Financial review

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Review of financial performance

Overview

During 2020 international equity markets experienced significant volatility as a consequence of the Coronavirus pandemic. Volatility in equity market values can significantly impact the value of the Group's AuMA, and therefore the Group's revenue, as the majority of the Group's revenue is based on asset levels. The FTSE-100 index ended the year down 14% on closing 2019 levels while the MSCI World index (GBP) was up 11% on the 2019 year-end index value. Between this, equity markets reached a low point towards the end of the first quarter of 2020, as indicated by the FTSE-100 index recording a low of 5,672, a drop of 25% from the start of the year, and the MSCI World Index (GBP) recording a low value of 3,586, a fall of 16% from the opening index value as the start of the year. Global equity markets recovered in the second half of the year, with the FTSE-100 index up 5% over this period and the MSCI World Index (GBP) up 10% – buoyed predominantly by the performance of technology stocks in the US.

The Group's AuMA ended the year at £117.8 billion, a 7% increase from the opening position at the start of 2020. This increase comprised £5.8 billion of positive market movements as a consequence of the equity market rally late in the year, and positive net client cash flow of £1.6 billion. Adjusted profit before tax decreased by 8% to £168 million, with a decline in overall revenue margins as a result of asset mix shifts in Quilter Investors and Quilter International, and the repricing on the Quilter Investment Platform. Generally, revenue adversely impacted by the fall in global markets in the first half of the year, had reversed in the subsequent period. The Group's IFRS profit after tax from continuing operations was £89 million, compared to a loss after tax of £21 million in 2019. The improvement was primarily due to the positive impact on policyholder tax following the decline in equity market values, which can vary year-on-year as a result of market volatility.

Adjusted diluted earnings per share from continuing operations were broadly unchanged at 8.5p (2019: 8.6p).

Alternative Performance Measures ("APMs")

We assess our financial performance using a variety of measures including APMs, as explained further on pages 270 to 273. In the headings and tables presented, these measures are indicated with an asterisk: *

I am pleased with the Group's financial response to 2020's challenging environment, focusing on cost management and our strong balance sheet.

Key financial highlights

Year ended 31 December 2020

Continuing operations	Advice & Wealth Management	Wealth Platforms	Eliminations	Total Group
Gross sales (£bn)*	7.1	7.3	(3.5)	10.9
Gross outflows (£bn)*	(6.5)	(5.5)	2.7	(9.3)
NCCF (£bn)*	0.6	1.8	(0.8)	1.6
Integrated net inflows (£bn)*	0.9	1.4	–	2.3
AuMA (£bn)*	48.5	84.3	(15.0)	117.8
NCCF/opening AuMA (%)*	1%	2%	n/a	1%
Asset retention (%)*	86%	93%	n/a	92%

Year ended 31 December 2019

Continuing operations[1]	Advice & Wealth Management	Wealth Platforms	Eliminations	Total Group
Gross sales (£bn)*	7.5	8.0	(3.2)	12.3
Gross outflows (£bn)*	(7.8)	(6.6)	2.4	(12.0)
NCCF (£bn)*	(0.3)	1.4	(0.8)	0.3
Integrated net inflows (£bn)*	1.6	1.0	–	2.6
AuMA (£bn)*	45.8	77.7	(13.1)	110.4
NCCF/opening AuMA (%)*	(1%)	2%	n/a	–
Asset retention (%)*	81%	90%	n/a	88%

[1]Continuing operations represent Quilter plc, excluding the results of Quilter Life Assurance ("QLA") in 2019, which was sold to ReAssure on 31 December 2019.

Net client cash flow ("NCCF")*

Net client cash inflows were £1.6 billion for the year (2019: £0.3 billion), during a period where the impact of COVID-19 on the global economy has been dramatic, creating economic uncertainty and market volatility. The Group experienced slightly lower gross sales in 2020 due to the impact of the pandemic, which was more than offset by lower outflows in comparison to 2019, notably for Quilter Investment Platform, Quilter Cheviot, and Quilter International.

Net inflows to Quilter Investors were down 40% on the prior year at £0.3 billion (2019: £0.5 billion), driven by a decrease in flows from Quilter Financial Planning as the pandemic environment presented advisers with less opportunity to attract new business. Cirilium Active started the year with challenged investment performance which resulted in outflows and switches to lower margin in-house solutions. Pleasingly, performance improved during the year. Quilter Financial Planning attracted net inflows into Cirilium Blend, Cirilium Passive and WealthSelect during the year and net inflows into WealthSelect via the Quilter Investment Platform were up 23% when compared to the prior year.

Quilter Cheviot attracted net inflows of £0.3 billion (2019: outflow of £0.8 billion), which was an improvement on the prior year, primarily due to lower levels of outflows linked to the Investment Managers ("IMs") who resigned in mid-2018 (2020: £0.2 billion outflow, 2019: outflows of £1.3 billion) and the loss of a £0.2 billion quasi-institutional mandate in the second quarter of 2019. Excluding the departures of IMs who resigned in the summer of 2018, NCCF was stable at £0.5 billion (2019: £0.5 billion).

