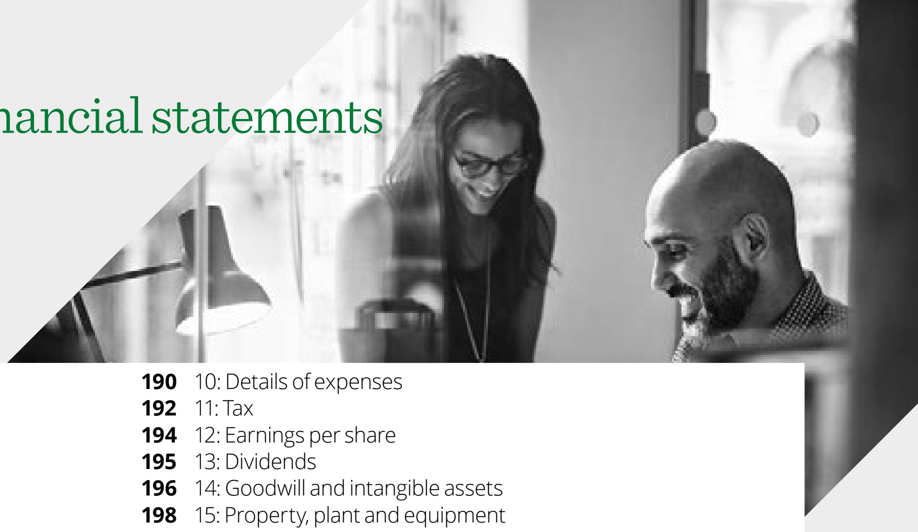
Index to the consolidated financial statements

For the year ended 31 December 2021



Statement of Directors' responsibilities

in respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law, the Directors have prepared the Group and Parent Company financial statements in accordance with UK-adopted international accounting standards. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards as adopted by the United Kingdom.

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

- select suitable accounting policies and then apply them consistently;
- state whether, for the Group and Company, applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

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

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

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

Responsibility statement of the Directors in respect of the Annual Report and financial statements

We confirm that to the best of our knowledge:

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

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

Signed on behalf of the Board

Paul Feeney
Chief Executive Officer
9 March 2022

Mark Satchel
Chief Financial Officer

Independent auditors' report to the members of Quilter plc

Report on the audit of the financial statements

Opinion
In our opinion, Quilter plc's Group financial statements and Company financial statements (the "financial statements"):
- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated statement of financial position and Company statement of financial position as at 31 December 2021; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Company statement of cash flows and the Company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

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

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

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

Other than those disclosed in Note 10, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach
Context
We were appointed as auditors by the Directors on 19 May 2020, therefore this is our second year of involvement. In planning for our audit of the Quilter plc Group ("the Group") for the current year, we met with the Board Audit Committee and members of management across the business, to discuss and understand significant changes during the year, and to understand their perspectives on associated business risks. We used this insight, in addition to our experience from the previous year's audit approach, when forming our views regarding the business updates, as part of developing our audit plan and when scoping and performing our audit procedures. Due to the sale of Quilter International in the current year, we considered the presentation and disclosure of the sale of Quilter International to be a significant risk and therefore this has been included as a key audit matter for the current year.

Overview
Audit scope
- At 31 December 2021, the Group comprised two operating segments together with head office activities, each of which contain several reporting components. We conducted audit testing over eleven components in total, which we selected based on their financial significance to the consolidated results.
- Six components were subject to an audit of their complete financial information (including one component within the disposed of Quilter International business unit).
- Specific audit procedures were also performed on certain balances and transactions in respect of a further five components.
- Taken together, the procedures we performed over the five continuing significant components provided us with coverage of over 79% of total revenue and 93% of adjusted profit.
- We have also considered the potential impact of climate change related factors in our audit, including challenging management on its assessment of how climate change related risks and opportunities impact the financial statements.

Key audit matters
- Sale of Quilter International (Group)
- Compensation provisions (Group)
- Goodwill impairment assessment (Group)
- Impairment assessment of investments in subsidiaries (Parent)

Materiality
- Overall Group materiality: £6,769,500 (2020: £7,918,000) based on 1% of total revenue excluding investment return (2020: based on 5% of adjusted profit before tax from continuing operations).
- Overall Company materiality: £32,490,000 (2020: £31,000,000) based on 1% of total assets.
- Performance materiality: £5,077,000 (2020: £5,938,500) (Group) and £24,367,500 (2020: £23,250,000) (Company).

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

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

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

The sale of Quilter International is a new key audit matter this year. The impact of COVID-19 and the valuation of Level 3 assets, which were key audit matters last year, are no longer included because of the effects and related impact of COVID-19 measures now being considered as part of the business as usual operations of the Group, and the value of Level 3 assets is immaterial in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Sale of Quilter International (Group) Refer to page 98 of the Board Audit Committee Report and note 6 to the Group financial statements.	We have reviewed all relevant disclosures within the financial statements to ensure they are consistent with testing performed and are in line with the requirements of IFRS 5.
The sale of Quilter International is a significant one-off transaction for the business with a number of related disclosure requirements. These disclosures contain judgemental areas, namely:	We have tested the costs of disposal included within the calculation of profit on disposal to confirm that these are directly related to the process of selling the business. We have also reviewed the methodology used to allocate the appropriate amount of goodwill to the disposed business, which is included within the profit on disposal calculation, and found this to be reasonable.
– the presentation of the direct costs relating to the sale;	Separately we have tested the costs recognised within discontinued operations in relation to provisions for future costs associated with the sale. We have confirmed that, whilst these costs remain in the Group, it is correct to recognise them within the result from discontinued operations as they are a direct impact of the disposal. Our testing included agreeing the estimated future costs to supporting documentation (such as contractual agreements) as well as ensuring the Group is committed to these costs at the balance sheet date, in accordance with the requirements of IAS 37.
– the appropriateness of the inclusion of certain provisions related to the sale within the results from discontinued operations; and	We have reviewed managements methodology for calculating the stranded centrally incurred costs in the prior and current years to be included within the continuing operations. We have agreed that any costs that are not being treated as stranded have transferred to the purchaser on sale of the business, and are therefore appropriate to include within discontinued operations.
– the sale of Quilter International results in stranded costs within the Group. There is judgement used in determining the calculation of such costs that are shown within the continuing operations in both the current and prior years.	Finally, we have read the statements made in the annual report in relation to the sale and we have confirmed that these are consistent with the disclosures presented within the financial statements, and our knowledge of the transaction gained throughout the audit.
Although the overall profit on disposal appears within one line of the income statement, we have focussed on confirming the presentation of these judgemental areas within the disclosure notes.	

Key audit matter	How our audit addressed the key audit matter
Compensation provisions (Group) Refer to page 98 of the Board Audit Committee Report and Note 28 of the financial statements.	We have assessed and challenged the Group's methodology and the assumptions applied in arriving at the provisions. The Group's provision is based on calculations and judgements provided by their expert (for the purposes of the Lighthouse provisions, this is also the S.166 skilled person). We assessed the competence and objectivity of management's expert.
The Group held a number of provisions totalling £93 million at 31 December 2021 (2020: £77 million), including £41 million (2020: £42 million) relating to customer redress. The most significant redress provision related to unsuitable advice provided by Lighthouse to British Steel Pension Scheme members who transferred from that scheme to a Defined Contribution scheme.	In demonstrating professional scepticism we obtained information from and had discussions directly with management's expert, utilised our internal experts to review the work performed by management's expert on a sample basis and checked the accuracy of the calculations provided by management with the data obtained directly from their expert.
Additional provisions have also been recognised for other instances of potentially unsuitable advice in relation to Defined Benefit to Defined Contribution pension scheme transfers.	In relation to the provision for Lighthouse British Steel Pension Scheme transfers, we checked the provision recognised to formal offer letters made by the skilled person on a sample basis, as well as testing a sample of payments made by the year end. This reflected the majority of this provision. For the remaining customers, we reviewed management's estimate of provision which was based on the application of redress to transfer value assumptions as evidenced through the formal offer letters made. Where instances of nil redress were noted as customers had opted out or did not respond, we inspected underlying evidence to support this position.
Judgement is required to be applied in considering whether or not a provision should be recognised in the context of IAS 37 as well as determining the estimate of redress as differing levels of customer information may be available at the balance sheet date.	For other provisions, where specific individual calculations of redress were available, we checked that the amount recognised was consistent with that communicated by management's expert and on a sample basis reviewed the application of methodology through our internal expert review. Where individual calculations were not available, we assessed the suitability of the redress to transfer value assumptions applied by management in valuing the provisions in the context of their relative accuracy in previous estimations. We also tested the transfer values to supporting evidence.
Where detailed information is available key assumptions impacting the estimates include the actuarial valuations of defined benefit obligations and an estimation of the current value of assets held by customers. Where such detailed information is not available to perform specific calculations, judgement is required in estimating provisions by developing an expectation of redress through analysis of recent experience.	We read management's disclosure in relation to this provision in the context of the requirements of IAS 37 and considered the suitability of the sensitivities disclosed. In relation to the completeness of defined benefit to defined contribution redress provisions: – We considered management's accounting policy and recognition criteria in the context of the requirements of IAS 37; – Reviewed the listing of complaints as at year end for any evidence of material omissions of similar cases; – Read the output of internal reviews over suitability performed by management; – Read any relevant correspondence with regulators in relation to unsuitable advice for DB to DC transfers; and – Discussed with management where cases of potentially unsuitable advice for DB to DC schemes had been internally identified and considered whether a provision should be recognised in the context of IAS 37 and our materiality.
	Management's expert will be calculating the actual redress payable to individual customers on a case by case basis. Therefore the final redress payable may be materially different to the amount recognised as at 31 December 2021 as a result of market movements as well as due to accessing more up to date information which may not be available at the balance sheet date. We are satisfied that the methodology applied by management in the context of IAS 37 in estimating redress provisions did not result in a material misstatement.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment (Group) Refer to page 98 of the Board Audit Committee Report and note 14 to the Group financial statements.	We checked that the cash flow forecasts used by management in the assessment of goodwill impairment were consistent with the approved three year business plan. We evaluated the historical accuracy of the cash flow forecasts, including a comparison of the current year actual results with the full year 2021 figures included in the prior year forecast. For certain key assumptions which underpinned the forecast performance, such as growth of assets under management in the business plan period, we corroborated these against external market data where available. We challenged management on the inclusion of certain cash flows where these looked to include future enhancements (such as revenues from new products) or future restructuring activity. We found that the forecasts have been completed on a basis consistent with prior years, except for the insurance entity, and were an appropriate basis upon which management could base their conclusions. For the remaining insurance entity in the Group, following the disposal of Quilter International, the basis of the cash flow forecast was changed from a Solvency II own funds basis to a cash flow model that is consistent with the remaining Group. We have reviewed this change in methodology and confirmed this is in line with the requirements of IAS 36. In addition we have confirmed that this does not result in a materially different result from if the prior year methodology were to be used. Neither method would result in a potential impairment and therefore we concluded that there was no management bias associated with this change.
The goodwill balance of £306 million (2020: £356 million) is subject to an annual impairment review. No impairment charge has been recorded by management against the goodwill balance in the current year. The £50 million reduction in goodwill from prior year relates to the sale of Quilter International.	We considered the appropriateness of performing the impairment assessment at the operating segment level. This included consideration of how the financial information of the business is presented to the Chief Operating Decision Maker. This was re-assessed in 2021 due to the introduction of the new operating segments. We determined that the performance of the impairment review on an operating segment level remains appropriate.
Judgement is used to determine the appropriate level at which to perform the impairment assessment. Management analyses discounted cash flows at the operating segment level to calculate the value in use for each operating segment as opposed to an individual cash generating unit ("CGU"). In addition, the operating segments have changed during the year and there is an element of judgement involved in determining the allocation of the existing goodwill between the new segments.	We engaged our internal valuation specialists to independently calculate a reasonable range for both the discount rate and long term growth rate assumptions used within the value in use calculations. We found the discount rate assumption to be more conservative than our expected range, while the long term growth rate was slightly above our expected amount. However, sensitivity analyses and reperformance of the calculation using our independent assumptions confirms that no impairment would be required.
In the prior year the value in use for unit-linked insurance components of the Group was determined by reference to the Solvency II regulatory own funds position. Given the reduced number of life insurance undertakings in the Group following the sale of Quilter International, management has used consistent value in use methodology across all components within the Group in the current year impairment assessment. All value in use calculations are now performed by reference to the cash flows from the Board approved business plan.	We obtained and understood management's sensitivity calculations over the impairment assessment, as well as performing further sensitivity scenarios ourselves. We determined that the impairment assessment was not highly sensitive to any of the key assumptions, being the discount rate and the forecast growth (including the long term growth rate) of cash flows. For each operating segment we calculated the degree to which these assumptions would need to move before an impairment was triggered. We discussed the likelihood of such a movement with management and agreed with their conclusion that there was no reasonable possible change that would give rise to an impairment.
This has not been determined to be a significant audit risk due to the large amount of headroom available in the model. However, this has been an area of audit focus due to the inherent subjectivity in the assumptions used within the model, as well as the changes that have occurred within the calculation compared to the prior year.	

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of investments in subsidiaries (Parent) Refer to note 4 to the Parent Company financial statements.	The impairment assessment leveraged management's calculations for the Group goodwill impairment assessment referred to above. The key judgement used by management in their impairment assessment is the underlying assumption that the Company's investments in Quilter Holdings Limited and Quilter Investors represents the lowest level at which largely independent cash inflows are generated. This assumption allows headroom to be transferred between subsidiary entities.
The Company holds investments in subsidiaries of £2,130 million (2020: £2,254 million). Whilst these eliminate on consolidation in the Group financial statements, they are recorded in the Company financial statements.	We challenged management over this assumption on the basis that the business plan is prepared at a more disaggregated level and requested management to provide us with further analyses to demonstrate the significant degree of integration between the businesses included in their defined cash generating unit. Given the changes in the operating segments to High Net Worth and Affluent we have reassessed this judgement in the current year and found that the cash flows between the subsidiary groups remain interrelated. We have corroborated the explanations we received through discussion with the relevant component audit teams and review of historic relevant correspondence with the regulator identifying some of the interdependencies.
Management performed an impairment assessment, utilising consistent methodology to that described in the impairment of goodwill key audit matter above, and concluded that an impairment of £124 million was required.	For non-trading subsidiaries the fair value less costs to sell is deemed by management to be represented by their net asset position. Due to the net asset position of one such component decreasing within the year an impairment charge has been recognised accordingly. We have agreed the accuracy of this calculation and corroborated the net asset position to the year-end trial balance.
We have determined the impairment assessment over the investments in subsidiaries to be a significant risk in light of the identified impairment as well as the Group market capitalisation being lower than the Company equity value at the balance sheet date.	Overall, we are satisfied that there is sufficient evidence to support the basis of management's impairment assessment and therefore agree with the level of impairment that has been recognised.

How we tailored the audit scope

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

Quilter plc has two operating segments which have changed from the prior year. The Group now consists of High Net Worth and Affluent operating segments together with head office activities. Within these segments there are several reporting units, of which six are considered financially significant due to their contribution to Group revenues, and were subject to an audit of their complete financial information. In addition, a further five reporting entities were in scope for specific audit procedures, as these components contributed either towards a significant risk area, or a significant proportion of certain financial statement line items. Together with the procedures performed at the Group level, including auditing the consolidation and financial statement disclosures, taxation, and goodwill impairment assessment, this gave us the evidence we needed for our opinion on the financial statements as a whole.

A significant proportion of the Group's trading is based in the UK resulting in the majority of the audit procedures being performed locally by the UK audit team. Of the eleven components we have performed audit procedures over, one of these components was based outside the UK, in the Isle of Man, and therefore we receive inter-firm reporting over the financial information of this component from PwC Isle of Man. Due to the sale of Quilter International during the current year (which accounts for the majority of the Group's non-UK trading) this reporting covers the 11 month period prior to sale, as well as the closing balance sheet as at the end of November 2021.

We applied materiality of £404,465,000 to the classification of unit-linked assets and liabilities in the consolidated statement of financial position, the related line items in the consolidated income statement and related notes, determined with reference to a benchmark of total assets, of which it represents 1%. This included the unit-linked financial statement line items within the Quilter International reporting component's income statement and closing balance sheet as at 30 November 2021. This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items, in accordance with FRC Practice Note 20 The audit of Insurers in the United Kingdom.

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

Materiality

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

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

	Financial statements – Group	Financial statements – Company
Overall materiality	£6,769,500 (2020: £7,918,000).	£32,490,000 (2020: £31,000,000).
How we determined it	1% of total revenue excluding investment return (2020: based on 5% of adjusted profit before tax from continuing operations).	1% of total assets.
Rationale for benchmark applied	Based on the performance metrics used in the Annual Report, total revenue is considered to be one of the primary measures used by shareholders in assessing performance of the Group and is a generally accepted auditing benchmark. Using a revenue based materiality is a development from the 2020 audit where adjusted profit was used. This is due to a number of significant restructuring activities happening across the Group within the current year, such as the sale of Quilter International and the continued cost transformation programme. This has led to volatility in both adjusted profit and continuing profit before tax. In response to this volatility, we consider it appropriate to base our materiality on a benchmark referenced to continuing operations which constitutes a reflective measure of the size and scale of the Group.	A benchmark of total assets has been used as the Company's primary purpose is to act as a holding Company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure was not considered appropriate.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £1,900,000 to £6,329,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £5,077,000 (2020: £5,938,500) for the Group financial statements and £24,367,500 (2020: £23,250,000) for the Company financial statements.

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

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £500,000 (Group audit) (2020: £500,000) and £1,624,500 (Company audit) (2020: £1,550,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Directors' remuneration

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

Corporate governance statement

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

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

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

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

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board Audit Committee, we were appointed by the Directors on 19 May 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2020 to 31 December 2021.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Mark Pugh
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 March 2022

Consolidated income statement

For the year ended 31 December 2021

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Income			
Fee income and other income from service activities[1]	9(a)	666	585
Investment return[1]	9(b)	4,002	2,856
Other income		18	20
Total income		**4,686**	**3,461**
Expenses			
Change in investment contract liabilities	27	(3,293)	(2,272)
Fee and commission expenses, and other acquisition costs[1]	10(a)	(61)	(52)
Change in third-party interest in consolidated funds[1]		(599)	(461)
Other operating and administrative expenses	10(b)	(636)	(651)
Finance costs	10(e)	(14)	(16)
Total expenses		**(4,603)**	**(3,452)**
Profit on sale of subsidiary	6(a)	2	–
Profit before tax from continuing operations		**85**	**9**
Tax expense attributable to policyholder returns	11(a)	(73)	(36)
Profit/(loss) before tax attributable to equity holders from continuing operations		**12**	**(27)**
Income tax (expense)/credit	11(a)	(62)	4
Less: tax expense attributable to policyholder returns		73	36
Tax credit attributable to equity holders		11	40
Profit after tax from continuing operations		**23**	**13**
Profit after tax from discontinued operations	6(b)	131	75
Profit after tax		**154**	**88**
Attributable to:			
Equity holders of Quilter plc		**154**	**88**

Earnings per Ordinary Share on profit attributable to Ordinary Shareholders of Quilter plc			
Basic			
From continuing operations (pence)	12(b)	1.4	0.8
From discontinued operations (pence)	6(b)	8.0	4.2
Basic earnings per Ordinary Share (pence)	12(b)	**9.4**	**5.0**
Diluted			
From continuing operations (pence)	12(b)	1.4	0.8
From discontinued operations (pence)	6(b)	7.8	4.1
Diluted earnings per Ordinary Share (pence)	12(b)	**9.2**	**4.9**

[1]See notes 5(d) and 5(e) for details of changes to comparative amounts.

The notes on pages 166 to 239 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Profit after tax		154	88
Exchange losses on translation of foreign operations		(1)	–
Items that may be reclassified subsequently to income statement		(1)	–
Total other comprehensive income, net of tax		(1)	–
Total comprehensive income		**153**	**88**
Attributable to:			
Continuing operations		22	12
Discontinued operations	6(b)	131	76
Equity holders of Quilter plc		**153**	**88**

The notes on pages 166 to 239 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2021

31 December 2021	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Share-based payments reserve £m	Other reserves £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2021		**125**	**58**	**8**	**149**	**42**	**1**	**1,495**	**1,878**
Profit for the year		–	–	–	–	–	–	154	154
Other comprehensive income		–	–	–	–	–	(1)	–	(1)
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(1)**	**154**	**153**
Dividends	13	–	–	–	–	–	–	(89)	(89)
Shares repurchased in the buyback programme[1]	25	(9)	–	9	–	–	–	(204)	(204)
Release of merger reserve	25(b)	–	–	–	(124)	–	–	124	–
Movement in own shares		–	–	–	–	–	–	(20)	(20)
Equity share-based payment transactions	26(e)	–	–	–	–	(1)	–	21	20
Aggregate tax effects of items recognised directly in equity		–	–	–	–	1	–	–	1
Total transactions with the owners of the Company		**(9)**	**–**	**9**	**(124)**	**–**	**–**	**(168)**	**(292)**
Transfer to retained earnings		–	–	–	–	–	(1)	1	–
Balance at 31 December 2021		**116**	**58**	**17**	**25**	**42**	**(1)**	**1,482**	**1,739**

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

[1]On 11 March 2020, the Company announced a share buyback programme to purchase shares up to a maximum value of £375 million, in order to return the net surplus proceeds to shareholders arising from the sale of Quilter Life Assurance which had the impact of reducing the share capital of the Company. During the year ended 31 December 2021, the Company acquired 128.1 million shares (31 December 2020: 118.3 million) for a total consideration of £197 million (December 2020: £153 million) and incurred additional costs of £3 million (31 December 2020: £4 million). The shares, which have a nominal value of £9 million (31 December 2020: £8 million), have subsequently been cancelled, giving rise to a capital redemption reserve by the same value as required by the Companies Act 2006. At 31 December 2021, the committed remaining share buyback for which a legally binding instruction had been provided by the Board, of £26 million (31 December 2020: £22 million, 31 December 2019: £nil), was accrued as a liability. The increase in the liability in the year of £4 million (31 December 2020: £22 million) was recognised in retained earnings.

The notes on pages 166 to 239 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

At 31 December 2021

	Notes	31 December 2021 £m	31 December 2020 £m
Assets			
Goodwill and intangible assets	14	457	556
Property, plant and equipment	15	131	142
Investments in associated undertakings		2	1
Contract costs	23	9	413
Loans and advances	16	29	219
Financial investments	17	47,565	63,274
Deferred tax assets	29(a)	88	78
Current tax receivable	29(c)	–	24
Trade, other receivables and other assets	22	381	701
Derivative assets	18	14	43
Cash and cash equivalents	24	2,064	1,921
Total assets		**50,740**	**67,372**
Equity and liabilities			
Equity			
Ordinary Share capital	25(a)	116	125
Ordinary Share premium reserve	25(a)	58	58
Capital redemption reserve	25(a)	17	8
Merger reserve	25(b)	25	149
Share-based payments reserve	26	42	42
Other reserves		(1)	1
Retained earnings		1,482	1,495
Total equity		**1,739**	**1,878**
Liabilities			
Investment contract liabilities	27	41,071	57,407
Third-party interests in consolidated funds		6,898	6,513
Provisions	28	93	77
Deferred tax liabilities	29(b)	139	106
Current tax payable	29(c)	2	1
Borrowings and lease liabilities	30	299	319
Trade, other payables and other liabilities	31	484	672
Contract liabilities	32	–	379
Derivative liabilities	18	15	20
Total liabilities		**49,001**	**65,494**
Total equity and liabilities		**50,740**	**67,372**

The financial statements on pages 161 to 239 were approved by the Board of Directors on 9 March 2022 and signed on its behalf by

Paul Feeney
Chief Executive Officer

Mark Satchel
Chief Financial Officer

The notes on pages 166 to 239 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

The cash flows presented in this statement cover all the Group's activities (continuing and discontinued operations) and include flows from both policyholder and shareholder activities. All cash and cash equivalents are available for use by the Group except for cash and cash equivalents in consolidated funds (as shown in note 24). Cash flows for discontinued operations are shown separately in note 6(d).

