QUILTER CHEVIOT

INVESTMENT MANAGEMENT

Pillar III Disclosures

For the year ended 31st December 2018

Contents **Page**

GLOSSARY

Glossary of internal and regulatory terms used:

“Board”

Quilter Cheviot Limited Board of Directors

“Limited Licence firm”

An investment firm that is not authorised to: (1) deal on own account; or (2) provide the investment services of underwriting or placing financial instruments on a firm commitment basis.

“Quilter Cheviot” or “the firm” or “QCL” or “the Company”

Quilter Cheviot Limited

“Quilter Cheviot Group” or “the group”

Quilter Cheviot Holdings Limited and its subsidiaries: Quilter Cheviot Limited, and 9 onshore and offshore nominee or dormant companies as at 31st December 2018.

“Senior management”

The Quilter Cheviot Executive Group comprised of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Managing Director, Head of International, Head of Regional Offices, Chief Risk Officer (CRO), Head of Strategy and Head of Human Resources.

Acronyms

“AuM”	– Assets under management
“BIPRU”	– The FCA’s Prudential Sourcebook for Banks, Building Societies and Investment Firms
“CFP”	– Contingency Funding Plan
“CRD IV”	– Capital Requirements Directive IV
“CRR”	– Capital Requirements Regulation
“FOR”	– Fixed Overhead Requirement
“FCA”	– Financial Conduct Authority
“GENPRU”	– The FCA’s General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms
“ICAAP”	– Internal Capital Adequacy Assessment Process
“IFPRU”	– The FCA’s Investment Firm Prudential Sourcebook
“OMWH”	– Old Mutual Wealth Holdings Limited
“QCL”	– Quilter Cheviot Limited
“QPLC”	– Quilter plc (previously Old Mutual Wealth Management Limited)
“Quilter”	– Quilter plc Group

1. INTRODUCTION

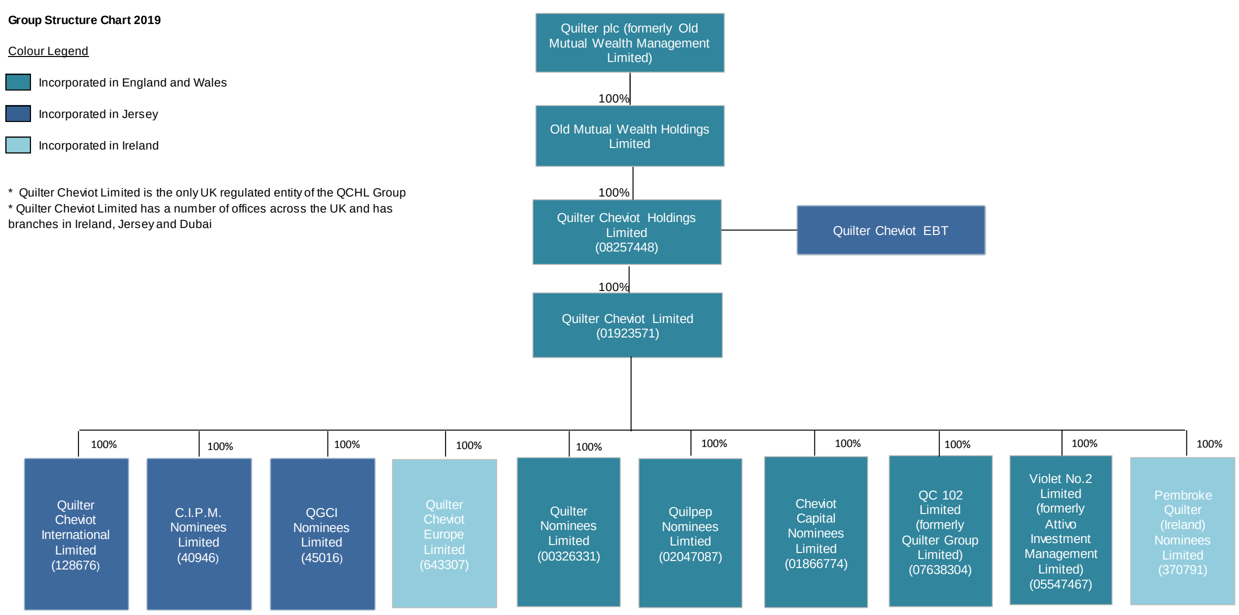
The Pillar 3 disclosure document includes the disclosure requirements which are required by CRD IV and the FCA. The disclosure will be made on an annual basis, and is based on the financial position of Quilter Cheviot Limited.

