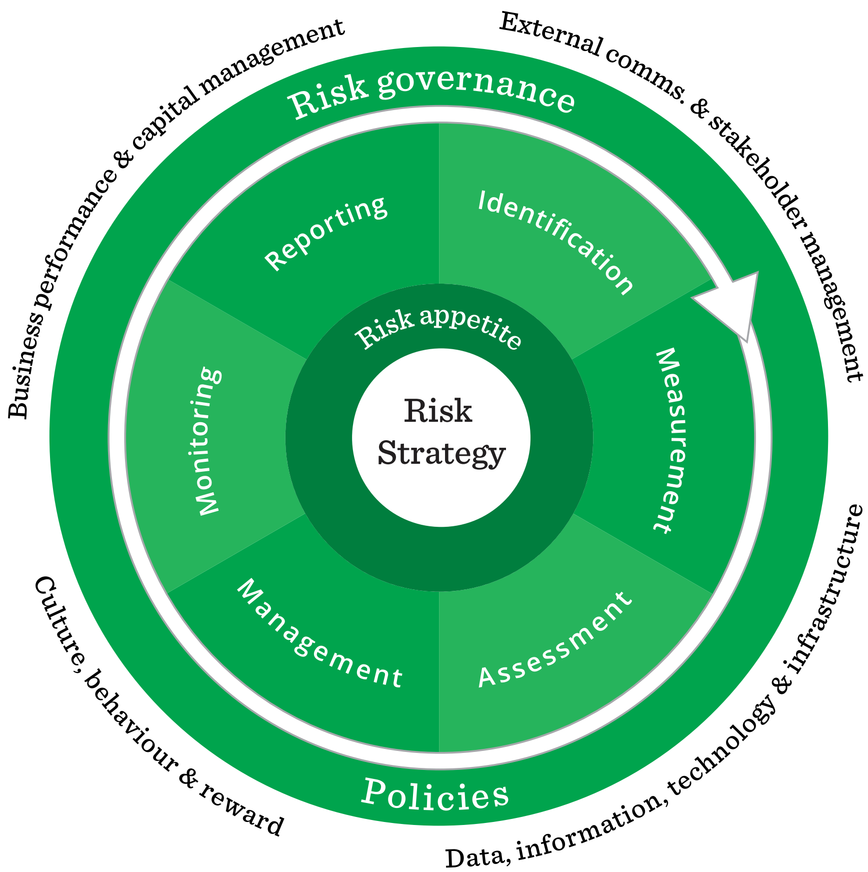
Management will make every effort to ensure they will not unreasonably exclude any individual from access to any activities, facilities or services, or any employment opportunities that they offer.

Quilter will treat all employees and job applicants equally and fairly and not discriminate unlawfully against them. This will, for example, include arrangements for recruitment and selection, terms and conditions of employment, access to training opportunities, access to promotion and transfers, grievance and disciplinary processes, demotions, selection for redundancies, dress code, references, work allocation and any other employment related matters. Every employee is entitled to expect equality of opportunity in all aspects of their employment including its terms and conditions.

B2 Risk Management Framework

B2.1 Risk Management Framework Overview

The requirements of the framework are set out in the Quilter Enterprise Risk Management Policy (ERM Policy) which is approved by the Quilter Board. An overview of the approach taken to meet the requirements of the ERM Policy is set out below. The requirements of the framework are set out in the Quilter Enterprise Risk Management Policy (ERM Policy) which is approved by the Quilter Board. An overview of the approach taken to meet the requirements of the ERM Policy is set out below.



B2.2 Risk Strategy, Appetite and Policy

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

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

Risk appetite predicates the identification and assessment of risks in order that either the appetite or the amount of risk identified may be determined on a timely basis. How management may subsequently choose to deal with a particular risk, whether through mitigation, by transfer, control or elimination, does frequently depend on risk appetite, although market factors may also be a factor. Quilter's Risk Appetite Framework supports the delivery of Quilter's strategy and business plan with risk appetite playing a central role in informing decision making across Quilter; protecting and enhancing the return on capital invested.

Quilter undertakes business in accordance with its current business and risk strategy which is supported by the principles set out below, that must be considered in deciding whether or not to pursue an opportunity.

