Quilter

CRD IV pillar 3 disclosures as at 31 December 2019

Quilter CRD IV Group

Contents

Section A. Introduction and Purpose

A1 About Quilter

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, life assurance and long-term savings, and financial advice through its subsidiaries and associates primarily in the UK with a presence in a number of cross-border markets.

The Company was, until 25 June 2018, a wholly owned subsidiary of Old Mutual plc, a Financial Times Stock Exchange ("FTSE") 100 listed group. On 25 June 2018, Quilter plc was listed on the London and the Johannesburg Stock Exchanges and is no longer part of the Old Mutual plc group.

Following the listing of Quilter plc, all business within the Group will be subject to rebranding to align with the Quilter name. Legal entities have been referred to by their legal names at 31 December 2019.

A2 About this report

This Pillar 3 disclosure has been prepared in line with the requirements of the Capital Requirements Directive ("CRD IV") legislation, to help Quilter's customers and other stakeholders to understand the nature of the business, how the business is managed, and its capital position.

This is a consolidated CRD IV Pillar 3 disclosure that incorporates consolidated information for the Quilter plc CRD IV Consolidation Group ("Quilter CRD IV Group"). The Quilter CRD IV 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 CRD IV Group. The term "Quilter legal group" is used in this report to refer to the larger group which consists of Quilter plc and its direct and indirect subsidiaries.

A3 Name and contact details of the supervisory authority

The Quilter CRD IV Group is supervised by the Financial Conduct Authority (FCA).
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

The Quilter legal group is also subject to Solvency II group supervision by the Prudential Regulation Authority (PRA).

A4 Name and contact details of the external auditor

KPMG LLP is the statutory auditor of Quilter plc.
KPMG LLP
Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

A5 Qualifying holdings in the undertaking

Wi th the exception of Quilter plc, which is publicly listed, for every company within the Quilter CRD IV Group, 100% of the voting rights were held by the immediate parent company throughout the relevant period of ownership.

As at 31 December 2019 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 13.02% of the issued shares.

A6 Background

The Capital Requirements Directive IV ("CRD IV") is an EU legislative package that contains prudential rules for banks, building societies and investment firms. Most of the rules in the legislation have applied since 1 January 2014.

CRD IV is made up of the:

- Capital Requirements Directive (2013/36/EU), which must be implemented through national law; and
- Capital Requirements Regulation (575/2013) ("the CRR"), which applies to firms across the EU.

CRD IV is intended to implement the Basel III agreement in the EU. This includes enhanced requirements relating to:

- the quality and quantity of capital;
- liquidity and leverage;
- counterparty risk; and
- macro-prudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions.

CRD IV strengthens the prudential framework for individual institutions and responds to financial stability concerns that arose during the financial crisis of 2007-08.

The regulatory framework consists of three Pillars:

- **Pillar 1:** Defines the minimum capital requirements for firms and Groups.
- **Pillar 2:** Covers the supervisory review process. Firms and Groups are required to perform an internal assessment of the adequacy of corporate governance, risk management and capital requirements. This is referred to as the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is subject to periodic review by the FCA.
- **Pillar 3:** Covers a set of disclosure requirements which enable the market to assess information on a firm's corporate governance, risk management practices, capital adequacy and remuneration standards.

A7 Frequency

Pillar 3 disclosures will be made on an annual basis following publication of the Group's annual report.

A8 Location

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

A9 Reporting currency

The Quilter CRD IV Group reports in Great British Pounds (GBP).

A10 Reporting period

This report covers the financial position at 31 December 2019.

A11 Verification

This disclosure is not audited but has been reviewed internally. The elements of this disclosure taken from the audited financial statements of Quilter plc have been subject to external verification. This disclosure does not constitute a set of financial statements and should not be relied upon in making judgements about Quilter or for any other purpose than that for which the disclosure is intended.