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Cash flows from operating activities			
Cash flows from operating activities		3,103	1,473
Taxation paid		(10)	(28)
Total net cash from operating activities	24(b)	**3,093**	**1,445**
Cash flows from investing activities			
Net acquisitions of financial investments		(2,839)	(1,419)
Acquisition of property, plant and equipment	15	(13)	(28)
Acquisition of intangible assets	14(a)	–	(4)
Acquisition of interests in subsidiaries[1]	6(e)	(7)	(20)
Net proceeds/(payments) from the disposal of interests in subsidiaries		218	(3)
Total net cash used in investing activities		**(2,641)**	**(1,474)**
Cash flows from financing activities			
Dividends paid to ordinary equity holders of the Company	13	(89)	(81)
Finance costs on external borrowings	10(e)	(9)	(10)
Payment of interest on lease liabilities		(2)	(2)
Payment of principal of lease liabilities	30(b)	(10)	(14)
Repurchase of shares		–	(41)
Repurchase and cancellation of shares[2]		(197)	(157)
Total net cash used in financing activities		**(307)**	**(305)**
Net increase/(decrease) in cash and cash equivalents		145	(334)
Cash and cash equivalents at the beginning of the year		1,921	2,253
Effect of exchange rate changes on cash and cash equivalents		(2)	2
Cash and cash equivalents at end of the year	24	**2,064**	**1,921**

[1]The acquisition of interests in subsidiaries balance of £7 million results from contingent consideration payments relating to historical acquisitions (31 December 2020: £20 million).
[2]Repurchase and cancellation of shares are in respect of cash movements associated with the share buyback programme. Further details are included within the consolidated statement of changes in equity.

The notes on pages 166 to 239 form an integral part of these consolidated financial statements.

Basis of preparation and significant accounting policies

For the year ended 31 December 2021

General information

Quilter plc (the "Company"), a public limited company incorporated in England and Wales 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.

The address of the registered office is Senator House, 85 Queen Victoria Street, London, EC4V 4AB.

1: Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Quilter plc transitioned to UK-adopted International Accounting Standards in its company and Group financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The financial statements of Quilter plc for the year ended 31 December 2021 have been prepared in accordance with UK-adopted International Accounting Standards ("IFRS") and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Group operates.

The separate financial statements of the Company are on pages 240 to 249. The Company financial statements are prepared in accordance with the Group's accounting policies, other than for investments in subsidiaries, which are stated at cost less impairments in accordance with IAS 27 *Separate Financial Statements.*

Going concern

The Directors have considered the resilience of the Group, its current financial position, the principal risks facing the business and the effectiveness of any mitigating strategies which are or could be applied. This included an assessment of capital and liquidity over a three-year planning period concluding that the Group can withstand a severe but plausible downside scenario for at least the next 12 months after the date of signing the 2021 financial statements. This assessment incorporated a number of stress tests covering a broad range of scenarios, including economic and market shocks of up to 40% falls in equity markets, mass lapse events, new business growth scenarios and severe business interruption, equivalent to 1-in-50 and 1-in-200 year events. The Group took into consideration risks related to climate change as part of the assessment. As a result, the Directors believe that the Group is well placed to manage its business risks in the context of the current economic outlook and has sufficient financial resources to continue in business for a period of at least 12 months from the date of approval of these financial statements and continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

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

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

Liquidity analysis of the statement of financial position

The Group's statement of financial position is in order of liquidity as is permitted by IAS 1 *Presentation of Financial Statements.* For each asset and liability line item, those amounts expected to be recovered or settled after more than 12 months after the reporting date are disclosed separately in the notes to the consolidated financial statements.

Critical accounting estimates and judgements

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

Critical accounting judgements

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

Discontinued operations

Management judgement was applied in the classification of Quilter International (disposed in November 2021) as a discontinued operation. Management concluded that Quilter International represented a separate major line of business, being the Group's only major cross-border business and, as such, met the discontinued operations criteria. Accordingly, the Group restated prior year comparatives. Judgement was also applied in the recognition of specific ongoing costs to the Group's continuing operations that will remain in the business after the disposal of Quilter International. See note 6 for further details.

Recognition of provisions following the sale of Quilter International

Management exercised significant judgement in determining the accounting treatment for a number of provisions in respect of the sale of Quilter International. The sale requires a series of business activities to be performed over the period of two to three years subsequent to the sale, resulting in costs to separate the business from the Group. This includes separation from a significant number of IT systems and the migration of data. Provisions have been established where costs are either contractual obligations resulting from the sale agreement or represent a constructive liability in respect of ancillary work to separate the businesses. Significant judgement was required to assess whether the costs were directly attributable and incremental to the sale and whether a legal or constructive obligation existed in order to recognise the provisions. See note 28 for further details.

Recognition of insurance recovery asset in respect of Lighthouse defined benefit pension advice

For Lighthouse DB to DC pension transfer advice provided, management has applied judgement in order to determine whether an asset can be reasonably estimated, and the measurement of such asset, in relation to an insurance recovery under Lighthouse's professional indemnity policies ("PI Policies"). Under the PI Policies, Lighthouse is entitled, subject to the policy terms and limits, to be indemnified for claims and defence costs in respect of legal liabilities arising in connection with Lighthouse's DB pension transfer advice activities; however, at the current time the insurers have not confirmed coverage for legal liabilities. See note 28 for further details.

Critical accounting estimates

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

Provision for cost of defined benefit pension advice

A significant portion of the provision required for British Steel DB pension transfer redress was determined based upon calculations performed as part of the skilled person review for cases upheld, and subsequent formal offers of redress payments made. An estimation of the remainder of the provision required for cases where a formal offer has yet to be made was based upon those calculations and the suitability assessments of all cases performed by the skilled person, which are nearing completion. The calculations per case where an offer has been made are based upon FCA guidelines and modelling performed, and factors including pension transfer value, date of retirement, discount rate and inflation rate assumptions. An estimation was determined on a similar basis for unsuitable pension advice related to schemes other than the British Steel Pension Scheme, using a methodology which takes account of recent experience and applying a proportion of transfer value to determine redress payable as an indicative provision. See note 28 for further details.

Measurement of deferred tax

The estimation of future taxable profits is performed as part of the annual business planning process, and is based on estimated levels of AuMA, which are subject to a large number of factors including global stock market movements, related movements in foreign exchange rates and net client cash flow, together with estimates of expenses and other charges. The business plan, adjusted for known and estimated tax sensitivities, is used to determine the extent to which deferred tax assets are recognised. In general, the Group assesses recoverability based on estimated taxable profits over a three-year planning horizon. Management has reassessed the sensitivity on the recoverability of deferred tax assets based on the latest forecast cash flows. See note 29 for further details.

Other principal estimates

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

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

There were no new standards or interpretations which became effective from 1 January 2021.

The following amendments to accounting standards became applicable for the current reporting period, with no material impact on the Group's consolidated results, financial position or disclosures:

Adopted by the Group from	Amendments to standards
1 January 2021	Amendments to IFRS 9 *Financial Instruments,* IAS 39 *Financial Instruments: Recognition and Measurement,* IFRS 7 *Financial Instruments: Disclosures,* IFRS 4 *Insurance Contracts and* IFRS 16 *Leases – Interest Rate Benchmark Reform – Phase 2*
1 April 2021	Amendments to IFRS 16 *Leases – COVID-19-Related Rent Concessions beyond 30 June 2021*

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

Certain new standards, interpretations and amendments to existing standards have been published by the International Accounting Standards Board ("IASB") that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2022. The Group has not early adopted these standards, interpretations and amendments, nor does the Group expect these to have a material impact on the Group's consolidated financial statements.

- **IFRS 17 Insurance contracts**

  The IASB issued IFRS 17 *Insurance Contracts in May 2017 and Amendments to IFRS 17* in June 2020. IFRS 17 will replace its interim predecessor, IFRS 4 *Insurance Contracts.* IFRS 17 is a comprehensive standard which provides a single accounting model for all insurance contracts. IFRS 17 will replace a wide range of different accounting practices previously permitted, improving transparency and enabling investors and regulators to understand and compare the financial position and performance of an insurer, irrespective of where they are based geographically. The standard, including the June 2020 amendments, is yet to be endorsed by the UK Endorsement Board. The effective date of IFRS 17 is 1 January 2023.

  The Group completed the sale of QLA to ReAssure on 31 December 2019 and Quilter International to Utmost Group on 30 November 2021. Following these disposals, the impact of IFRS 17 is significantly reduced for the Group and therefore the impact of IFRS 17 is not expected to be material.

4: Significant changes in the year

Disposal of Quilter International

On 30 November 2021, the Group completed the sale of Quilter International to Utmost Group for consideration of £481 million. Quilter International has been classified as a discontinued operation and the comparative amounts in the Group's financial statements have been restated accordingly. Further details of the Group's discontinued operations and assets and liabilities disposed of are included in note 6.

New segmentation

The Group determines and presents operating segments based on the information that is provided internally to the Group's Chief Operating Decision Maker ("CODM"). In assessing the Group's operating segments, the CODM considered the nature of the services provided, product offerings, customer bases, operating and distribution channels amongst other factors.

As part of the Group's strategic ambitions to drive growth, and following the disposal of Quilter International, the CODM agreed to reorganise the Group into two new client-focused segments: Affluent and High Net Worth. Affluent encompasses the financial planning businesses, Quilter Financial Planning, the Quilter Investment Platform and Quilter Investors, the multi-asset investment solutions business. High Net Worth includes the discretionary fund management business, Quilter Cheviot, together with Quilter Private Client Advisers. The new segments replace the segments reported in the 2020 Annual Report: Advice and Wealth Management and Wealth Platforms. Comparatives have been restated as appropriate to reflect the new segmentation.

5: Significant accounting policies

The Group's significant accounting policies are described below. There have been no changes to the Group's significant accounting policies as a result of changes in accounting standards during the year. The accounting policies disclosed in these notes have been consistently applied throughout the current and prior financial year.

5(a): Group accounting

Subsidiaries

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

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

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

Associates

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

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

5: Significant accounting policies continued
5(a): Group accounting continued

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

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

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

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

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

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

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

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

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

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

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

5: Significant accounting policies continued
5(b): Fair value measurement continued

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

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

5(c): Product classification
The Group's life assurance contracts included in the Affluent segment are categorised as investment contracts, in accordance with the classification criteria set out in the paragraph below.

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

5(d): Fee income and other income from service activities
Fee income and other income from service activities represent the fair value of services provided, net of value added tax. Revenue is only recognised to the extent that management is satisfied that it is highly probable that no significant reversal of the revenue recognised will be required when uncertainties are resolved. In circumstances where refunds are expected on a portion of the income, including indemnity commission on policies sold, an estimate of the reduction of revenue is made and charged to the income statement at the point of sale, based upon assumptions determined from historical experience.

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

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

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

For the year ended 31 December 2020, to correct a misclassification of fee rebates, the Group has reduced Fee and commission expenses, and other acquisition costs by £9 million with a corresponding £9 million reduction in Fee income and other income from service activities. The comparative figures for 2020 have been restated accordingly in the income statement and related notes in order to satisfy the presentational requirements of IFRS with respect to revenue and expenditure. There is no impact on the Group's profitability or net assets.

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

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

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

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

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

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

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

For the year ended 31 December 2020, to correct an understatement of revenue and expenditure in respect of third-party interests in consolidated funds, the Group has increased investment return from consolidated funds by £21 million with a corresponding £21 million increase in the change in third-party interests in consolidated funds expense. The understatement arose due to an omission in information provided by an external party. The comparative figures for 2020 have been restated accordingly in the income statement and related notes in order to satisfy the presentational requirements of IFRS with respect to revenue and expenditure. There is no impact on the Group's profitability or net assets.

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

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

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

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

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

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

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

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

5: Significant accounting policies continued

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

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

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

Initial measurement

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

Subsequent measurement

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

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

Amortised cost

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

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

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

Financial investments

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

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

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

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

Loans and advances

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

Cash and cash equivalents

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

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

Financial liabilities and equity

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

Trade payables and receivables

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

Investments in subsidiaries

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

Impairment of financial assets

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

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

Performing financial assets:

Stage 1

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

Stage 2

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

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

Impaired financial assets:

Stage 3

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

Application of the impairment model

The Group applies the ECL model to all financial assets that are measured at amortised cost:

- Trade receivables, to which the simplified approach prescribed by IFRS 9 is applied. This approach requires the recognition of a Lifetime ECL allowance on day one and thereafter.
- Loans, cash and cash equivalents, and fixed-term deposits at amortised cost, to which the general three-stage model (described above) is applied, whereby a 12-month ECL is recognised initially and the balance is monitored for significant increases in credit risk which would trigger the recognition of a Lifetime ECL allowance.

5: Significant accounting policies continued

5(i): Financial instruments (other than derivatives) continued

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

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

Credit-impaired financial assets

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

Presentation of impairment

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

Write-offs

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

5(j): Contract assets

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

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

5(k): Derivatives

The only derivatives recognised in the Group's statement of financial position are as a result of the consolidation of funds (described in note 5(a)). Management determines the classification of derivatives at initial recognition and classifies derivatives as mandatorily at FVTPL. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

5(l): Employee benefits

Pension obligations

The Group operates two types of pension plans which have been established for eligible employees of the Group:
- Defined contribution schemes where the Group makes contributions to members' pension plans but has no further payment obligations once the contributions have been paid.
- Defined benefit plans which provide pension payments upon retirement to members as defined by the plan rules. The Group has funded these liabilities by ring-fencing assets in trustee-administered funds.

Defined contribution pension obligation

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

Defined benefit pension obligation

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

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

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

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

Employee share-based payments

The Group operates a number of share incentive plans for its employees. These involve an award of shares or options in the Group (equity-settled share-based payments). The Group has not granted awards under cash-settled plans in the current or prior year.

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

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

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

For equity-settled plans, the fair value is determined at grant date and not subsequently re-measured.

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

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

5(m): Tax

Current tax

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

Deferred tax

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

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

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

Policyholder tax

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

The tax attributable to policyholder returns is the amount payable in the year plus the movement of amounts expected to be payable in future years. The remainder of the tax expense is attributed to shareholders as tax attributable to equity holders' profits.

5: Significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

Impairment testing for intangible assets

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

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

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

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

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

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

5(p): Provisions and contingent liabilities

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

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

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

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

6: Business combinations

6(a): Business disposals

On 30 November 2021, the Group completed the sale of Quilter International to Utmost Group for consideration of £481 million. The Group has recognised a profit on disposal of £89 million. Provisions established in respect of this disposal are shown in note 28. Separation, migration and decommissioning expenses incurred as a result of the disposal of £19 million are included within Other operating and administrative expenses in the discontinued operations income statement.

Profit/(loss) on sale of operations

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
	Quilter International and Single Strategy business	Quilter Life Assurance and Single Strategy business
Quilter International		
Consideration received	481	–
Less: transaction costs	(17)	–
Net proceeds from sale	464	–
Carrying value of net assets disposed of	(324)	–
Goodwill allocated and disposed of	(50)	–
Recycling of foreign currency translation reserve	(1)	–
Profit on sale of Quilter International	89	
Change in accrued expenses in relation to the Single Strategy business (sold in 2018) and QLA (sold in 2019)	1	(1)
Profit/(loss) on sale of operations before tax	**90**	**(1)**
Separation, migration and decommissioning costs	(19)	–
Profit/(loss) on disposal after separation, migration and decommissioning costs	**71**	**(1)**

6: Business combinations continued
6(a): Business disposals continued

In 2021, the Group also sold LighthouseCarrwood Limited generating a profit of £2 million which is not reflected in the table above as the former subsidiary's activities did not represent a major line of business and therefore is regarded as being part of the Group's continuing operations.

Carrying value of net assets disposed of

	At 30 November 2021 £m Quilter International
Assets	
Intangible assets	2
Property, plant and equipment	11
Contract costs	383
Loans and advances	175
Financial investments	23,836
Trade, other receivables and other assets	228
Cash and cash equivalents	253
Total assets	**24,888**
Liabilities	
Investment contract liabilities	24,058
Provisions	2
Deferred tax liabilities	2
Current tax payable	1
Borrowings and lease liabilities	11
Trade, other payables and other liabilities	114
Contract liabilities	376
Total liabilities	**24,564**
Carrying value of net assets disposed	**324**

6: Business combinations continued

6(b): Discontinued operations – income statement

The Group's discontinued operations principally relate to Quilter International, the sale of which completed on 30 November 2021.

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Income			
Gross earned premiums		1	1
Premiums ceded to reinsurers		(1)	(1)
Net earned premiums		–	–
Fee income and other income from service activities	9(a)	169	206
Investment return	9(b)	1,816	1,061
Other income		1	–
Total income		**1,986**	**1,267**
Expenses			
Change in investment contract liabilities	27	(1,818)	(1,056)
Fee and commission expenses, and other acquisition costs		(72)	(91)
Other operating and administrative expenses		(55)	(42)
Finance costs		–	(1)
Total expenses		**(1,945)**	**(1,190)**
Profit/(loss) on sale of operations before tax[1]	6(a)	90	(1)
Profit before tax attributable to equity holders from discontinued operations		**131**	**76**
Tax expense attributable to equity holders	11(a)	–	(1)
Profit after tax from discontinued operations		**131**	**75**
Attributable to:			
Equity holders of Quilter plc		**131**	**75**

	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Earnings per Ordinary Share on profit attributable to Ordinary Shareholders of Quilter plc			
Basic – from discontinued operations (pence)	12(b)	**8.0**	**4.2**
Diluted – from discontinued operations (pence)	12(b)	**7.8**	**4.1**

[1]Loss on sale of operations before tax in the prior year relates to transaction and separation costs associated with the historical sales of the QLA and Single Strategy businesses.

£10 million of Other operating and administrative expenses (31 December 2020: £17 million) previously reported in Quilter International are now presented within continuing operations, as costs of this nature did not transfer to Utmost Group (the acquirer) on disposal.

6(c): Discontinued operations – statement of comprehensive income

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Profit after tax	131	75
Items that may be reclassified subsequently to profit or loss:		
Exchange gain on translation of foreign operations	–	1
Total comprehensive income from discontinued operations	**131**	**76**

6(d): Discontinued operations – net cash flows

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Total net cash flows from operating activities	276	126
Total net cash used in investing activities	(411)	(87)
Total net cash used in financing activities	(2)	(24)
Net (decrease)/increase in cash and cash equivalents	**(137)**	**15**

6: Business combinations continued

6(e): Business acquisitions

There have been no material acquisitions during the year ended 31 December 2021 or the year ended 31 December 2020.

Contingent consideration arising from historical business acquisitions:

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

	31 December 2021 £m	31 December 2020 £m
Opening balance	16	39
Payments	(7)	(20)
Financing interest charge	1	2
Unused amounts reversed and other movements	(5)	(5)
Closing balance	**5**	**16**

Contingent consideration represents the Group's best estimate of the amount payable in relation to each acquisition discounted to net present value. The basis used for each acquisition varies but includes payments based on a percentage of the level of assets under administration, funds under management and levels of ongoing fee income at future dates.

7: Alternative performance measures ("APMs")

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

Basis of preparation of adjusted profit before tax

Adjusted profit before tax is one of the Group's alternative performance measures and represents the Group's IFRS profit, adjusted for specific items that management considers to be outside of the Group's normal operations or one-off in nature, as detailed in note 7(b). Adjusted profit before tax does not provide a complete picture of the Group's financial performance, which is disclosed in the IFRS income statement, but is instead intended to provide additional comparability and understanding of the financial results.

		Year ended 31 December 2021			Year ended 31 December 2020		
	Notes	Continuing operations £m	Discontinued operations[1] £m	Total £m	Continuing operations £m	Discontinued operations[1] £m	Total £m
Affluent		111	50	161	105	60	165
High Net Worth		56	–	56	39	–	39
Head Office		(29)	–	(29)	(36)	–	(36)
Adjusted profit before tax		**138**	**50**	**188**	**108**	**60**	**168**
Reallocation of Quilter International costs	6(b)	(10)	10	–	(17)	17	–
Adjusted profit before tax after reallocation	8(b)	**128**	**60**	**188**	**91**	**77**	**168**
Adjusting items:							
Impact of acquisition and disposal related accounting	7(b)(i)	(41)	–	(41)	(42)	–	(42)
Profit/(loss) on business disposals	6(a)	2	90	92	–	(1)	(1)
Business transformation costs	7(b)(ii)	(51)	(19)	(70)	(70)	–	(70)
Managed separation costs	7(b)(iii)	(2)	–	(2)	–	–	–
Finance costs	7(b)(iv)	(10)	–	(10)	(10)	–	(10)
Policyholder tax adjustments	7(b)(v)	(7)	–	(7)	9	–	9
Customer remediation	7(b)(vi)	(7)	–	(7)	(5)	–	(5)
Total adjusting items before tax		**(116)**	**71**	**(45)**	**(118)**	**(1)**	**(119)**
Profit/(loss) before tax attributable to equity holders		**12**	**131**	**143**	**(27)**	**76**	**49**
Tax attributable to policyholder returns	11(a)	73	–	73	36	–	36
Income tax (expense)/credit	11(a,b)	(62)	–	(62)	4	(1)	3
Profit after tax[2]		**23**	**131**	**154**	**13**	**75**	**88**

[1]Discontinued operations includes the results of Quilter International.
[2]IFRS profit after tax.

7: Alternative performance measures ("APMs") continued

7(b): Adjusting items
In determining adjusted profit before tax, the Group's IFRS profit before tax is adjusted for specific items that management considers to be outside of the Group's normal operations or one-off in nature. These are detailed below.

7(b)(i): Impact of acquisition and disposal related accounting
The recognition of goodwill and other acquired intangibles is created on the acquisition of a business and represents the premium paid over the fair value of the Group's share of the identifiable assets and liabilities acquired at the date of acquisition (as recognised under IFRS 3 *Business Combinations*). The Group excludes any impairment of goodwill from adjusted profit as well as the amortisation and impairment of acquired intangible assets, any acquisition costs, finance costs related to the discounting of contingent consideration and incidental items relating to past disposals.

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

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Amortisation of other acquired intangible assets	14	45	45
Fair value gains on revaluation of contingent consideration		(5)	(4)
Acquisition and disposal related income[1]		–	(1)
Unwinding of discount on contingent consideration		1	2
Total impact of acquisition and disposal related accounting		**41**	**42**

[1]Acquisition and disposal related income in the year ended 31 December 2020 includes a £1 million credit for the acceleration of the discounting unwind following settlement of a loan receivable from TA Associates that related to deferred consideration arising from the sale of the Single Strategy Asset Management business.

7(b)(ii): Business transformation costs
Business transformation costs include three key items: costs associated with the UK Platform Transformation Programme; Optimisation Programme costs and business separation costs following disposal of Quilter International. For the year ended 31 December 2021, these costs totalled £70 million (31 December 2020: £70 million) in aggregate, the principal components of which are described below:

UK Platform Transformation Programme – 31 December 2021: £28 million, 31 December 2020: £38 million
The Platform Transformation Programme commenced in 2017 to replace our UK Platform, significantly upgrading its functionality as well as ensuring its underlying technology was brought up to modern standards, making it highly resilient and scalable to support business growth for the foreseeable future. The last of three phased migrations completed successfully in February 2021 with all Quilter Investment Platform assets now live on the new platform. The total lifetime costs of the programme are £202 million to 31 December 2021, and no further costs are expected.