Quilter Investment Platform recorded net inflows of £1.5 billion, up 67% (2019: £0.9 billion) where the year-on-year reduction in gross sales has been more than offset by the reduction in outflows. The impacts of COVID-19 reduced overall market activity as advisers spent most of the year focused on servicing existing clients rather than seeking to attract new clients given the restrictions on face-to-face meetings. Gross outflows were down 18% to £4.2 billion (2019: outflow of £5.1 billion). In addition, client led withdrawals were lower year-on-year as clients stayed invested during the worst periods of the market downturn and the UK lockdown restricted consumer spending, reducing withdrawals. DB to DC pension scheme transfers were broadly stable with the prior year at £0.9 billion (2019: £0.8 billion).

Quilter International's net inflows were down 40% to £0.3 billion (2019: £0.5 billion) as the prior year was supported by a small number of large single investments from Hong Kong and Latin America in the fourth quarter, which totalled £0.3 billion. Excluding this, NCCF was broadly in line with the prior year.

Net flows (£bn)	**2020**	2019	% Change
Total integrated net inflows*	2.3	2.6	(12%)
Direct net inflows/(outflows)	0.1	(1.5)	–
Eliminations	(0.8)	(0.8)	–
Total Quilter plc NCCF*	**1.6**	0.3	433%

Integrated net inflows of £2.3 billion were down 12% from 2019 (£2.6 billion). The restricted channel of Quilter Financial Planning accounted for £0.8 billion (2019: £1.2 billion) of Quilter Investors' net flows, £1.2 billion (2019: £1.0 billion) of Quilter Investment Platforms' net flows and £0.3 billion (2019: £0.4 billion) of Quilter Cheviot net flows. The year-on-year improvement in direct net inflows was primarily driven by outflows related to the departure of a specific IM team at Quilter Cheviot not recurring in 2020, together with an increase in the performance of direct flows to the Wealth Platforms businesses.

Total RFP headcount was 1,842 at 31 December 2020, up by 2% from 1,799 at 31 December 2019. Organic growth for the year was limited as a result of the external environment coupled with a scaling back of acquisitions in Quilter Private Client Advisers as a consequence of the ongoing pandemic. Productivity* for Quilter Financial Planning was £1.3 million per RFP for the year (2019: restated to £1.6 million) as a result of reduced net inflows to Quilter Investors and Quilter Cheviot in light of the challenging market environment. Net inflows to Quilter Investment Platform performed well, up 20% year-on-year, emphasising the strength of Quilter's platform proposition and realising benefits from the acquisitions made in 2019.

Asset retention* has increased to 92% (2019: 88%), predominantly as a result of lower outflows from Quilter Investment Platform and Quilter Cheviot.

Assets under management/administration ("AuMA")*

AuMA was £117.8 billion at 31 December 2020, up 7% from 31 December 2019 (£110.4 billion), driven by positive market movements of £5.8 billion and £1.6 billion of net inflows.

Quilter Investors' AuM was £23.2 billion, up 7% since the start of the year (2019: £21.6 billion). The Cirilium fund range AuM increased by 11% to £12.3 billion at 31 December 2020 (2019: £11.1 billion), with £0.1 billion of net outflows and £1.3 billion of positive market movements. Within the Cirilium fund range, net outflows from Cirilium Active to Cirilium Passive and Cirilium Blend solutions was a notable characteristic during the year, with the COVID-19 environment adding some acceleration to the trend experienced during 2019. The WealthSelect fund range AuM increased by 18% to £7.9 billion at the end of December 2020 (2019: £6.7 billion) with £0.7 billion of net inflows and £0.5 billion of positive market movement. Quilter Cheviot AuM of £25.3 billion increased by 5% in the year, primarily as a result of positive market movements. Quilter Investment Platforms' AuA increased by 9% to £62.5 billion, driven by increases in the market value of assets and net inflows. Net inflows of £1.2 billion were received from Quilter Financial Planning and total assets held by Quilter Financial Planning clients on the platform was £9.7 billion. Net inflows of £0.3 billion were received from Independent Financial Advisers during the year (2019: outflow of £0.2 billion). Quilter International AuA of £21.8 billion was a 6% increase on the prior year (2019: £20.5 billion) primarily due to exposure to rebounding US and international markets, low surrender rates and broadly stable sales levels, partially offset by unfavourable exchange rate market movements.

IFRS profit after tax

The Group's IFRS profit after tax was £88 million for 2020, compared to £146 million in the prior year. 2019 included profit after tax from discontinued operations of £167 million, which related to the QLA business that was sold on 31 December 2019.

IFRS profit after tax from continuing operations was £89 million in 2020, compared to a loss after tax of £21 million in 2019, primarily due to the impact of a decrease in policyholder tax, which can vary significantly year-on-year as a result of market volatility, and a reduction in IFRS operating and administrative expenses during 2020 driven by the costs associated with the delivery of the Optimisation programme and the Platform Transformation Programme.