Section B. Governance & Risk Management

B1 Governance framework

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 & Nominations Committee, Board Technology & Operations 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 Committees' Terms of Reference are reviewed on an annual basis and are available on the Quilter website.

Board of Directors		
Board Technology and Operations 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	*Second Line of Defence* **Risk Oversight, Challenge and Advice** Risk and Compliance Functions	*Third Line of Defence* **Assurance** Internal Audit
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.	The second line responsibilities are to provide risk frameworks and advice to the business. Risk's role also includes reviewing and challenging the business on how well the frameworks, standards and regulatory requirements have been implemented and providing additional insights on the main risks being run, the controls around these and the capital held.	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 Quilter's system of internal controls and associated risk management processes.
Includes: 1. Set Risk Management Strategy 2. Set and deliver tone at the top 3. Implementation and ownership of policies 4. Implement and monitor risk appetite and risk limits 5. Ongoing management of risks 6. Implement compliant and risk aware operating practices 7. Conduct performance management	**Includes:** 1. Deliver a clear and well communicated, business-wide risk framework 2. Provide control and monitoring systems 3. Produce second line risk opinions on key risks facing Quilter for stakeholders 4. Support adherence to regulation and legislation 5. Provide advice to the business 6. Escalate material issues / risks	**Includes:** 1. Internal governance structures and processes 2. The setting of and adherence to risk appetite 3. The risk and control culture of the organisation 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. CEO / CFO / COO 2. Executive Management 3. All employees	Accountable: 1. CRO 2. Risk Leadership Team 3. Risk Function	**Accountable:** 1. Chief Internal Auditor 2. Internal Audit Team

Roles and duties of the Quilter Board

The role of the Quilter Board of Directors, in respect of the Quilter CRD IV 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 Board Corporate Governance & 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.

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, with additional meetings as required.

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.

Quilter Board of Directors

The table below sets out members of the Quilter Board and their total number of directorships (including any Limited Liability Partnerships and trustee positions) as at 31 December 2019. 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	**0**	1
Paul Feeney	Chief Executive Officer	**0**	1
Mark Satchel (appointed 13 March 2019)	Chief Financial Officer	**0**	11
Tim Tookey (resigned 13 March 2019)*	Chief Financial Officer	**1**	1
Rosie Harris	Independent Non-executive Director	**2**	2
Suresh Kana	Independent Non-executive Director	**3**	1
Moira Kilcoyne	Independent Non-executive Director	**1**	1
Jonathan Little	Independent Non-executive Director	**1**	2
Ruth Markland	Senior Independent Director	**2**	2
Paul Matthews	Independent Non-executive Director	**0**	2
George Reid	Independent Non-executive Director	**0**	4
Cathy Turner	Independent Non-executive Director	**3**	2

*Number of directorships is shown as at date of resignation from the Quilter Board.

Recruitment and selection of members of the Board of Directors

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 checks 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 subject to Quilter's Equality and Diversity Principles which are summarised in the Human Resources Policy as follows:

Providing an environment where employees are safe and there is equality of opportunity is a key element in enabling our people to succeed and deliver the business strategy. Freedom of association is permitted if requested, which includes the right to join a trade union.

