Financial review

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Review of financial performance

In this section, review of financial performance, unless indicated otherwise, all results are presented excluding Quilter International in both the current year and prior year comparative.

Overview

The Group's financial performance for the year was strong, attributed to the recovery in the equity markets over the period, good net inflows and continued focus on expense control. The FTSE-100 index recorded its best year since 2016 as UK stocks recovered from the pandemic shock of 2020 and ended the period up 14% on closing 2020 levels. The MSCI World index (GBP) was up 21% on the 2020 closing index value. The Group's AuMA ended the year at £111.8 billion, a 13% increase from the opening position at the start of 2021, resulting from £8.8 billion of positive market movements and net inflows of £4.0 billion, predominantly driven by Quilter Investment Platform.

Alternative Performance Measures ("APMs")

We assess our financial performance using a variety of measures including APMs, as explained further on pages 255 to 258. In the headings and tables presented, these measures are indicated with an asterisk: *.

Net inflows were £4.0 billion for the year (2020: £1.5 billion), delivering strong gross flows and net inflows across both segments. The Group experienced higher gross flows and net inflows in 2021 primarily due to the full launch of the new Quilter Investment Platform in February 2021 and increased adviser activity thereafter. Net flows as a percentage of opening AuMA was 4% (2020: 2%), representing pleasing progress towards our 6% target.

- **The Affluent segment** recorded net inflows of £2.9 billion, up 142% on the prior year (2020: £1.2 billion) due to record net inflows in Quilter Investment Platform of £3.5 billion (2020: £1.5 billion), partially offset by net reductions of £0.6 billion in assets managed by Quilter Investors on third-party platforms in relation to legacy and closed books of business. Gross flows were significantly ahead of prior year with increased adviser activity following the final platform migration in February 2021 which supported the increase in sales. Quilter Investment Platform's gross outflows during the year were higher than 2020 due to a return to more normal levels of inter-platform switches as COVID-19 uncertainty subsided. Within the Quilter distribution channel, improved activity levels and investor sentiment drove the increase in net inflows from £1.3 billion in 2020 to £2.0 billion. Net inflows to Quilter Investors was £0.5 billion for the year, up 67% (2020: £0.3 billion), driven by a decrease in gross outflows from Cirilium Active of £0.8 billion due to improved fund performance, offset by reduced gross flows to Cirilium Passive, Cirilium Blend and the Income range.

Key financial highlights

Quilter highlights from continuing operations[1]	2021	2020
Assets and flows		
AuMA* (£bn)[2]	111.8	99.0
Of which Affluent	83.1	73.7
Of which High Net Worth	28.7	25.3
Gross flows* (£bn)[2]	13.2	9.9
Of which Affluent	10.5	7.7
Of which High Net Worth	2.7	2.2
Net inflows* (£bn)[2]	4.0	1.5
Of which Affluent	2.9	1.2
Of which High Net Worth	1.1	0.3
Net inflows/opening AuMA*[2]	4%	2%
Gross flows per adviser* (£m)[2,3]	2.3	1.8
Asset retention*[2]	91%	91%
Profit and loss		
IFRS profit/(loss) before tax from continuing operations attributable to equity holders* (£m)[2]	12	(27)
IFRS profit after tax from continuing operations (£m)	23	13
Adjusted profit before tax* (£m)[2]	138	108
Operating margin*[2]	22%	19%
Revenue margin* (bps)[2]	48	49
Return on equity*[2]	8.3%	5.5%
Adjusted diluted EPS* from continuing operations (pence)[2]	7.4	5.2
Basic earnings per share from continuing operations (pence)	1.4	0.8
Non-financial		
Restricted Financial Planners ("RFPs") in Affluent segment[4]	1,563	1,765
Discretionary Investment Managers in High Net Worth segment[4]	170	169
Quilter Private Client RFPs in High Net Worth segment[4]	60	77

[1]Continuing operations represent Quilter Group, excluding the results of Quilter International. Adjusted profit before tax for Quilter International in 2021 was £50 million (2020: £60 million). Adjusted diluted EPS for Quilter International in 2021 was 3.0 pence per share (2020: 3.3 pence per share).
[2]Alternative Performance Measures ("APMs") are detailed and defined on pages 255 to 258.
[3]Gross flows per adviser is a measure of the value created by our Quilter distribution channel.
[4]Closing headcount as at 31 December.