The Group's IFRS income and total expenses are impacted by the unit-linked investment contracts within Quilter Investment Platform and Quilter International, where the investment return on the underlying portfolio of assets is offset by a corresponding movement in policyholder liabilities. Consequently, the decrease of £2.7 billion in IFRS income from £7.4 billion in 2019 to £4.7 billion in 2020 is offset by a corresponding decrease in IFRS total expenses, which was £4.6 billion in 2020, reduced from £7.4 billion in the prior year.

Adjusted profit before tax*

Adjusted profit before tax reflects the Board's view of the underlying performance of the Group and is used for management decision making and internal performance management. Adjusted profit before tax is a non-GAAP measure which adjusts IFRS profit for specific items, as detailed in note 7 of the consolidated financial statements on page 191, and is the profit measure presented for the Group's segmental reporting.

Adjusted profit before tax was £168 million for the year, 8% lower than the prior year (2019: £182 million). Adjusted profit before tax for the Advice and Wealth Management segment decreased by 13% year-on-year and the Wealth Platforms segment increased by 2% compared to the prior year.

Total net fee revenue was £682 million, 4% lower than the prior year (2019: £712 million). Net management fees of £552 million were lower than those of the prior year (2019: £579 million) predominantly due to market volatility, reduced new client activity as a consequence of COVID-19, and the decline in overall revenue margins as a result of anticipated asset mix changes. The revenue margin was reduced following the Quilter Investment Platform reprice in April 2020, a continuation of the trend of clients switching from Cirilium Active to the lower margin Cirilium Passive and Cirilium Blend funds, the non-recurrence of the 2019 revenue provision release within Quilter Investors, and the anticipated trend in Quilter International where the proportion of assets on older-style pricing structures was reducing relative to the size of the overall book. The revenue margin within Quilter Cheviot remained broadly stable year-on-year. Other revenue of £130 million was down marginally against prior year (2019: £133 million), primarily due to the impact of adverse FX movements and lower interest rates and improved surrender experience for Quilter International, which were partially offset by higher advisory revenues generated by Quilter Financial Planning as a result of acquisitions made in 2019.

Operating expenses for the Group decreased from £530 million in 2019 to £514 million, primarily due to c.£40 million of tactical cost savings made during the year, with lower variable compensation costs, decreased marketing spend, and delayed development spend, which were partially offset by increased FSCS levies and regulatory costs, expenses incurred to prepare the business for remote working and providing a safe COVID-19 workplace, and higher one-off costs in relation the London office move during the year.

The Group's overall operating margin has decreased to 25% (2019: 26%) as a result of the reduction in revenue.

Financial performance from continuing operations

2020 (£m)	**Advice & Wealth Management**	**Wealth Platforms**	**Head Office**	**Total Group**
Net management fee*	279	273	–	552
Other revenue*	117	12	1	130
Total net fee revenue*	**396**	**285**	**1**	**682**
Operating expenses*	**(306)**	**(171)**	**(37)**	**(514)**
Adjusted profit before tax*	**90**	**144**	**(36)**	**168**
Tax				**(16)**
Adjusted profit after tax				**152**
Operating margin (%)*	23%	40%		25%
Revenue margin (bps)*	63	36		51

Financial performance from continuing operations

2019 (£m)	Advice & Wealth Management	Wealth Platforms	Head Office	Total Group
Net management fee*	296	283	–	579
Other revenue*	111	19	3	133
Total net fee revenue*	407	302	3	712
Operating expenses*	(304)	(190)	(36)	(530)
Adjusted profit before tax*	103	112	(33)	182
Tax				(22)
Adjusted profit after tax				160
Operating margin (%)*	25%	37%		26%
Revenue margin (bps)*	67	38		55

Total net fee revenue*

The Group's total net fee revenue decreased by 4% to £682 million (2019: £712 million) due to the mix shift within Quilter Investors and Quilter International to lower margin products, and the repricing of the Quilter Investment Platform resulting in the blended revenue margin for the Group to decrease by 4 bps to 51 bps. Generally, revenue adversely impacted by the fall in global markets in the first half of the year reversed in the subsequent period and average AuMA for the year was £107.9 billion (2019: £105.7 billion).

Total net fee revenue for the Advice and Wealth Management segment decreased by 3% during the year, to £396 million (2019: £407 million). Quilter Investors' net management fee revenue decreased by £12 million from the prior year as a result of a non-recurring revenue provision release of c.£8 million in 2019 and the earlier referenced mix shift to lower margin products. Total net fee revenue within Quilter Cheviot was 4% lower at £171 million (2019: £178 million) as average AuM was 1% lower than prior year and reduced revenues were earned following the reduction in base interest rates in March 2020. Other revenue increased to £117 million (2019: £111 million), principally due to the increase in advice fees in Quilter Financial Planning as a result of the acquisitions in 2019. Within the revenue generated by advice, recurring and fixed fees increased by £10 million against prior year, of which £8 million related to the increase of acquisitions in the prior year, while revenues generated through initial fees reduced marginally on that of the prior year.