CONSOLIDATED QUILTER CHEVIOT GROUP

Quilter Cheviot Limited is a wholly owned subsidiary of Quilter Cheviot Holdings Limited, which is itself a wholly owned subsidiary of Old Mutual Wealth Holdings Limited, which is a wholly owned subsidiary of Quilter plc. Quilter plc was previously known as Old Mutual Wealth Management Limited, which was a direct subsidiary of Old Mutual plc until its re-registration as a public limited company on 27 March 2018 and subsequent listing as an independent company on the London and Johannesburg Stock Exchanges on 25 June 2018.

The Quilter Cheviot Group is part of the Quilter plc Group, which is subject to consolidated supervision by the FCA.

The current Group structure is shown below:



Information provided in this document, including the Risk Management and Remuneration Code is the one in force at 31 December 2018.

Quilter Cheviot is a UK-based private client investment manager providing discretionary and advisory investment management services to private clients, pension funds, trustees and charities. The key focus of the firm is on fee-paying investment management with discretionary mandates within the affluent sector of the UK, Ireland and Jersey markets (with a representative office in Dubai, United Arab Emirates). Quilter Cheviot's business is generated through referrals from existing clients, financial advisors and legal and accountancy firms, and at 31 December 2018 the firm had approximately £22.2 billion of assets under management.

Quilter Cheviot Limited is authorised and regulated by the FCA. Quilter Cheviot Limited is a regulated significant IFPRU limited licence €125k Investment Management Firm with a P2 prudential classification. Quilter Cheviot Limited is the only authorised firm within QCHL Group as at 31/12/18.

The nominee companies' sole purpose is to act as bare nominees or trustees on behalf of Quilter Cheviot.

The detailed information regarding the strategy, governance, risk appetite and risk management throughout this document is with respect to the legal entity Quilter Cheviot Limited.

NAME AND CONTACT DETAILS OF THE SUPERVISORY AUTHORITY

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

NAME AND CONTACT DETAILS OF THE EXTERNAL AUDITOR

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

QUALIFYING HOLDINGS IN THE UNDERTAKING

100% of the voting rights of QCL, Quilter Cheviot Holdings Limited and Old Mutual Wealth Holdings Limited have been held by their immediate parent company throughout the relevant period of ownership.

BACKGROUND

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

Basel III has three pillars:

Pillar 1 The minimum capital requirements of firms to cover credit, market and operational risk;

Pillar 2 Designed to complement the existing Pillar 1 requirements by assessing the need to hold additional capital under a more risk based assessment called the Internal Capital Adequacy Assessment Process (ICAAP) which is confidential between the undertaking and the supervisory authority; and

Pillar 3 A set of disclosure requirements which enable the market to assess information on a firm's risks, capital and risk management procedures. CRD IV entirely replaces previous Capital Requirements Directives and introduces entirely new prudential requirements. CRD IV increases the amount and quality of capital that firms are required to hold and imposes additional disclosure requirements. It also introduces a substantially revised EU wide liquidity regime.

The 'CRD IV Package' is comprised as:

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

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

The disclosure of this document meets Quilter Cheviot's obligation with respect to Pillar 3. The Pillar 3 disclosure requirements are contained in Articles 431-455 of the CRR.

FREQUENCY

Pillar 3 disclosures will be made on an annual basis within a reasonable time after QCL's Financial Statements are filed with Companies house.

LOCATION

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

CRD IV REPORTING CURRENCY

QCL reports on a CRD IV basis in Great British Pounds (GBP).

REPORTING PERIOD

This report covers the financial position at 31 December 2018.

VERIFICATION

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

FINANCIAL INFORMATION AND DATA

Throughout this document, financial information will be presented as at 31 December 2018 as this is the latest available information. As the latest financial data is at 31 December 2018, the capital resource requirement calculation is in accordance with the requirements as at this date.

ROLES AND DUTIES OF THE QUILTER AND QCL BOARDS

Quilter is governed and managed as an integrated group. This enables the Quilter plc Board to discharge its legal and regulatory responsibilities whilst delivering the best for our customers.