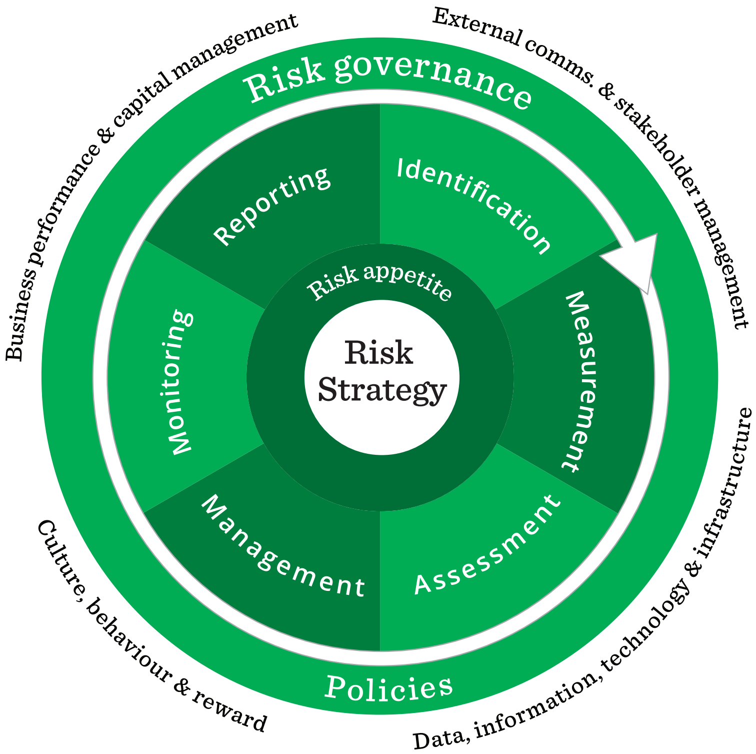
Using our diversity and our relationships to learn from one another enables us to create one business that provides better opportunities for our people and better outcomes for our customers.

The Quilter Group aims to achieve diversity across all dimensions, including gender, ethnicity, socio-economic background, LGBTI+, age and disability or other characteristics as appropriate.

The Human Resources function works with the Businesses to develop and assist in implementing action plans arising from employee surveys.

It is important that across Quilter Group there is an open and transparent environment where employees are able to raise issues openly.

B2 Enterprise Risk Management framework



Our Enterprise Risk Management ("ERM") framework encompasses a number of elements including: governance arrangements; end-to-end processes to facilitate the identification, assessment, measurement, monitoring and management of risk; and the incorporation of culture and behaviour in reward mechanisms. The ERM framework drives consistency across Quilter's businesses and aims to align strategy, capital, processes, people, technology and knowledge in order to evaluate and manage business opportunities, uncertainties and threats in a structured and disciplined manner.

In this way, Quilter seeks to ensure that risk and capital implications are considered when making strategic and operational decisions and to ensure that Quilter's risk profile is understood and managed on a continuous basis within the approved risk appetite. An important element to risk management is a good management culture of risk informed decision making. Quilter links risk management to employee performance and development, as well as to its remuneration and reward schemes. An open and transparent working environment which encourages all employees to embrace risk management is critical to the achievement of the Group's strategic priorities.

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

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

The sale of Quilter Life Assurance in December 2019 has removed some complexities associated with the provision of UK life insurance business. Nevertheless, the nature of Old Mutual Wealth Life & Pensions Limited business means that Quilter retains group prudential oversight by the PRA.

Risk appetite

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

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

Strategic Risk Appetite Principles

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

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

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

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 these documents 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 culture

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

B3 Risk and capital management

The Group operates a robust capital management framework to ensure the optimisation of the balance sheet between policyholder protection and shareholder expectations. The Group Capital Management Policy is closely linked to risk management objectives. It covers the determination of capital requirements and own funds, capital planning processes, stress and scenario testing and capital monitoring and performance.

The Group and its regulated subsidiaries complied with applicable regulatory capital requirements throughout 2019.

Internal Capital Adequacy Assessment Process ("ICAAP")

The ICAAP process is carried out continually and is designed to enable management to understand and manage the key risks to the business; ensure sufficient capital and liquidity is held in order to remain within risk appetite in respect of these risks; and make informed strategic decisions in response to these risks. The assessments are used to identify the level of capital and liquidity that should be retained by stressing each material risk and considering risk interactions and dependencies. The assessments also consider the approach used to manage risks which are not covered by capital or liquidity.