Total net fee revenue for the Wealth Platforms segment was £285 million, down 6% from £302 million in 2019. Quilter Investment Platforms' net fee revenue decreased by £10 million, down 6% to £167 million, despite higher average asset levels, due to the continuing trend of new business margins being lower than the existing back book rates, an increase in the proportion of assets for Quilter Financial Planning clients, and the platform reprice implemented in April 2020. Quilter International's net fee revenue was £7 million lower than the prior year at £118 million, mainly as a result of the impact of adverse FX movements, lower interest rates and improved surrender experience, which is reflected in the decrease in other revenue.

The revenue margin for Advice and Wealth Management of 63 bps was 4 bps lower in comparison to the prior year. This decline was predominantly due to a 7 bps decrease in the average revenue margin for Quilter Investors to 53 bps, driven by the strategy to build out and develop a fuller suite of investment propositions. As previously reported, the comparative period margin included the impact of non-recurring revenue provision releases in 2019. Quilter Cheviot's revenue margin remained stable with that of the prior year at 72 bps. The revenue margin for Wealth Platforms decreased by 2 bps to 36 bps, due to the anticipated trend for lower margin products for new business written into Quilter International, and the charging structure reprice from April 2020 within Quilter Investment Platform.

The Group's revenue margin* of 51 bps was 4 bps lower than prior year (2019: 55 bps).

Operating expenses*

Operating expenses decreased by £16 million to £514 million during the year (2019: £530 million). The Group incurred £7 million of additional FSCS levy and regulatory fee costs compared to the prior year, the acquisitions made by Quilter Financial Planning in 2019 increased operating expenses by £12 million in 2020, and property dual-running costs in relation to the new London premises of £10 million. These cost increases, and those arising from inflation, were more than offset by c.£40 million of tactical cost savings, which included lower variable compensation costs, decreased marketing spend, and delayed development spend. Continued cost discipline was also achieved through further savings from the Optimisation programme, where additional in-year benefits of £13 million were realised in 2020 compared to 2019.

Further details on the Optimisation programme expense savings are provided further in the Financial review.

Operating expense split (£m)	2020	2019[1]
Front office and operations	226	211
IT	85	86
Development	9	20
Support functions	70	85
Property	43	28
Regulatory fees and levies	22	15
Variable compensation	59	85
Operating expenses*	**514**	530

[1]For the 2019 comparatives, some costs have been reallocated between categories to align with current year presentation.

Front office and operations expenses increased by 7% to £226 million (2019: £211 million), primarily due to the impact of the Quilter Financial Planning acquisitions made during the course of 2019 resulting in a full year run-rate of costs during 2020, including one-off integration costs.

IT expenses decreased by 1% to £85 million (2019: £86 million), driven by savings realised as part of the Optimisation programme, which were partially offset by increased information security costs.

Development expenses decreased by 55% to £9 million (2019: £20 million). The decrease was mainly due to lower development costs due to a reduction in regulatory change requirements in 2020 compared to the prior year, and postponed change activity as a consequence of COVID-19.

Support functions expenses decreased by 18% to £70 million (2019: £85 million) driven by continued savings realised as part of the Optimisation programme, partially offset by increased costs in relation to the COVID-19 pandemic to mobilise remote working across the business.

Property costs increased to £43 million (2019: £28 million). This is driven by the property dual-run and exit costs associated with the London office move of approximately £10 million as previously guided, and increased facilities costs incurred to provide a COVID-19 secure environment.

Regulatory fees and levies, which includes the Group's FSCS levies and FCA fees, have increased by 47% to £22 million (2019: £15 million) driven by increased claims experience across the financial services industry in the UK, and which is levied by the FCA. Recent announcements by the FCA indicate that the industry FSCS levy may increase to over £1 billion in 2021/22 – an increase of 48% on that of the disclosed final levy in 2020/21. Accordingly, it is anticipated that the FSCS levy cost to the Group will continue to increase in 2021.

Variable compensation costs decreased by 31% to £59 million as a result of the impact of COVID-19 on the achievement of the Group's planned adjusted profit before tax for the year. Management anticipate that variable compensation costs will increase to more normalised levels in future periods if current equity market levels are maintained, with the extent of the cost increase predominantly dependent upon the adjusted profit generated by the business.

Total operating expenses for 2021 are expected to be broadly in line with our original expectations for 2020, at around £560 million, as variable compensation, marketing and development spend return to more normalised levels as the impact of COVID-19 and the associated restrictions are eased, along with an anticipated increase in regulatory levies. Offsetting the increase will be further benefits arising from the Optimisation programme.

Taxation

The effective tax rate ("ETR") on adjusted profit before tax was 10% (2019: 11%). The Group's ETR is lower than the UK corporation tax rate of 19% principally due to profits from Quilter International being taxed at lower rates than the UK, and the change in the UK corporation tax rate from 1 April 2020 from 17% to 19% which resulted in a rebase in the Group's deferred tax assets and liabilities, and had a net positive impact to the tax expense. The Group's ETR is dependent upon a number of factors including the level of Quilter International profits, as well as the UK corporation tax rate.