The role of the Quilter Board of Directors in respect of QCL is as follows:

- To oversee the long term prosperity of Quilter by providing independent input, review and constructive challenge in relation to QCL;
- To set the overall Business strategy for the Quilter Group which will be tested and challenged by the QCL Board;
- To monitor the progress of QCL in development and implementation of strategic plans and material policies;
- To set the overall Group risk appetite, which will be tested and challenged by the QCL Board;
- To generally oversee QCL to ensure maintenance of sound risk controls and governance systems, integrity of financial information, regulatory compliance and sound planning, performance and overall management, either directly or via delegation to its Committees;
- To annually agree the capital plan, which will include the allocation of capital to QCL;
- To consider and, if thought fit, approve matters escalated to it, including those escalated from the QCL Board; and
- Through its Corporate Governance and Nominations Committee, approve the appointment of the Chairman of QCL Board.

Whilst strategy is set by the Quilter Board and reliance is placed on business boards to oversee delivery of the strategy, input from each business board is sought on the business level strategy. Each business board should promote strategic developments that put customers at the heart of the business and promote long-term sustainable value creation.

In the rare occasion where the interests of Quilter and its subsidiary diverge, the Quilter Board is committed to being respectful of the QCL Board and to working constructively with it to find appropriate solutions and to ensure that Quilter does not exert undue influence over the decisions of the business subsidiary.

The roles and duties of the QCL Board in respect of QCL are as follows:

- To act independently in delivering the business strategy and objectives. Directors are expected to add real value to the business through their knowledge and experience of the business and have the ability to identify risks and provide robust challenge. The Quilter Board will place reliance on the assurance provided by the subsidiary board;
- To hold executives to account in respect of business performance, the identification and mitigation of key risks, regulatory responsibility and customer outcomes and to support the delivery of the business' strategy within the context of the overall Quilter strategy; and

- To identify potential conflicts of interest with the parent and ensure that these are appropriately managed, particularly if this is likely to impact the safety and soundness of the subsidiary. With the exception of these areas the QCL Board is expected to demonstrate an independent approach whilst supporting the execution of the agreed Group strategy.

QCL EXECUTIVE RESPONSIBILITY

The QCL Chief Executive Officer (CEO) has delegated responsibility, from the Board, for the day-to-day management of QCL, subject to the Schedule of Matters Reserved to the Board, the authorities granted through the Quilter plc Group Governance Manual and the responsibilities articulated in the CEO Role Profile.

To assist the CEO in the discharge of those responsibilities an Executive Management team has been appointed. This team forms the QC Executive Committee.

The Executive Committee meets on a fortnightly basis.

The Operational Risk Forum, consisting of certain members of the Executive Committee, assists the CEO in the review and challenge of risk appetite performance as set by the QCL Board (that is aligned to the Quilter plc risk appetite set by the Quilter plc Board). The Operational Risk Forum also provides oversight, challenge and monitoring of the management of risk, including operational and regulatory risk, the adequacy of governance arrangements and the effectiveness of internal controls.

QCL BOARD OF DIRECTORS

The following table shows the members of the QCL Board during 2018, and the number of directorships held by these members as at the 31st December 2018:

Name	Role	Number of external directorships held	Number of directorships held within the Quilter Group
Martin Baines (resigned 13 December 2018)*	Chief Executive Officer	1	4
Ian Buckley (appointed 8 August 2018)	Chairman	2	1
Rosie Harris	Independent Non-Executive Director	2	2
Mark Macleod	Chief Financial Officer	0	7
Kevin Lee-Crossett (resigned 21 September 2018)*	Non-Executive Director	0	22
Mark Satchel (resigned 13 March 2019)	Non-Executive Director	0	13
Philip Tew (appointed 3 September 2018)	Independent Non-Executive Director	0	1

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

Note: appointments on companies that do not pursue predominantly commercial objectives are excluded and directorships held within the same group (for external directorships) are counted as a single directorship.

RECRUITMENT AND SELECTION OF MEMBERS OF THE MANAGEMENT BODY

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

Through background and reference checking we ensure individuals are of good repute and are financially sound.