Optimisation Programme costs – 31 December 2021: £22 million, 31 December 2020: £33 million
The Optimisation programme commenced in 2018 to provide closer business integration, creating central support, rationalising technology and reducing third-party spend. It is due to be largely complete by mid-2022. Since inception, the programme has delivered £61 million of run-rate cost savings with associated implementation costs of £81 million during this time, with the overall target of £65 million of run-rate benefits and associated delivery cost of up to £91 million.

During 2021, the Group successfully deployed the new finance, HR and procurement modules as part of our general ledger consolidation and modernisation activity. The Group continues to consolidate its technology estate and in particular the data centre, telephony and data reporting solutions. In Quilter Financial Planning the streamlining and improvement in productivity of the business has delivered cost savings during the year.

Business separation costs following disposal of Quilter International – 31 December 2021: £19 million, 31 December 2020: £nil
The costs of business separation arise from the process to separate Quilter International's infrastructure, which is complex and covers a wide range of areas including people, IT systems, data and contracts facilities. A programme team has been established to ensure the transformation of these areas to the acquirer. These provisions have been based on external quotations and estimations, together with estimates of the time required for incremental resource costs to achieve the separation. The costs are predominantly expected to occur over a three-year period.

The most significant element of the provision is the cost of migration of IT systems and data to the acquirer. Work has taken place during 2021 in preparation for migration. Calculation of the provision is based on management's best estimate of the work required, the time it is expected to take, the number and skills of the staff required and their cost, and the cost of related external IT services to support the work. In reaching these judgements and estimates, management has made use of its past experience of previous IT migrations following business disposals, including the recent migration of QLA.

Quilter Investors' build out costs – 31 December 2021: £nil, 31 December 2020: £(1) million
The Group incurred build out costs to develop Quilter Investors as a separate business distinct from the Single Strategy business, which was sold on 29 June 2018. The build was substantially completed in 2019, resulting in the release of the remaining £1 million of the provision during 2020 which was established to complete the build.

Restructuring costs following disposal of Quilter Life Assurance – 31 December 2021: £1 million, 31 December 2020: £nil

Following the disposal of Quilter Life Assurance on 31 December 2019, the Group recognised £1 million for the cost of decommissioning IT systems as the Transitional Service Agreement with ReAssure runs off.

7(b)(iii): Managed separation costs

For the year ended 31 December 2021, these costs were £2 million (31 December 2020: £nil) and relate to further rebranding of the Quilter business. These one-off costs relating to the Group's separation from Old Mutual have been excluded from adjusted profit on the basis that they relate to a fundamental restructuring of the Group and are not representative of the operating activity of the Group.

7(b)(iv): Finance costs

The nature of much of the Group's operations means that, for management's decision-making and internal performance management, the effects of interest costs on external borrowings are removed when calculating adjusted profit. For the year ended 31 December 2021, finance costs were £10 million (31 December 2020: £10 million).

7(b)(v): Policyholder tax adjustments

For the year ended 31 December 2021, the total policyholder tax adjustments to adjusted profit is £(7) million (31 December 2020: £9 million). Adjustments to policyholder tax are made to remove distortions arising from market volatility that can, in turn, lead to volatility in the policyholder tax charge between periods. The recognition of the income received from policyholders (which is included within the Group's income) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding tax expense, creating volatility to the Group's IFRS profit/(loss) before tax attributable to equity holders. For a further explanation of the impact of markets on the policyholder tax charge see note 11(a). Adjustments are also made to remove policyholder tax distortions from other non-operating adjusting items.

7(b)(vi): Customer remediation

Lighthouse pension transfer advice provision – 31 December 2021: £7 million, 31 December 2020: £5 million

The provision for the potential redress of British Steel Pension Scheme cases and other DB to DC pension transfer cases has been increased by £7 million in the year, which has been recognised in the income statement (31 December 2020: £5 million). This increase reflects the impact of post-acquisition market and discount rate movements, together with further consideration of the cases where redress is potentially payable, as part of the ongoing skilled person review. This has been excluded from adjusted profit on the basis that the advice activities to which the charge relates was provided prior to the Group's acquisition of the business. Further details of the provision are provided in note 28.

7(c): IFRS profit before tax from continuing operations (excluding amortisation, policyholder tax adjustments and other one-off items)

For remuneration purposes, the Group uses IFRS profit before tax from continuing operations adjusted for specific items that management considers to be outside of the Group's normal operations or one-off in nature, as shown below. For further details refer to the Remuneration report (page 132) and KPIs (page 28).

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 Continuing operations £m	Year ended 31 December 2020 Discontinued operations £m	Year ended 31 December 2020 Total £m
IFRS profit before tax (excluding amortisation, policyholder tax adjustments and other one-off items)		68	23	59	82
Adjusted for the following:					
Reallocation of Quilter International costs	6(b)	(10)	(17)	17	–
Profit/(loss) on business disposals	6(a)	2	–	(1)	(1)
Impact of acquisition and disposal related accounting	7(b)(i)	(41)	(42)	–	(42)
Policyholder tax adjustments	7(b)(v)	(7)	9	–	9
Quilter Investors' build out costs	7(b)(ii)	–	–	1	1
Profit before tax		**12**	**(27)**	**76**	**49**

7: Alternative performance measures ("APMs") continued

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

This reconciliation shows how each line of the Group's consolidated IFRS income statement is allocated to the Group's APMs: Net management fees, Total net fee revenue and Operating expenses, which are all defined on page 257 and form the Group's adjusted profit before tax for continuing operations. The IFRS income statement column in the table below, down to "Profit/(loss) before tax attributable to equity holders from continuing operations", reconciles to each line of the Group's consolidated income statement. Allocations are determined by management and aim to show the Group's sources of profit (net of relevant directly attributable expenses). These allocations remain consistent from year to year to ensure comparability, unless otherwise stated.

Year ended 31 December 2021	Net mgmt. fees[1] £m	Other revenue[1] £m	Total net fee revenue[1] £m	Operating expenses[1] £m	Adjusted profit before tax £m	Consol. of funds[2] £m	Consolidated income statement £m
Income							
Fee income and other income from service activities	633	111	744	–	744	(78)	666
Investment return	–	3,294	3,294	–	3,294	708	4,002
Other income	–	1	1	15	16	2	18
Total income	**633**	**3,406**	**4,039**	**15**	**4,054**	**632**	**4,686**
Expenses							
Change in investment contract liabilities	–	(3,293)	(3,293)	–	(3,293)	–	(3,293)
Fee and commission expenses, and other acquisition costs	(52)	4	(48)	–	(48)	(13)	(61)
Change in third-party interest in consolidated funds	–	–	–	–	–	(599)	(599)
Other operating and administrative expenses	(15)	1	(14)	(602)	(616)	(20)	(636)
Finance costs	–	–	–	(14)	(14)	–	(14)
Total expenses	**(67)**	**(3,288)**	**(3,355)**	**(616)**	**(3,971)**	**(632)**	**(4,603)**
Profit on business disposal	–	2	2	–	2	–	2
Tax expense attributable to policyholder returns	(73)	–	(73)	–	(73)	–	(73)
Profit/(loss) before tax attributable to equity holders from continuing operations	**493**	**120**	**613**	**(601)**	**12**	**–**	**12**
Adjusting items:							
Impact of acquisition and disposal related accounting	–	–	–	41	41		
Profit on business disposal	–	(2)	(2)	–	(2)		
Business transformation costs	–	–	–	51	51		
Managed separation costs	–	–	–	2	2		
Finance costs	–	–	–	10	10		
Customer remediation	–	–	–	7	7		
Policyholder tax adjustments	7	–	7	–	7		
Adjusting items	**7**	**(2)**	**5**	**111**	**116**		
Adjusted profit before tax after reallocation	500	118	618	(490)	128		
Reallocation of Quilter International costs[3]	–	–	–	10	10		
Adjusted profit before tax – continuing operations	**500**	**118**	**618**	**(480)**	**138**		

[1]The APMs "Net Management Fees", "Other revenue", "Total net fee revenue" and "Operating expenses" are commented on within the Financial review.
[2]Consolidation of funds shows the grossing up impact to the Group's consolidated income statement as a result of the consolidation of funds requirements, as described within note 5(a) of the Group's 2021 Annual Report. This grossing up is excluded from the Group's adjusted profit.
[3]See note 6(b) for details of cost reallocations.

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

Year ended 31 December 2020	Net mgmt. fees[1] £m	Other revenue[1] £m	Total net fee revenue[1] £m	Operating expenses[1] £m	Adjusted profit before tax £m	Consol. of funds[2] £m	Consolidated income statement £m
Income							
Fee income and other income from service activities[3]	552	113	665	–	665	(80)	585
Investment return[3]	–	2,279	2,279	–	2,279	577	2,856
Other income	–	2	2	14	16	4	20
Total income	**552**	**2,394**	**2,946**	**14**	**2,960**	**501**	**3,461**
Expenses							
Change in investment contract liabilities	–	(2,272)	(2,272)	–	(2,272)	–	(2,272)
Fee and commission expenses, and other acquisition costs[3]	(48)	(1)	(49)	–	(49)	(3)	(52)
Change in third-party interest in consolidated funds[3]	–	–	–	–	–	(461)	(461)
Other operating and administrative expenses	(13)	(3)	(16)	(598)	(614)	(37)	(651)
Finance costs	–	–	–	(16)	(16)	–	(16)
Total expenses	**(61)**	**(2,276)**	**(2,337)**	**(614)**	**(2,951)**	**(501)**	**(3,452)**
Tax expense attributable to policyholder returns	(36)	–	(36)	–	(36)	–	(36)
Profit/(loss) before tax attributable to equity holders from continuing operations	**455**	**118**	**573**	**(600)**	**(27)**	**–**	**(27)**
Adjusting items:							
Impact of acquisition and disposal related accounting	–	–	–	42	42		
Business transformation costs	–	–	–	70	70		
Finance costs	–	–	–	10	10		
Policyholder tax adjustments	(9)	–	(9)	–	(9)		
Customer remediation	–	–	–	5	5		
Adjusting items	**(9)**	**–**	**(9)**	**127**	**118**		
Adjusted profit before tax after reallocation	446	118	564	(473)	91		
Reallocation of Quilter International costs[4]	–	–	–	17	17		
Adjusted profit before tax – continuing operations	**446**	**118**	**564**	**(456)**	**108**		

[1]The APMs "Net Management Fees", "Other revenue", "Total net fee revenue" and "Operating expenses" are commented on within the Financial review.
[2]Consolidation of funds shows the grossing up impact to the Group's consolidated income statement as a result of the consolidation of funds requirements, as described within note 5(a). This grossing up is excluded from the Group's adjusted profit.
[3]See notes 5(d) and 5(e) for details of changes to comparative amounts.
[4]See note 6(b) for details of cost reallocations.

8: Segmental information

8(a): Segmental presentation

The Group's operating segments comprise High Net Worth and Affluent, which is consistent with the manner in which the Group is now structured and managed. For all reporting periods, these segments have been classified as continuing operations in the income statement. Head Office includes certain revenues and central costs that are not allocated to the segments.

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

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

The segmental information in this note reflects the adjusted and IFRS profit measures for each operating segment as provided to management and the Board. Income is analysed in further detail for each operating segment in note 9(a).

Continuing operations:

High Net Worth

This segment comprises Quilter Cheviot and Quilter Private Client Advisers.

Quilter Cheviot provides discretionary investment management predominantly in the United Kingdom with bespoke investment portfolios tailored to the individual needs of high net worth customers, charities, companies and institutions through a network of branches in London and the regions. Investment management services are also provided by operations in the Channel Islands and the Republic of Ireland.

Quilter Private Client Advisers provide financial advice for protection, mortgages, savings, investments and pensions.

Affluent

This segment is comprised of Quilter Investment Platform, Quilter Investors and Quilter Financial Planning.

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

Quilter Investors is a leading provider of investment solutions in the UK multi-asset market. It develops and manages investment solutions in the form of funds for the Group and third-party clients. It has several fund ranges which vary in breadth of underlying asset class.

Quilter Financial Planning is a restricted and independent financial adviser network including Quilter Financial Advisers and Lighthouse, providing mortgage and financial planning advice and financial solutions for both individuals and businesses through a network of intermediaries. It operates across all markets, from wealth management and retirement planning advice through to dealing with property wealth and personal and business protection needs.

Head Office

In addition to the Group's two operating segments, Head Office comprises the investment return on centrally held assets, central support function expenses, central core structural borrowings and certain tax balances.

Discontinued operations:

Quilter International, which would have formed part of the Affluent operating segment, has been classified as a discontinued operation following the Group's announcement on 1 April 2021 of the disposal of the business and subsequent disposal on 30 November 2021. See note 6 for full details. Comparative amounts for the year ended 31 December 2020 have been restated accordingly.

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

8: Segmental information continued

8(b)(i): Adjusted profit statement – segmental information for the year ended 31 December 2021

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

	Notes	Operating segments: Affluent £m	Operating segments: High Net Worth £m	Head Office £m	Reallocation of Quilter International costs[1] £m	Consolidation adjustments[2] £m	Consolidated income statement £m
Income							
Fee income and other income from service activities		532	213	–	–	(79)	666
Investment return		3,293	–	1	–	708	4,002
Other income		110	–	–	–	(92)	18
Segmental income		**3,935**	**213**	**1**	**–**	**537**	**4,686**
Expenses							
Change in investment contract liabilities		(3,293)	–	–	–	–	(3,293)
Fee and commission expenses, and other acquisition costs		(48)	–	–	–	(13)	(61)
Change in third-party interest in consolidated funds		–	–	–	–	(599)	(599)
Other operating and administrative expenses		(463)	(187)	(51)	(10)	75	(636)
Finance costs		(4)	–	(10)	–	–	(14)
Segmental expenses		**(3,808)**	**(187)**	**(61)**	**(10)**	**(537)**	**(4,603)**
Profit on sale of subsidiary		2	–	–	–	–	2
Profit/(loss) before tax from continuing operations		**129**	**26**	**(60)**	**(10)**	**–**	**85**
Tax expense attributable to policyholder returns		(73)	–	–	–	–	(73)
Profit/(loss) before tax attributable to equity holders from continuing operations		**56**	**26**	**(60)**	**(10)**	**–**	**12**
Adjusted for non-operating items:							
Impact of acquisition and disposal related accounting	7(b)(i)	11	30	–	–	–	41
Profit on business disposals		(2)	–	–	–	–	(2)
Business transformation costs	7(b)(ii)	32	–	19	–	–	51
Managed separation costs	7(b)(iii)	–	–	2	–	–	2
Finance costs	7(b)(iv)	–	–	10	–	–	10
Policyholder tax adjustments	7(b)(v)	7	–	–	–	–	7
Customer remediation	7(b)(vi)	7	–	–	–	–	7
Adjusting items before tax		55	30	31	–	–	116
Adjusted profit/(loss) before tax after reallocation		**111**	**56**	**(29)**	**(10)**	**–**	**128**
Reallocation of Quilter International costs	6(b)				10	–	10
Adjusted profit/(loss) before tax – continuing operations		**111**	**56**	**(29)**	**–**	**–**	**138**

[1]See note 6(b) for details of cost reallocations.
[2]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

8: Segmental information continued

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

	Notes	Operating segments Affluent £m	Operating segments High Net Worth £m	Head Office £m	Reallocation of Quilter International costs[1] £m	Consolidation adjustments[2] £m	Consolidated income statement £m
Income							
Fee income and other income from service activities[3]		476	190	–	–	(81)	585
Investment return[3]		2,275	3	1	–	577	2,856
Other income		118	4	5	–	(107)	20
Segmental income		**2,869**	**197**	**6**	**–**	**389**	**3,461**
Expenses							
Change in investment contract liabilities		(2,272)	–	–	–	–	(2,272)
Fee and commission expenses, and other acquisition costs[3]		(50)	–	–	–	(2)	(52)
Change in third-party interest in consolidated funds[3]		–	–	–	–	(461)	(461)
Other operating and administrative expenses		(446)	(191)	(71)	(17)	74	(651)
Finance costs		(5)	(1)	(10)	–	–	(16)
Segmental expenses		**(2,773)**	**(192)**	**(81)**	**(17)**	**(389)**	**(3,452)**
Profit/(loss) before tax from continuing operations		**96**	**5**	**(75)**	**(17)**	**–**	**9**
Tax expense attributable to policyholder returns		(36)	–	–	–	–	(36)
Profit/(loss) before tax attributable to equity holders from continuing operations		**60**	**5**	**(75)**	**(17)**	**–**	**(27)**
Adjusted for non-operating items:							
Impact of acquisition and disposal related accounting	7(b)(i)	10	34	(2)	–	–	42
Business transformation costs	7(b)(ii)	39	–	31	–	–	70
Finance costs	7(b)(iv)	–	–	10	–	–	10
Policyholder tax adjustments	7(b)(v)	(9)	–	–	–	–	(9)
Customer remediation	7(b)(vi)	5	–	–	–	–	5
Adjusting items before tax		45	34	39	–	–	118
Adjusted profit/(loss) before tax after reallocation		**105**	**39**	**(36)**	**(17)**	**–**	**91**
Reallocation of Quilter International costs	6(b)	–	–	–	17	–	17
Adjusted profit/(loss) before tax – continuing operations		**105**	**39**	**(36)**	**–**	**–**	**108**

[1]See note 6(b) for details of cost reallocations.
[2]Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.
[3]See notes 5(d) and 5(e) for details of changes to comparative amounts.

9: Details of revenue

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

9(a): Breakdown of income

This note analyses the Group's income into further detail based on the types of fees earned and split by operating segment, which is aligned to the Group's customer base.

Year ended 31 December 2021	Affluent £m	High Net Worth £m	Head Office £m	Consolidation adjustments £m	Total continuing operations £m	Discontinued operations £m
Premium-based fees	87	24	–	–	111	45
Fund-based fees[1]	376	189	–	(79)	486	81
Retrocessions received, intra-group	–	–	–	–	–	6
Fixed fees	2	–	–	–	2	26
Exit fees	–	–	–	–	–	11
Other fee and commission income	67	–	–	–	67	–
Fee income and other income from service activities	**532**	**213**	**–**	**(79)**	**666**	**169**
Investment return	3,293	–	1	708	4,002	1,816
Other income	110	–	–	(92)	18	1
Total income	**3,935**	**213**	**1**	**537**	**4,686**	**1,986**

Year ended 31 December 2020	Affluent £m	High Net Worth £m	Head Office £m	Consolidation adjustments £m	Total continuing operations £m	Discontinued operations £m
Premium-based fees	90	22	–	–	112	70
Fund-based fees[1,2]	334	168	–	(94)	408	88
Retrocessions received, intra-group	–	–	–	–	–	6
Fixed fees	2	–	–	–	2	29
Exit fees	–	–	–	–	–	13
Other fee and commission income	50	–	–	13	63	–
Fee income and other income from service activities	**476**	**190**	**–**	**(81)**	**585**	**206**
Investment return[2]	2,275	3	1	577	2,856	1,061
Other income	118	4	5	(107)	20	–
Total income	**2,869**	**197**	**6**	**389**	**3,461**	**1,267**

[1]Income from fiduciary activities is included within fund-based fees.
[2]See notes 5(d) and 5(e) for details of changes to comparative amounts.

9(b): Investment return

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m[2]
Interest and similar income		
Loans and advances	1	1
Investments and securities	69	27
Cash and cash equivalents[1]	–	5
Total interest and similar income	**70**	**33**
Dividend income	225	135
Foreign currency gains and losses	1	–
Total gains on financial instruments mandatorily recognised at fair value through profit or loss	3,706	2,688
Net investment income – continuing operations	**4,002**	**2,856**
Net investment income – discontinued operations	**1,816**	**1,061**
Total net investment income	**5,818**	**3,917**

[1]Included within cash and cash equivalents is £nil interest arising from assets held at amortised cost (31 December 2020: £1 million). The remainder is from assets at FVTPL.
[2]See note 5(e) for details of changes to comparative amounts.

10: Details of expenses

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

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

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

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Fee and commission expense		13	3
Renewal commission – investment contracts		30	28
Retrocessions paid[1]		21	20
Changes in contract costs	23	(3)	1
Fee and commission expenses, and other acquisition costs – continuing operations		**61**	**52**
Fee and commission expenses, and other acquisition costs – discontinued operations		**72**	**91**
Total fee and commission expenses, and other acquisition costs		**133**	**143**

[1]See note 5(d) for details of changes to comparative amounts.

10(b): Other operating and administrative expenses

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

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Staff costs	10(c)(i)	341	344
Depreciation charge on right-of-use assets	15	10	11
Depreciation charge on other plant and equipment	15	6	5
Impairment of right-of-use assets	15	–	3
Amortisation of software	14(a)	2	2
Amortisation of other acquired intangibles	14(a)	45	45
Administration and other expenses		232	241
Other operating and administrative expenses – continuing operations		**636**	**651**
Other operating and administrative expenses – discontinued operations		**55**	**42**
Total other operating and administrative expenses		**691**	**693**

Administration and other expenses include business transformation costs for the year ended 31 December 2021 of £28 million (2020: £38 million) in relation to the UK Platform Transformation Programme and £22 million (2020: £33 million) in relation to Optimisation Programme costs as well as general operating expenses such as IT-related costs, premises and marketing.

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

10(c)(i): Staff costs

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Salaries		207	238
Bonus and incentive remuneration		61	33
Social security costs		27	23
Retirement obligations – Defined contribution plans		17	15
Share-based payments – Equity-settled	26(e)	19	24
Other		10	11
Staff costs – continuing operations		**341**	**344**
Staff costs – discontinued operations		**19**	**17**
Total staff costs		**360**	**361**

10(c)(ii): Employee numbers

	Year ended 31 December 2021 Number	Year ended 31 December 2020 Number
The average number of persons employed by the Group was:		
Affluent	2,207	2,586
High Net Worth	917	962
Head Office	80	85
Continuing operations	**3,204**	**3,633**
Discontinued operations	**645**	**692**
Total average number of employees during the year	**3,849**	**4,325**

The monthly average number of persons employed by the Group is based on permanent employees and fixed-term contractors. The revised segmentation did not apply during 2020. The Group has prepared the staff numbers disclosure for 2020 based on the new segmentation and making appropriate assumptions where required.

10(d): Auditors' remuneration

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Fees payable for audit services		
Group and Parent Company	1.5	1.5
Subsidiaries	2.2	2.0
Additional fees payable to KPMG LLP related to the prior year audit of the Group	–	0.6
Total fees for audit services	3.7	4.1
Fees for audit-related assurance services	0.8	1.0
Fees for non-audit services	0.5	–
Total Group auditors' remuneration – continuing operations	**5.0**	**5.1**
Total Group auditors' remuneration – discontinued operations	**0.3**	**0.8**
Total Group auditors' remuneration	**5.3**	**5.9**

All fees are presented net of VAT. The 2020 fees have been re-presented to exclude VAT.

10(e): Finance costs

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Term loans and other external debt	1	1
Subordinated debt securities (Tier 2 bond)	9	9
Interest payable on borrowed funds	10	10
Interest expense on lease liabilities	3	4
Other	1	2
Total finance costs – continuing operations	**14**	**16**
Total finance costs – discontinued operations	**–**	**1**
Total finance costs	**14**	**17**

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

Within other finance costs above is £1 million (2020: £2 million) relating to the impact of unwinding the discount rate on contingent consideration payable as a result of various acquisitions. These costs are excluded from adjusted profit within the "Impact of acquisition and disposal-related accounting" adjusting item as shown in note 7(b)(i).