The Group's IFRS income tax expense on continuing business was a credit of £3 million for the year ended 31 December 2020, compared to a charge of £66 million for the prior year. The primary reason for the IFRS income tax credit for the year is due to first-time recognition of a deferred tax asset in relation to accrued interest expense. The income tax expense or credit can vary significantly year-on-year as a result of market volatility and the impact market movements have on policyholder tax. The recognition of the income received from policyholders (which is included within the Group's IFRS revenue) to fund the policyholder tax liability can vary in timing to the recognition of the corresponding policyholder tax expense, creating volatility to the Group's IFRS profit or loss before tax attributable to equity holders. An adjustment is made to adjusted profit before tax to remove these distortions, as explained further on page 67 and in note 7(b) of the consolidated financial statements.

Earnings Per Share ("EPS")

Basic EPS for 2020 was 5.0 pence (2019: 8.0 pence). Basic EPS is based on the Group's IFRS profit and reported including both continuing and discontinued operations. For 2020, the basic EPS from continuing operations was 5.1 pence (2019: (1.1) pence), and (0.1) pence relates to discontinued operations (2019: 9.1 pence). Discontinued operations in 2019 included profit attributable to the QLA business, and the gain on sale, whilst 2020 only includes a residual amount of costs associated with business disposals. During the year, the average number of shares in issue decreased to 1,842 million (2019: 1,902 million). The average number of shares in issue used for the basic EPS calculation was 1,760 million (2019: 1,835 million), after the deduction of own shares held in Employee Benefit Trusts and consolidated funds of 82 million (2019: 67 million). The reduction in the number of shares in issue in the year is due to the share buyback programme, which commenced in 2020, with 118 million shares bought and cancelled during the year. The decrease in shares in issue as a result of the buyback, and the corresponding impact on the average number of shares in issue used for the EPS calculation, led to an increase of 0.2 pence in the basic EPS for 2020.

The average number of shares in issue used for the diluted EPS calculation was 1,797 million (December 2019: 1,863 million). This includes the dilutive effect of shares and options awarded to employees under share-based payment arrangements of 37 million (December 2019: 28 million). The dilutive effect of share awards has continued to increase due to more share options being awarded to employees.

Optimisation

The Optimisation programme has delivered notable efficiencies and improvements in operational performance for the Group through greater technology utilisation and integration activity. Our technology enabled transformation over 2020 included successful deployment of new finance and procurement modules as part of our general ledger consolidation and modernisation activity effective from January 2021. The HR module, efficiency gains and further technical releases will follow in 2021. The automation of manual operational processes within Quilter International using robotics has continued and only a few deployments remain in what has been a transformational initiative for the business. Further potential deployment of robotics in the wider Quilter business is under assessment.

Quilter continued to leverage support function centres of excellence to achieve cost savings and reduce spend across the business by introducing tighter supplier management practices, insourcing capabilities and rationalising and consolidating technology and other suppliers across the Group.

In addition to benefits arising from prior years, the Group delivered a further £13 million of cost reduction in 2020 against the 2018 cost base, with £22 million of run-rate benefit bringing the total delivered run-rate to £46 million and associated implementation costs since inception of £56 million. Given COVID-19, management made the decision to delay certain planned activities in the short term which marginally reduced the timing of the realised benefit profile in 2020. The Optimisation programme remains on track to deliver the initial expected cost reductions.

Quilter will continue to transform with focus turning now towards operational and customer-facing areas of the business as the Group seeks to integrate further, drive efficiencies and improve both the adviser and customer experience whilst also pursuing benefits within support function centres of excellence post technology implementations. Therefore, in addition to the benefits and costs previously announced, the Group has extended the Optimisation business transformation with additional optimisation annualised run-rate savings of c.£15 million identified with costs to achieve of c.£16 million expected to be realised by mid-2022. At the outset of the Optimisation project the Group indicated that certain business activities were out of scope due to our focus on delivering a successful platform migration and to limit disruption to those parts of the business responsible for revenue generation. With the Platform migration now complete, the Group is now considering the potential for a final phase of Optimisation efficiencies and expects to provide an update on this in the latter part of the year.

Lighthouse DB to DC complaints

As reported in the Group's 2019 Annual Report, a provision was recognised in relation to a number of complaints received on pension transfer advice provided by Lighthouse for British Steel Pension Scheme members, prior to the Group's acquisition of Lighthouse in June 2019. All the complaints received related to transfers before that date and, as such, the provision was established within the fair value of the Lighthouse assets and liabilities acquired with a corresponding increase in goodwill.

A total provision of £28 million (31 December 2019: £12 million) has been calculated for the potential redress of all British Steel cases, including anticipated costs of legal and professional fees associated with the redress activity. The provision was increased during 2020 following the publication of the FCA thematic review and additional client complaints being received.