Strategic Risk Appetite Principles

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

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

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

Policies supporting the system of internal control

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

Risk Management Culture

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

B2.3 Risk Identification and Assessment

Risks to delivery of the strategy and the business plan are identified through the strategic target setting process and business planning process. Risks to business processes are identified through the regular refresh of the Risk and Control Self-Assessment process, designed to improve the understanding and control of operational risks.

Risks and controls are assessed on a quarterly basis by first line management. Where controls are considered to be inadequate or ineffective, management actions are agreed to improve the level of control.

B2.4 Risk Management, Monitoring and Assurance

Risks are owned and managed on a day to day basis by first line risk owners. The second line Risk function provides advice to support the first line in managing risks.

Risk mitigation strategy planning is performed for some risks to ensure that risk mitigation plans are in place. An example of risk mitigation planning is the development of business continuity plans, which are defined at a functional level.

Corporate insurance is in place to mitigate some high impact, low frequency risks.

B2.5 Scenario Testing and Modelling

Scenario testing is performed to assess the impact of plausible but severe events and to support management in developing plans to manage such events.

The scenario framework focusses on considering scenarios under the following headings:

- Macro-economic scenarios (the key focus area is our ability to withstand such events and our exposure relative to our peers);
- Sectoral risks (i.e. risks which could affect all, or a subset of firms in the financial services industry, such as tax, regulatory or political changes);
- Specific threats (i.e. risks which could cause a specific threat to the Quilter ICAAP Group but would not impact peer firms to the same extent); and
- Reverse stress testing (i.e. threats which could cause the business model to become unviable).

In addition, operational risk scenario testing is performed to assess the impact of potential plausible but extreme operational losses.

B2.6 Risk Reporting and Escalation

Risk reporting is performed by the Risk function. Risk reports are provided to each of Old Mutual Wealth Limited, Quilter Investors, Quilter Cheviot, and Intrinsic Board Governance and Risk Committees and the Quilter Board Risk Committee at least on a quarterly basis, senior management on a monthly basis and the Operational Risk Oversight Forum on a quarterly basis.

Risk events with a financial impact of over £5,000 and risk events which have a significant non-financial impact such as impacts on customers and regulatory breaches are recorded by the function within which the risk event arose.

Risk events remain open until any management actions to manage the impacts or address the events have been performed.

First line management escalate risks and risk events in line with escalation guidelines which are defined by the Risk function.

B3 Risk Management Culture

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

Our risk culture is defined by the following principles:

- Responsibility and accountability for risk management is clearly assigned throughout the organisation with the aim of fostering an open and transparent organisational culture that encourages the right behaviours;
- We create a climate for our employees to voice genuine concerns about, and risks within, the business;
- A risk-aware culture is seen as an enabler for management to feel empowered to take risks in a manner that is transparent and that is in line with the business and risk strategy;
- Good risk management practices are encouraged, such that our employees understand how to make educated risk-related decisions in their day to day roles;
- Training and awareness programmes are in place to ensure that a risk aware culture is fostered and that employees understand the importance of good risk management; and
- Performance management encourages and incentivises good risk management practices.

B4 Adequacy of Risk Management Arrangements

Quilter has an ongoing process for identifying, evaluating and managing the principal risks that it faces, and the Quilter Board reviews these over the course of the year. The Board acknowledges its responsibility for establishing and maintaining Quilter's system of internal control, and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risks to which Quilter is exposed. The Board confirms the adequacy of the risk management systems to Quilter's risk profile and strategy.

B5 Risk Profile

B5.1 Strategic risk

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

The Quilter ICAAP Group is exposed to strategic risk in the following areas:

- Strategy: If Quilter's strategy does not yield the anticipated benefits, for example, through inaccurate prediction of the type of products and the level of advice required by its target customer base or inability to price such products and services competitively, this may have a material adverse effect on the Group's business, financial condition, results of operations and prospects, and reputation.
- Reputation and brand: Quilter is dependent on the strength of its reputation and its brands, which are vulnerable to adverse market perception or negative publicity, and Quilter may face challenges with regard to its ongoing rebranding initiative.
- Competitive pressure: Quilter's business is conducted in a competitive environment and, if Quilter is not successful in anticipating and responding to competitive change, adviser or customer preferences or demographic trends in a timely and cost-effective manner, its business, financial condition, results of operations and prospects could be materially adversely affected.
- People and culture: Quilter may fail to attract and retain talented advisers, investment managers, portfolio managers, senior management and other key employees.