11: Tax

11(a): Tax charged to the income statement

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Current tax			
United Kingdom		36	18
Overseas tax		1	3
Adjustments to current tax in respect of prior periods		–	(7)
Total current tax charge		**37**	**14**
Deferred tax			
Origination and reversal of temporary differences		36	(22)
Effect on deferred tax of changes in tax rates		(12)	–
Adjustments to deferred tax in respect of prior periods		1	4
Total deferred tax charge/(credit)		**25**	**(18)**
Total tax charged/(credited) to income statement – continuing operations		**62**	**(4)**
Total tax charged to income statement – discontinued operations	6(b)	**–**	**1**
Total tax charged/(credited) to income statement		**62**	**(3)**
Attributable to policyholder returns – continuing operations		73	36
Attributable to equity holders – continuing operations		(11)	(40)
Total tax charged/(credited) to income statement – continuing operations		**62**	**(4)**
Attributable to equity holders – discontinued operations		–	1
Total tax charged to income statement – discontinued operations		**–**	**1**
Total tax charged/(credited) to income statement		**62**	**(3)**

Policyholder tax

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

The tax attributable to policyholder returns is the amount payable in the period plus the movement of amounts expected to be payable in future years. The remainder of the tax expense is attributed to shareholders as tax attributable to equity holders.

The Group's income tax charge on continuing operations was £62 million for the year ended 31 December 2021, compared to a credit of £4 million for the prior year. This income tax expense/credit can vary significantly period on period as a result of market volatility and the impact this has on policyholder tax. The recognition of the income received from policyholders (which is included within the Group's income) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding policyholder tax expense, creating volatility in the Group's IFRS profit before tax attributable to equity holders. An adjustment is made to adjusted profit to remove these distortions, as explained further in note 7(b)(v).

Market movements during the year ended 31 December 2021 resulted in investment gains of £343 million on products subject to policyholder tax. The gain is a component of the total "investment return" gain of £4,002 million shown in the income statement. The impact of the £343 million investment return gain is the primary reason for the £73 million tax expense attributable to policyholder returns in respect of the continuing operations for the year ended 31 December 2021 (31 December 2020: £36 million expense in respect of continuing operations and £nil expense in respect of discontinued operations).

Impact of changes in UK corporation tax rate

On 3 March 2021, the Chancellor of the Exchequer announced in the Budget a future increase in the Corporation Tax rate from 19% to 25%, effective from 1 April 2023. This change has been substantially enacted by 31 December 2021 resulting in rebasing of deferred tax assets and liabilities.

The £11 million tax credit attributable to equity holders (continuing operations) includes a tax credit of £12 million relating to the change in the UK corporation tax rate and a tax credit of £4 million in relation to first time recognition of trade losses (31 December 2020: £38 million credit in relation to first time recognition of accrued interest expense).

11: Tax continued

11(b): Reconciliation of total income tax expense

The income tax charged to profit or loss differs from the amount that would apply if all of the Group's profits from the different tax jurisdictions had been taxed at the UK standard corporation tax rate. The difference in the effective rate is explained below:

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Profit before tax from continuing operations		**85**	**9**
Tax at UK standard rate of 19% (2020: 19%)		16	2
Different tax rate or basis on overseas operations		1	4
Untaxed and low taxed income		–	(1)
Expenses not deductible for tax		–	2
Adjustments to current tax in respect of prior years		–	(7)
Net movements on unrecognised deferred tax assets		(4)	(38)
Effect on deferred tax of changes in tax rates		(12)	–
Adjustments to deferred tax in respect of prior years		1	4
Income tax attributable to policyholder returns (net of tax relief)		60	30
Total tax charged/(credited) to income statement – continuing operations		**62**	**(4)**
Total tax charged to income statement – discontinued operations	6(b)	**–**	**1**
Total tax charged/(credited) to income statement		**62**	**(3)**

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

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Income tax expense/(credit) on continuing operations[1]		**62**	**(4)**
Tax on adjusting items			
Impact of acquisition and disposal related accounting		4	3
Business transformation costs		10	13
Finance costs		2	2
Customer remediation		1	1
Tax adjusting items			
Policyholder tax adjustments	7(b)(v)	(7)	9
Other shareholder tax adjustments[2]		7	36
Tax on adjusting items – continuing operations		**17**	**64**
Less: tax attributable to policyholder returns within adjusted profit – continuing operations[3]		(66)	(45)
Tax credited on adjusted profit – continuing operations		**13**	**15**
Tax charged on adjusted profit – discontinued operations		**–**	**1**
Tax charged on total adjusted profit		**13**	**16**

[1]Includes both tax attributable to policyholders and equity holders, in compliance with IFRS reporting.
[2]Other shareholder tax adjustments comprise the reallocation of adjustments from policyholder tax as explained in note 7(b)(v) and shareholder tax adjustments for one-off items in line with the Group's adjusted profit policy.
[3]Adjusted profit treats policyholder tax as a pre-tax expense (this includes policyholder tax under IFRS and the policyholder tax adjustments) and is therefore removed from tax charge on adjusted profit.

12: Earnings per share

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

Basic EPS is calculated by dividing profit after tax attributable to ordinary equity shareholders of the Parent by the weighted average number of Ordinary Shares in issue during the year. The weighted average number of shares excludes Quilter plc shares held within Employee Benefit Trusts ("EBTs") to satisfy the Group's obligations under employee share awards, and Quilter plc shares held in consolidated funds ("Own shares"). Own shares are deducted for the purpose of calculating both basic and diluted EPS.

Diluted EPS recognises the dilutive impact of shares awarded and options granted to employees under share-based payment arrangements, to the extent they have value, in the calculation of the weighted average number of shares, as if the relevant shares were in issue for the full year.

The Group is also required to calculate HEPS in accordance with the Johannesburg Stock Exchange ("JSE") Listing Requirements, determined by reference to the South African Institute of Chartered Accountants' circular 1/2021 *Headline Earnings*. Disclosure of HEPS is not a requirement of IFRS, but it is a commonly used measure of earnings in South Africa.

	Source of guidance	Notes	Year ended 31 December 2021 Pence	Year ended 31 December 2020 Pence
Basic earnings per share	IFRS	12(b)	9.4	5.0
Diluted basic earnings per share	IFRS	12(b)	9.2	4.9
Adjusted basic earnings per share	Group policy	12(b)	10.7	8.6
Adjusted diluted earnings per share	Group policy	12(b)	10.4	8.5
Headline basic earnings per share (net of tax)	JSE Listing Requirements	12(c)	3.9	5.2
Headline diluted earnings per share (net of tax)	JSE Listing Requirements	12(c)	3.8	5.1

12(a): Weighted average number of Ordinary Shares

The table below summarises the calculation of the weighted average number of Ordinary Shares for the purposes of calculating basic and diluted earnings per share for each profit measure (IFRS, adjusted and headline profit). Details of the impact on the number of shares from the Quilter share buyback scheme are detailed in note 25.

	Year ended 31 December 2021 Millions	Year ended 31 December 2020 Millions
Weighted average number of Ordinary Shares	1,721	1,842
Own shares including those held in EBTs	(77)	(82)
Basic weighted average number of Ordinary Shares	**1,644**	**1,760**
Adjustment for dilutive share awards and options	39	37
Diluted weighted average number of Ordinary Shares	**1,683**	**1,797**

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

		Year ended 31 December 2021			Year ended 31 December 2020		
	Notes	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Profit after tax		23	131	154	13	75	88
Total adjusting items before tax	7(a)	116	(71)	45	118	1	119
Tax on adjusting items	11(c)	(17)	–	(17)	(64)	–	(64)
Less: Policyholder tax adjustments	11(c)	(7)	–	(7)	9	–	9
Adjusted profit after tax after reallocation		**115**	**60**	**175**	**76**	**76**	**152**
Reversal of:							
Reallocation of Quilter International costs[1]		10	(10)	–	17	(17)	–
Adjusted profit after tax		**125**	**50**	**175**	**93**	**59**	**152**

[1]Reallocation of Quilter International costs includes £10 million of costs (31 December 2020: £17 million) previously reported as part of Quilter International which are presented within continuing operations as these costs did not transfer to Utmost Group (the acquirer) on disposal. Adjusted profit is presented both before and after the reallocation of these costs. See note 6(b) for additional details.

12: Earnings per share continued

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

		Year ended 31 December 2021			Year ended 31 December 2020		
	Post-tax profit measure used	Continuing operations Pence	Discontinued operations Pence	Total Pence	Continuing operations Pence	Discontinued operations Pence	Total Pence
Basic EPS	IFRS profit	1.4	8.0	9.4	0.8	4.2	5.0
Diluted EPS	IFRS profit	1.4	7.8	9.2	0.8	4.1	4.9
Adjusted basic EPS	Adjusted profit	7.6	3.1	10.7	5.3	3.3	8.6
Adjusted diluted EPS	Adjusted profit	7.4	3.0	10.4	5.2	3.3	8.5

12(c): Headline earnings per share

		Year ended 31 December 2021		Year ended 31 December 2020	
	Note	Gross £m	Net of tax £m	Gross £m	Net of tax £m
Profit attributable to ordinary equity holders			**154**		**88**
Adjusted for:					
(Profit)/loss on sale of operations	6(a)	(90)	(90)	1	1
Impairment loss on right-of-use assets		–	–	3	2
Headline earnings			**64**		**91**
Headline basic EPS (pence)			**3.9**		**5.2**
Headline diluted EPS (pence)			**3.8**		**5.1**

13: Dividends

	Payment date	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
2019 Final dividend paid – 3.5p per Ordinary Share	18 May 2020	–	64
2020 Interim dividend paid – 1.0p per Ordinary Share	21 September 2020	–	17
2020 Final dividend paid – 3.6p per Ordinary Share	17 May 2021	61	–
2021 Interim dividend paid – 1.7p per Ordinary Share	20 September 2021	28	–
Dividends paid to Ordinary Shareholders		**89**	**81**

Subsequent to the year ended 31 December 2021, the Directors proposed a final dividend for 2021 of 3.9 pence per Ordinary Share amounting to £62 million in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 16 May 2022. In compliance with the rules issued by the Prudential Regulation Authority ("PRA") in relation to the implementation of the Solvency II regime and other regulatory requirements to which the Group is subject, the dividend is required to remain cancellable at any point prior to it becoming due and payable on 16 May 2022 and to be cancelled if, prior to payment, the Group ceases to hold capital resources equal to or in excess of its Solvency Capital Requirement, or if that would be the case if the dividend was paid. The Directors have no intention of exercising this cancellation right, other than where required to do so by the PRA or for regulatory capital purposes.

Final and interim dividends paid to Ordinary Shareholders are calculated using the number of shares in issue at the record date less own shares held in Employee Benefit Trusts.

14: Goodwill and intangible assets

14(a): Analysis of goodwill and intangible assets

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

	Goodwill £m	Software development costs £m	Other intangible assets £m	Total £m
Gross amount				
1 January 2020	350	101	428	879
Acquisitions through business combinations	6	–	1	7
Additions	–	4	–	4
31 December 2020	356	105	429	890
Disposal of interests in subsidiaries	(50)	–	(4)	(54)
Disposals[1]	–	(65)	–	(65)
31 December 2021	**306**	**40**	**425**	**771**
Amortisation and impairment losses				
1 January 2020	–	(93)	(194)	(287)
Amortisation charge for the year	–	(2)	(45)	(47)
31 December 2020	–	(95)	(239)	(334)
Amortisation charge for the year	–	(2)	(45)	(47)
Disposal of interests in subsidiaries	–	–	2	2
Disposals[1]	–	65	–	65
31 December 2021	**–**	**(32)**	**(282)**	**(314)**
Carrying amount				
31 December 2020	356	10	190	556
31 December 2021	**306**	**8**	**143**	**457**

[1]Disposals of £65 million in the year ended 31 December 2021 relate to the write-off of fully amortised software in respect of the UK Platform Transformation Programme and following the final migration of client assets in February 2021, with all Quilter Investment Platform assets now live on the new platform.

14(b): Analysis of other intangible assets

	31 December 2021 £m	31 December 2020 £m	Average estimated useful life	Average period remaining
Net carrying value				
Distribution channels – Quilter Financial Planning	9	15	8 years	2 years
Customer relationships				
Quilter Cheviot	86	114	10 years	3 years
Quilter Financial Planning	27	31	8 years	5 years
Quilter Private Client Advisers	18	23	8 years	5 years
Other	3	7	8 years	2 years
Total other intangible assets	**143**	**190**		

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

Goodwill is monitored by management at the level of the Group's two operating segments: Affluent and High Net Worth, as disclosed in note 8(a). Both operating segments represent a group of CGUs. The allocation of goodwill to these segments was based on their individual value-in-use calculations relative to the combined total.

	31 December 2021[1] £m
Goodwill (net carrying amount)	
Affluent	225
High Net Worth	81
Total goodwill	**306**

[1]At 31 December 2020, the goodwill was allocated to the Group's previous segments Advice and Wealth Management and Wealth Platforms.

14: Goodwill and intangible assets continued

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

Goodwill of £50 million was included in the Quilter International disposal group and disposed of as part of the sale of Quilter International. The goodwill allocated to the Quilter International disposal group was determined by reference to the value-in-use of Quilter International as a proportion of the value-in-use of the Wealth Platforms operating segment to which it belonged at the point that held-for-sale accounting was first applied to the disposal group. The Group subsequently changed its operating segments as disclosed in note 4.

Impairment review

In accordance with the requirements of IAS 36 *Impairment of Assets*, goodwill in both the Affluent and High Net Worth CGU groups is tested for impairment annually, or earlier if an indicator of impairment exists, by comparing the carrying value of the CGU group to which the goodwill relates to the recoverable value of that CGU group, being the higher of that CGU group's value-in-use or fair value less costs to sell. If applicable, an impairment charge is recognised when the recoverable amount is less than the carrying value. Goodwill impairment indicators include sudden stock market falls, the absence of positive Net Client Cash Flows ("NCCF"), significant falls in profits and an increase in the discount rate.

During the year ended 31 December 2021, management considers there to be no indicators of impairment for continuing operations across the Affluent and High Net Worth CGU groups. The impairment assessment was performed, using the latest cash flow forecasts from the Group's three-year business plan, approved by the Board. The Group's business plan takes into account the increase in equity markets experienced in 2021, which has resulted in an increase in the Group's AuMA and revenue.

The following table details the separate percentage change required in each key assumption before the carrying value would exceed the recoverable amount, assuming all other variables remain the same. The table continues to demonstrate that further adverse movements to the key assumptions used in the CGU value-in-use calculation would be required before impairment is indicated.

	Affluent	High Net Worth
Reduction in forecast cash flows	72%	73%
Increase in discount rate required	53%	34%

Forecast cash flows are impacted by movements in underlying assumptions, including equity market levels, revenue margins and NCCF. The Group considers that forecast cash flows are most sensitive to movements in equity markets because they have a direct impact on the level of the Group's fee income.

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

Value-in-use methodology

The value-in-use calculations are determined as the sum of net tangible assets and the expected cash flows from existing and expected future new business derived from the business plans. Future cash flow elements allow for the cost of capital needed to support the business.

The cash flows that have been used to determine the value-in-use of the CGUs are based on the most recent management approved three-year profit forecasts, which incorporate anticipated equity market growth on the Group's future cash flows, and costs associated with incorporating climate-related risks within the Enterprise Risk Management Framework and climate-related financial disclosures. These cash flows change at different rates because of the different strategies of the CGUs. In cases where the CGUs have made significant acquisitions in the recent past, the cash flows are forecast to grow faster than the more mature businesses. Post the three-year forecasts, the growth rate used to determine the terminal value of the CGUs in the annual assessment approximates to the UK long-term growth rate of 2% (2020: 0.6%). Market share and market growth information are also used to inform the expected volumes of future new business.

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

The Group uses a single cost of capital of 9.5% (2020: 9.0%) to discount future expected business plan cash flows across its two groups of CGUs because they are perceived to present a similar level of risk. Capital is provided to the Group predominantly by shareholders with a small amount of debt. The cost of capital is the weighted average of the cost of equity (return required by shareholders) and the cost of debt (return required by bond and property lease holders). When assessing the systematic risk (i.e. beta value) within the calculation of the cost of equity, a triangulation approach is used that combines beta values obtained from historical data, a forward-looking view on the progression of beta values and the external views of investors.

15: Property, plant and equipment

	Right-of-use assets £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Gross amount				
1 January 2020	204	11	88	303
Additions[1]	6	–	28	34
Disposals	(44)	(3)	(4)	(51)
31 December 2020	166	8	112	286
Additions[2]	14	–	13	27
Disposal of interests in subsidiaries	(32)	–	(16)	(48)
Disposals	(16)	–	(2)	(18)
31 December 2021	**132**	**8**	**107**	**247**
Accumulated depreciation and impairment losses				
1 January 2020	(80)	(7)	(73)	(160)
Depreciation charge for the year	(15)	(1)	(4)	(20)
Impairment loss	(3)	–	–	(3)
Disposals	33	3	3	39
31 December 2020	(65)	(5)	(74)	(144)
Depreciation charge for the year	(10)	–	(6)	(16)
Disposal of interests in subsidiaries	21	–	16	37
Disposals	5	–	2	7
31 December 2021	**(49)**	**(5)**	**(62)**	**(116)**
Carrying value				
31 December 2020	101	3	38	142
31 December 2021	**83**	**3**	**45**	**131**

[1]The majority of additions in the year ended 31 December 2020 relate to the lease for Senator House, the Group's Head Office in London.
[2]The majority of additions in the year ended 31 December 2021 relate to the lease for Quilter House, the Group's main Southampton property, and the recognition of revised dilapidations provisions on properties in the lease portfolio.

The carrying value of right-of-use assets at 31 December 2021 relate to £83 million of property leases (31 December 2020: £101 million).

16: Loans and advances

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

	31 December 2021 £m	31 December 2020 £m
Loans to policyholders	–	186
Loans to advisers and brokers	29	33
Total net loans and advances	**29**	**219**
To be recovered within 12 months	7	195
To be recovered after 12 months	22	24
Total net loans and advances	**29**	**219**

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

Loans to policyholders reduced to £nil at 2021 (2020: £186 million) due to the sale of Quilter International.

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

17: Financial investments

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

	31 December 2021 £m	31 December 2020 £m
Government and government-guaranteed securities	649	632
Other debt securities, preference shares and debentures	1,662	1,952
Equity securities	7,251	14,163
Pooled investments	38,002	46,518
Short-term funds and securities treated as investments	1	9
Total financial investments	**47,565**	63,274
Recoverable within 12 months	47,565	63,274
Recoverable after 12 months	–	–
Total financial investments	**47,565**	63,274

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

18: Derivative financial instruments – assets and liabilities

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

The derivatives included within the statement of financial position at 31 December 2021 and 31 December 2020 relate to instruments included as a consequence of the consolidation of investment funds.

19: Categories of financial instruments

The analysis of financial assets and liabilities into their categories as defined in IFRS 9 *Financial Instruments* is set out in the following tables. Assets and liabilities of a non-financial nature, or financial assets and liabilities that are specifically excluded from the scope of IFRS 9, are reflected in the non-financial assets and liabilities category.

For information about the methods and assumptions used in determining fair value, refer to note 20. The Group's exposure to various risks associated with financial instruments is discussed in note 37.

31 December 2021

	Fair value				
Measurement basis	**Mandatorily at FVTPL £m**	**Designated at FVTPL £m**	**Amortised cost £m**	**Non-financial assets and liabilities £m**	**Total £m**
Assets					
Investments in associated undertakings[1]	–	–	–	2	2
Loans and advances	–	–	29	–	29
Financial investments	47,564	–	–	1	47,565
Trade, other receivables and other assets	–	–	325	56	381
Derivative assets	14	–	–	–	14
Cash and cash equivalents	1,216	–	848	–	2,064
Total assets that include financial instruments	48,794	–	1,202	59	50,055
Total other non-financial assets	–	–	–	685	685
Total assets	**48,794**	**–**	**1,202**	**744**	**50,740**
Liabilities					
Investment contract liabilities	–	41,071	–	–	41,071
Third-party interests in consolidation of funds	6,898	–	–	–	6,898
Borrowings and lease liabilities	–	–	299	–	299
Trade, other payables and other liabilities	–	–	370	114	484
Derivative liabilities	15	–	–	–	15
Total liabilities that include financial instruments	6,913	41,071	669	114	48,767
Total other non-financial liabilities	–	–	–	234	234
Total liabilities	**6,913**	**41,071**	**669**	**348**	**49,001**

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

19: Categories of financial instruments continued

31 December 2020

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

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

20: Fair value methodology

This section explains the judgements and estimates made in determining the fair values of financial instruments that are recognised and measured at fair value in the financial statements. Classifying financial instruments into the three levels of fair value hierarchy (see note 20(b)), prescribed under IFRS, provides an indication about the reliability of inputs used in determining fair value.

20(a): Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market exit prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs:

- for units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published quoted prices representing exit values in an active market;
- for equity and debt securities not actively traded in organised markets and where the price cannot be retrieved, the fair value is determined by reference to similar instruments for which market observable prices exist;
- for assets that have been suspended from trading on an active market, the last published price is used. Many suspended assets are still regularly priced. At the reporting date all suspended assets are assessed for impairment; and
- where the assets are private company shares or within consolidated investment funds, the valuation is based on the latest available set of audited financial statements where available, or if more recent, financial statements for the fund or a statement of valuation provided by the management of the private company or fund.

There have been no significant changes in the valuation techniques applied when valuing financial instruments. Where assets are valued by the Group, the general principles applied to those instruments measured at fair value are outlined below:

Loans and advances

Loans and advances include loans to policyholders, loans to brokers, and other secured and unsecured loans. Loans and advances to policyholders of investment-linked contracts are measured at fair value. All other loans are stated at their amortised cost.

Financial investments

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

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

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

Other financial investments that are measured at fair value use observable market prices where available. In the absence of observable market prices, these investments and securities are fair valued utilising various approaches including discounted cash flows, the application of an earnings before interest, tax, depreciation and amortisation multiple or any other relevant technique.

Derivatives
The fair value of derivatives is determined with reference to the exchange traded prices of the specific instruments. The fair value of over-the-counter forward foreign exchange contracts is determined by the underlying foreign currency exchange rates.

Investment contract liabilities
The fair value of the investment contract liabilities is determined with reference to the underlying funds that are held by the Group.

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

Borrowings and lease liabilities
Borrowings and lease liabilities are stated at amortised cost.

20(b): Fair value hierarchy
Fair values are determined according to the following hierarchy:

Description of hierarchy	Types of instruments classified in the respective levels
Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.	Listed equity securities, government securities and other listed debt securities and similar instruments that are actively traded, actively traded pooled investments, certain quoted derivative assets and liabilities, policyholder loans (where they form part of a policyholder's unit-linked policy) and investment contract liabilities directly linked to other Level 1 financial assets.
Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.	Unlisted equity and debt securities where the valuation is based on models involving no significant unobservable data. Over-the-counter ("OTC") derivatives, certain privately placed debt instruments and third-party interests in consolidated funds which meet the definition of Level 2 financial instruments.
Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.	Unlisted equity and securities with significant unobservable inputs, securities where the market is not considered sufficiently active, including certain inactive pooled investments.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

The majority of valuation techniques employ only observable data and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs.