The ICAAP is defined as a set of underlying risk and capital management processes. These processes include:

- Defining and monitoring adherence to the risk appetite framework
- Assessing, monitoring and reporting of material risks to the achievement of the business plan
- Assessing the effectiveness of governance and risk management processes
- Determining solvency needs, including the assessment of Pillar 2 capital requirement; and stress and scenario testing
- Determining liquidity needs, including liquidity scenario analysis and maintaining and testing contingency funding plans
- Assessing the processes and resources which would be required to wind-down the business in an orderly manner
- Carrying out a forward looking assessment of the risk profile and capital needs over the business planning time horizon
- Reporting on the conclusions of ICAAP processes

The Pillar 2 capital requirement is determined by performing an internal assessment of risks which could lead to a potential loss of own funds. This builds upon the Pillar 1 own funds capital requirement by assessing the risks which are not fully captured by the Pillar 1 own funds capital requirement.

Whilst these risk management processes are ongoing throughout the year, an annual ICAAP Report is produced which provides an overall assessment of the current and future risk profile of the business, and demonstrates the relationship between business strategy, risk appetite, risk profile and solvency needs.

The ICAAP is owned by the Quilter Board. The Board exercises oversight through a number of governance and management committees, through the process of review and challenge throughout the year and by approving the annual ICAAP Report.

The ICAAP process and conclusions are subject to supervisory review and evaluation by the FCA on a periodic basis.

B4 Adequacy of risk management arrangements

Quilter has an ongoing process for identifying, evaluating and managing the principal risks that it faces. The Quilter Board Risk Committee reviews these risk assessments over the course of the year. The Quilter 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.

Section C. Risk Profile

Information on the risk profile of the business, and the principal risks and uncertainties which could impact the Group is included in the Quilter Annual Report. The principal risks and uncertainties are as follows:

C1 Strategic and business risks

Strategic risk

Quilter's strategy is to be the leading UK wealth manager with an advice-led proposition. Should this strategy not yield the anticipated benefits, as a result of inaccurate understanding of target market and customer behaviours, or as a result of failure to manage its new brand effectively, it may have a material adverse effect on the Group's business, its financial condition and its reputation.

The key mitigants are:

- Strategic and business planning process
- Business performance monitoring
- Robust strategic initiative management
- Brand management and brand monitoring arrangements

Investment performance risk

Strong investment performance within the Quilter Investors proposition and within Quilter Cheviot's discretionary fund management proposition is key to enabling Quilter to meet customer expectations and to grow its customer base and funds under management. During 2019, short term performance of Quilter Investors' core fund range has been noted with a range of management action underway to support stronger performance. Longer term underperformance of core investment management propositions could have a material effect on Quilter's business, financial performance and reputation.

The key mitigants are:

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

Conflicts of interest risk

Quilter's business model exposes it to potential and actual conflicts of interest, including those which result from Quilter's full service distribution model. Any failure to effectively manage conflicts of interest between its businesses and between Quilter and third parties could result in regulatory sanction and consequential impacts to the Group's business, financial condition and reputation.

The key mitigants are:

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

Advice and suitability risk

Quilter's financial advice and portfolio management services have fundamental regulatory conduct requirements to assure suitability of advisory recommendations and discretionary portfolio management. Failure to operate effective arrangements to support the delivery of suitable advice and portfolio management, including within recently acquired advice businesses, could expose Quilter to risks associated with customer detriment, regulatory censure and remediation programmes, and consequential impacts to the Group's business, financial condition and reputation.

The key mitigants are:

- Advice and portfolio management standards
- Suitability monitoring and oversight arrangements
- Extensive training arrangements for investment advisers and portfolio managers

C2 Financial risks

Market risk

Quilter's principal revenue streams are asset-value related and as such the Group is exposed to the condition of global economic markets and the UK markets in particular. Continued political uncertainty in the UK as a result of the UK's decision to leave the European Union continues to result in sustained market volatility. Volatility in debt, equity and currency markets may adversely impact customer investment portfolios which in turn impacts Quilter's ability to generate fee based revenue. Challenging market conditions also impact investor and adviser confidence and have the potential to challenge Quilter's ability to attract new net client cash flows from investors.