B5.2 Credit risk

Credit risk is the risk of adverse movements in credit spreads credit ratings or default rates leading to deterioration in the level or volatility of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency.

The Quilter ICAAP Group is exposed to credit risk in the following areas:

- Default in respect of the investment of shareholder funds (typically held by banks or in Money Market Funds);
- Default by financial advisors in respect of loans granted;
- Default by fund management groups in respect of settlements.

The management of credit risk is supported by a Group Credit Risk Framework that comprises a Group Credit Risk Policy, Group Credit Risk Standard and Group Credit Risk Appetite Statement. The framework ensures that the Group only deals with counterparties deemed to be of high quality and ensures that robust ongoing monitoring and due diligence of counterparties occurs, with appropriate oversight.

Credit risk is assessed through analysis of the balance sheets of the individual Businesses that make up the Group, with appropriate management actions undertaken on a timely basis as required.

B5.3 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 a loss of earnings or reduced solvency. This risk can arise from movements in interest rates, equity and property values and foreign exchange rates. The Quilter ICAAP Group has a secondary exposure to market risk because a significant proportion of its revenue is linked to the value of the underlying assets (e.g. through annual management charges from clients).

The management of market risk is supported by the Group Market Risk Framework that includes a Group Market Risk Policy and Financial Risk Mitigation Standard. This framework includes details on permitted and prohibited market risk exposures.

The financial impact of potential severe but plausible market stresses is examined through annual stress and scenario testing.

B5.4 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 firm to trade in illiquid assets in order to maintain its ALM profile.

The management of liquidity risk is supported by a Group Liquidity Risk Framework that comprises a Group Liquidity Risk Policy, Group Liquidity Risk Standard and Group Liquidity Risk Appetite Statement. The framework ensures that the Quilter ICAAP Group maintains sufficient liquidity within each Business such that each can meet its minimum liquidity requirement at all times. This minimum liquidity requirement is assessed through identifying the drivers of liquidity risk in each Business, supported by regular stress testing and an appropriate Contingency Funding Plan that addresses potential liquidity requirements that may arise during a liquidity stress.

B5.5 Operational risk

Operational Risk is defined as: "The risk of loss (or unintentional gain/profit) arising from inadequate or failed internal processes, or from personnel and systems, or from external events (other than financial or business environment risks), resulting in an adverse impact to earnings or reduced solvency."

The Quilter ICAAP Group has exposure to a number of operational risks which threaten Quilter's ability to meet its business objective, the most significant being:

- **Advice and Mis-selling:** The risk that customers receive incomplete, inappropriate, untimely or unsuitable advice from businesses within the Group, with the potential for client detriment, which is likely to result in financial loss, damage to Quilter's reputation and / or regulatory censure and fines.
- **Customer Proposition:** Failure by Quilter to offer products, services and platforms that meet customer needs and which are considered suitable could result in advisers ceasing to recommend Quilter's products or services, or recommending fewer of Quilter's products or services, and declining persistency of Quilter's products.
- **Information technology:** Quilter uses computer systems to conduct its business, which involves managing and administering assets on behalf of customers in its wealth portfolios and on its platforms. Quilter's business is highly dependent on its ability to access these systems to perform necessary business functions and to provide adviser and customer support, administer products, make changes to existing policies, file and pay claims, manage customer's investment portfolios and produce financial statements and regulatory returns. Failure to manage this risk could have a material adverse impact on Quilter's business, financial condition, results of operations and prospects, and reputation.

- **Data, information and cyber-threats:** Quilter's business, by its nature, requires it to store, retrieve, evaluate and utilise customer and company data and information, which is highly sensitive. Quilter is subject to the risk of information security breaches from parties with criminal or malicious intent (including cyber-crime). Should Quilter's intrusion detection and anti-penetration software not anticipate, prevent or mitigate a network failure or disruption, or should an incident occur to a system for which there is no duplication, it may have a material adverse effect on Quilter's customers, business, financial condition, results of operations and prospects, and reputation.
- **Third party:** Quilter outsources and procures certain functions and services to third parties and may increase its use of outsourcing in the future. If Quilter does not effectively develop and implement its outsourcing strategies and its internal capability to manage such strategies, third party providers do not perform as anticipated, or Quilter experiences technological or other problems with a transition, it may not realise productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and loss of business, and damage to its reputation.