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

All directors are subject to the company's Equality & Diversity Principles which are summarised in the following statement:

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

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

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

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

GOVERNANCE, AUDIT AND RISK COMMITTEE

The Governance, Audit and Risk Committee is a standing committee of the QCL Board. Its purpose is to assist the QCL Board in the effective discharge of its oversight responsibilities for governance, audit and risk management.

The delegated responsibilities of the Governance, Audit and Risk Committee include:

- Reviewing and assessing the effectiveness of the risk management systems and controls of QCL;
- Reviewing the major risk exposures of QCL and the steps management has taken to monitor and control such exposures;
- Reviewing the risk exposure of QCL in relation to the risk appetite of the Board, the risk capacity of QCL and ensuring risk appetite is aligned to risk appetite of the Quilter group as set by the Quilter Board;
- Monitoring the development of risk management policies and procedures generally and making appropriate recommendations to the QCL Board;
- Reviewing the internal control and risk management systems;
- Monitoring and reviewing the effectiveness of the internal audit function and ensuring co-ordination between the internal and external audit functions and considering the findings of any internal investigation;
- Reporting to the QCL Board on any matters within its terms of reference where it considers that

action or improvement is needed and making recommendations as to the steps to be taken;

- Reviewing whistleblowing arrangements by which staff within QCL may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with a view to ensuring that arrangements are in place for the proportionate and independent investigation of such matters and consider the major findings of internal investigations and management's response;
- Annually reviewing and make changes to the terms of reference of the Committee for recommendation to the Board; and
- Considering any other matters as requested by the Board.

The Governance,Audit and Risk Committee met four times during 2018.

2. RISK MANAGEMENT

The Board recognises the importance of a robust risk management framework and as such Quilter Cheviot maintains a strong compliance and risk management culture which operates within the three lines of defence model.

Risk management is a fundamental part of the day-to-day management of Quilter Cheviot, both within the firm's operational procedures (which ensure that the risks associated with the provision of investment management services are mitigated by appropriate controls and processes) and within our fundamental approach to stock selection and daily management of the client investment portfolios.

2.1 GOVERNANCE

The Quilter Cheviot governance structure is overseen by the Quilter Cheviot Board and applies to all entities within the group. There is one committee of the Board, being the Governance, Audit and Risk Committee. The Board has delegated day-to-day responsibility for the management of the group to the Chief Executive Officer, who is supported in the discharge of these responsibilities by the Executive Management team.

The Quilter Cheviot governance structure is designed to ensure that:

- Specific risks are managed within a comprehensive framework;
- The integrity of legal entities is maintained;
- Controls operate effectively;
- Infrastructure supports business and product development; and
- Client related risks are managed across businesses.

This is achieved through a framework incorporating central management, business lines and independent control groups.

The Board confirms the continued adequacy of the risk management systems to QC's risk profile and strategy.

2.2 RISK APPETITE

The Board, advised by the senior management team, is responsible for setting the risk appetite for the firm and ensuring that Quilter Cheviot maintains a risk management culture and suitable systems and controls, and operates within the parameters set by the Firms risk appetite. The risk appetite is embedded into the firm's strategic decision making process and is used as a tool for the Board to benchmark management information data to ensure that risks are adequately identified, understood and managed. The risk appetite is reviewed formally by the Board on an annual basis and reassessed using information collated through benchmarking.

In line with Quilter Cheviot's strategic aim to increase AuM within the UK market, and enhance its position as one of the premier providers of personalised asset management service for private clients in the aforementioned market, it is believed the key risks that materially affect the firm's appetite are **revenue risk** - the risk that the revenues received from fees, commission and interest are lower than anticipated, and **operational risk** - the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. A detailed Risk Appetite statement which justifies the low risk appetite on both risks was included in Quilter Cheviot's Inputs to the Quilter Group Consolidated ICAAP document.

2.3 RISK MANAGEMENT FRAMEWORK

The Board recognises the importance of a robust risk management framework and as such Quilter Cheviot maintains a strong compliance and risk management culture which operates within the three lines of defence model:

- **1st Line**: Business unit line management identifies, manages, mitigates and reports on risk as part of their formal responsibilities, and are responsible for operating effective controls. As the Senior Management Team, the Executive Group has responsibility for day-to-day risk management of the firm.

