Quilter

CRD IV Pillar 3 Disclosures as at 31 December 2020

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, 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.

On 25 June 2018, Quilter plc was listed on the London and the Johannesburg Stock Exchanges.

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 2020.

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 (FCA).
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

PricewaterhouseCoopers LLP is the statutory auditor of Quilter plc.

PricewaterhouseCoopers LLP Statutory Auditor
7 More London Riverside
London
SE1 2RT

A5 Qualifying holdings in the undertaking

With 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 2020 there were two shareholders in Quilter with a holding that exceeded 10% of the voting rights, thereby meeting the definition of a "qualifying holding". These shareholders are set out in the table below.

Name of shareholder	Percentage of issued shares
Coronation Asset Management (Pty) Limited	17.03%
Public Investment Corporation of the Republic of South Africa	10.04%

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.

These rules have been adopted into UK regulation following the end of the Brexit transition period.

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 are 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 2020.

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 & Operations Committee

Board Risk Committee

Board Audit Committee

Board Remuneration Committee

Board Corp. Gov. & Nominations Committee

Chief Executive

Executive Committee

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. 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

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 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.

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

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 Quilter'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 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. 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 success 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 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 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 overleaf 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 2020. 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	Chief Financial Officer	0	11
Tim Breedon (appointed 1 June 2020)	Independent Non-executive Director	3	2
Rosie Harris	Independent Non-executive Director	2	2
Suresh Kana (resigned 14 May 2020)*	Independent Non-executive Director	3	1
Moira Kilcoyne	Independent Non-executive Director	2	1
Jonathan Little (resigned 30 September 2020)*	Independent Non-executive Director	1	2
Ruth Markland	Senior Independent Director	1	2
Paul Matthews	Independent Non-executive Director	0	2
George Reid	Independent Non-executive Director	0	3
Cathy Turner (resigned 14 May 2020)*	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

In line with the 2018 UK Corporate Governance Code, the selection and recruitment of Directors is 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.

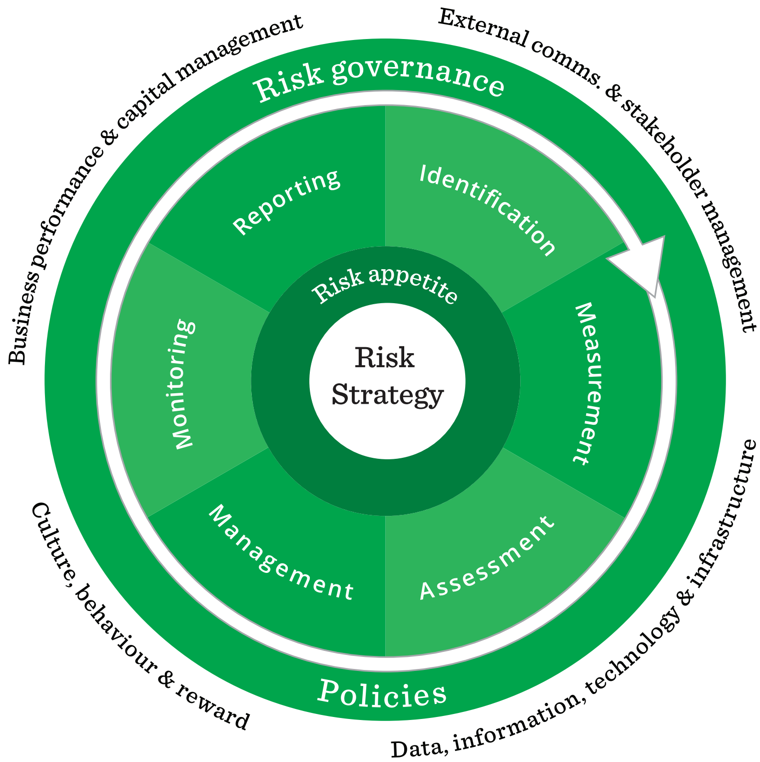
Using our diversity and our relationships to learn from one another enables us to create one business that provides better opportunities for our people and better outcomes for our customers.

The Quilter Group aims to achieve diversity across all dimensions, including gender, ethnicity, socio-economic background, LGBT+, 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 is embedded across Quilter and encompasses a number of elements to help the firm manage its risk exposure. The ERM framework ensures our risk management approach is consistent across Quilter. It aligns our strategy, capital, processes, people, technology and knowledge in order to evaluate and manage opportunities and uncertainties in a structured and disciplined manner. The framework ensures the risks we face as a business are understood and continually managed within our risk appetite, as well as helping us to consider capital implications when making strategic and operational decisions.

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.