In this context, 'unobservable' means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable data may be attributable to observable inputs. Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

20(c): Transfer between fair value hierarchies
The Group deems a transfer to have occurred between Level 1 and Level 2 or Level 3 when an active, traded primary market ceases to exist for that financial instrument. A transfer between Level 2 and Level 3 occurs when the majority of the significant inputs used to determine fair value of the instrument become unobservable. Transfers from Levels 3 or 2 to Level 1 are also possible when assets become actively priced.

There were transfers of financial investments of £16 million from Level 1 to Level 2 during the year (31 December 2020: £9 million). There were transfers of financial investments of £85 million from Level 2 to Level 1 during the year (31 December 2020: £3 million). These movements are matched closely by transfers of investment contract liabilities. See note 20(e) for the reconciliation of Level 3 financial instruments.

20: Fair value methodology continued

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

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

The linked assets are held to cover the liabilities for linked investment contracts (net of reinsurance). The difference between linked assets and linked liabilities is principally due to short-term timing differences between policyholder premiums being received and invested in advance of policies being issued, and tax liabilities within funds which are reflected within the Group's tax liabilities.

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

The table below presents a summary of the Group's financial assets and liabilities that are measured at fair value in the consolidated statement of financial position according to their IFRS 9 classification (see note 19 for full details).

	31 December 2021		31 December 2020	
	£m	%	£m	%
Financial assets measured at fair value				
Level 1	41,996	86.0%	56,927	88.2%
Level 2	6,771	13.9%	5,793	9.0%
Level 3	27	0.1%	1,822	2.8%
Total	**48,794**	**100.0%**	**64,542**	**100.0%**
Financial liabilities measured at fair value				
Level 1	41,047	85.5%	55,135	86.3%
Level 2	6,913	14.4%	6,985	10.9%
Level 3	24	0.1%	1,820	2.8%
Total	**47,984**	**100.0%**	**63,940**	**100.0%**

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

31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value				
Mandatorily (fair value through profit or loss)	41,996	6,771	27	48,794
Financial investments	40,780	6.757	27	47,564
Cash and cash equivalents	1,216	–	–	1,216
Derivative assets	–	14	–	14
Total assets measured at fair value	**41,996**	**6,771**	**27**	**48,794**
Financial liabilities measured at fair value				
Mandatorily (fair value through profit or loss)	–	6,913	–	6,913
Third-party interests in consolidated funds	–	6,898	–	6,898
Derivative liabilities	–	15	–	15
Designated (fair value through profit or loss)	41,047	–	24	41,071
Investment contract liabilities	41,047	–	24	41,071
Total liabilities measured at fair value	**41,047**	**6,913**	**24**	**47,984**

20: Fair value methodology continued

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

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

[1]Loans and advances mandatorily at fair value through profit or loss, included within fair value Level 1, solely relate to policyholder loans in Quilter International.

20(e): Level 3 fair value hierarchy disclosure

The majority of the assets classified as Level 3 are held within linked policyholder funds. Where this is the case, all of the investment risk associated with these assets is borne by policyholders and the value of these assets is exactly matched by a corresponding liability due to policyholders. The Group bears no risk from a change in the market value of these assets except to the extent that it has an impact on management fees earned.

During the year ended 31 December 2021, Level 3 assets also include investments within consolidated funds to the value of £1 million (31 December 2020: £2 million) relating to private equity investments. The Group bears no risk from a change in the market value of these assets and any changes in market value are matched by a corresponding Level 2 liability within Third-party interests in consolidated funds.

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

	31 December 2021 £m	31 December 2020[1] £m
At beginning of the year	1,822	1,717
Fair value losses charged to income statement	(3)	(121)
Purchases	–	16
Sales	–	(8)
Transfers in	8	930
Transfers out	(393)	(714)
Disposal of subsidiaries[2]	(1,406)	–
Foreign exchange and other movements	(1)	2
Total Level 3 financial assets	**27**	**1,822**
Unrealised fair value losses charged to income statement relating to assets held at the year end	(4)	(110)

[1]During the year ended 31 December 2020, Level 3 assets also included a shareholder investment in suspended funds of £2 million; this was not matched by a corresponding liability and therefore the changes in market value were recognised in the Group's consolidated income statement.
[2]During the year ended 31 December 2021, Level 3 assets decreased by £1,406 million following the sale of Quilter International to Utmost Group.

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

Transfers into Level 3 assets in the current year total £8 million (31 December 2020: £930 million). This is mainly due to suspended funds previously shown within Level 1. Suspended funds are valued based on external valuation reports received from fund managers. Transfers out of Level 3 assets in the current year of £393 million (31 December 2020: £714 million) result from a transfer to Level 1 assets relating to assets that are now being actively repriced (that were previously stale) and where fund suspensions have been lifted.

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

	31 December 2021 £m	31 December 2020 £m
Pooled investments	26	522
Unlisted and stale price pooled investments	1	87
Suspended funds	25	435
Private equity investments	1	1,300
Total Level 3 financial assets	**27**	**1,822**

All of the liabilities that are classified as Level 3 are investment contract liabilities which exactly match against the Level 3 assets held in linked policyholder funds.

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

	31 December 2021 £m	31 December 2020 £m
At beginning of the year	1,820	1,717
Fair value losses charged to the income statement	(3)	(120)
Purchases	–	16
Sales	–	(8)
Transfers in	5	927
Transfers out	(391)	(714)
Disposal of subsidiaries	(1,406)	–
Foreign exchange and other movements	(1)	2
Total Level 3 financial liabilities	**24**	**1,820**
Unrealised fair value losses charged to the income statement relating to liabilities held at the year end	(4)	(110)

20: Fair value methodology continued

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

Details of the valuation techniques applied to the different categories of financial instruments can be found in note 20(a) above, including the valuation techniques applied when significant unobservable assumptions are used to value Level 3 assets.

The majority of the Group's Level 3 assets at 31 December 2020 were held within private equity investments, where the valuation of these assets was performed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment and in line with industry guidelines. Private equity investments are valued at the value disclosed in the latest available set of audited financial statements or, if more recent information is available, from investment managers or professional valuation experts at the value of the underlying assets of the private equity investment. For this reason, no reasonable alternative assumptions are applicable and the Group therefore performs a sensitivity test of an aggregate 10% change in the value of the financial asset or liability (31 December 2020: 10%), representing a reasonable possible alternative judgement in the context of the current macro-economic environment in which the Group operates. It is therefore considered that the impact of this sensitivity will be in the range of £2 million to the reported fair value of Level 3 assets, both favourable and unfavourable (31 December 2020: £182 million). As described in note 20(e), changes in the value of Level 3 assets held within linked policyholder funds are exactly matched by corresponding changes in the value of liabilities due to policyholders and therefore have no impact on the Group's net asset value or profit or loss, except to the extent that it has an impact on management fees earned.

20(g): Fair value hierarchy for assets and liabilities not measured at fair value

Certain financial instruments of the Group are not carried at fair value. The carrying values of these are considered reasonable approximations of their respective fair values, as they are either short term in nature or are repriced to current market rates at frequent intervals. Their classification within the fair value hierarchy would be as follows:

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

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

Fixed-term deposits, which are included within Financial investments, are held at amortised cost and therefore not carried at fair value. The fixed-term deposits that are held at amortised cost would be classified as Level 1 in the fair value hierarchy.

Loans and advances are financial assets held at amortised cost and therefore not carried at fair value, with the exception of policyholder loans which are categorised as FVTPL. The loans and advances that are held at amortised cost would be classified as Level 3 in the fair value hierarchy.

Borrowed funds are financial liabilities held at amortised cost and therefore not carried at fair value. Borrowed funds relate to subordinated liabilities and would be classified as Level 2 in the fair value hierarchy.

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

21: Structured entities

Structured entities are defined as entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group has interests in both consolidated and unconsolidated structured entities.

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

The Group invests in collective investment vehicles, including open-ended investment companies ("OEICs") and unit trusts, in order to match unit-linked investment contract liabilities. This means that all of the investment risk associated with these assets is borne by policyholders and any change in the value of these assets is closely matched by a corresponding change in liability due to policyholders. As the Group earns management fees based on the market value of unit-linked assets, any change in asset values will increase or decrease the Group's revenues. The Group has not provided any non-contractual support to any consolidated or unconsolidated structured entities during 2020 and 2021.

As at 31 December 2020 and 31 December 2021, the Group has no obligation or intention to provide financial support to structured entities that could expose the Group to a loss.

In addition, shareholder funds are also invested in collective investment vehicles, principally in respect of money market funds as an alternative to bank deposits.

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

These structured entities are not consolidated where the Group determines that it does not have control.

21(b): Interests in unconsolidated structured entities

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

	31 December 2021 £m	31 December 2020 £m
Financial investments	34,928	43,737
Cash and cash equivalents	1,216	1,064
Total Group interest in unconsolidated structured entities	**36,144**	**44,801**

The Group's maximum exposure to loss with regard to the Group's interests in unconsolidated structured entities presented above, before consideration of the reduction in unit-linked liabilities, is the carrying amount of the Group's investments (31 December 2021: £36,144 million; 31 December 2020: £44,801 million). The majority of the exposure relates to unit-linked products and therefore any movement in the Group's investment will be offset by a corresponding movement in investment contract liabilities. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are less than 50% and as such the net asset value of these structured entities is significantly higher than the carrying value of the Group's interest.

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

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

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

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

There have been no changes in facts or circumstances which have changed the Group's conclusion on the consolidation of funds.

21(d): Other interests in unconsolidated structured entities

At the current and prior reporting date, the Group held units in each of the investment funds it managed.

22: Trade, other receivables and other assets

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

	31 December 2021 £m	31 December 2020 £m
Outstanding settlements	181	277
Other receivables	103	120
Accrued interest	1	4
Accrued income	40	31
Fee income receivable	–	192
Other accruals and prepayments	36	49
Contract assets	11	12
Management fees	9	16
Total trade, other receivables and other assets	**381**	**701**
To be settled within 12 months	381	555
To be settled after 12 months	–	146
Total trade, other receivables and other assets	**381**	**701**

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

Fee income receivable reduced to £nil at 2021 (2020: £192 million) due to the sale of Quilter International.

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

23: Contract costs

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

	Investment contracts £m	Asset management £m	Total £m
1 January 2020	452	3	455
New business	1	–	1
Amortisation	(1)	(1)	(2)
Continuing operations movement	–	(1)	(1)
New business	29	–	29
Amortisation	(72)	–	(72)
Discontinued operations movement	(43)	–	(43)
Foreign exchange	2	–	2
31 December 2020	411	2	413
New business	2	1	3
Amortisation	–	–	–
Continuing operations movement	2	1	3
New business	24	–	24
Amortisation	(45)	–	(45)
Discontinued operations movement	(21)	–	(21)
Disposal of subsidiaries	(383)	–	(383)
Foreign exchange	(3)	–	(3)
31 December 2021	**6**	**3**	**9**

24: Cash and cash equivalents

24(a): Analysis of cash and cash equivalents

	31 December 2021 £m	31 December 2020 £m
Cash at bank	559	550
Money market funds	1,216	1,064
Cash and cash equivalents in consolidated funds	289	307
Total cash and cash equivalents per statement of financial position	**2,064**	**1,921**

The Group's management does not consider that the cash and cash equivalents balance arising due to consolidation of funds £289 million (2020: £307 million) is available for use in the Group's day-to-day operations. The remainder of the Group's cash and cash equivalents balance of £1,775 million (2020: £1,614 million) is considered to be available for use by the Group.

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

	Notes	31 December 2021 £m	31 December 2020 £m
Cash flows from operating activities			
Profit before tax from continuing operations		85	9
Profit before tax from discontinued operations	6(c)	131	76
		216	85
Adjustments for			
Depreciation and impairment of property, plant and equipment	15	16	23
Movement on contract costs	23	18	44
Movement on contract liabilities and fee income receivable	32	10	(7)
Amortisation and impairment of intangibles	14	47	47
Fair value and other movements in financial assets		(5,102)	(3,319)
Fair value movements in investment contract liabilities	27	4,467	2,632
Other change in investment contract liabilities		3,454	2,187
(Profit)/loss on sale of subsidiaries	6(a)	(91)	1
Other movements		32	40
		2,851	1,648
Net changes in working capital			
Decrease/(increase) in derivatives		24	(11)
Decrease/(increase) in loans and advances	16	15	(5)
Increase in provisions	28	17	1
Movement in other assets/liabilities[1]		(20)	(245)
		36	(260)
Taxation paid		(10)	(28)
Net cash flows from operating activities		**3,093**	**1,445**

[1]Working capital changes in respect of other assets and liabilities primarily relate to consolidated funds.

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24: Cash and cash equivalents continued

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

31 December 2021	Liabilities: Borrowings and lease liabilities £m	Liabilities: Deposits from reinsurers £m	Equity[1]: Changes in equity £m	Total £m
	Note 30			
Opening balance at 1 January 2021	**319**	**–**	**1,878**	**2,197**
Cash flows from financing activities				
Liability related:				
Finance costs on external borrowings	(9)	–	–	(9)
Equity related:				
Dividends paid to ordinary equity holders of the Company	–	–	(89)	(89)
Repurchase of own shares	–	–	(197)	(197)
Payment of lease liabilities	(12)	–	–	(12)
Cash flows from financing activities	**(21)**	**–**	**(286)**	**(307)**
Other changes				
External debt interest accrual	9		–	9
Changes in lease liabilities	(8)			(8)
Other changes in liabilities	–	–	–	–
Liability related	1	–	–	1
Equity related	–	–	147	147
31 December 2021	**299**	**–**	**1,739**	**2,038**

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

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

25: Share capital, capital redemption reserve and merger reserve

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. At 31 December 2021, the Parent Company's equity capital comprises 1,655,827,217 Ordinary Shares of 7 pence each with an aggregated nominal value of £115,907,905 (31 December 2020: 1,783,969,051 Ordinary Shares of 7 pence each with an aggregated nominal value of £124,877,834).

This note gives details of the Company's Ordinary Share capital, shows the movements during the year and gives details of the release of £124 million of the merger reserve:

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2020	1,902,251,098	133	58
Shares cancelled through share buyback programme	(118,282,047)	(8)	
At 31 December 2020	1,783,969,051	125	58
Shares cancelled through share buyback programme	(128,141,834)	(9)	
At 31 December 2021	**1,655,827,217**	**116**	**58**

25(a): Share capital

On 11 March 2020, the Company announced a share buyback programme to purchase shares up to a maximum value of £375 million, in order to return the net surplus proceeds to shareholders arising from the sale of Quilter Life Assurance which had the impact of reducing the share capital of the Company.

During the year ended 31 December 2021, the Company acquired the committed remainder from 2020 and, as part of tranches 3 and 4 of the share buyback, a further 128.1 million shares (31 December 2020: 118.3 million) for a total consideration of £197 million (31 December 2020: £153 million) and incurred additional costs of £3 million (31 December 2020: £4 million). The shares, which had a nominal value of £9 million (31 December 2020: £8 million), have subsequently been cancelled, increasing the capital redemption reserve of the same value as required by the Companies Act 2006. At 31 December 2021, the committed remaining share buyback for which a legally binding instruction had been provided by the Board, of £26 million (31 December 2020: £22 million) was accrued as a liability against retained earnings.

There is one class of Ordinary Share of 7 pence each. All share issued carry equal voting rights. The holders of the Company's Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings of the Company.

25(b): Merger reserve

During the year ended 31 December 2021, there was a dividend paid by Quilter Perimeter Holdings Limited up to its Parent Quilter plc. The resulting decrease in Quilter Perimeter Holdings Limited's net asset value gave rise to a £124 million impairment of Quilter plc's investment in Quilter Perimeter Holdings Limited and an associated release of the merger reserve reducing it to £25 million.

26: Share-based payments

During the year ended 31 December 2021, the Group participated in a number of share-based payment arrangements. This note describes the nature of the plans and how the share options and awards are valued.

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

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

26: Share-based payments continued

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

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

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

26(b): Reconciliation of movements in options

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

Options over Ordinary Shares (London Stock Exchange)	Year ended 31 December 2021 Number of options	Year ended 31 December 2021 Weighted average exercise price	Year ended 31 December 2020 Number of options	Year ended 31 December 2020 Weighted average exercise price
Outstanding at beginning of the year	24,898,095	£0.54	24,707,734	£0.65
Granted during the year	6,315,110	£0.86	3,016,429	£0.00
Forfeited during the year	(1,544,730)	£0.38	(976,874)	£0.85
Exercised during the year	(1,609,808)	£0.27	(620,349)	£0.51
Expired during the year	(220,391)	£1.25	(287,816)	£1.25
Cancelled during the year	(649,710)	£1.27	(941,029)	£1.25
Outstanding at end of the year	**27,188,566**	**£0.62**	**24,898,095**	**£0.54**
Exercisable at end of the year	**–**	**–**	**–**	**–**

The weighted average fair value of options at the measurement date for options granted during the year ended 31 December 2021 is £0.68, and for the year ended 31 December 2020 was £0.95. The weighted average share price at the dates of exercise for options exercised during the year was £1.62.

The options outstanding at 31 December 2021 have exercise prices of £nil for both the Quilter plc Performance Share Plan and the Charles Derby Group Performance Share Plan, and between £1.25 and £1.31 for the Quilter plc Sharesave Plan, with a weighted average remaining contractual life of 1.3 years. At 31 December 2020, the exercise price was £nil for both the Quilter plc Performance Share Plan and Charles Derby Group Performance Share Plan, and £1.25 for the Quilter plc Sharesave Plan, with a weighted average remaining contractual life of 1.8 years.

26(c): Measurements and assumptions

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

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

26: Share-based payments continued

26(c): Measurements and assumptions continued

The inputs used in the measurement of fair values at the grant date for awards granted during 2021 were as follows:

Scheme	Weighted average share price £	Weighted average exercise price £	Weighted average expected volatility	Weighted average expected life (years)	Weighted average risk-free interest rate	Weighted average expected dividend yield	Expected forfeitures per annum
Quilter plc Performance Share Plan – Share Options (Nil cost options)	1.64	0.00	33%	3.0	0.2%	0.0%	0%
Quilter plc Performance Share Plan – Conditional Shares	1.62	0.00	33%	3.0	0.2%	0.0%	4%
Quilter plc Share Reward Plan – Conditional Shares	1.64	0.00	32%	1.9	0.1%	0.0%	4%
Quilter plc Sharesave Plan	1.59	1.31	29%	3.5	0.2%	3.1%	5%

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

26(d): Share grants

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

	Year ended 31 December 2021		Year ended 31 December 2020	
Instruments granted during the year	Number granted	Weighted average fair value	Number granted	Weighted average fair value
Quilter plc Performance Share Plan – Conditional Shares	3,854,809	£1.64	4,911,597	£1.17
Quilter plc Share Reward Plan – Conditional Shares	4,243,273	£1.64	13,471,153	£1.17

26(e): Financial impact

The share-based payment reserve of £42 million (31 December 2020: £42 million) represents the cumulative expense of the Group for the unsettled portion of equity awarded schemes.

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Expense arising from equity-settled share and share option plans – continuing operations	19	24
Expense arising from equity-settled share and share option plans – discontinued operations	1	1
Total expense arising from share and share option plans	**20**	**25**

27: Investment contract liabilities

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

	2021 £m	2020 £m
Carrying amount at 1 January	**57,407**	**52,455**
From continuing operations		
Fair value movements	2,821	1,760
Investment income	472	512
Movements arising from investment return	3,293	2,272
From discontinued operations		
Fair value movements	1,646	872
Investment income	172	184
Movements arising from investment return	1,818	1,056
Contributions received	6,837	4,871
Maturities	(406)	(97)
Withdrawals and surrenders	(3,460)	(3,226)
Claims and benefits	(162)	(59)
Other movements	1	2
Change in liability	**7,921**	**4,819**
Currency translation (gain)/loss	(199)	133
Disposal of subsidiaries	(24,058)	–
Investment contract liabilities at 31 December	**41,071**	**57,407**

For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

The benefits offered under the unit-linked investment contracts are based on the risk appetite of policyholders and the return on their selected investments and collective fund investments, whose underlying investments include equities, debt securities, property and derivatives. This investment mix is unique to individual policyholders.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

For unit-linked business, the unit liabilities are determined as the value of units credited to policyholders. Since these liabilities are determined on a retrospective basis no assumptions for future experience are required. Assumptions for future experience are required for unit-linked business in assessing whether the total of the contract costs asset and contract liability is greater than the present value of future profits expected to arise on the relevant blocks of business (the "recoverability test"). If this is the case, then the contract costs asset is restricted to the recoverable amount. For linked contracts, the assumptions are on a best estimate basis.

28: Provisions

31 December 2021	Compensation provisions £m	Sale of subsidiaries £m	Property provisions £m	Clawback and other provisions £m	Total £m
Balance at beginning of the year	42	10	–	25	77
Charge to income statement[1]	23	17	7	2	49
Utilised during the period	(12)	(4)	–	(4)	(20)
Unused amounts reversed	(10)	(1)	–	(5)	(16)
Reclassification within statement of financial position[2]	–	–	2	3	5
Disposals	(2)	–	–	–	(2)
Balance at 31 December 2021	**41**	**22**	**9**	**21**	**93**

31 December 2020	Compensation provisions £m	Sale of subsidiaries[3] £m	Property provisions £m	Clawback and other provisions £m	Total £m
Balance at beginning of the year	31	16	–	17	64
Additions from business combinations	12	–	–	–	12
Charge to income statement[1]	10	–	–	1	11
Utilised during the year	(5)	(4)	–	(4)	(13)
Unused amounts reversed	(6)	(2)	–	(3)	(11)
Reclassification within statement of financial position	–	–	–	14	14
Balance at 31 December 2020	**42**	**10**	**–**	**25**	**77**

[1]Part of the charge to income statement is included within the discontinued operations income statement.
[2]Property provisions related to dilapidations and other provisions related to historical licence agreements have been reclassified during the year from lease liabilities and accruals respectively reflecting the uncertainty of the amounts to be settled. During 2020, the Clawback provision was reclassified, with the liability due to product providers on indemnity commission disclosed within provisions and the recoverable amount from brokers disclosed within receivables.
[3]Sale of subsidiaries in the year ended 31 December 2020 was previously split between provisions related to the sale of QLA (balance of £3 million) and the sale of the Single Strategy business (balance of £7 million).

Compensation provisions

Compensation provisions total £41 million (31 December 2020: £42 million), and are comprised of the following:

Lighthouse pension transfer advice provision of £29 million (31 December 2020: £28 million)

Lighthouse pension transfer advice provided to British Steel members £21 million (31 December 2020: £28 million)

A provision for DB to DC pension transfer advice provided by Lighthouse advisers in respect of pension transfers for British Steel Pension Scheme members, prior to Lighthouse transitioning to our systems and controls following our acquisition of Lighthouse, was established within the fair value of the Lighthouse assets and liabilities acquired.

During 2020, the FCA reported the results of its thematic review into the general market of DB to DC pension transfers, which included British Steel Pension Scheme pension transfers. The FCA review determined that the percentage of unsuitable files for British Steel Pension Scheme transfers generally for the industry was higher than those for other DB to DC pension transfers in their thematic sample. The FCA review included a sample of British Steel Pension Scheme pension transfer advice provided by Lighthouse advisers.