- **2nd Line**: The Risk Department and Compliance Department deploys the risk management framework across the organisation, monitors adherence to the framework, strategy and procedures, supports risk management within the business functions and escalates risk and control issues to senior management. Finance is also a key business unit in regards to financial reporting.

- **3rd Line**: Internal Audit provides independent assurance on the design and operational effectiveness of key controls, and will also provide assurance that the overall risk management process is functioning as designed. The Board sets the risk appetite and provides oversight.

The Chief Risk Office (CRO) drives the top down risk management process to provide a consistent and systematic approach to risk management across the business. Key risks of the business are identified by the Risk Department, in conjunction with key stakeholders from every business unit within the firm.

The identified key risks are recorded on the Operational Risk Table, which is also used to ensure that the firm has adequate controls, monitoring and reporting in place for each risk identified and that all risks remain within the firm's risk appetite. Further, it is used to inform the Board of the appropriateness of the risks assessed under the FCA's Pillar 2 framework. As an additional step, the firm has implemented a risk monitoring tool to ensure mitigating controls and procedures are adhered to. This new tool will help the firm better quantify and manage its risks going forward.

3. OWN FUNDS DISCLOSURES

3.1 CAPITAL MANAGEMENT FRAMEWORK

Quilter Cheviot's senior management views capital as an important source of financial strength. Along with the ability to generate strong returns on its business and to manage the Quilter Cheviot Group in accordance with sound risk management principles, capital provides protection against unexpected adverse financial impacts. The group actively manages its consolidated capital position based upon, amongst other things, business opportunities, capital availability and rates of return, together with regulatory requirements and rating agency guidelines, in order to maintain its capital at an appropriate level. As such, the group may expand or contract its capital base as required to address the changing characteristics of its business.

3.2 OWN FUNDS

The table below illustrates the elements of QCL's own funds. The solo requirements and own funds of Quilter Cheviot are monitored on a daily basis and reported at the end of each quarter.

Quilter Cheviot Limited Capital Adequacy	Dec-18 £'000
Tier 1 Capital:	
Paid up capital instruments	64,391
Retained earnings	53,023
	117,414
Less deductions:	
Intangible assets	(7,599)
Investment in subsidiaries	(158)
Less deductions (Intangible & Deferred tax assets, Free deliveries):	**(7,757)**
OWN FUNDS	**109,657**

No material reconciling items exist between the audited financial statements and Common Equity Tier 1 Capital before deductions.

4. OWN FUNDS REQUIREMENTS

4.1 PILLAR 1 REQUIREMENT

As Quilter Cheviot is a Limited Licence firm, the Pillar 1 own funds requirement for the group is equal to the higher of:

- Base requirement
- Credit risk + Market risk
- Fixed overhead requirement

4.1.1 PILLAR 1 CREDIT RISK ASSESSMENT

Credit risk is the risk of loss when an obligator does not meet its financial obligations to Quilter Cheviot. As at 31 December 2018 it is calculated under Pillar 1 as 8% of the risk exposure amount of the group, using the Standardised Approach and exposures related to long dated settlements and unsettled transactions.

The major components held within credit risk for the group are:

- Deposits at banks and Money Market Funds (MMFs)
- Trade Debtors
- Fees receivable from clients

Analysis of total exposures by exposure class for credit and counterparty credit risks at 31 December 2018:

	Exposure (£'000)	Average risk weighting	Risk weighted exposure (£'000)	Risk weighted exposure at 8% (£'000)
Institutions - cash deposits & MMFs	120,643	20%	24,129	1,930
Trade debtors	30,479	88%	26,809	2,145
Deferred tax asset	3,984	250%	9,959	797
Other*	46,666	82%	38,037	3,043
TOTAL	201,772		98,934	7,915

*Other includes fees receivable from clients, prepayments and tangible fixed assets.

Analysis of risk exposure for credit and settlement / delivery at 31 December 2018:

	Risk weighted exposure for credit & settlement / delivery (£'000)	Risk weighted exposure for credit & settlement / delivery at 8% (£'000)
Risk weigted exposure for credit	98,934	7,915
Risk exposure for settlement / delivery	1,101	88
TOTAL	100,035	8,003

Impaired assets and past due amounts

At 31 December 2018 there were no trade debtor balances relating to unsettled trades which required impairment. Unsettled trades, which are not past due, do not represent a credit risk under the principles of matched broking and have therefore been excluded from any credit risk calculations.