£138m

+28%

Adjusted profit before tax*

- **The High Net Worth segment** attracted net inflows of £1.1 billion, an increase of 267% on the prior year (2020: £0.3 billion), driven by a significant improvement in gross flows in Quilter Cheviot, particularly from existing clients as market confidence improved, promoting higher levels of activity after the market uncertainty arising from COVID-19 in 2020. Gross flows in Quilter Cheviot from direct clients and those advised by independent financial advisers increased by 33% to £2.2 billion in 2021, while the gross flows originating from our own advisers remained constant at £462 million for the year. Persistency for the High Net Worth segment marginally improved in 2021 compared to 2020.

Quilter channel gross flows per advisor* was £2.3 million for the year (2020: £1.8 million) with average gross flows per adviser increasing across both Quilter Investors and Quilter Investment Platform, while gross flows to Quilter Cheviot was broadly in line with the prior year. Gross flows to the Affluent segment delivered a 25% improvement between years, with an increase of £0.7 billion resulting from the full launch of the new platform in February 2021 and the impact of COVID-19 on the 2020 comparative.

The Group's AuMA ended the year at £111.8 billion, a 13% increase from the opening position at the start of 2021. Affluent's AuMA was £83.1 billion, up 13% on prior year (2020: £73.7 billion). The Affluent segment contributed 31% of AuMA into Quilter solutions, in line with the prior year. High Net Worth's AuM of £28.7 billion, increased by 13% in the year (2020: £25.3 billion), primarily the result of positive market movements and net inflows of £1.1 billion. All the assets in this segment are managed in Quilter solutions. In total, 49% of total AuMA is managed in Quilter solutions across the Group.

£4.0bn

+167%

Net flows*

The Group's revenue margin* of 48 bps was 1 bp lower than the prior year (2020: 49 bps). Quilter Investors' revenue margin decreased to 52 bps (2020: 53 bps) due to the increased AuM concentration in lower revenue margin products. Within Quilter Investment Platform the revenue margin decreased by 2 bps to 27 bps, due to the reprice that was implemented in April 2020, an uplift in assets year-on-year arising from higher market levels which contributes incremental revenue at lower pricing tiers, and expected lower margins on net inflows, notably from restricted advisers which contribute to the Quilter distribution channel. Gross outflows were predominantly from older, higher margin channels. Quilter Cheviot's revenue margin decreased by 1 bp to 71 bps, primarily due to lower commission and contract charges and the impact of tiered fee structures on higher average AuM.

Adjusted profit before tax increased by 28% to £138 million, primarily due to increases in revenue generated from higher average AuMA levels across the Group. Operating expenses in 2021 of £480 million were 5% higher than the prior year largely driven by increases in FSCS levies and variable compensation. The Group's operating margin increased to 22% (2020: 19%) driven by the increases in revenue of 10%, partially offset by a 5% rise in operating expenses in the year.

The Group's IFRS profit after tax from continuing operations was £23 million, compared to a profit of £13 million for 2020. The increase in profit is attributable to favourable equity market movements throughout the year resulting in higher average AuMA.

Adjusted diluted earnings per share increased 42% above that of the previous year at 7.4 pence (2020: 5.2 pence).