The key mitigants are:

- Stress and scenario analysis
- The strength of the balance sheet
- Financial risk policies, standards and limits

C3 Operational risks

Third party risk

Quilter procures certain services from third parties and this will increase as the Platform Transformation Programme concludes and results in significant business process and technology outsourcing to FNZ. If Quilter does not effectively oversee its third party providers, they do not perform as anticipated, or Quilter experiences technological or other problems with a third party, it may not realise productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and loss of business, customer detriment and damage to its reputation.

The key mitigants are:

- In 2019, a Chief Procurement Officer was appointed to oversee Quilter's approach to third party management
- The Group's Third Party Risk Management Framework is in place and is subject to ongoing enhancement
- Third party risk management policy and standards compliance arrangements are in place

Information technology risk

Quilter's business is highly dependent on its technology infrastructure and applications to perform necessary business functions, including the provision of services to customers. Some of the infrastructure and applications are legacy in nature and will require replacement in the coming years, while multiple acquisitions have extended and complicated the technology estate. Failure to manage technology risk could have a material adverse impact on Quilter's business, its resilience capabilities, financial condition, operations and its reputation.

The key mitigants are:

- A Group Technology Strategy to deliver ongoing technology enhancements over a 2-3 year time horizon
- Active systems monitoring and resilience plans
- IT policy suite and standards compliance arrangements

Information security risk

Quilter's business, by its nature, requires it to store, retrieve, evaluate and utilise customer and company data and information, some of which is highly sensitive. Quilter is subject to the risk of IT security breaches from parties with criminal or malicious intent. Should Quilter's intrusion detection and anti penetration software not anticipate, prevent or mitigate a network failure or disruption, it may have a material adverse effect on Quilter's customers, business, financial condition, operations, and reputation.

The key mitigants are:

- Cyber threat defences and monitoring
- Data governance arrangements, including those relating to General Data Protection Regulation ("GDPR") compliance
- Information security policy and standards compliance arrangements

People risk

Quilter relies on its talent to deliver its service to customers and to implement the broad range of strategic change initiatives that are currently ongoing. Failure to retain key staff or to attract suitable talent may impact the delivery of Quilter's strategy and may have an adverse impact on Quilter's business, its financial and operational performance and its delivery of service to customers.

The key mitigants are:

- Performance evaluation arrangements and related performance and risk adjusted remuneration arrangements
- Regular employee engagement surveys
- Quilter's 'Thrive' staff wellbeing initiative

C4 Legal and regulatory risks

Regulatory risk

Quilter is subject to regulation in the UK by the Prudential Regulation Authority; the Financial Conduct Authority; and by a range of regulators internationally. Additionally, the firm is subject to the privacy regulations enforced by Information Commissioner's Office and international equivalents. Quilter faces risks associated with compliance with these regulations and to changes in regulations or regulatory focus or interpretation in the markets in which Quilter operates. Failure to manage regulatory compliance effectively could result in regulatory censure, including the possibility of fines or prohibitions which could impact business performance and reputation.

The key mitigants are:

- Compliance advice and monitoring programme
- Regulatory horizon scanning
- Training and staff awareness programmes
- Compliance policy and standards

Financial crime risk

Quilter is subject to legislation designed to prevent financial crime in each of the jurisdictions in which it operates. This includes measures relating prevention of money laundering, terrorist financing, sanctions, bribery and corruption and insider dealing. Relevant regulatory and law enforcement agencies have the ability to impose significant censures for failures including fines or prohibitions which could impact reputation and business performance.

The key mitigants are:

- Mandatory staff training
- A range of specific controls including due diligence and sanctions screening
- Financial crime policy and standards compliance arrangements

Legal risk

Quilter is exposed to the risk of legal disputes relating to the provision of services to customers and contracts with employees and third parties; as well as risks relating to adverse changes to laws in the jurisdictions in which it operates. Failure to adequately management legal risk could result in unmitigated legal costs or penalties, impacting the Group's business, financial condition and reputation.