Trade debtors, which relate to market and client transactions, are considered past due once the date for settlement has passed.

Analysis of the ageing of trade debtors at 31 December 2018:

	(£'000)
Not past due	26,953
Up to 15 days past due	2,532
16 to 30 days past due	126
31 to 45 days past due	130
More than 45 days past due	738
TOTAL	30,479

4.1.2 PILLAR 1 MARKET RISK ASSESSMENT

Market risk is the risk to a firm's financial condition resulting from adverse movements in market variables. This category includes traded risks covering general (systematic) market risk and specific risk. By asset type definition, market risks include interest rates, credit spreads, equities, foreign-exchange and commodity risks.

The group has market risk related to foreign exchange, which is calculated as 8% of the net asset position of each non-GBP currency position.

The market risk at 31 December 2018 is £464,000 (risk exposure of £5,800,000), which is composed of foreign exchange risk.

4.1.3 PILLAR 1 FIXED OVERHEAD REQUIREMENT (FOR)

The FOR is determined as ¼ of the relevant fixed expenditure for the group, based upon the latest audited statutory accounts. The expenditure is calculated as the total expenses of the group excluding fully discretionary staff bonuses, and non-recurring expenses from non-ordinary activities.

The fixed overhead requirement at 31 December 2018 is £22,311,000.

4.1.4 PILLAR 1 CAPITAL REQUIREMENT

The Pillar 1 capital requirement is equal to the fixed overhead, as this value is larger than the sum of credit risk and market risk:

	Pillar 1 capital requirement (£'000)	Pillar 1 capital requirement (£'000)
Credit risk capital requirement	8,003	
Market risk requirement	464	
Credit risk + Market risk capital requirement		8,467
Fixed overhead requirement		23,311
Higher of (CR + MR) & FOR		**23,311**

4.1.5 COMMON EQUITY TIER 1 CAPITAL RATIO

The Common Equity Tier 1 Capital ratio is calculated in line with CRD IV regulations, and refers to a total risk exposure amount. The total risk exposure amount includes credit risk, settlement risk, market risk, and an additional risk exposure due to fixed overheads. The additional risk exposure due to fixed overheads is determined as the amount required to bring the "Total risk exposure amount" to equal 12.5 times the own funds requirement for fixed overheads.

	(£'000)
Common Equity Tier 1 Capital after deductions	109,657
Risk weighted assets	
Credit risk	98,934
Settlement risk	1,101
Market risk	5,800
Additional risk exposure due to fixed overheads	185,555
Total Risk exposure amount	291,390
Common Equity Tier 1 Capital ratio	38%

The Common Equity Tier 1 Capital ratio is required to be greater than 8% at all times.

4.2 PILLAR 2 REQUIREMENT

As part of the Internal Capital Adequacy Assessment Process ("ICAAP"), senior management have considered the risks of the business, in association with the IFPRU rules, and determined the Pillar 2 risks applicable to the group. The risks were then quantified for the purpose of evaluating the level of capital required. These results form part of the Inputs required for the Quilter plc (formerly Old Mutual Wealth) consolidated ICAAP. The basis of calculation is confidential to Quilter Cheviot, Quilter plc and the FCA.

5. OTHER INFORMATION

5.1 LIQUIDITY RISK

Liquidity is the amount of firm cash available at any given time to meet future funding requirements. Liquidity risk is the risk that the firm is unable to meet its funding obligations in a timely manner. Failure to adequately manage liquidity risk can be costly and could also lead to insolvency.

Client cash is segregated from firm's resources and held in trust status accounts, therefore it is not included as part of the liquidity risk assessment under Pillar 2.

The firm has created a liquidity risk management framework, which is designed to ensure that the firm maintains sufficient liquidity to be able to continue to fund its ongoing business and to meet all its financial obligations maturing within a one-year period. In the event that the firm believes that this will not be achieved, the firm will implement mitigating activities.

Quilter Cheviot is a Limited Licence IFPRU firm and therefore Individual Liquidity Adequacy Assessment (ILAS) reporting requirements do not apply.

Senior management are responsible for the monitoring of cash balances and ensuring that cash is available to meet the spending requirements of Quilter Cheviot.