Operational risks are managed in accordance with the Quilter Operational Risk Policy and standards. Operational risk exposure is measured primarily through scenario assessments which use internal and external loss event data, Risk and Control Self-Assessments, and expert judgement provided by subject matter experts. Resultant exposures are evaluated against Quilter's risk appetite which is the process that drives operational risk reporting and management action.

Quilter operates a "three lines of defence" model as described in section B1.1 in accordance with the Group Governance Manual. The Board has overall responsibility for managing the level of operational risk incurred within an agreed risk appetite.

First line management has responsibility for the applying the operational risk framework including the management of operational risk and ensuring that appropriately designed controls are operating effectively. The Second Line Risk Function provides risk oversight and challenge to the First Line in their delivery of the requirements of the operational risk framework, and Quilter's Internal Audit function provides Third Line assurance. Quilter's governance structure is designed to ensure clarity of responsibilities and delegated authorities, segregation of duty, and clear escalation of risk issues to enable timely management action to manage risks within acceptable tolerances.

B5.6 Legal and regulatory risk

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

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

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

B5.7 Business risk

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

Conduct risk

Conduct risk is the risk that decisions and behaviours made by Quilter, its employees, its advisers and appointed representatives lead to customers being treated unfairly or otherwise result in detrimental customer outcomes and damage to our reputation.

Conduct risk may arise where Quilter: fails to design, implement or adhere to appropriate policies and procedures; offers products, services or other propositions that do not meet the needs of customers or fail to perform in accordance with their intended design; fails to communicate appropriately with customers; fails to deal with complaints effectively; sells or recommends unsuitable products or solutions to customers; fails to provide them with adequate information to make informed decisions or provide unsuitable investment for financial planning advice to customers; or fails to do any of the foregoing on an ongoing basis after initial sales, amongst other things. This risk may also arise as a result of employee (mis)conduct.

Conflicts of interest

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

Investment performance

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

B5.8 Pension obligation risk

A firm offering a defined benefit plan bears the risk that the investments in the plan do not produce a large enough return to meet pension obligations to current and former employees.

Quilter Cheviot operates two defined benefit pension schemes; the Quilter Cheviot Retirement Benefits Scheme and the Quilter Cheviot Channel Islands Retirement Benefits Scheme. Both schemes are closed to new members, and were closed to the accrual of future service benefits for in-service members as at 31 December 2014, such that all these members in this category become paid-up deferred members.

B5.9 Risk and capital management

The Capital Management Policy sets out the key considerations and restrictions with regard to the amounts of capital that is retained. The Quilter ICAAP Group retains sufficient resources to meet regulatory capital requirements and to maintain working capital to provide for fluctuations in experience. The regulatory capitals have been met throughout the year. The ICAAP is used to access the level of capital which should be retained by Quilter the ICAAP considers all the risks faced by Quilter and the degree to which risks have similar or related causes and could occur together.

The potential impacts on the capital resources and future profits of Quilter are assessed regularly. Market and investment contracts are assessed through stress tests applied to business plan financial projections by varying assumptions for future experience. Operational risks are assessed using scenario based risk assessments, constructed using expert judgement supplemented by review of the risk control processes in place, internal and external event data, key risk indicators and internal and external audit opinions. Credit risks are assessed by determining the financial exposure to material counterparties and the likelihood of default of these counterparties. Credit ratings are used to assess the likelihood of default.

The Quilter ICAAP Group regards the regulatory statutory capital resources of £772 million (2017: £596 million) as capital. The regulatory capital requirements have been met throughout the year.

Section C - Capital Resources

C1 Regulatory Pillar I Capital Resources

The table below illustrates the elements of the ICAAP Group's capital resources.