The key mitigants are:

- Internal legal risk management arrangements
- Access to external counsel advice
- Liability insurance arrangements

Section D. Capital Adequacy

D1 Basis of consolidation

These disclosures relate to the Quilter CRD IV Group and prepared on a consolidated basis ("the CRD IV Consolidation"). The scope used for the CRD IV Consolidation differs from the accounting basis of consolidation used in Quilter plc's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The accounting basis of consolidation includes all entities within the Quilter legal group. The CRD IV Consolidation starts from the accounting consolidation and removed the assets and liabilities of entities that are outside the scope of the Quilter CRD IV Group. No asset is recognised for holdings in subsidiaries of Quilter plc that are outside the scope of the CRD IV Consolidation.

The entities are included within the scope of the Quilter CRD IV Group are those which are classified as institutions, financial institutions, financial advice businesses and ancillary service undertakings which provide services primarily to other firms within the Quilter CRD IV Group. Institutions, financial institutions and ancillary service undertakings are defined in Article 4 of the CRR.

The entities which are excluded from the scope of the Quilter CRD IV Group are insurance undertakings, insurance holding companies and other firms which do not carry out any relevant activities. The own funds within these entities is deducted in determining the value of own funds for the Quilter CRD IV Group. Insurance undertakings are subject to separate regulatory frameworks.

In accordance with IFRS 10, the Quilter legal group consolidates the assets and liabilities of certain investment funds in preparing its consolidated financial statements. The investment funds are outside the scope of the CRD IV consolidation.

The Quilter legal group discloses capital adequacy on a Solvency II basis within the Quilter Group Solvency and Financial Condition Report.

D2 Own funds

The following table sets out the elements of the Quilter CRD IV Group's own funds as at 31 December 2019 and the prior year.

Own funds	*31 December 2019 (£m)*	*31 December 2018 (£m)*
Capital instruments and the related share premium accounts[1]	191	191
Of which: ordinary share capital	133	133
Of which: share premium	58	58
Retained earnings[2, 3]	1,073	660
Accumulated other comprehensive income and other reserves	24	17
Common Equity Tier 1 (CET1) capital before regulatory adjustments[1&2]	1,288	868
Goodwill and other intangible assets (net of related deferred tax liabilities)	(554)	(90)
Ineligible deferred tax assets	(11)	(6)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(565)	(96)
Common equity tier 1 (CET1) capital[2, 3]	723	772
Tier 1 capital[2, 3]	723	772
Total own funds[2, 3]	**723**	**772**

[1] Quilter's share capital comprises 1,902,251,098 ordinary shares of 7p each.
[2] After own funds adjustments including deductions for unverified profit and foreseeable dividends. The Quilter CRD IV Group's profits for the nine months ended 30 September 2019 are included within own funds in line with an FCA direction issued in November 2019. The unverified profit deduction relates to the three months ended 31 December 2019.
[3] The disclosure does not include the impact of any future distribution of the net surplus proceeds from the Quilter Life Assurance (QLA) sale to Quilter plc's shareholders or the impact of the proposed odd-lot offer.

D3 Reconciliation of IFRS net assets to own funds

A reconciliation from IFRS net assets to CRD IV Group own funds is provided in Appendix 1.

D4 Pillar 1 own funds capital requirement

The Group's Pillar 1 own funds capital requirement is calculated in accordance with the rules set out in the CRR, based on the higher of:

- the sum of the credit risk, market risk and settlement risk capital requirements; and
- the Fixed Overhead Requirement.