Risk appetite

Our risk appetite is the amount of risk we are willing to take in the pursuit of our strategic priorities and is defined by the Board. Culturally, this also 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. Risk appetites are developed for material risks to which the Group is exposed through qualitative statements and quantitative risk appetite measures. This 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, 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 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 through a series of underlying risk appetite measures. These principles and underlying measures are communicated and applied to all businesses and functions as appropriate.

Policies supporting the system of internal control

The Group Governance Manual ("GGM") and policies form an integral part of our governance and ERM framework, ensuring an appropriate system of risk management and internal control, including financial, operational and compliance areas. 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

An important element to risk management is a risk-aware culture and risk-informed decision making. Quilter links 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 the Group's 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.

Throughout 2020, the Group has complied with the regulatory capital requirements that apply at a consolidated level and Quilter's insurance undertakings and investment firms have complied with the regulatory capital requirements that apply at entity level.

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

Economic environment

Quilter's principal revenue streams are asset-value related and as such the Group is exposed to the condition of global economic markets. The evolving COVID-19 pandemic continues to have significant impacts on economic activity resulting in market volatility. These conditions are expected to continue into 2021, alongside residual uncertainty in relation to the full impacts of the implementation of the UK-EU Trade and Cooperation Agreement. 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.

The key mitigants are:

- Annual stress and scenario analysis exercise
- Strength of the balance sheet

Business financial performance

The challenging external environment experienced in 2020 is set to continue to impact net flows, revenues and profitability into 2021, with margin compression also set to be expedited by the current conditions. Prudent cost management, both through tactical in year savings, and longer-term optimisation initiatives has reduced the cost base, though increasing Financial Services Compensation Scheme levies present a further cost challenge. An unmitigated negative impact on earnings, share price and/or capital position could have a resulting adverse effect on Quilter's market credibility and financial standing.

The key mitigants are:

- Ongoing cost efficiency focus
- Optimisation initiatives
- Financial risk policies, standards and limits

Investment performance risk

Strong investment performance within Quilter Investors' fund management proposition and within Quilter Cheviot's discretionary fund management proposition are key to enable Quilter to meet customer expectations and to grow its customer base, and assets under management. Weaker short-term performance of Quilter Investors' Cirilium Active range was noted during volatile markets in the first quarter of 2020, with a range of management actions ongoing to support stronger performance. Stronger performance has been observed for the remainder of the year as these management actions have been implemented, reducing the residual risk profile. Longer term under-performance of core investment management propositions could have a material effect on Quilter's business, financial performance and reputation.

The key mitigants are:

- Bolstered Quilter Investors Leadership team, including a new Chief Investment Officer
- Enhanced Quilter Investors performance and investment risk oversight and monitoring

Change strategy and execution

Quilter continues to be subject to material change programmes, as a series of long-running programmes are due to be completed during 2021, including the Platform Transformation Programme (PTP). The scale of change is reducing, in particular as PTP nears completion. A series of new business change programmes including the work to strengthen controls at Quilter Financial Planning, and several key digital and data initiatives will be ongoing in 2021. This delivery profile carries a delivery risk, a risk of implementation issues, and a dependence on key individuals. As 2021 progresses there will be a need to ensure these projects remain on track to deliver the intended benefits, without risking disruption to continuing operations and the control environment.

The key mitigants are:

- Successful PTP migration preparation and migration events in 2020, with final migration on track for Q1 2021
- Active management and prioritisation of the change portfolio
- Enhanced executive oversight and change assurance
- Programme and portfolio governance arrangements

C2 Operational and regulatory risks

Advice and suitability risk

Quilter's financial advice services are subject to fundamental regulatory conduct requirements to assure suitability of advisory recommendations. Failure to operate effective arrangements to support the delivery of suitable advice 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 current scrutiny of the defined benefit transfer advice provided by Lighthouse has increased the risk profile during 2020 given the need to remediate impacted cases where relevant and deliver fair outcomes for customers.

The key mitigants are:

- Ongoing work to enhance the advice and adviser control framework within Quilter Financial Planning
- Enhanced suitability monitoring and oversight arrangements

Information technology risk

Quilter's business is highly dependent on its technology infrastructure and applications to perform necessary business functions, including to support the provision of services to customers. COVID-19 has required adaptation to mass home working, which has been successfully achieved across Quilter. Much of Quilter's legacy IT estate is currently being replaced, with a move to Software as a Service (SAAS) applications reducing the Group's internal technology complexity, though increasing reliance on third-parties. 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 Technology Strategy to support the transition to modern applications and retirement of legacy technology.
- An Infrastructure Transformation Programme to deliver technology enhancement across Quilter's estate.
- Active systems monitoring
- 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. The COVID-19 conditions mean there is increased remote handling of data. Quilter is subject to the risk of information 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:

- Ongoing Information Security Improvement Programme
- Cyber threat defences and monitoring
- Data governance arrangements
- 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 being delivered. In 2020 the COVID-19 operating conditions have posed further people challenges, although a strong focus on supporting staff through this difficult time has reduced its impact. People risk has remained elevated but broadly stable during 2020. 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:

- Phasing key change programmes to avoid conflicts
- Performance evaluation arrangements and related performance and risk-adjusted remuneration arrangements
- Regular employee engagement surveys
- Quilter's staff wellbeing initiative, 'Thrive'

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, Quilter may experience operational difficulties, increased costs and loss of business, potential customer detriment and damage to its reputation. A decreasing residual risk profile is observed as Quilter's third-party oversight arrangements matured through 2020 reducing the risk of material incidents.

The key mitigants are:

- Maturing of Quilter's Third-Party Risk Management Framework
- Implementation of a systemised approach to sourcing
- Third Party Risk Management Policy and standards compliance arrangements

Operational resilience

Operational resilience was added to Quilter's principal risks and uncertainties in Q2 2020, given the magnitude of the disruption posted by COVID-19. The pandemic has tested Quilter's ability to respond and adapt to sudden disruptions and has shown Quilter to successfully manage during this crisis period. Following the maturing of crisis management protocols, the focus in 2021 will switch to reviewing standards for articulating critical processes and dependencies, and of the effectiveness of testing such that the firm can robustly demonstrate preparedness for future scenarios, and manage the risk that future events could pose to customers or Quilter. The trend represents a stable residual risk trend since inclusion in Quilter's principal risks and uncertainties in Q2 2020.

The key mitigants are:

- Operational resilience policy and processes
- Systemised inventories of critical processes and dependencies
- Resilience plans and testing

Regulatory risk

Quilter is subject to regulation in the UK by the Prudential Regulation Authority and the Financial Conduct Authority, and by a range of regulators internationally. Additionally, the firm is subject to the privacy regulations enforced by the 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. An increased risk profile was noted in 2020 as a result of regulatory attention in respect of Quilter Financial Planning.

The key mitigants are:

- Compliance advice and monitoring programme
- Regulatory engagement management
- Regulatory horizon scanning
- Staff training and staff awareness programmes
- Compliance policy and standards compliance

Section D. Capital Adequacy

D1 Basis of consolidation

These disclosures relate to the Quilter CRD IV Group and are 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 which are 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. From this starting point, the assets and liabilities of entities that are outside the scope of the Quilter CRD IV Group are removed. No asset is recognised for holdings in subsidiaries of Quilter plc that are outside the scope of the CRD IV Consolidation.

The entities 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 2020. The Group's own funds position as at 31 December 2019 is provided as a comparative.

Own Funds	31 December 2020 (£m)	31 December 2019 (£m)
Capital instruments and the related share premium accounts[1]	182	191
Of which: ordinary share capital[1] Of which: share premium	124 58	133 58
Retained earnings[1,2,3] Accumulated other comprehensive income and other reserves	1,173 31	1,073 24
Common Equity Tier 1 (CET1) capital before regulatory adjustments[2]	**1,386**	**1,288**
Goodwill and other intangible assets *(net of related deferred tax liabilities)*	(520)	(554)
Ineligible deferred tax assets	(6)	(11)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(526)**	**(565)**
Common equity tier 1 (CET1) capital[2,3]	**860**	**723**
Tier 1 capital[2,3]	**860**	**723**
Total own funds[2,3]	**860**	**723**

[1] Quilter's share capital comprises 1,783,969,051 ordinary shares of 7p each with an aggregated nominal value of £124,877,834. On 11 March 2020, Quilter plc announced a share buyback programme to purchase shares up to a maximum value of £375 million. The programme commenced in March 2020 and will continue into 2021. During the year ended 31 December 2020, the Company acquired 118.3 million shares. The shares, which have a nominal value of £8 million, have subsequently been cancelled, resulting in a reduction of share capital. As at 31 December 2020, the committed remainder of £22 million was accrued as a liability. For regulatory purposes, the liability resulted in a £21 million reduction in retained earnings and a £1 million reduction in Ordinary share capital.

[2] After own funds adjustments including deductions for unverified profit and foreseeable dividends.

[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 other than the committed remainder of £22 million of Tranche 2 of the share buyback which was accrued as a liability.