Ongoing monitoring of all settlement commitments are undertaken on a daily basis to ensure appropriate levels of funding is held. Senior management consider it prudent to hold at a minimum £35 million of liquid cash at all times, in order to facilitate the settlement of market commitments. Cash flow forecasts are performed on a monthly basis for a rolling 12 month period to monitor the availability of cash. Should available liquid cash drop below £35 million, it is escalated to senior management.

5.2 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Quilter Cheviot has identified the specific risks that are most likely to give rise to the potential for operational risk exposures within its business activities.

5.3 INTEREST RATE RISK

Interest rate risk refers to the risk that a change in interest rates will result in losses. This impacts both firm and client cash balances held by Quilter Cheviot. A decrease in interest rates would decrease the revenue earnt by Quilter Cheviot on these balances. Interest of £7.2m was earnt during 2018, which was a significant increase from prior year and was expected due to increases in the climate with interest rate rises. If this were to decrease, decreases in revenue would have only marginal impact on the firm's results, as Interest revenue composes less than 5% of total revenue.

Quilter Cheviot did not have any liabilities at 31 December 2018 which are charged interest. Therefore an increase in interest rates would have no effect on the expenses incurred by the firm.

5.4 PENSION OBLIGATION RISK

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

Quilter Cheviot has its own defined benefit and contribution pension schemes.

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

6. REMUNERATION DISCLOSURE

6.1 INTRODUCTION

The following disclosure explains how Quilter Cheviot Limited ('QCL') complies with the requirements of the UK implementation of CRD IV, in particular Articles 92 to 95.

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

6.2 REMUNERATION POLICY

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

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

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

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

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

6.3 MATERIAL RISK TAKER IDENTIFIFACTION

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

6.4 LINK BETWEEN PAY AND PERFORMACE

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

Short-term incentives

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

Awards for MRTs include an element of deferral in Quilter plc restricted shares. The deferred portion is designed to further align staff and shareholder interests and to support employee retention. The vesting period is 3 years. Guaranteed variable remuneration is paid only in exceptional circumstances and is limited to the first year of service and Quilter's severance policy does not reward failure.

Long-term incentives

Long-term incentive awards for eligible MRTs align senior management remuneration with the success of the company in achieving its strategic priorities and growing the value of the business through quality and sustainable earnings. The award is in the form of equity interest and the vesting period is at least three years from the date of grant. The RemCo may reduce the extent to which an award vests if it considers that undue risks were taken which could adversely impact future business earnings, operations or the reputation of the company.

6.5 DETERMINING BONUS POOLS FOR VARIABLE PAY AWARDS

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

The pool structures are designed to share a portion of value created with employees. For investment managers this is derived from a share of team profits and net growth, and for other staff QCL receives an allocation of an Quilter-wide pool that is funded within an agreed range of pre-bonus profit (approved by the RemCo) and subject to a minimum ROE target. In determining the final pool outcome within the range, consideration is given to a broader scorecard of key business performance metrics including financial, strategic and customer related performance is assessed both in absolute terms and with consideration of market and economic conditions.

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

The final pool allocation is distributed to employees based on relative employee performance against a balanced set of individual objectives.

6.6 SHARE RELATED AWARDS AND LINK TO PERFORMANCE

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

1) if the results or accounts or consolidated accounts of any company, business or undertaking in which the participant worked or works or for which he was or is directly or indirectly responsible are found to have been materially incorrect or misleading;

2) if the company, business or undertaking in which the participant worked or works or for which he was or is directly or indirectly responsible subsequently makes a loss out of business written due to poor risk management; and

3) if the performance of the company, business or undertaking in which the participant worked or works or for which he was or is directly or indirectly responsible and upon which the RemCo relied in making its determination to grant an award to the participant and/or the size of such award is found to have been based upon any material misrepresentation.

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

The exit conditions to be applied to share awards will be determined by the share award scheme rules. Any request for non-standard treatment must be escalated for approval via the Group's Remuneration Governance process.

6.7 QUANTITATIVE DISCLOSURES

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

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

2018	Senior Management (6)	Other (20)
Fixed Remuneration	1,485	3,376
Variable Remuneration	2,567	6,122
TOTAL REMUNERATION	**4,051**	**9,498**