The resulting capital requirements at 31 December 2019 are summarised in the following table, with comparative figures for the previous year:

Pillar 1 own funds capital requirement	*31 December 2019*	*31 December 2018 (£m)*
Credit risk capital requirement	62	62
Market risk capital requirement	1	1
Settlement risk capital requirement	1	1
Total of credit, market and settlement risk requirements	64	64
Fixed overhead requirement	90	78
Pillar 1 own funds capital requirement	**90**	**78**

As a limited licence Group, the Quilter CRD IV Group is not required to hold any countercyclical capital buffers.

Credit risk capital requirement

The Quilter CRD IV 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 2019 are summarised in the table below:

31 December 2019	*Exposure (£m)*	*Average risk weight*	*Risk weighted exposure (£m)*	*Risk weighted exposure at 8% (£m)*
Corporates	437	98.3%	430	34
Institutions	599	20.1%	121	10
Retail exposures	67	75.0%	50	4
Central governments and central banks	11	0.0%	-	-
Units in collective investment schemes	607	20.4%	124	10
Equity exposures	2	100.0%	2	-
Other items	39	132.5%	51	4
Total	**1,762**	**44.1%**	**778**	**62**

Risk weighting of exposures

The risk weighted exposure of the Quilter CRD IV Group assets is based on the exposure class to which they are assigned, the credit quality of the counterparties associated with such exposures and the length of maturity of the exposures. Where possible, the Quilter CRD IV Group assesses the credit quality of its counterparties using External Credit Assessment Institutions ("ECAIs"). The principal ECAIs used by the Quilter CRD IV Group are Moody's, Standard & Poor and Fitch. Such weightings are especially important in the assessment of the exposures to institutions and collective investment undertakings, where such ratings are widely available.

In the event that no credit rating is available from an endorsed ECAI, the exposure is classed as unrated and the relevant risk weighting is applied in accordance with the CRR regulations. The Quilter CRD IV Group's unrated exposures include equity investments and trade and other receivables.

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 2019.

Settlement risk capital requirement

The Quilter CRD IV Group has settlement risk exposures related to the execution and settlement of trades. The settlement risk capital requirement was £1 million at 31 December 2019.

Fixed overhead requirement

The fixed overhead requirement is calculated as 25% of the fixed expenditure of the Quilter CRD IV Group, based upon the latest audited statutory financial statements. The fixed overhead requirement for the Quilter CRD IV Group was £90 million as at 31 December 2019.

D5 Pillar 1 capital adequacy

The following table provides a summary of the capital position of the Quilter CRD IV Group as at 31 December 2019 and the prior year.

	31 December 2019 (£m)	*31 December 2018 (£m)*
Pillar 1 own funds	723	772
Pillar 1 own funds capital requirement	90	78
Excess of own funds over Pillar 1 own funds capital requirement	633	694

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 2019 performance year, CRD IV applied to Old Mutual Wealth Limited (OMWL) and Quilter Cheviot Limited (QCL), as well as the Quilter CRD IV Group.

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 ("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 seven times in 2019. 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 a positive 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 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 2019 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 stakeholders, 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 three 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 policyholder 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 performance 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 related 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:

- the results or accounts or consolidated accounts of any company, business or undertaking in which the participant worked or works or for which the participant was or is directly or indirectly responsible are found to have been materially incorrect or misleading;
- 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;
- the participant has committed an act of gross misconduct or it is discovered that the participant's employment could have been summarily terminated;
- 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;
- any other circumstances similar in nature to those described above which the Committee justifies the application of malus; or
- in the reasonable opinion of the Committee, the participant 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

79 MRTs were identified for 2019. The aggregate quantitative information on remuneration shown below relates to our MRTs only for the performance year ending 31 December 2019.

In respect of 2019, the following amounts were paid in fixed and variable remuneration to MRTs. Fixed remuneration includes base salary and benefits received between 1 January 2019 and 31 December 2019. Variable remuneration includes 2019 annual bonus awards made in March 2020 and the award value of long term incentive awards granted in 2019.