The recognition of the total provision of £28 million has been apportioned between the fair value of net assets of Lighthouse at acquisition and the expenses of the Group. £24 million (31 December 2019: £12 million) is recognised within the fair value of net assets acquired and impacts the goodwill balance recognised upon acquisition. The impact on the goodwill balance was partially offset by the recognition of an insurance recovery asset of £3 million, and a deferred tax asset of £2 million, resulting in a net increase to goodwill of £19 million.

The increase in the provision subsequent to acquisition of £5 million has been recognised within expenses of the Group, with £1 million of this provision utilised during the year. The final costs of redress for cases upheld will depend on specific calculations on a case-by-case basis, and will be impacted by market movements and other parameters affecting the defined contribution scheme asset. Final redress costs are therefore exposed to volatility from these movements which may result in final settlement cost varying from the amounts currently provided.

Further details are provided in notes 6(a), 28 and 35 to the financial statements.

Reconciliation of adjusted profit before tax* to IFRS profit

Adjusted profit before tax for the Group was £168 million (2019: £182 million from continuing operations excluding Quilter Life Assurance which was sold 31 December 2019).

The Group's IFRS profit after tax from continuing operations was £89 million, compared to a loss after tax of £(21) million in 2019, primarily due to the change in policyholder tax, which can vary significantly year-on-year as a result of market volatility. The table below provides the reconciliation of the Group's adjusted profit before tax to the IFRS profit/(loss) after tax for 2020 and 2019.

Adjusted profit before tax* reflects the profit from the Group's core operations and is calculated by making certain adjustments to IFRS profit to reflect the Directors' view of the Group's underlying performance. Details of these adjustments are provided in note 7 of the consolidated financial statements.

The 'impact of acquisition and disposal related accounting' costs of £42 million (2019: £54 million) include amortisation of acquired intangible assets of £45 million (2019: £45 million), acquisition and disposal related costs, including the unwinding of discounting on contingent consideration of £1 million (2019: £9 million), partially offset by fair value gains on the revaluation of contingent consideration of £4 million (2019: £nil). These costs have decreased in 2020, principally due to the impact of no material acquisitions being made during the year.

The loss on business disposals of £1 million (2019: profit of £103 million) represents transaction and separation costs recognised during the year, which relate to the sale of the QLA and Single Strategy businesses in prior years. The Group recognised a profit on disposal of £103 million in the prior year in relation to the sale of QLA to ReAssure on 31 December 2019.

Business transformation costs of £70 million (2019: £77 million) include £38 million (2019: £57 million) incurred on the UK Platform Transformation Programme and £33 million of costs (2019: £18 million) in relation to the Optimisation programme. In 2020, a credit of £1 million has been recognised in relation to the separation of Quilter Investors as a result of the sale of the Single Strategy business, and in 2019 restructuring costs of £3 million were incurred as a result of the sale of QLA.

Reconciliation of adjusted profit before tax to IFRS profit/(loss) after tax	For the year ended 31 December 2020			For the year ended 31 December 2019		
£m	**Continuing Operations**	**Discontinued Operations[1]**	**Total**	Continuing Operations	Discontinued Operations[1]	Total
Advice and Wealth Management	90	–	90	103	–	103
Wealth Platforms	114	–	114	112	53	165
Head Office	(36)	–	(36)	(33)	–	(33)
Adjusted profit before tax*	**168**	**–**	**168**	182	53	235
Reallocation of QLA costs	–	–	–	(26)	26	–
Adjusted profit before tax after reallocation*	**168**	**–**	**168**	156	79	235
Adjusting for the following:						
Impact of acquisition and disposal related accounting	(42)	–	(42)	(54)	–	(54)
(Loss)/profit on business disposals	–	(1)	(1)	–	103	103
Business transformation costs	(70)	–	(70)	(77)	–	(77)
Managed Separation costs	–	–	–	(6)	–	(6)
Finance costs	(10)	–	(10)	(10)	–	(10)
Policyholder tax adjustments	9	–	9	(62)	(12)	(74)
Customer remediation	(5)	–	(5)	–	10	10
Total adjusting items before tax	**(118)**	**(1)**	**(119)**	(209)	101	(108)
Profit/(loss) before tax attributable to equity holders*	**50**	**(1)**	**49**	(53)	180	127
Tax attributable to policyholder returns	36	–	36	98	76	174
Income tax credit/(expense)	3	–	3	(66)	(89)	(155)
Profit/(loss) after tax[2]	**89**	**(1)**	**88**	(21)	167	146

[1]Discontinued operations includes the results of the Quilter Life Assurance ("QLA") business in 2019.
[2]IFRS profit/(loss) after tax.

Managed Separation costs were nil (2019: £6 million), reflecting costs associated with our successful separation from Old Mutual plc and Listing in June 2018. In 2019, this cost was primarily incurred on the rebranding activities within the business, with residual costs expected to be incurred in early 2021 for the final rebranding activity of the UK Platform business following the final client asset migration.

Finance costs were £10 million (2019: £10 million) wholly related to the interest and amortisation of setup fees on the Tier 2 bond and Revolving Credit Facility.