OWN FUNDS	2018 £m
Capital instruments and the related share premium accounts[1]	191
Of which: ordinary share capital Of which: share premium	133 58
Retained earnings[2] Accumulated other comprehensive income and other reserves	660 17
Common Equity Tier 1 (CET1) capital before regulatory adjustments[1&2]	868
Intangible assets (net of related tax liability)	(90)
Disallowable deferred tax assets	(6)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(96)
Common equity tier 1 (CET1) capital[1&2]	772
Tier 1 capital[1&2]	772
Total capital[1&2]	**772**

[1] Quilter's share capital comprises 1,902,251,098 ordinary shares of 7p each.

[2] After deducting the expected amount of the final dividend of £61m in respect of 2018.

C2 Reconciliation of Regulatory Capital to Balance Sheet Capital

The table below provides a reconciliation of regulatory capital to balance sheet capital for the entities within the scope of the ICAAP Group.

	2018 £m
IFRS net assets	929
Deduct: goodwill, intangible assets (net of tax liabilities)	(90)
Deduct: disallowable deferred tax assets	(6)
Deduct: foreseeable dividend1	(61)
Total capital	**772**

[1] The expected amount of the final dividend in respect of 2018.

Quilter

Section D - Capital Requirements & Capital Adequacy

D1 Regulatory Pillar I Capital Requirement

The Pillar I capital requirement under CRD IV is based on the higher of the sum of the credit, market and settlement risk capital requirements and the fixed overhead requirement. The table below provides a summary of the Pillar I capital requirement calculation for 31 December 2018:

PILLAR 1 CAPITAL REQUIREMENT	2018 £m
Credit risk capital requirement	62
Market risk capital requirement	1
Settlement risk capital requirement	1
Total of credit, market and settlement risk requirements	**64**
Fixed overhead requirement	78
Pillar 1 capital requirement	**78**

D1.1 Credit risk capital requirement

The ICAAP Group has adopted the standardised approach to calculating relevant components of the credit risk capital requirement as 8% of total risk-weighted exposures.

The components of the credit risk capital requirement at 31 December 2018 are summarised in the table below:

2018	EXPOSURE (£m)	AVERAGE RISK WEIGHT	RISK WEIGHTED EXPOSURE (£m)	RISK WEIGHTED EXPOSURE AT 8% (£m)
Debtors	605	90%	547	43
Cash	754	20%	151	12
Fixed assets	10	100%	10	1
Other	61	115%	70	6
Total	**1,430**		**778**	**62**

D1.2 Market risk capital requirement

Cash and cash equivalents are generally held in sterling bank deposits and sterling money market funds and there is no significant exposure to foreign currency exchange rates. The market risk capital requirement was £1 million at 31 December 2018.

D1.3 Settlement risk capital requirement

The ICAAP Group has settlement risk exposures related to the execution and settlement of trades. The settlement risk capital requirement was £1 million at 31 December 2018.

D1.4 Fixed overhead requirement

The fixed overhead requirement is calculated as 25% of the fixed expenditure of the ICAAP Group, based upon the latest audited statutory financial statements. The fixed overhead requirement for the ICAAP Group was £78 million as at 31 December 2018.

D2 Regulatory Pillar I Capital Adequacy

	2018 £m
Pillar I capital resources	772
Less: Pillar I capital requirement	(78)
Capital surplus	694

D3 Regulatory Pillar II Capital Adequacy

Under Pillar II, investment firms are required by the FCA to carry out an assessment of the adequacy of their capital resources based on their own assessment of the risks that they face rather than the regulatory prescribed calculation under Pillar I. This assessment is presented within the ICAAP report. The ICAAP report is an internal report which is shared with the FCA and is subject to supervisory review and evaluation by the FCA every two years.

Quilter

Section E - Remuneration Policy and Practices

E1 Introduction

The following disclosure explains how Quilter complies with the requirements of the UK implementation of CRD IV, in particular Articles 92 to 95. For the 2018 performance year, CRD IV applied to Old Mutual Wealth Limited (OMWL) and Quilter Cheviot Limited (QCL).

Under CRD IV certain rules apply to the remuneration policies and practices for staff whose professional activities have a material impact on the risk profile of Quilter. These employees are referred to as Material Risk Takers (MRTs) under CRD IV.

E2 Remuneration Policy

Remuneration for MRTs is governed by the Quilter Remuneration Policy. The policy has been designed to discourage risk taking outside of Quilter's risk appetite, to support the business strategy, objectives and values and to align the interests of employees, shareholders and customers.