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 are set out in the table below:

Pillar 1 own funds capital requirement	31 December 2020 (£m)	31 December 2019 (£m)
Credit risk capital requirement	59	62
Market risk capital requirement	2	1
Settlement risk capital requirement	1	1
Total of credit, market and settlement risk requirements	62	64
Fixed overhead requirement	94	90
Pillar 1 own funds capital requirement	**94**	**90**

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 2020 are summarised in the table below:

31 December 2020	Exposure (£m)	Average risk weight	Risk weighted exposure (£m)	Risk weighted exposure at 8% (£m)
Corporates	442	98%	431	34
Institutions	297	21%	61	5
Retail exposures	71	75%	53	4
Central governments and central banks	9	249%	22	2
Units in collective investment schemes	658	22%	145	12
Equity exposures	2	100%	2	-
Other items	20	100%	20	2
Total	**1,498**	**49%**	**735**	**59**

Figures may not sum to the totals shown due to rounding.

Risk weighting of exposures

The risk-weighted exposures of the Quilter CRD IV Group assets are based on the exposure class to which they are assigned, the credit quality of the associated counterparties and the time to maturity. 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 £2 million at 31 December 2020.

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 2020.

Fixed overhead requirement

The fixed overhead requirement ("FOR") is equal to 25% of the fixed expenditure of the Quilter CRD IV Group. Fixed expenditure is calculated based on expenditure for the preceding year as derived from audited financial statements.

The FOR for the Quilter CRD IV Group as at 31 December 2020 of £94 million was calculated based on the expenses for the year ended 31 December 2019. The FOR based on the expenses for the year ended 31 December 2020 is not materially different from that calculated based on expenses for the prior year.

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 2020 and the prior year.

	31 December 2020 (£m)	31 December 2019 (£m)
Pillar 1 own funds	860	723
Pillar 1 own funds capital requirement	94	90
Excess of own funds over Pillar 1 own funds capital requirement	766	633

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 2020 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 eight times in 2020. 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 entities within the Group. For 2020 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 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

98 MRTs were identified for 2020 of which 18 MRTs were non-executive directors and 80 were employees. The aggregate quantitative information on remuneration for the 80 employees shown below relates to our MRTs only for the performance year ending 31 December 2020.

In respect of 2020, the following amounts were paid in fixed and variable remuneration to MRTs. Fixed remuneration includes base salary and benefits received between 1 January 2020 and 31 December 2020. Variable remuneration includes 2020 annual bonus awards made in March 2021 and the award value of long term incentive awards granted in 2020.

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

Quilter (MRTs of the consolidated group)

2020	Senior management - 6 (£'000)	Other - 74 (£'000)
Fixed Remuneration	3,253	15,022
Variable Remuneration	3,215	13,817
Total Remuneration	**6,467**	**28,839**

Old Mutual Wealth Limited

2020	Senior management - 3 (£'000)	Other - 8 (£'000)
Fixed Remuneration	1,076	1,447
Variable Remuneration	1,171	386
Total Remuneration	**2,248**	**1,833**

Quilter Cheviot Limited

2020	Senior management - 4 (£'000)	Other - 20 (£'000)
Fixed Remuneration	1,037	4,075
Variable Remuneration	1,202	5,984
Total Remuneration	**2,240**	**10,059**

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

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 2020	Quilter plc Consolidated IFRS financial statement (£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	556	-	(2)	(554)	-	-
Property, plant and equipment	142	-	(124)	-	-	18
Investments in associated undertakings	1	-	-	-	-	1
Contract costs	413	-	(411)	(2)	-	-
Loans and advances	219	-	(186)	-	-	33
Financial investments	63,274	(6,111)	(57,162)	-	-	1
Deferred tax assets	78	-	(63)	-	(6)	9
Current tax receivable	24	-	(24)	-	-	-
Trade, other receivables and other assets	701	(118)	(55)	-	-	528
Derivative assets	43	(43)	-	-	-	-
Cash and cash equivalents	1,921	(306)	(707)	-	-	908
Total assets	**67,372**	**(6,578)**	**(58,734)**	**(556)**	**(6)**	**1,498**

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 2020	Quilter plc Consolidated IFRS financial statement (£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	57,407	-	(57,407)	-	-	-
Third-party interests in consolidated funds	6,513	(6,513)	-	-	-	-
Provisions	77	-	(18)	-	-	59
Deferred tax liabilities	106	-	(70)	(36)	-	-
Current tax payable	1	-	7	-	-	8
Borrowings and lease liabilities	319	-	(101)	-	-	218
Trade, other payables and other liabilities	672	(51)	(329)	-	-	292
Contract liabilities	379	-	(379)	-	-	-
Derivative liabilities	20	(20)	-	-	-	-
Total liabilities	**65,494**	**(6,584)**	**(58,297)**	**(36)**	**-**	**577**
Net assets	**1,878**	**6**	**(437)**	**(520)**	**(6)**	**921**

31 December 2020	(£m)
Net assets per the regulatory balance sheet	921
Own fund adjustments including adjustments for unverified profit and foreseeable dividend	(61)
CRD IV own funds	**860**

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.