Policyholder tax adjustments from continuing operations were a credit of £9 million for 2020 (2019: debit of £74 million) in relation to the removal of 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 IFRS revenue) 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.

The customer remediation adjustment of £5 million in 2020 relates to the impact of post-acquisition market movements on the British Steel complaints provision relating to Lighthouse. The £10 million credit in the prior period relates to the release of the voluntary customer remediation provision in QLA associated with certain legacy products.

Cash generation*

Cash generation measures the proportion of adjusted profit after tax that is recognised in the form of cash generated from operations. The Group achieved a cash generation rate of 86% of adjusted profit after tax over 2020 (2019: 85%, restated for continuing business only following the disposal of QLA).

Review of financial position

Capital and liquidity

Solvency II

The Group's Solvency II surplus is £1,021 million at 31 December 2020 (31 December 2019: £1,168 million), representing a Solvency II ratio of 217% (31 December 2019: 221%). The Solvency II information for the year to 31 December 2020 contained in this results disclosure has not been audited.

The Group's Solvency II capital position is stated after allowing for the impact of the recommended final dividend payment of £61 million (2019: £64 million).

Group regulatory capital (£m)	31 December 2020[1]	31 December 2019[2]
Own funds	1,897	2,132
Solvency capital requirement ("SCR")	876	964
Solvency II surplus	1,021	1,168
Solvency II coverage ratio	**217%**	221%

[1]Filing of annual regulatory reporting forms due by 20 May 2021.
[2]As represented within the Quilter plc Group Solvency and Financial Condition Report for the year ended 31 December 2019.

The 4 percentage point decrease in the Group Solvency II ratio from the 2019 position is primarily due to the capital movements associated with the Odd-lot Offer and Tranches 1 and 2 of the share buyback net of profit recognised in the year and changes in capital requirements for the Group. The Board believes that the Group Solvency II surplus includes sufficient free cash and capital to complete all committed strategic investments, including the UK Platform Transformation Programme. Quilter expects to continue to maintain a solvency position significantly in excess of its internal target in the near term as a consequence of the surplus capital arising from the sale of QLA that is still intended to be returned to shareholders via further share buybacks.

Composition of qualifying Solvency II capital

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 (£m)	At 31 December 2020	At 31 December 2019
Tier 1[1]	1,688	1,925
Tier 2[2]	209	207
Total Group Solvency II own funds	**1,897**	**2,132**

[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 SCR is covered by Tier 1 capital, which represents 193% of the Group SCR of £876 million. Tier 1 capital represents 89% of Group Solvency II own funds. Tier 2 capital represents 11% of Group Solvency II own funds and 20% of the Group surplus.

Dividend

The Board has recommended a final dividend of 3.6 pence per share at a total cost of £61 million. Subject to shareholder approval, the recommended final dividend will be paid on 17 May 2021 to shareholders on the UK and South African share registers on 9 April 2021. For shareholders on our South African share register a dividend of 76.88786 South African cents per share will be paid on 17 May 2021, using an exchange rate of 21.35774. This will bring the dividend for the full year to 4.6 pence per share (2019: 5.2 pence per share).

Holding company cash

The holding company cash statement includes cash flows generated by the three main holding companies within the business: Quilter plc, Old Mutual Wealth Holdings Limited and Old Mutual Wealth UK Holding Limited. The flows associated with these companies will differ markedly from those disclosed in the statutory statement of cash flows, which comprises flows from the entire Quilter plc Group including policyholder movements.

The holding company cash statement illustrates cash received from the key trading entities within the business together with other cash receipts, and cash paid out in respect of corporate costs and capital servicing (including interest and dividends). Other capital movements, including those in respect of acquisitions and disposals together with funding for ongoing business requirements, are also included. It is an unaudited non-GAAP analysis and aims to give a more illustrative view of business cash flows as they relate to the Group's holding companies compared to the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7 ("Statement of cash flows") and includes commingling of policyholder related flows.

£m	2020	2019
Opening cash at holding companies at 1 January	**815**	416
Quilter Life Assurance business sale – cash proceeds	–	446
Quilter Life Assurance business sale – cost of disposal	(24)	(7)
Single Strategy business sale – deferred consideration received	7	–
Share repurchase and Odd-lot Offer	(198)	–
Dividends paid	(81)	(92)
Net capital movements	**(296)**	347
Head Office costs and Optimisation programme funding	(74)	(49)
Interest costs	(9)	(9)
Net operational movements	**(83)**	(58)
Cash remittances from subsidiaries	170	307
Net capital contributions and investments	(94)	(200)
Other net movements	5	3
Internal capital and strategic investments	**81**	**110**
Closing cash at holding companies at end of period	**517**	**815**

Net capital movements

Net capital movements in the year were an outflow of £296 million. This includes £157 million relating to the share repurchase programme (including £4 million of costs), £21 million for the Odd-lot Offer and £20 million in respect of additional share repurchases to cover future vesting awards, and two dividend payments made to shareholders of £64 million on 18 May 2020 and £17 million on 21 September 2020. £24 million of costs relating to the disposal of the QLA business were also incurred during the year in line with expectations, with £7 million received in respect of final proceeds from the Single Strategy business sale.