In April 2020, the Group was informed by the FCA that it would be required to appoint a skilled person to review the DB to DC pension transfers that Lighthouse advisers advised on in the period up to Lighthouse transitioning to Quilter's systems and controls following Quilter's acquisition of Lighthouse. A skilled person was appointed, and during 2020 they performed initial provisional calculations for a significant portion of the British Steel Pension Scheme complaints received by Lighthouse where the advice given to customers was assessed as being unsuitable to obtain an indication of how much redress (if any) may be payable to these customers to the extent that they sustained losses as a result of that unsuitable advice. The methodology employed to perform these initial provisional redress calculations uses assumptions and estimation techniques which are consistent with principles under the FCA's FG17/9 "Guidance for firms on how to calculate redress for unsuitable defined benefit pension transfers". The provisional redress amounts calculated on the complaints were extrapolated to the entire population of 266 British Steel Pension Scheme transfers on which Lighthouse advisers provided advice and the relevant customers proceeded to make a transfer, in order to determine an approximation of the estimated redress that may be payable to customers who are found to have received unsuitable advice which caused them to sustain losses. The provision was determined by (a) subdividing the population into cohorts with similar characteristics, including the results in 2020 of the skilled person's assessment of the number of cases where unsuitable advice was given, and also (b) dividing the population into transfers pre and post June 2017 when the Trustees of the British Steel Pension Scheme changed the basis on which transfer values were calculated. The timing of any benefits withdrawn by the member after the transfer also has an impact upon the provisional redress amounts calculated. The estimated redress per client as a proportion of the transfer value of the pensions was determined for each cohort and extrapolated to the population of cases assessed as unsuitable where advice was provided and acted upon through Lighthouse.

28: Provisions continued

During 2021, a loss assessment and redress calculation methodology has been designed by the skilled person following discussions and in collaboration with the FCA, to ensure consistency and compliance with the FCA's Final Guidance 17/9, which is being used to calculate redress offers for those cases where the skilled person determines that a customer received unsuitable defined benefit pension transfer advice which caused them to sustain losses. At 31 December 2021, offers relating to the majority of the provision balance have been made to customers and, subject to FCA confirmation, we expect the skilled person review to be completed during 2022. The majority of suitability reviews were completed by the skilled person during the year. The provision has been updated at 31 December 2021 reflecting the outcome of the suitability review on a case-by-case basis, redress calculations performed by the skilled person using the agreed methodology and the offers made to customers who received unsuitable advice which caused them to sustain a loss.

A total provision of £21 million (31 December 2020: £28 million) has been calculated for the potential redress of British Steel Pension Scheme cases, including anticipated costs associated with the redress activity. This is comprised of two parts:

(a) Client redress provision of £19 million, comprised of £23 million (31 December 2020: £25 million) redress payable, less payments made to customers of £4 million during 2021,
(b) Anticipated costs associated with redress activity of £2 million (31 December 2020: £3 million), comprised of £4 million costs payable, less payments made of £2 million during the year. This provision is recognised in respect of the anticipated costs of legal and professional fees related to the cases and redress process, which includes the expected costs to review advice provided of a similar nature in relation to cases that the Group believes may have similar characteristics. The costs do not include any potential regulatory fines or penalties as a result of the unsuitable advice.

The £3 million insurance recoverable that was included in the fair value of the acquired net assets of Lighthouse has not changed. Discussion with insurers is ongoing, insurers have not confirmed coverage and the Group will review the recoverable amount as and when they receive further certainty, which is not expected until after the completion of the skilled person review. The insurance asset at 31 December 2021 is disclosed within "Trade, other receivables and other assets".

The final costs of redress for cases upheld will depend on specific calculations on a case-by-case basis, which will be calculated per the detailed redress methodology designed by the skilled person following discussions and in collaboration with the FCA and also impacted by market movements and other parameters affecting the defined contribution scheme asset, and is therefore exposed to volatility from this, and may vary from the amounts currently provided.

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

At the date of signing the financial statements, a redress calculation has been performed for the majority of customers who have had an assessment of unsuitable pension transfer advice, leading to greater certainty over the range of the provision balance, and therefore provision sensitivity for changes in assumptions has not been disclosed. The range of outcomes for the remaining provision, including anticipated costs, varies from £19 million (decrease of £2 million) to £22 million (increase of £1 million), with full settlement of payments expected to be completed during 2022.

Lighthouse pension transfer advice provided to members of other schemes of £8 million (31 December 2020: £nil)
During 2021, the skilled person review has identified unsuitable DB to DC pension advice provided by Lighthouse advisers for pension schemes other than the British Steel Pension Scheme. The majority of the suitability assessments for cases currently identified as being in scope have been completed. Using provisional calculations of redress for similar cases where customers had sustained losses a factor was determined representing average redress as a proportion of average pension transfer value. The factor was used to estimate a provision of £8 million for the unsuitable cases, which has been recognised at 31 December 2021. If the factor was to increase or decrease by 10%, the impact upon the provision would be £2 million. Payments are expected to be completed by the end of the third quarter of 2022.

Compensation provisions (other) of £12 million (31 December 2020: £14 million)
Other compensation provisions of £12 million are held within the Group's continuing operations and include amounts relating to the cost of correcting deficiencies in policy administration systems, including restatements, any associated litigation costs and the related costs to compensate previous or existing policyholders and customers. This provision represents management's best estimate of expected outcomes based upon previous experience, and a review of the details of each case. Due to the nature of the provision, the timing of the expected cash outflows is uncertain. The best estimate of timing of outflows is that the majority of the balance is expected to be settled within 12 months.

28: Provisions continued

A provision of £6 million, included within the balance, has been recognised during 2021 relating to potentially unsuitable pension advice provided by advisers including advice provided prior to Quilter's acquisition of the relevant advice businesses. Of this balance, £2 million has been recognised for potentially unsuitable pension advice provided to British Steel Pension Scheme members by Quilter Financial Planning firms other than Lighthouse, following the receipt of a "Dear CEO" letter from the FCA in December 2021 outlining their consideration of an industry-wide consumer redress scheme for British Steel Pension Scheme pension transfers between 1 March 2017 and 31 March 2018. These British Steel Pension Scheme cases have yet to be reviewed for suitability and an estimate of the provision has been made based upon experience of the Lighthouse skilled person review.

An indemnification asset of £2 million relating to a certain portion of the potentially unsuitable advice has been recognised within "Trade, other receivables and other assets" representing the amount receivable from the sellers under the terms of the sale agreement.

During the year, compensation provisions of £2 million within Quilter International were disposed of as a result of the sale of the business.

The Group estimates a reasonably possible change of +/- £3 million from the £12 million balance, based upon a review of the cases and the range of potential outcomes for the customer redress payments.

Sale of subsidiaries

Sale of subsidiaries provisions total £22 million (31 December 2020: £10 million), and are comprised of the following:

Provisions arising on the disposal of Quilter International of £16 million (31 December 2020: £nil)

Quilter International was sold on 30 November 2021, resulting in provisions totalling £17 million being established in respect of costs related to the disposal including the costs of business separation and data migration activities.

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

The most significant element of the provision is the cost of migration of IT systems and data to the acquirer. Work has taken place during 2021 in preparation for migration. Calculation of the provision is based on management's best estimate of the work required, the time it is expected to take, the number and skills of the staff required and their cost, and the cost of related external IT services to support the work. In reaching these judgements and estimates, management has made use of its past experience of previous IT migrations following business disposals, including the recent migration of QLA. The Group estimates a provision sensitivity of +/-25% (£4 million), based upon a review of the range of time periods expected to complete the work required. The provision is expected to be fully utilised over three years from the sale, with £7 million forecast to be paid within one year.

During the year £1 million of the provision has been utilised.

Provisions arising on the disposal of Quilter Life Assurance of £1 million (31 December 2020: £3 million)

Quilter Life Assurance was sold on 31 December 2019, resulting in a number of provisions totalling £6 million being established in respect of the costs of disposing the business and the related costs of business separation.

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

The most significant element of the provision is the cost of migration of IT systems and data to the acquirer. Work has taken place during 2020 and concluded during 2021. Calculation of the provision is based on management's best estimate of the work required, the time it is expected to take, the number and skills of the staff required and their cost, and the cost of related external IT services to support the work. In reaching these judgements and estimates, management has made use of past experience of previous IT migrations following business disposals.

During the year £2 million of the provision has been utilised. The remaining provision is expected to be utilised during 2022, as the final costs to close the project are paid.

28: Provisions continued

Sale of Single Strategy Asset Management business provision of £4 million (31 December 2020: £7 million)

In 2018, a restructuring provision was recognised as a result of the sale of the Single Strategy Asset Management business (now known as Jupiter Investment Management ('Jupiter')) to enable the remaining Quilter Investors business to function as a standalone operation going forward. The remaining provision relates to various sale-related future commitments, the outcome of which was uncertain at the time of the sale and the most significant of which is in relation to the guarantee of revenues for the seller in future years arising from funds invested by customers of Quilter. The balance has decreased to £4 million during 2021 as a result of the settlement of £2 million related to the 2020 measurement year and £1 million reversed for the latest estimate for the 2022 measurement year.

The provision considers sensitivities including potential scenarios which would result in a reduction in Group assets under management held in the relevant Jupiter funds, leading to a reduction in the management fees paid to Jupiter. The scenarios are based upon assumptions determined considering historical outflows over the past three years, expectation of outflows to December 2022 and the latest information received from Jupiter. Per the conditions of the sale agreement, the maximum remaining potential exposure is £14 million for the 2022 calendar year. The expected range of payments based upon the latest information received from Jupiter and the Group's reasonable expectations of AUM invested within Jupiter funds during the 2022 assessment period is between £2 million and £8 million.

The £4 million provision outstanding is estimated to be payable after one year, with expected final settlement due in the first half of 2023.

Property provisions

Property provisions represent the discounted value of expected future costs of reinstating leased property to its original condition at the end of the lease term. During 2021, management reviewed the Group's property provisions and the assumptions on which these provisions are based. The review included consideration of external advice on potential future costs, in order to determine a reasonable estimate of the amount to be recognised. The estimate is based upon property location, size of property and an estimate of the charge per square foot. Property provisions are utilised or released when the reinstatement obligations have been fulfilled. The associated asset for property provisions is included within "Property, plant and equipment".

Of the £9 million provision outstanding, £1 million is estimated to be payable within one year. The majority of the balance relates to leased property which has a lease term maturity of more than five years.

Clawback and other provisions

Other provisions include amounts for the resolution of legal uncertainties and the settlement of other claims raised by contracting parties and indemnity commission provisions. Where material, provisions and accruals are discounted at discount rates specific to the risks inherent in the liability. The timing and final amounts of payments in respect of some of the provisions, particularly those in respect of litigation claims and similar actions against the Group, are uncertain and could result in adjustments to the amounts recorded.

Included within the balance in 2021 is £16 million (31 December 2020: £18 million) of clawback provisions in respect of potential refunds due to product providers on indemnity commission within the Quilter Financial Planning business. This provision, which is estimated and charged as a reduction of revenue on the income statement at the point of sale of each policy, is based upon assumptions determined from historical experience of the proportion of policyholders cancelling their policies, which requires Quilter to refund a portion of commission previously received. Reductions to the provision result from the payment of cash to product providers as refunds or the recognition of revenue where a portion is assessed as no longer payable. The provision has been assessed at the reporting date and adjusted for the latest cancellation information available. At 31 December 2021, an associated balance of £9 million recoverable from brokers is included within "Trade, other receivables and other assets" (31 December 2020: £13 million).

The Group estimates a reasonably possible change of +/- £5 million, based upon the potential range of outcomes for the proportion of cancelled policies within the clawback provision, and a detailed review of the other provisions.

Of the total £21 million provision outstanding, £13 million is estimated to be payable within one year (2020: £13 million).

29: Tax assets and liabilities

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

Deferred tax summary

	31 December 2021 £m	31 December 2020 £m
Deferred tax assets	88	78
Deferred tax liabilities	139	106
Net deferred tax liability	**51**	**28**

On 3 March 2021, the Chancellor of the Exchequer announced in the Budget a future increase in the Corporation Tax rate from 19% to 25%, effective from 1 April 2023. This change has been substantially enacted by 31 December 2021, the impact on the deferred tax assets and liabilities is a net increase of £12 million.

29(a): Deferred tax assets

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

The movement on recognised deferred tax assets is as follows:

31 December 2021	At beginning of the year £m	Income statement (charge)/ credit £m	At end of the year £m
Tax losses carried forward	15	9	24
Accelerated depreciation	19	1	20
Accrued interest expense and other temporary differences	41	–	41
Share-based payments	9	–	9
Deferred expenses	6	–	6
Provisions	1	(1)	–
Netted against liabilities	(13)	1	(12)
Deferred tax assets at 31 December 2021	**78**	**10**	**88**

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

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

The credit to the income statement of £9 million in 2021 in respect of Tax losses carried forward includes a credit of £4 million relating to first time recognition of a deferred tax asset, as explained in note 11(a).

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

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

The business plan, adjusted for known and estimated tax sensitivities, is used to determine the extent to which deferred tax assets are recognised. In general, the Group assesses recoverability based on estimated taxable profits over a three-year planning horizon.

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

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

	31 December 2021 £m		31 December 2020 £m	
	Gross amount	Tax	Gross amount	Tax
Pre April 2017 UK tax losses	252	63	252	48
Post April 2017 UK tax losses	106	26	121	23
Overseas losses	–	–	60	9
Capital losses	347	87	347	66
Total unrelieved tax losses	705	176	780	146
Other timing differences	3	1	5	1
Total unrecognised deferred tax assets[1]	**708**	**177**	**785**	**147**

[1] None of the unrecognised deferred tax assets have a set expiry date in tax law.

Unrecognised deferred tax assets
Under UK tax law, UK brought forward non-capital tax losses that arose after 1 April 2017 ("Post April 2017 UK tax losses") may be offset against current year UK taxable profits arising in any company within Group, subject to a restriction of 50% of profits each year. Consequently, as described above and in note 11, the recognition of deferred tax assets on Post April 2017 UK tax losses is assessed by reference to the Group's business plans.

The Group may in the future recognise additional deferred tax assets in respect of the unrecognised portion of the Post April 2017 UK tax losses, as the Group's business plans progress. The recognition of deferred tax assets on these losses is expected to remain a Critical accounting estimate as described in these accounts for the foreseeable future.

All other non-capital UK tax losses within the Group ("Pre-April 2017 UK tax losses") can only be used against taxable profits arising in the same company as the loss. It is therefore less likely that a deferred tax asset will be recognised in the foreseeable future in respect of the currently unrecognised portion of these tax losses.

Capital losses are in Quilter Life & Pensions Limited. There is currently insufficient evidence to forecast future chargeable gains in the company on which to justify recognition of a deferred tax asset for any of these losses.

Movements in unrecognised deferred tax assets
The unrecognised deferred tax asset on overseas losses decreased by £9 million as a result of the sale of Quilter International. The tax value of other unrecognised deferred tax assets increased by £30 million primarily as a result of the change in the UK corporation tax rate from 19% to 25% from 1 April 2023.

29: Tax assets and liabilities continued

29(b): Deferred tax liabilities

The movement on deferred tax liabilities is as follows:

31 December 2021	At beginning of the year £m	Income statement (credit)/ charge[1] £m	Acquisition/ disposal of subsidiaries £m	At end of the year £m
Other acquired intangibles	36	(4)	–	32
Other temporary differences	2	–	(2)	–
Investment gains	81	39	–	120
Netted against assets	(13)	–	–	(13)
Deferred tax liabilities at 31 December 2021	**106**	**35**	**(2)**	**139**

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

[1] In the year ended 31 December 2021, the £35 million income statement credit all relates to continuing operations. In the year ended 31 December 2020, £17 million relates to continuing operations and £2 million to discontinued operations.

29(c): Current tax receivables and payables

Current tax receivables and current tax payables at 31 December 2021 were £nil (2020: £24 million) and £2 million (2020: £1 million), respectively.

30: Borrowings and lease liabilities

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

	Notes	31 December 2021 £m	31 December 2020 £m
Subordinated debt: fixed rate loan at 4.478%	30(a)	199	199
Lease liabilities	30(b)	100	120
Total borrowings and lease liabilities		**299**	**319**

30(a): Borrowings

Borrowed funds are repayable on demand and categorised in terms of IFRS 9 *Financial Instruments* as "Financial liabilities at amortised cost". The carrying value of the Group's borrowings is considered to be materially in line with the fair value. All amounts outstanding at 31 December 2021 are payable to a number of relationship banks.

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

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

30(b): Lease liabilities

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

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

30: Borrowings and lease liabilities continued

30(b): Lease liabilities continued

As at 31 December 2021, future undiscounted cash outflows of £nil (2020: £22 million) have been included in the lease liability which will occur beyond termination option dates on none (2020: three) of the Group's principal property leases. The lease term is reassessed if an option is exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

During the year, certain lease terms were reassessed to reflect the expectation that termination options will now be exercised. The financial effect of this reassessment was a decrease in recognised lease liabilities and right-of-use assets of £11 million (2020: £7 million). These are the only significant property leases where the term is modelled up to a termination option date.

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

	31 December 2021 £m	31 December 2020 £m
Opening balance	120	137
Additions	13	6
Disposals and adjustments to lease liabilities	(12)	(11)
Interest charge for the year	4	4
Reclassification to provisions	(2)	–
Payment for interest portion of lease liability	(2)	(2)
Payment for principal portion of lease liability	(10)	(14)
Disposal of interests in subsidiary	(11)	–
Closing balance	**100**	**120**
To be settled within 12 months	10	9
To be settled after 12 months	90	111
Total lease liabilities	**100**	**120**
Maturity analysis – undiscounted		
Within one year	13	11
One to five years	40	57
More than five years	67	75
Total lease liabilities – undiscounted	**120**	**143**

31: Trade, other payables and other liabilities

	31 December 2021 £m	31 December 2020 £m
Claims outstanding	46	131
Amounts owed to intermediaries	–	8
Amounts payable on direct insurance business	46	139
Outstanding settlements	185	255
Accruals and deferred income	123	111
Trade creditors	33	41
Deferred consideration	5	16
Other liabilities	92	110
Total trade, other payables and other liabilities	**484**	**672**
To be settled within 12 months	484	666
To be settled after 12 months	–	6
Total trade, other payables and other liabilities	**484**	**672**

32: Contract liabilities

Contract liabilities relate to non-refundable front-end fee income, comprising fees received at inception or receivable over an initial period for services not yet provided, and is deferred through the creation of a contract liability on the statement of financial position and released to income as the services are provided. Equal service provision is assumed over the lifetime of the contract and, as such, the contract liability is amortised on a linear basis over the expected life of the contract, adjusted for expected persistency. The contract liability principally comprises fee income already received in cash. The table below analyses the movements in contract liabilities. All contract liabilities for the years ended 2020 and 2021 relate to discontinued operations.

	Total £m
1 January 2020	403
Fees and commission income deferred	35
Amortisation	(62)
Acquisition of subsidiaries	–
Foreign exchange	3
Discontinued operations movements	(24)
31 December 2020	379
Fees and commission income deferred	41
Amortisation	(40)
Foreign exchange	(4)
Discontinued operations movements	(3)
Disposal of subsidiaries	(376)
31 December 2021	**–**

	31 December 2020 £m
The Group expected to recognise the above contract liability balance as revenue in the following years:	
Within one year	61
One to five years	184
More than five years	134
Total contract liabilities	**379**

33: Post-employment benefits

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

Defined contribution pension schemes

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

Defined benefit schemes

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

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

IAS 19 Employee Benefits disclosures

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

33: Post-employment benefits continued

33(a): Liability for defined benefit obligations
The IAS 19 value of the assets and the scheme obligations are as follows:

	31 December 2021 £m	31 December 2020 £m
Changes in retirement benefit obligations		
Total IAS 19 retirement benefit obligation at beginning of the year	(41)	(38)
Interest cost on benefit obligation	(1)	(1)
Actuarial losses	–	(4)
Benefits paid	1	2
Total IAS 19 retirement benefit obligations at 31 December	**(41)**	**(41)**
Change in plan assets		
Total IAS 19 fair value of scheme assets at beginning of the year	42	39
Actual return on plan assets	1	5
Benefits paid	(1)	(2)
Total IAS 19 fair value of scheme assets at 31 December	**42**	**42**
Net IAS 19 asset recognised in statement of financial position		
Funded status of plan	1	1
Unrecognised assets	(1)	(1)
Net IAS 19 amount recognised in statement of financial position as at 31 December	**–**	**–**

Contributions for the year to the defined benefit schemes totalled £nil (2020: £nil), and £1 million was accrued at 31 December 2021 (2020: £1 million). The Group expects to contribute £1 million in the next financial year, based upon the current funded status and the expected return assumption for the next financial year.

	31 December 2021 £m	31 December 2020 £m
Changes in the asset ceiling		
Opening unrecognised asset due to asset ceiling	1	1
Closing unrecognised asset due to the asset ceiling	**1**	**1**

33(b): Income/expense recognised in the income statement
The total pension charge to staff costs for all of the Group's defined benefit schemes for the year ended 2021 was £nil (2020: £nil).

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

The cumulative amount of actuarial losses recognised in other comprehensive income is £33 million (2020: £33 million).

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

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

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

33: Post-employment benefits continued

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

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

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

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

	31 December 2021 %	31 December 2020 %
Discount rate	1.8	1.4
Rate of increase in defined benefit funds	3.7	3.5
Inflation	3.3	2.9

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

		Life expectancy at 65 for male member currently		Life expectancy at 65 for female member currently	
	Mortality table	Aged 65	Aged 45	Aged 65	Aged 45
31 December 2021	**S2PA Light**	**23.60**	**25.50**	**25.10**	**27.10**
31 December 2020	S2PA Light	23.40	25.50	24.50	26.70

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

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

	31 December 2021		31 December 2020	
	Increase £m	Decrease £m	Increase £m	Decrease £m
Discount rate (0.1% movement)	(0.7)	0.8	(0.7)	0.7
Inflation rate (0.1% movement)	0.3	(0.3)	0.3	(0.3)
Rate of mortality (increase by 1 year)	1.6	–	1.7	–

33(c): Scheme assets allocation

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

	31 December 2021 %	31 December 2020 %	31 December 2021 £m	31 December 2020 £m
Equity securities	7	7	3	3
Debt securities	93	93	39	39
Total IAS 19 fair value of scheme assets	**100**	**100**	**42**	**42**

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

34: Master netting and similar agreements

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

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

31 December 2021	Gross amounts £m	Amounts offset in the statement of financial position £m	Net amounts reported in the statement of financial position £m
Financial assets			
Cash and cash equivalents	2,146	(82)	2,064
Financial liabilities			
Trade, other payables and other liabilities	82	(82)	–

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

35: Contingent liabilities

The Group, in the ordinary course of business, enters into transactions that expose it to tax, legal and business risks. The Group recognises a provision when it has a present obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made (see note 28). Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result are reported as contingent liabilities in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Contingent liabilities – acquisitions and disposals

The Group routinely monitors and assesses contingent liabilities arising from matters such as business reviews, litigation, warranties and indemnities relating to past acquisitions and disposals.

In April 2020, the Group was informed by the FCA that it would be required to appoint a skilled person, under section 166(3)(a) of the Financial Services and Markets Act 2000 ("FSMA"), in relation to DB to DC pension transfer advice provided by Lighthouse advisers. The review covers Lighthouse Advisory Services Limited only, and no other companies within the Group. The review covers the period from 1 April 2015 to 27 January 2020, which is the date that Lighthouse converted to the Quilter Financial Planning advice process for their Defined Benefit transfer activity following the acquisition of Lighthouse by Quilter.