The policy is overseen across Quilter by the Quilter Remuneration Committee (the 'RemCo').

The RemCo is appointed by the Quilter Board and consists of non-executive directors of Quilter, which enables it to exercise independent competent judgement in remuneration matters in the context of managing risk, value and capital in line with shareholders' expectations as well as ensuring Quilter's compliance with the relevant remuneration regulatory requirements. This includes the remuneration process, structures and operation which are actively monitored as an integral part of their oversight. The RemCo met six times in 2018. The Risk and Compliance Functions as well as the Quilter Board Risk Committee input into the Remuneration Policy and remuneration decisions as appropriate.

The Remuneration Policy has been developed based on a number of key principles. These are:

- Remuneration must reinforce wider people management practices, and only reward results which support employment culture and customer values;
- Remuneration must align to the business drivers, corporate vision and strategic priorities of the Quilter Group and its component businesses as disclosed to shareholders from time to time;
- Remuneration plans and policies must align the interests of executives with those of shareholders by rewarding delivery of the chosen strategy and sustained performance against agreed financial goals that create long-term shareholder value;
- There must be a robust quantitative and qualitative approach to reflecting risk metrics and risk management in the outcome of remuneration plans and total remuneration must be justifiable and affordable in relation to the performance attained; and
- The determination and communication of all remuneration plans must be simple, clear and transparent for employees and shareholders.

E3 Material Risk Taker (MRT) identification

Quilter has identified MRTs as individuals who can, by their professional activities, create material risks for the CRD IV entites within the Group. For 2018 these entities were OMWL and QCL. Quilter has identified MRTs in line with regulatory technical standards published by the European Banking Authority setting out qualitative and quantitative criteria. Categories of staff considered as MRTs include senior management, employees in key control function roles, other employees who could create material risks, and high earners and employees remunerated at the same level as other MRTs who can create material risks for the business. The identification process takes account of the key risks defined in the relevant ICAAP as well as the controls and governance framework that individuals operate within.

E4 Link between pay and performance

Remuneration for MRTs is made up of fixed compensation (salary and benefits) and variable performance-related pay (short-term and long-term incentives). All staff are eligible for variable pay and fixed compensation is set at a market competitive level enabling a fully flexible variable remuneration policy including the ability to pay no variable pay where appropriate. The long-term nature of the businesses in which we operate is reflected in our remuneration structures both to protect customers and support the creation and preservation of enduring value in the Group for the benefit of all shareholders, such as appropriate risk adjustment measures, growing the business sustainably and creating shareholder value. Quilter is a level 3 business and consequently applies the remuneration requirements of CRD IV in a way that is proportionate to its size, nature and complexity.

Short-term incentives

Short-term incentives are structured to incentivise the achievement of annual financial and non-financial performance objectives including risk and conduct, and to align MRT reward to customer and shareholder outcomes as appropriate. Business plans against which performance objectives are set and measured are market appropriate. Control function employees are assessed against role specific performance objectives which are independent of the performance of the business units they oversee.

Awards for MRTs typically include an element of deferral in Quilter restricted shares (or into own funds for any portfolio managers). The deferred portion is designed to further align staff and shareholder interests and to support employee retention. The vesting period is 3 years. Guaranteed variable remuneration is paid only in exceptional circumstances and is limited to the first year of service and the severance policy does not reward failure.

Where individuals are subject to other sectoral regimes such as AIFMD or UCITS V their compensation structures are adapted if necessary to ensure compliance with the requirements of those Directives and Remuneration Codes.

Long-term incentives

Long-term incentive awards for eligible MRTs are intended to align senior management remuneration with the success of Quilter and shareholder interests.

MRTs who are members of the Quilter Executive Committee may receive an award in the form of nil-cost options in Quilter shares, which is subject to three-year performance conditions aligned to the creation of long-term shareholder value. The vesting period is three years from the date of grant with a two-year post-vesting retention period. The extent to which the award vests depends on the achievement of the performance conditions and may be between 0-100% of the award.

MRTs who are not members of the Quilter Executive Committee may receive an award of Quilter Restricted Stock Units ('RSUs'). The award of RSUs is subject to an assessment prior to grant and during the vesting period to validate that there have been no conduct issues or breaches of Quilter risk management policies. The vesting period is three years from the date of grant and the vested shares are subject to clawback for a further period of two years from the vesting date.