Net operational movements

Net operational movements were an outflow of £83 million for the year and includes £74 million of corporate and business transformation costs. Interest paid of £9 million relates to coupon payments on the Tier 2 bond and non-utilisation fees for the revolving credit facility.

Internal capital and strategic investments

The net inflow of £81 million is principally due to £170 million of cash remittances from the trading businesses partially offset by £94 million of capital contributions distributed to support business operational activities, particularly due to the impact of COVID-19 and funding provided for the Platform Transformation Programme.

Balance sheet

Summary balance sheet (£m)	**At 31 December 2020 Total**	At 31 December 2019 (restated)[1] Total	At 1 January 2019 (restated)[1] Total
Assets			
Financial investments	63,274	57,207	58,054
Contract costs/deferred acquisition costs	413	455	551
Cash and cash equivalents	1,921	2,253	2,305
Reinsurers' share of insurance policyholder liabilities[2]	–	–	2,162
Goodwill and intangible assets	556	592	550
Trade, other receivables and other assets	701	605	718
Other assets	507	439	371
Total assets	**67,372**	61,551	64,711
Equity	**1,878**	2,071	2,005
Liabilities			
Investment contract liabilities	57,407	52,455	56,450
Insurance contract liabilities[2]	–	–	602
Third-party interests in consolidated funds	6,513	5,318	3,833
Contract liabilities/deferred revenue	379	403	456
Borrowings-sub-ordinated debt	199	198	197
Lease liabilities	120	137	–
Trade, other payables and other liabilities	672	801	979
Other liabilities	204	168	189
Total liabilities	**65,494**	59,480	62,706
Total equity and liabilities	**67,372**	61,551	64,711

[1]See note 4(b) for details of changes to comparative amounts.
[2]The consolidated statement of financial position at 1 January 2019 includes balances for Deferred acquisition costs. Reinsurers' share of insurance policyholder liabilities and insurance contract liabilities relating to the Quilter Life Assurance ("QLA") business that was sold on 31 December 2019.

The Group balance sheet at 31 December 2020 has total equity of £1,878 million (31 December 2019: £2,071 million). Total equity has decreased by £193 million during the year, predominantly due to the payment of dividends totalling £81 million in the year (2019: £92 million) and a reduction of £179 million in relation to the Group's share buyback programme, partially offset by the recognition of £88 million of statutory IFRS profit after tax.

Financial investments increased from £57,207 million at 31 December 2019 to £63,274 million at 31 December 2020, predominantly due to positive market performance, following the recovery from COVID-19 related market losses in Q1 2020, and positive net client cash flows in Quilter Investment Platform and Quilter International. The corresponding impact is reflected in Investment contract liabilities (an increase from £52,455 million at 31 December 2019 to £57,407 million at 31 December 2020).

Cash and cash equivalents of £1,921 million decreased by £332 million from £2,253 million at 31 December 2019. The decrease includes £198 million of payments made in respect of the Group's share buyback programme, Odd-lot Offer and other share purchases, together with dividend payments of £81 million. Included within this balance are cash investments due to policyholders, and cash to support the capital and funding requirements of the business.

Goodwill and intangible assets decreased by £36 million to £556 million at 31 December 2020. The decrease is largely due to the amortisation of intangible assets of £47 million, partially offset by a £7 million increase in the Lighthouse goodwill balance, which is £40 million at 31 December 2020 (31 December 2019: £33 million).

Trade, other receivables and other assets increased by £96 million to £701 million, mainly due to an increase in unsettled trades across the business at the balance sheet date.

Other assets of £507 million increased by £68 million from £439 million at 31 December 2019. The balance is comprised of property, plant and equipment, loans and advances, deferred and current tax assets and derivative assets. Movement in the year principally relates to an increase in deferred tax assets and a higher derivative asset balance associated with the consolidation of funds.

Trade, other payables and other liabilities decreased by £129 million to £672 million at 31 December 2020. The decrease includes the impact of a reduction in outstanding death claims and surrenders recognised at the year end, together with a decrease in other liabilities associated with the consolidation of funds.

Other liabilities have increased from £36 million to £204 million primarily due to an increase in provisions, deferred tax liabilities and in derivative liabilities associated with the consolidation of funds.

Changes to comparative amounts

Following a review of the Group's consolidated investment funds, changes to previously reported comparative amounts on the consolidated statement of financial position, consolidated income statement, and consolidated statement of cash flows have been identified and changes to comparative amounts have been accordingly reflected in this year's financial statements. There has been no impact on the Group's profit for the current or prior year, including the Group's KPIs and alternative performance measures, and no impact on equity for any of the periods presented. In accordance with the requirements under the accounting standards, an additional balance sheet has been presented as at 1 January 2019, as the opening balance sheet for the comparative year, which reflects the changes (as also presented in the balance sheet section above). Full details, and the financial line items impacted, are included in note 4(b) on page 175 of the consolidated financial statements.