The review covers British Steel Pension Scheme DB to DC pension transfer advice activity undertaken by Lighthouse advisers and a representative sample of other Lighthouse DB to DC pension transfer advice activity in the relevant period. The skilled person also calculates redress, using a redress methodology that the skilled person has designed following discussions and in collaboration with the FCA, and to ensure consistency with the FCA's FG17/9 "Guidance for firms on how to calculate redress for unsuitable defined benefit pension transfers" guidance for those cases where the skilled person determines that a customer received unsuitable DB to DC pension transfer advice which led to customers sustaining losses. Until the skilled person review has finalised, uncertainty exists as to the value of total redress which will be payable and a reliable estimate of all amounts cannot be determined. Subject to FCA confirmation, we expect the skilled person review to be completed during 2022.

For the British Steel Pension Scheme cases, and a portion of the other cases reviewed by the skilled person, the Group currently considers that the likelihood of redress is probable on a proportion of the cases, but this is subject to confirmation through the ongoing skilled person review process. An estimate of the amount of redress payable has been made and is included within Provisions in note 28.

It is possible that further material costs of redress may be incurred in relation to the skilled person review, as well as customer redress for other potential unsuitable pension transfer advice cases.

Any further redress costs, and any differences between the provision and final payment to be made for the any unsuitable DB to DC pension transfer cases, will be recognised as an expense or credit in the Income Statement.

35: Contingent liabilities continued

Tax

The tax authorities in the principal jurisdictions in which the Group operates routinely review historical transactions undertaken and tax law interpretations made by the Group. The Group is committed to conducting its tax affairs in accordance with the tax legislation of the jurisdictions in which it operates. All interpretations made by the Group are made with reference to the specific facts and circumstances of the transaction and the relevant legislation.

There are occasions where the Group's interpretation of tax law may be challenged by the tax authorities. The financial statements include provisions that reflect the Group's assessment of liabilities which might reasonably be expected to materialise as part of their review. The Board is satisfied that adequate provisions have been made to cater for the resolution of tax uncertainties and that the resources required to fund such potential settlements are sufficient.

Due to the level of estimation required in determining tax provisions, amounts eventually payable may differ from the provision recognised.

Complaints, disputes and regulations

The Group is committed to treating customers fairly and supporting its customers in meeting their lifetime goals. The Group does from time to time receive complaints and claims from customers, enters into commercial disputes with service providers, and is subject to regulatory discussions and reviews in the normal course of business. The costs, including legal costs, of these issues as they arise can be significant and, where appropriate, provisions have been established under IAS 37.

36: Commitments

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

37: Capital and financial risk management

37(a): Capital management

The Group manages its capital with a focus on capital efficiency and effective risk management. The capital management objectives are to maintain the Group's ability to continue as a going concern while supporting the optimisation of return relative to the risks. The Group ensures that it can meet its expected capital and financing needs at all times having regard to the Group's business plans, forecasts, strategic initiatives and regulatory requirements in all businesses in the Group.

The Group's overall capital risk appetite is set with reference to the requirements of the relevant stakeholders and seeks to:

- maintain sufficient, but not excessive, financial strength to support stakeholder requirements;
- optimise debt to equity structure to enhance shareholder returns; and
- retain financial flexibility by maintaining liquidity including unutilised committed credit lines.

The primary sources of capital used by the Group are equity shareholders' funds of £1,739 million (31 December 2020: £1,878 million) and subordinated debt which was issued at £200 million in February 2018. Alternative resources are utilised where appropriate. Risk appetite has been defined for the level of capital, liquidity and debt within the Group. The risk appetite includes long-term targets, early warning thresholds and risk appetite limits. The dividend policy sets out the target dividend level in relation to profits.

The regulatory capital for the Group is assessed under Solvency II requirements.

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

The Group is subject to Solvency II group supervision by the PRA. The Group is required to measure and monitor its capital resources under the Solvency II regulatory regime.

The Group's insurance undertakings are included in the Group solvency calculation on a Solvency II basis. Other regulated entities are included in the Group solvency calculation according to the relevant sectoral rules. The Group's Solvency II surplus is the amount by which the Group's capital on a Solvency II basis (own funds) exceeds the Solvency II capital requirement (solvency capital requirement or "SCR").

The Group's Solvency II surplus is £1,030 million at 31 December 2021 (31 December 2020: £1,021 million), representing a Solvency II ratio of 275% (31 December 2020: 217%) calculated under the standard formula. The Solvency II regulatory position for the year ended 31 December 2021 allows for the impact of the recommended final dividend payment of £62 million (31 December 2020: £61 million). This disclosure includes the capital movements associated with the sale of Quilter International and the £200 million share buyback (Tranches 3 and 4).

37: Capital and financial risk management continued
37(a): Capital management continued

The Solvency II results for the year ended 31 December 2021 (unaudited estimate) and 31 December 2020 were as follows:

	31 December 2021[1] £m	31 December 2020[2] £m
Own funds	1,617	1,897
Solvency capital requirement (SCR)	587	876
Solvency II surplus	1,030	1,021
Solvency II coverage ratio	**275%**	**217%**

[1]Filing of annual regulatory reporting forms due by 20 May 2022.
[2]As represented within the Group Solvency and Financial Condition Report for the year ended 31 December 2020.

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

Group own funds	31 December 2021 £m	31 December 2020 £m
Tier 1[1]	1,412	1,688
Tier 2[2]	205	209
Total Group Solvency II own funds	**1,617**	**1,897**

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

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

The solvency and capital requirements for the Group and its regulated subsidiaries are reported and monitored through regular Capital Management Forum meetings. Throughout 2021, the Group has complied with the regulatory capital requirements that apply at a consolidated level and Quilter's insurance undertakings and investment firms have complied with the regulatory capital requirements that apply at entity level.

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

	Note	31 December 2021 £m	31 December 2020 £m
Total external borrowings of the Company	30	199	199
Less: cash and cash equivalents of the Company		(503)	(314)
Total net external borrowings of the Company		(304)	(115)
Total shareholders' equity of the Group		1,739	1,878
Tier 2 bond	30	199	199
Total Group equity (including Tier 2 bond)		1,938	2,077
Ratio of Company net external borrowings to Group equity		**-0.157**	**-0.055**

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

37: Capital and financial risk management continued
37(a): Capital management continued

37(a)(iii): Own Risk and Solvency Assessment ("ORSA") and Internal Capital Adequacy Assessment Process ("ICAAP")
The Group ORSA process is an ongoing cycle of risk and capital management processes which provides an overall assessment of the current and future risk profile of the Group and demonstrates the relationship between business strategy, risk appetite, risk profile and solvency needs. These assessments support strategic planning and risk-based decision making.

The underlying ORSA processes cover the Group and consider how risks and solvency needs may evolve over the planning period. The ORSA includes stress and scenario tests, which are performed to assess the financial and operational resilience of the Group.

The Group ORSA report is produced annually and summarises the analysis, insights and conclusions from the underlying risk and capital management processes in respect of the Group. The ORSA report is submitted to the PRA as part of the normal supervisory process and may be supplemented by ad hoc assessments where there is a material change in the risk profile of the Group outside the usual reporting cycle.

In addition to the Group ORSA process, an entity level ORSA process is performed for Quilter Life & Pensions Limited.

The Group ICAAP process is similar to the ORSA process although the ICAAP process is performed for a subset of the Group consisting of the investment and advisory firms within the Group (the "ICAAP Group"). The Group ICAAP report is also produced annually and summarises the analysis, insights and conclusions from the underlying risk and capital management processes in respect of the ICAAP Group. The ICAAP report is submitted to the FCA as part of the normal supervisory process and may be supplemented by ad hoc assessments where there is a material change in the risk profile of the ICAAP Group outside the usual reporting cycle. Due to the implementation of the Investment Firms Prudential Regime on 1 January 2022, the ICAAP process will be replaced by the Internal Capital Adequacy and Risk Assessment (ICARA) process in 2022.

The conclusions of ORSA and ICAAP (and the new ICARA) processes are reviewed by management and the Board throughout the year.

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

The Group has established a Credit Risk Framework that includes a Credit Risk Policy, Credit Risk Standard and Credit Risk Appetite Statement. This framework applies to all activities where the shareholder is exposed to credit risk, either directly or indirectly, ensuring appropriate identification, measurement, management, monitoring and reporting of the Group's credit risk exposures.

The credit risk arising from all exposures is mitigated through ensuring the Group only enters into relationships with appropriately robust counterparties, adhering to the Group Credit Risk Policy. For each asset, consideration is given as to:
- the credit rating of the counterparty, which is used to derive the probability of default;
- the loss given default;
- the potential recovery which may be made in the event of default;
- the extent of any collateral that the firm has in respect of the exposures; and
- any second order risks that may arise where the firm has collateral against the credit risk exposure.

The credit risk exposures of the Group are monitored regularly to ensure that counterparties remain creditworthy, to ensure there is appropriate diversification of counterparties and to ensure that exposures are within approved limits. At 31 December 2021, the Group's material credit exposures were to financial institutions (primarily through the investment of shareholder funds), corporate entities (including external fund managers) and individuals (primarily through fund management trade settlement activities).

There is no direct exposure to European sovereign debt (outside of the UK) within the shareholder investments. The Group has no significant concentrations of credit risk exposure.

Other credit risks
The Group is exposed to financial adviser counterparty risk through a number of loans that it makes to its advisers and the payment of upfront commission on the sale of certain types of business. The risk of default by financial advisers is managed through monthly monitoring of loan and commission debt balances.

The Group is also exposed to the risk of default by fund management groups in respect of settlements and rebates of fund management charges on collective investments held for the benefit of policyholders. This risk is managed through the due diligence process which is completed before entering into any relationship with a fund group. Amounts due to and from fund groups are monitored for prompt settlement and appropriate action is taken where settlement is not timely.

37: Capital and financial risk management continued

37(b): Credit risk continued

Legal contracts are maintained where the Group enters into credit transactions with a counterparty.

Impact of credit risk on fair value

Due to the limited exposure that the Group has to credit risk, credit risk does not have a material impact on the fair value movement of financial instruments for the year under review. The fair value movements on these instruments are mainly due to changes in market conditions.

Maximum exposure to credit risk

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

Loans and advances subject to 12-month expected credit losses ("12-month ECL") are £29 million (31 December 2020: £31 million) and other receivables subject to lifetime expected credit losses ("lifetime ECL") are £252 million (31 December 2020: £525 million). These balances are not rated; they represent the pool of counterparties that do not require a rating. These counterparties individually generate no material credit exposure and this pool is highly diversified, monitored and subject to limits.

Exposure arising from financial instruments not recognised on the statement of financial position is measured as the maximum amount that the Group would have to pay, which may be significantly greater than the amount that would be recognised as a liability. The Group does not have any significant exposure arising from items not recognised on the statement of financial position.

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

	Credit rating relating to cash and cash equivalents that are neither past due nor impaired £m						
31 December 2021	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Not rated[1]**	**Carrying value**
Cash at amortised cost, subject to 12-month ECL	–	105	451	–	3	289	848
Money market funds at FVTPL	1,216	–	–	–	–	–	1,216
Total cash and cash equivalents	**1,216**	**105**	**451**	**–**	**3**	**289**	**2,064**

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

[1]Cash included in the consolidation of funds is not rated (see note 24(a)).

Impairment allowance

Assets that are measured and classified at amortised cost are monitored for any expected credit loss ("ECL") on either a 12-month or lifetime ECL model. The majority of such assets within the Group are measured on the lifetime ECL model, with the exception of some specific loans that are on the 12-month ECL model.

Impairment allowance	£m
Balance at 1 January 2020	(1.2)
Reduction due to reassessment of broker loans impairment modelling	0.4
31 December 2020	(0.8)
Change due to change in counterparty balance	(0.4)
31 December 2021	**(1.2)**

37(c): Market risk

Market risk is the risk of an adverse change in the level or volatility of market prices of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency. Market risk arises from changes in equity, bond and property prices, interest rates and foreign exchange rates. Market risk arises differently across the Group's businesses depending on the types of financial assets and liabilities held. The Group recognises that climate change and other environmental risks can contribute to market risk.

The Group has a market risk policy which sets out the risk management framework, permitted and prohibited market risk exposures, maximum limits on market risk exposures, management information and stress testing requirements which are used to monitor and manage market risk. The policy is cascaded to the businesses across the Group, and Group-level governance and monitoring processes provide oversight of the management of market risk by the individual businesses.

The Group does not undertake any principal trading for its own account. The Group's revenue is however affected by the value of assets under management and consequently it has exposure to equity market levels and economic conditions. Scenario testing is undertaken to test the resilience of the business to severe but plausible events, including assessment of the potential implications of climate-related risks and opportunities, and to assist in the identification of management actions.

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

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

- mismatches between unitised fund assets and liabilities. These mismatches are permitted, subject to maximum limits, to avoid excessive dealing costs; and
- seed capital investments. Seed capital is invested within new unit-linked funds at the time when these funds are launched. The seed capital is then withdrawn from the funds as policyholders invest in the funds.

The above exposures are not material to the Group.

The Group derives fees (e.g. annual management charges) and incurs costs (e.g. outsourced service provider and adviser fund-based renewal commissions) which are linked to the performance of the underlying assets. Therefore, future earnings will be affected by equity and property market performance.

Equity and property price sensitivity testing

A movement in equity and property prices would impact the fee income that is based on the market value of the investments held for the policyholders. The sensitivity is applied as an instantaneous shock to equity and property prices at the start of the year. The sensitivity analysis is not limited to the unit-linked business and therefore reflects the sensitivity of the Group as a whole.

Impact on profit after tax and shareholders' equity	31 December 2021 £m	31 December 2020 £m
Impact of 10% increase in equity and property prices	34	32
Impact of 10% decrease in equity and property prices	(34)	(32)

37(c)(ii): Interest rate risk

Interest rate risk arises primarily from bank balances held with financial institutions. A small amount of the Group's assets is held in fixed interest UK Government bonds, which are exposed to fluctuations in interest rates.

Fixed interest UK Government bonds are mainly held to match liabilities by duration and so the exposure to interest rate risk is not material.

A rise in interest rates would also cause an immediate fall in the value of investments in fixed income securities within unit-linked funds, resulting in a fall in fund-based revenues.

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

Exposure of the IFRS income statement and statement of financial position to interest rates are summarised below.

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

Interest rate sensitivity testing
The impact of an increase and decrease in market interest rates of 1% is tested (e.g. if the current interest rate is 5%, the test allows for the effects of an instantaneous change to 4% and 6% from the start of the year). The test allows consistently for similar changes in investment returns and movements in the market value of any fixed interest assets backing the liabilities. The sensitivity of profit to changes in interest rates is provided.

Impact on profit after tax and shareholders' equity	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Impact of 1% increase in interest rates	11	16
Impact of 1% decrease in interest rates	–	(8)

37(c)(iii): Currency translation risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's functional currency is sterling, which accounts for the majority of the Group's transactions. The Group has minor exposure to Euros, through the Group's Irish subsidiary and to the South African Rand, due to the listing on the Johannesburg Stock Exchange and the payment of a proportion of shareholder dividends in Rand. During 2021, the Group had minor exposures to foreign exchange risk in respect to accounts receivable and future revenues denominated in US Dollars, Euros and Swedish Krona through its international operations and foreign currency transactions.

37(d): Liquidity risk
Liquidity risk is the risk that there are insufficient assets or that assets cannot be realised in order to settle financial obligations as they fall due or that market conditions preclude the ability of the Group to trade in illiquid assets in order to maintain its asset and liability matching ("ALM") profile.
The Group manages liquidity on a daily basis through:
- maintaining adequate high-quality liquid assets and banking facilities, the level of which is informed through appropriate liquidity stress testing;
- continuously monitoring forecast and actual cash flows; and
- monitoring a number of key risk indicators to help in the identification of a liquidity stress.

Individual businesses maintain and manage their local liquidity requirements according to their business needs within the overall Group Liquidity Risk Framework that includes a Group Liquidity Risk Policy, Group Liquidity Risk Standard and Group Liquidity Risk Appetite Statement. The Group framework is applied consistently across all businesses in the Group to identify, manage, measure, monitor and report on all liquidity risks that have a material impact on liquidity levels. This framework considers both short-term liquidity and cash management considerations and longer-term funding risk considerations.

Liquidity is monitored centrally by Group Treasury, with management actions taken at a business level to ensure each business has liquidity to cover its minimum liquidity requirement, with an appropriate buffer set in line with the Group Risk Appetite Statement.

Throughout the ongoing COVID-19 pandemic Quilter plc and its subsidiaries have operated above their individual liquidity targets and there were no material liquidity stresses identified over this period to include in the liquidity monitoring process. Daily liquidity monitoring continues across the Group to enable timely identification of any emerging issues.

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

Information on the nature of the investments and securities held is given in note 17.

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

The financing arrangements are considered sufficient to maintain the target liquidity levels of the Group and offer coverage for appropriate stress scenarios identified within the liquidity stress testing undertaken across the Group.

Further details, together with information on the Group's borrowed funds, are given in note 30.

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

37(e): Insurance risk

37(e)(i): Overview

Group entities assume insurance risk by providing:

- life investment bonds, which provide a small amount of life insurance cover in the event of the death of the life assured; and
- professional indemnity insurance cover to Quilter Financial Planning Limited via a captive insurer domiciled in the Isle of Man.

Insurance risk arises through exposure to variable claims experience on life assurance and professional indemnity insurance, exposure to variable operating experience in respect of factors such as persistency levels and management expenses. Unfavourable persistency, expenses, mortality and professional indemnity claim rates, relative to the actuarial assumptions made in the pricing process, may result in profit margins reducing below the target levels included in the pricing process.

The Group has implemented an insurance risk policy which sets out the Group's requirements for the management, measurement, monitoring and reporting of insurance risks. The Group has implemented the Technical Provisions Standard to support the insurance risk policy.

The sensitivity of the Group's earnings and capital position to insurance risks is monitored through the Group's capital management processes.

The Group manages its insurance risks through the following mechanisms:

- Management of expense levels relative to approved budgets.
- Analysis and monitoring of experience relative to the assumptions used to determine technical provisions.

Persistency

Persistency risk is the risk that the level of surrenders or withdrawals on insurance policies occur at levels that are different to the levels assumed in the determination of technical provisions. Persistency statistics are monitored quarterly and a detailed persistency analysis at a product group level is carried out on an annual basis. Management actions may be triggered if persistency statistics indicate significant adverse movement or emerging trends in experience.

Expenses

Expense risk is the risk that actual expenses and expense inflation differ from the levels assumed in the determination of technical provisions. Expense levels are monitored on a quarterly basis against budgets and forecasts. Expense drivers are used to allocate expenses to entities and products. Some product structures include maintenance charges. These charges are reviewed annually in light of changes in maintenance expense levels and the market rate of inflation. This review may result in changes in charge levels.

37(e)(ii): Sensitivity analysis

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at 31 December 2021 and 31 December 2020. Interest rate and equity and property price sensitivities are included within the Group market sensitivities above.

Expenses

The increase in expenses is assumed to apply to the costs associated with the maintenance and acquisition of contracts. It is assumed that these expenses are increased by 10% from the start of the year, so is applied as an expense shock rather than a gradual increase. The only administrative expenses that are deferrable are sales bonuses but as new business volumes are unchanged in this sensitivity, sales bonuses and the associated deferrals have not been increased. Administrative expenses have been allocated equally between life and pensions.

An increase in expenses of 10% would have decreased profit by £6 million after tax (2020: £11 million).

Mortality

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

37: Capital and financial risk management continued

37(f): Operational risk
Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risk includes all risks resulting from operational activities, excluding the risks already described above and excluding strategic risks and risks resulting from being part of a wider group of companies.

Operational risk includes the effects of failure of administration processes, IT and Information Security maintenance and development processes, investment processes (including settlements with fund managers, fund pricing and matching and dealing), product development and management processes, legal risks (e.g. risk of inadequate legal contracts with third parties), poorly managed responses to regulatory change, change and physical and transitional financial risks from climate change, risks relating to the relationship with third-party suppliers and outsourcers, and the consequences of financial crime and business interruption events.

In accordance with Group policies, management has primary responsibility for the identification, measurement, assessment, management and monitoring of risks, and the escalation and reporting on issues to executive management.

The Group's executive management has responsibility for implementing the Group Operational Risk Framework and for the development and implementation of action plans designed to manage risk levels within acceptable tolerances and to resolve issues identified.

37(g): Contractual maturity analysis
Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies, and these liabilities are therefore classified as having a maturity of less than three months. Although these liabilities are payable on demand, the Group does not expect that all liabilities will be settled within this period.

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

Certain Quilter investment entities hold client money and other assets on behalf of clients under the FCA's Client Assets Sourcebook ("CASS"). The Group is not beneficially entitled to those assets and therefore neither the assets nor the related amounts due to clients are recognised on the Group balance sheet.

39: Related party transactions
In the normal course of business, the Group enters into transactions with related parties. Loans to related parties are conducted on an arm's length basis and are not material to the Group's results. There were no transactions with related parties during the current and prior year which had a material effect on the results or financial position of the Group.

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

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

	31 December 2021 £'000	31 December 2020 £'000
Salaries and other short-term employee benefits	7,627	5,503
Post-employment benefits	43	62
Share-based payments	2,987	5,263
Termination benefits	–	51
Total compensation of key management personnel	**10,657**	**10,879**

39: Related party transactions continued

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

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

The Group's products are available to all employees of the Group on preferential staff terms, the impact of which is immaterial to the Group's financial statements. During the year ended 31 December 2021, key management personnel and their close family members contributed £1 million to Group pensions and investments (in both internal and external funds). The total value of investments in Group pensions and investment products by key management personnel serving at any point during the year and their close family members was £12 million at the end of the year.

During the year ended 31 December 2020, key management personnel and their close family members contributed £2 million and the value of their investments in Group pensions and investment products totalled £14 million.

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial year ended 31 December 2021 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers and office. In addition, the Company maintains Directors' and Officers' Liability Insurance which gives appropriate cover for legal action brought against its Directors.

39(b): Associates

In the current and prior year, IT services were provided by 360 Dot Net Limited, an associate company. The relevant transactions had no material impact on the financial statements of the Group.

39(c): Other related parties

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

40: Events after the reporting date

On 9 March 2022, the Group announced a proposed capital return of £328 million to the shareholders of Quilter plc by way of a B share scheme. The proposals will require regulatory engagement and shareholder approval at the General Meeting to be held on 12 May 2022. To maintain comparability of shareholder metrics before and after the capital return, it is further proposed that the scheme will be accompanied by a share consolidation. Further information on the proposed capital return is contained in the Financial review within the Strategic Report. The Group will provide full details of the proposed B share issue and ordinary share consolidation in the Circular and Notice of General Meeting that will be posted to shareholders in early April 2022. Assuming these proposals are duly approved, the capital return is expected to conclude by the end of June 2022. The proposed capital return would reduce the Group's IFRS net assets and Solvency II own funds by £328 million and would reduce the Group's Solvency II coverage ratio from 275% to 220%. Further information on the Group's capital position on a Solvency II basis is presented in note 37(a).

Note 13 provides information on the Group's final dividend in respect of 2021.

Appendix A: Other accounting policies

Investments in associates

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

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

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

Foreign currency translation

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

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

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

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

Leases

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

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

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

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

Leases continued

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

Property, plant and equipment

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

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

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

Share capital

Equity instruments

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

Share issue costs

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

Dividends

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

Shares held by trusts

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

Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the Ordinary Shareholders of the Parent Company by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by various share trusts of the Group and shares held in consolidated funds ("Own shares").

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

Appendix B: Related undertakings

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

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

The Group's related undertakings along with the country of incorporation, the registered address, the classes of shares held and the effective percentage of equity owned at 31 December 2021 are disclosed below.