In both cases the RemCo may also reduce the extent to which an award vests if it considers that undue risks were taken which could adversely impact future business earnings, operations or the reputation of Quilter.

E5 Determining bonus pools for variable pay awards

The way that the bonus pools are determined ensures that the outcomes are aligned to specific, measurable and relevant business results in a transparent manner with full consideration of the risk performance of the business.

The main pool structure is designed to share a portion of the value created with employees. It is funded based on performance against IFRS profit targets (excluding amortisation of intangibles and goodwill, and policy holder tax charges or credits) derived from Quilter's business plan and approved by the RemCo. Members of senior management are also subject to additional risk, customer and personal metrics that comprise an overall balanced scorecard used to determine final incentive outcomes.

The RemCo may exercise its judgement and discretion to apply a risk-based adjustment to the pool and/or individual outcomes based on the effectiveness of risk culture and the risk management performance of the business. To inform the RemCo in discharging its responsibilities in this respect, an independent risk report covering both quantitative and qualitative risk measures, as well as an assessment of any material risk events that have crystallised during the year, is prepared by the Chief Risk Officer and considered by Quilter's Board Risk Committee which provides an opinion to the RemCo on whether any adjustments are warranted.

Final senior management outcomes and the broader pool allocations are determined based on a bottom-up/target framework and reflect relative business performance where appropriate. Each business and function distributes their final allocation to employees based on relative employee performance against a balanced set of individual objectives.

E6 Share related awards and link to performance

Share awards are subject to malus and clawback provisions, which may be applied if, in the opinion of the RemCo, any of the following circumstances apply:

1) the results or accounts or consolidated accounts of any company, business or undertaking in which the participant worked or works or for which he or she was or is directly or indirectly responsible are found to have been materially incorrect or misleading;
2) any company, business or undertaking in which the participant worked or works or for which he or she was or is directly or indirectly responsible subsequently makes a loss out of business written, due in whole or in part, to a failure to observe risk management policies in effect at that time;

3) the participant has committed an act of gross misconduct or it is discovered that the participant's employment could have been summarily terminated;
4) the participant has acted in a way which has damaged, or is likely to damage, the reputation of Quilter or any Group member, or has brought, or is likely to bring, Quilter or any Group member into disrepute in any way;
5) any other circumstances similar in nature to those described above which the Committee justifies the application of malus; or
6) in the reasonable opinion of the Committee, he or she should not have received or be entitled to receive an award.

Share Plan rules require that awards may not be hedged in any manner (such as by the participant ceding or assigning rights to a third party).

The exit conditions to be applied to share awards will be determined by the share award scheme rules.

E7 Quantitative disclosures

90 MRTs were identified for 2018, including 15 individuals who are considered senior management. The aggregate quantitative information on remuneration shown below relates to our MRTs only for the performance year ending 31 December 2018.

In respect of 2018, the following amounts were paid in fixed and variable remuneration to MRTs. Fixed remuneration includes base salary and benefits received between 1 January 2018 and 31 December 2018. Variable remuneration includes 2018 annual bonus awards made in March 2019 and the award value of long term incentive awards granted in 2018.

Total remuneration for MRTs and Code Staff, split by senior management and other

Quilter (MRTs of the consolidated Group)

2018	SENIOR MANAGEMENT (£'000)	OTHER (16) (£'000)
Fixed Remuneration	£5,616	£19,439
Variable Remuneration	£11,332	£18,069
Total Remuneration	**£16,948**	**£37,509**

Old Mutual Wealth Limited

2018	SENIOR MANAGEMENT (7) (£'000)	OTHER (14) (£'000)
Fixed Remuneration	£3,800	£6,917
Variable Remuneration	£7,778	£5,210
Total Remuneration	**£11,578**	**£12,127**

Quilter Cheviot Limited

2018	SENIOR MANAGEMENT (5) (£'000)	OTHER (8) (£'000)
Fixed Remuneration	£690	£5,710
Variable Remuneration	£1,517	£6,332
Total Remuneration	**£2,207**	**£12,042**

* Due to the overlapping entities, some Senior Management will have been double counted within the above figures

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