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

Quilter (MRTs of the consolidated group)

2019	*Senior management - 14 (£'000)*	*Other - 65 (£'000)*
Fixed remuneration	5,177	12,931
Variable remuneration	6,701	12,834
Total remuneration	11,878	25,765

Old Mutual Wealth Limited

2019	*Senior management - 3 (£'000)*	*Other - 8 (£'000)*
Fixed remuneration	985	1,333
Variable remuneration	1,292	699
Total remuneration	2,277	2,032

Quilter Cheviot Limited

2019	*Senior management - 3 (£'000)*	*Other - 20 (£'000)*
Fixed remuneration	1,026	3,924
Variable remuneration	1,289	5,048
Total remuneration	2,315	8,972

Due to the overlapping entities, some senior management remuneration is double counted within the above figures. Appendix 1: Reconciliation of IFRS net assets to CRD IV own funds.

Appendix 1: Reconciliation of IFRS net assets to CRD IV own funds

The following tables provide a reconciliation from IFRS net assets for the Quilter Group to CRD IV own funds for the Quilter CRD IV Group.

31 December 2019	*Quilter plc Consolidated IFRS financial statements (£m)*	*Remove consolidation of funds adjustments (£m)*	*Scope adjustments and related reclassification adjustments (£m)*	*Remove goodwill, intangibles, contract costs and related deferred tax liabilities (£m)*	*Remove ineligible deferred tax assets (£m)*	*Regulatory balance sheet for CRD IV Pillar 3 disclosures (£m)*
Assets						
Goodwill and intangible assets	592	-	(3)	(589)	-	-
Property, plant and equipment	143	-	(113)	-	-	30
Investments in associated undertakings	1	-	-	-	-	1
Contract costs	455	-	(452)	(3)	-	-
Loans and advances	217	-	(180)	-	-	37
Financial investments	59,345	(7,093)	(52,247)	-	-	5
Deferred tax assets	43	-	(24)	-	(11)	8
Current tax receivable	13	-	(2)	-	-	11
Trade, other receivables and other assets	424	(136)	200	-	-	488
Derivative assets	32	(32)	-	-	-	-
Cash and cash equivalents	2,473	(527)	(764)	-	-	1,182
Total assets	**63,738**	**(7,788)**	**(53,585)**	**(592)**	**(11)**	**1,762**

31 December 2019	*Quilter plc Consolidated IFRS financial statements (£m)*	*Remove consolidation of funds adjustments (£m)*	*Scope adjustments and related reclassification adjustments (£m)*	*Remove goodwill, intangibles, contract costs and related deferred tax liabilities (£m)*	*Remove ineligible deferred tax assets (£m)*	*Regulatory balance sheet for CRD IV Pillar 3 disclosures (£m)*
Liabilities						
Investment contract liabilities	52,455	-	(52,455)	-	-	-
Third-party interests in consolidated funds	7,675	(7,675)	-	-	-	-
Provisions	64	-	(29)	-	-	35
Deferred tax liabilities	88	-	(49)	(38)	-	1
Current tax payable	6	-	(4)	-	-	2
Borrowings and lease liabilities	335	-	(111)	-	-	224
Trade, other payables and other liabilities	836	(99)	(407)	-	-	330
Contract liabilities and deferred revenue	191	-	(190)	-	-	1
Derivative liabilities	17	(17)	-	-	-	-
Total liabilities	**61,667**	**(7,791)**	**(53,245)**	**(38)**	**-**	**593**

Net assets	**2,071**	**3**	**(340)**	**(554)**	**(11)**	**1,169**

31 December 2019	**£m**
Net assets per the regulatory balance sheet	1,169
Own funds adjustments including adjustments for unverified profit and foreseeable dividend	(446)
CRD IV own funds	**723**

Appendix 2: Disclaimer

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

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

Quilter plc undertakes no obligation to update the forward-looking statements contained in this report or any other forward-looking statements it may make.

Nothing in this report should be construed as a profit forecast.

Nothing in this report shall constitute an offer to sell or the solicitation of an offer to buy any securities.

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