Company name	Share class	% Held
United Kingdom		
Senator House, 85 Queen Victoria Street, London, EC4V 4AB		
Blueprint Distribution Limited	Ordinary	100
Blueprint Financial Services Limited	Ordinary	100
Blueprint Organisation Limited	Ordinary	100
Caerus Capital Group Limited	Ordinary	100
Caerus Holdings Limited	Ordinary	100
Caerus Wealth Limited	Ordinary	100
Caerus Wealth Solutions Limited	Ordinary	100
Charles Derby Group Limited	Ordinary	100
Charles Derby Private Clients Limited	Ordinary	100
Charles Derby Wealth Management Limited	Ordinary	100
Cheviot Capital (Nominees) Limited	Ordinary	100
Commsale 2000 Limited	Ordinary	100
Falcon Financial Advice Limited	Ordinary	100
Forward Thinking Wealth Management Limited	Ordinary	100
Intrinsic Cirilium Investment Company Limited	Ordinary	100
Lighthouse Advisory Services Limited	Ordinary	100
Lighthouse Benefits Limited	Ordinary	100
Lighthouse Corporate Services Ltd	Ordinary	100
Lighthouse Financial Advice Limited	Ordinary	100
Lighthouse Group Limited	Ordinary	100
Lighthouse Wealth Management Limited	Ordinary	100
Lighthouse Support Services Limited	Ordinary	100
LighthouseWealth Limited	Ordinary	100
LighthouseXpress Limited	Ordinary	100
Luceo Asset Management Limited	Ordinary	100
Quilter Perimeter Limited	Ordinary	100
Quilter Perimeter (GGP) Limited	Ordinary	100
OMLA Holdings Limited	Ordinary	100
Quilpep Nominees Limited	Ordinary	100
Quilter Business Services Limited	Ordinary	100
Quilter Cheviot Holdings Limited	Ordinary	100
Quilter Cheviot Limited	Ordinary	100
Quilter CoSec Services Limited	Ordinary	100
Quilter Financial Advisers Limited	Ordinary	100
Quilter Financial Limited	Ordinary A	100
Quilter Financial Planning Limited	Ordinary	100
Quilter Financial Services Limited	Ordinary	100
Quilter Holdings Limited	Ordinary	100
Quilter Investment Platform Limited	Ordinary	100
Quilter Investment Platform Nominees Limited	Ordinary	100
Quilter Investors Limited	Ordinary	100
Quilter Investors Portfolio Management Limited	Ordinary	100
Quilter Life & Pensions Limited	Ordinary	100

Company name	Share class	% Held
Quilter Mortgage Planning Limited	Ordinary	100
Quilter Nominees Limited	Ordinary	100
Quilter Pension Trustees Limited	Ordinary	100
Quilter plc (ultimate Parent of the Group)	Ordinary	100
Quilter Private Client Advisers Limited	Ordinary	100
Quilter Shelfco 1 Limited	Ordinary	100
Quilter Shelfco 2 Limited	Ordinary	100
Quilter UK Holding Limited	Ordinary	100
Quilter Wealth Limited	Ordinary	100
Quilter Wealth Solutions Limited	Ordinary	100
Quilter Perimeter Holdings Limited	Ordinary	100
The Falcon Group Limited	Ordinary	100
Violet No.2 Limited	Ordinary	100
Quilter House, Portland Terrace, Southampton, SO14 7EJ		
IFA Holding Company Limited	Ordinary	100
IFA Services Holdings Company Limited	Ordinary	100
Riverside House, The Waterfront, Newcastle upon Tyne, NE15 8NY		
Quilter Financial Planning Solutions Limited	Ordinary	100
Think Synergy Limited	Ordinary	100
C/O Teneo Restructuring Limited, 156 Great Charles Street, Queensway, Birmingham, West Midlands, B3 3HN		
Charles Jacques Limited (in liquidation 04/10/2021)	Ordinary	100
Freedom Financial Planning (Manchester) Limited (in liquidation 08/10/2020)	Ordinary A	100
Intrinsic Wealth Financial Solutions Limited (in liquidation 16/12/2021)	Ordinary	100
Lighthouse Direct Limited (in liquidation 09/11/2021)	Ordinary	100
Lighthouse Financial Adviser Services Limited (in liquidation 16/12/2021)	Ordinary	100
Lighthouse Financial Advisers Limited (in liquidation 16/12/2021)	Ordinary	100
Lighthouse Pensions Help Limited (in liquidation 09/11/2021)	Ordinary	100
Lighthouse+ Limited (in liquidation 09/11/2021)	Ordinary	100
Lighthouseplus Limited (in liquidation 09/11/2021)	Ordinary	100
LighthouseTemple Limited (in liquidation 09/11/2021)	Ordinary	100
Maestro Financial Services Limited (in liquidation 11/09/2019)	Ordinary	100
NPL Financial Limited (in liquidation 11/09/2019)	Ordinary	100
Premier Planning Limited (in liquidation 19/03/2018)	Ordinary	100
Prescient Financial Intelligence Limited (in liquidation 04/10/2021)	Ordinary	100
C/O Addleshaw Goddard LLP, 19 Canning Street, Edinburgh, Scotland, EH3 8EH		
Financial Services Advice & Support Limited	Ordinary	100

Company name	Share class	% Held
Ireland		
Hambleden House, 19-26 Lower Pembroke Street, Dublin 2, D02 WV96		
Pembroke Quilter (Ireland) Nominees Limited	Ordinary	100
Quilter Cheviot Europe Limited	Ordinary	100
Isle of Man		
33-37 Athol Street, Douglas, IM1 1LB		
Quilter Perimeter (IOM) Limited	Ordinary	100
Third Floor, St George's Court, Upper Hill Street, Douglas, IM1 1EE		
Quilter Insurance Company Limited	Ordinary	100
Jersey		
3rd Floor, Windward House, La Route de la Liberation, St Helier, JE1 1QJ		
C.I.P.M. Nominees Limited	Ordinary	100
QGCI Nominees Limited	Ordinary	100
Quilter Cheviot International Limited	Ordinary	100
Germany		
Wiesenhüttenstraße 11, 60329 Frankfurt am Main		
Old Mutual Europe GmbH	Ordinary	100
Skandia Retail Europe Holding GmbH	Ordinary	100
South Africa		
Mutualpark, Jan Smuts Drive, Pinelands, 7405		
Global Edge Technologies (Pty) Limited	Ordinary	100
United Kingdom – associate		
12-14 Upper Marlborough Road, St Albans, Hertfordshire, AL1 3UR		
360 Dot Net Limited	Ordinary A	17.5

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

Share Class	
A	Accumulation
B	Income

Fund name	Share class	% Held
United Kingdom		
Senator House, 85 Queen Victoria Street, London, EC4V 4AB		
Quilter Investors Absolute Return Bond Fund	A	63
Quilter Investors Asia Pacific (ex Japan) Equity Fund	A	61
Quilter Investors Asia Pacific (ex Japan) Large-Cap Equity Fund	A	58
Quilter Investors Asia Pacific Fund	A	63
Quilter Investors Bond 1 Fund	B	63
Quilter Investors Bond 2 Fund	A&B	54
Quilter Investors Bond 3 Fund	B	97
Quilter Investors Cirilium Adventurous Passive Portfolio	A	41
Quilter Investors Cirilium Adventurous Portfolio	A	37
Quilter Investors Cirilium Balanced Blend Portfolio	A	36
Quilter Investors Cirilium Balanced Passive Portfolio	A	41
Quilter Investors Cirilium Conservative Passive Portfolio	A	36
Quilter Investors Cirilium Dynamic Passive Portfolio	A	39
Quilter Investors Cirilium Moderate Passive Portfolio	A	42
Quilter Investors Corporate Bond Fund	A	58
Quilter Investors Creation Adventurous Portfolio	A	37
Quilter Investors Creation Balanced Portfolio	A	29
Quilter Investors Creation Conservative Portfolio	A	26
Quilter Investors Creation Dynamic Portfolio	A	31
Quilter Investors Creation Moderate Portfolio	A	29
Quilter Investors Diversified Bond Fund	A	58
Quilter Investors Emerging Markets Equity Fund	A	63
Quilter Investors Emerging Markets Equity Growth Fund	A	59

Fund name	Share class	% Held
Quilter Investors Emerging Markets Equity Income Fund	A	61
Quilter Investors Equity 1 Fund	A	78
Quilter Investors Equity 2 Fund	A	97
Quilter Investors Europe (ex UK) Equity Fund	A	57
Quilter Investors Europe (ex UK) Equity Growth Fund	A	58
Quilter Investors Europe (ex UK) Equity Income Fund	A	61
Quilter Investors Gilt Index Fund	A&B	54
Quilter Investors Global Dynamic Equity Fund	A	72
Quilter Investors Global Equity Absolute Return Fund	A	60
Quilter Investors Global Equity Index Fund	A	59
Quilter Investors Global Equity Value Fund	A&B	60
Quilter Investors Investment Grade Corporate Bond Fund	A&B	46
Quilter Investors Japanese Equity Fund	A	58
Quilter Investors Monthly Income and Growth Portfolio	A&B	48
Quilter Investors Monthly Income Portfolio	A&B	47
Quilter Investors Natural Resources Equity Fund	A	52
Quilter Investors North American Equity Fund	A	61
Quilter Investors Precious Metals Equity Fund	A	56
Quilter Investors Sterling Corporate Bond Fund	A&B	47
Quilter Investors Sterling Diversified Bond Fund	A&B	57
Quilter Investors UK Equity Fund	A	60
Quilter Investors UK Equity Growth Fund	A	52
Quilter Investors UK Equity Income Fund	A	61
Quilter Investors UK Equity Index Fund	A	42
Quilter Investors UK Equity Large-Cap Income Fund	A&B	56
Quilter Investors UK Equity Opportunities Fund	A	57
Quilter Investors US Equity Growth Fund	A	44
Quilter Investors US Equity Income Fund	A	59
Quilter Investors US Equity Small/Mid-Cap Fund	A	52

Company statement of financial position

At 31 December 2021

	Notes	31 December 2021 £m	31 December 2020 £m
Assets			
Investments in subsidiary undertakings	4	2,130	2,254
Loans and advances	5	453	496
Deferred tax assets	6	6	–
Current tax receivable		7	7
Other receivables and other assets	7	32	28
Cash and cash equivalents	8	503	314
Total assets		**3,131**	**3,099**
Equity and liabilities			
Equity			
Ordinary Share capital		116	125
Ordinary Share premium reserve		58	58
Capital redemption reserve		17	8
Merger reserve	9	1,687	1,811
Share-based payments reserve		42	42
Retained earnings			
Brought forward retained earnings		816	1,046
Profit for the year		319	30
Other movements in retained earnings		(169)	(260)
Total retained earnings		966	816
Total equity		**2,886**	**2,860**
Liabilities			
Provisions	10	4	7
Borrowings	11	202	201
Other payables	12	39	31
Total liabilities		**245**	**239**
Total equity and liabilities		**3,131**	**3,099**

Approved by the Board on 9 March 2022.

Paul Feeney
Chief Executive Officer

Mark Satchel
Chief Financial Officer

Company registered number: 06404270

Company statement of cash flows

For the year ended 31 December 2021

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Cash flows from operating activities		
Profit before tax	308	33
Non-cash movements in profit before tax	(333)	(72)
Net changes in working capital	(21)	(10)
Taxation received	4	3
Total net cash flows used in operating activities	**(42)**	**(46)**
Cash flows from investing activities		
Dividends received from subsidiary undertakings	467	83
Investment in subsidiaries	–	(21)
Net (payments)/proceeds from the disposal of interests in subsidiaries	(2)	7
Total net cash from investing activities	**465**	**69**
Cash flows from financing activities		
Dividends paid to ordinary equity holders of the Company	(89)	(81)
Finance costs	(10)	(10)
Repurchase of own shares	(197)	(157)
Loan to Employee Benefit Trust	–	(20)
Repayment of loans to subsidiary undertakings	200	–
Increase in loans to subsidiary undertakings	(138)	–
Total net cash used in financing activities	**(234)**	**(268)**
Net increase/(decrease) in cash and cash equivalents	189	(245)
Cash and cash equivalents at beginning of the year	314	559
Cash and cash equivalents at end of the year	**503**	**314**

Company statement of changes in equity

For the year ended 31 December 2021

31 December 2021	Note	Share capital £m	Share premium £m	Merger reserve £m	Share-based payments reserve £m	Capital redemption reserve £m	Retained earnings £m	Total share-holders' equity £m
Balance at 1 January 2021		**125**	**58**	**1,811**	**42**	**8**	**816**	**2,860**
Profit for the year		–	–	–	–	–	319	319
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**319**	**319**
Dividends		–	–	–	–	–	(89)	(89)
Release of merger reserve[1]	9	–	–	(124)	–	–	124	–
Shares repurchased in the buyback programme[2]		(9)	–	–	–	9	(204)	(204)
Total transactions with the owners of the Company		**(9)**	**–**	**(124)**	**–**	**9**	**(169)**	**(293)**
Balance at 31 December 2021		**116**	**58**	**1,687**	**42**	**17**	**966**	**2,886**

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

[1]During the year £124 million was released from the merger reserve, representing the reduction in Quilter Perimeter Holdings Limited following the Company's impairment in that subsidiary.

[2]On 11 March 2020, the Company announced a share buyback programme to purchase shares up to a maximum value of £375 million, in order to reduce the share capital of the Company. The programme commenced on 11 March 2020. During the year ended 31 December 2021, the Company acquired 128.1 million shares (31 December 2020: 118.3 million) for a total consideration of £197 million (December 2020: £153 million) and incurred additional costs of £3 million (31 December 2020: £4 million). The shares, which have a nominal value of £9 million (31 December £8 million), have subsequently been cancelled, giving rise to a capital redemption reserve by the same value as required by the Companies Act 2006. At 31 December 2021, the committed remaining share buyback for which a legally binding instruction had been provided by the Board, of £26 million (31 December 2020: £22 million, 31 December 2019: £nil), was accrued as a liability. The increase in the liability in the year of £4 million (31 December 2020: £22 million) was recognised in retained earnings.

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

Notes to the financial statements of the Company

For the year ended 31 December 2021

1: General information

Quilter plc (the "Company") is a public limited company incorporated in England and Wales and domiciled in the United Kingdom with registration number 06404270.

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

2: Basis of preparation

The financial statements of Quilter plc for the year ended 31 December 2021 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis and have been prepared in pounds sterling.

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

Investments in subsidiaries

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

Critical accounting estimates and judgements

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

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

Area	Critical accounting judgements	Note
Investment in subsidiaries – measurement	Management has applied judgement in its impairment assessment in respect of determining the cash-generating unit ("CGU"), which is the level at which largely independent cash inflows occur. The Company's investments in Quilter Holdings Limited and Quilter Investors Limited each contain cash flows generated from within the Affluent segment and management has taken the judgement that aggregating cash flows from these investments represents the lowest level at which largely independent cash inflows are generated.	4

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

Other principal estimates

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

Going concern

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

The Directors have considered the resilience of the Company, taking into account its current financial position, the principal risks facing the business and the effectiveness of the mitigating strategies which are or will be applied. An assessment of the going concern for the Company has been completed, taking into consideration risks relating to climate change, and concluding that the Company can withstand a severe but plausible downside scenario for at least the next 12 months. This assessment was based on the most recent management approved three-year profit forecasts, and incorporated scenarios that reflected the impact of significant decreases in equity market levels and net client cash flows.

As a result, the Directors believe that the Company is well placed to manage its business risks in the context of the current economic outlook and has sufficient financial resources to continue in business for a period of at least 12 months from the date of approval of these consolidated financial statements, and continue to adopt the going concern basis in preparing the financial statements.

3: Capital and financial risk management

The material risks faced by the Company are described below.

3(a): Operational risk

The Company defines operational risk as the risk of failure of people, process, systems or external events which results in financial loss, damage to brand/reputation or adverse regulatory intervention or government or regulatory fine.

Operational risk includes all risks resulting from operational activities which the Company undertakes excluding strategic risks and risks resulting from being part of a wider group of companies.

3(b): Credit risk

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

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

3(c): Market risk

Market risk is the risk of an adverse change in the level or volatility of market prices of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency. Market risk arises from changes in equity, bond and property prices, interest rates and foreign exchange rates. Market risk arises differently across the business depending on the types of financial assets and liabilities held. The Company is subject to material risk in the following areas:

Interest rate risk

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

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

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

3(d): Liquidity risk

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

3(e): Sensitivity tests

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at the reporting date.

Interest rate sensitivity

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

A decrease in interest rate of 1% would have increased profit and shareholders' equity by £1 million (2020: decrease £4 million) after tax; an equal change in the opposite direction would have increased profit by £6 million (2020: increase £6 million) after tax.

4: Investments in subsidiary undertakings

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

	31 December 2021 £m	31 December 2020 £m
Balance at the beginning of the year	2,254	2,235
Investment in subsidiary undertakings	–	23
Investment in subsidiary undertaking in relation to share-based payments	–	(4)
Impairment of subsidiary undertaking	(124)	–
Balance at the end of the year	**2,130**	**2,254**

Investment in subsidiary

During 2020, the Company increased its investments in the Employee Benefit Trust and Quilter Insurance Company Limited by £21 million and £2 million respectively. There was no increase in investment in 2021.

Investment in subsidiary undertakings in relation to share-based payments

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

During 2021, the Company marginally increased its investments in subsidiaries in relation to share-based payments as listed below. In 2020, its investments in relation to share-based payments decreased.

	31 December 2021 £m	31 December 2020 £m
Quilter Business Services Limited	–	(2)
Quilter Cheviot Limited	2	–
Quilter Financial Planning Limited	(2)	1
Quilter Investors Limited	1	(2)
Other subsidiaries	(1)	(1)
Total investments in subsidiaries	**–**	**(4)**

Impairment to investment in subsidiary

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

2020 impairment to investment in subsidiary

No impairments recognised in Quilter plc for 2020.

2021 impairment to investment in subsidiary

On 31 December 2021, the Company received a dividend from its subsidiary, Quilter Perimeter Holdings Limited. This resulted in a reduction in the net asset value of Quilter Perimeter Holdings Limited and gave rise to an impairment of £124 million of the Company's investment in Quilter Perimeter Holdings Limited.

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

	Note	31 December 2021 £m	31 December 2020 £m
Loans to subsidiary undertakings	13	453	496
Total net loans and advances		**453**	**496**

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

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

31 December 2021	At beginning of the year £m	Income statement credit £m	At end of the year £m
Tax losses	–	6	6
Deferred tax assets at 31 December 2021	**–**	**6**	**6**

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

The main rate of corporation tax is 19%. On 3 March 2021, the Chancellor of the Exchequer announced in the Budget a future increase in the corporation tax rate from 19% to 25%, effective from 1 April 2023. This change having been substantially enacted by 31 December 2021, the new rate has been used in recognising the Company's deferred tax assets and liabilities should the reversal be expected to take place after 1 April 2023.

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

The value of the deferred tax assets not recognised as at 31 December 2021 was £18 million (2020: £16 million). This relates to gross carried forward losses of £71 million (2020: £86 million).

Sensitivity analysis demonstrates headroom in the recoverable amount of the deferred tax asset over the taxable profits contained within the three-year planning horizon. A sensitivity analysis shows a 20% reduction in Group future taxable profits will necessitate a £6 million write down in the value of the current deferred tax asset.

7: Other receivables and other assets
The note analyses total other receivables and other assets.

	Note	31 December 2021 £m	31 December 2020 £m
Due from subsidiary undertakings	13	32	28
Total other receivables and other assets		**32**	**28**

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

8: Cash and cash equivalents

	31 December 2021 £m	31 December 2020 £m
Cash at bank	21	11
Money market funds	482	303
Total cash and cash equivalents per statement of financial position	**503**	**314**

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

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

9: Merger reserve

2020 Merger reserve

There was no change to the merger reserve in 2020.

2021 Merger reserve

On 31 December 2021, there was a dividend payment made from Quilter Perimeter Holdings Limited to the Company. This reduced the net asset value of Quilter Perimeter Holdings Limited, giving rise to a £124 million impairment in the Company's investment in its subsidiary, and an associated release of the merger reserve.

These transactions attracted merger relief under section 612 of the Companies Act 2006.

10: Provisions

	31 December 2021 £m	31 December 2020 £m
Balance at beginning of the year	7	7
Jupiter guarantee of revenue payment	(2)	–
Reassessment of provision	(1)	–
Total provisions	**4**	**7**

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

In 2018, a restructuring provision was recognised as a result of the sale of the Single Strategy Asset Management business to enable the remaining Quilter Investors business to function as a standalone operation going forward. The remaining provision relates to various sale-related future commitments, the outcome of which was uncertain at the time of the sale and the most significant of which is in relation to the guarantee of revenues for the seller in future years arising from funds invested by customers of Quilter. The balance has decreased to £4 million during 2021 as a result of the settlement of £2 million related to the 2020 measurement year and £1 million reversed for the latest estimate for the 2022 measurement year.

The provision considers sensitivities including potential scenarios which would result in a reduction in Group assets under management held in the relevant Merian funds, leading to a reduction in the management fees paid to Jupiter, who acquired Merian during 2020. The scenarios are based upon assumptions determined considering historical outflows over the past three years, expectation of outflows to December 2022 and the latest information received from Jupiter. Per the conditions of the sale agreement, the maximum remaining potential exposure is £14 million for the 2022 calendar year. The expected range of payments based upon the latest information received from Merian and the Group's reasonable expectations of AUM invested within Merian funds during the 2022 assessment period is between £2 million and £8 million.

The £4 million provision outstanding is estimated to be payable after one year, with expected final settlement due in the first half of 2023.

11: Borrowings

	31 December 2021 £m	31 December 2020 £m
Subordinated debt		
Subordinated loan at 4.478%[1]	199	198
Funding – intercompany payables	3	3
Total borrowings	**202**	**201**

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

Amounts borrowed are held at amortised cost.

On 28 February 2018, the Company issued a £200 million subordinated debt security (held at amortised cost of £199 million) in the form of a 10-year Tier 2 bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478% (the "Tier 2 Bond"). The bond was remarketed and sold to the secondary market in full on 13 April 2018. It is now listed and regulated under the terms of the London Stock Exchange. In addition, the Company entered into a £125 million revolving credit facility which remains undrawn and is being held for contingent funding purposes across the Group.

12: Other payables

	Note	31 December 2021 £m	31 December 2020 £m
Due to subsidiary undertaking	13	9	6
Accruals		30	25
Total other payables		**39**	**31**

Other payables include an accrual for committed share purchases to complete the current tranche of the share buyback programme of £26 million (2020: £22 million), where the Company does not have the option to terminate the purchases. The tranche completed in January 2022.

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

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

13: Related party transactions

Key management personnel transactions

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

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

There were no other related party transactions in the year ended 31 December 2021 and 31 December 2020 other than those referenced in note 39 of the Group financial statements.

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

	Notes	31 December 2021 £m	31 December 2020 £m
Transactions			
Management fees paid to subsidiary undertaking		38	56
Dividends received from subsidiary undertakings		467	83
Interest received from subsidiary undertakings		13	13
Balances			
Amounts due from subsidiary undertakings	7	32	28
Amounts due to subsidiary undertakings	12	9	6
Investment in subsidiary undertaking	4	–	23
Investment in subsidiary undertaking in relation to share-based payments	4	–	(4)
Loans to subsidiary undertakings	5	453	496
Other borrowings from Group entities	11	3	3

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

14: Loan covenants

Under the terms of the revolving credit facility, the Company is required to comply with certain financial covenants. Please refer to note 37(a) of the Group financial statements for further information.