7.4p

+42%

Adjusted diluted earnings per share*

Financial performance by segment

Financial performance from continuing operations and Quilter International 2021 (£m)	Affluent	High Net Worth	Head Office	Continuing operations	Discontinued operations	Total Group
Net management fee*	311	189	–	500	89	589
Other revenue*	95	23	–	118	6	124
Total net fee revenue*	406	212	–	618	95	713
Operating expenses*	(295)	(156)	(29)	(480)	(45)	(525)
Adjusted profit before tax*	111	56	(29)	138	50	188
Tax				(13)	–	(13)
Adjusted profit after tax*				125	50	175
Operating margin (%)*	27%	26%		22%	53%	26%
Revenue margin (bps)*	40	71		48	n/a	48

Financial performance from continuing operations and Quilter International 2020 (£m)	Affluent	High Net Worth	Head Office	Continuing operations	Discontinued operations	Total Group
Net management fee*	278	168	–	446	106	552
Other revenue*	92	25	1	118	12	130
Total net fee revenue*	370	193	1	564	118	682
Operating expenses*	(265)	(154)	(37)	(456)	(58)	(514)
Adjusted profit before tax*	105	39	(36)	108	60	168
Tax				(15)	(1)	(16)
Adjusted profit after tax*				93	59	152
Operating margin (%)*	28%	20%		19%	51%	25%
Revenue margin (bps)*	42	72		49	n/a	51

The Group's financial performance for the year was strong, attributed to the recovery in the equity markets over the period, good net inflows and continued focus on expense control.

Total net fee revenue*

The Group's total net fee revenue on a continuing basis increased by 10% to £618 million (2020: £564 million) due to higher average Group AuMA of £105.3 billion (2020: £90.2 billion), resulting from the positive equity market performance and net inflows. The blended revenue margin for the Group, calculated with reference to net management fees, decreased by 1 bp to 48 bps.

Total net fee revenue for Affluent was £406 million, up 10% from the prior year (2020: £370 million), principally due to the impact of higher levels of assets with average AuMA increasing by £11.6 billion to £78.5 billion in 2021. This was partially offset by the impact on revenues of the shift to lower margin products in Quilter Investors, continuing the trend of new business margins being lower than the existing back book rates, an increase in the proportion of assets from the Quilter distribution channel, and the Quilter Investment Platform repricing implemented in April 2020. Other revenue predominantly reflects revenue generated from the provision of advice within Quilter Financial Planning. Within the revenue generated by advice, recurring and fixed fees increased year on year, while initial fees were at similar levels to those of 2020.

Total net fee revenue in High Net Worth increased by 10% during the year to £212 million (2020: £193 million), principally due to greater levels of average AuM, which increased by 15% over the year to £26.8 billion (2020: £23.3 billion), partially offset by an expected reduction in commission revenue as the proportion of clients on fee-only propositions continues to increase. This resulted in a 12% increase in net management fees to £189 million (2020: £168 million). Other revenue, reflecting revenue generated from Quilter Private Client Advisers, was at a similar level to that of the prior year.

Operating expenses*

Operating expenses from continuing operations have increased by £24 million to £480 million (2020: £456 million). In 2021, the Group incurred £4 million of additional FSCS levy and regulatory costs compared to the prior year and higher variable compensation costs of £25 million as a result of improved business performance in 2021. The higher variable compensation cost in 2021 was predominantly incurred in the Affluent segment which had been the area of the business more heavily impacted by the reduced variable compensation in 2020. In addition, included within operating expenses are £10 million of costs previously incurred by Quilter International in 2020. These costs have been included in 2021 in the cost base of the continuing business as the costs do not transfer to Quilter International on sale. The majority of these costs have also been attributed to the Affluent segment in 2021.

	2021		2020	
Operating expense split (£m)	**Continuing operations**	**As a percentage of revenues**	**Continuing operations**	**As a percentage of revenues**
Support staff costs	127		126	
Operations	27		35	
Technology	42		30	
Property	31		43	
Other base costs[1]	25		28	
Sub-total base costs	252	41%	262	46%
Revenue-generating staff base costs	83	13%	86	15%
Variable staff compensation	80	13%	55	10%
Other variable costs[2]	36	6%	26	5%
Sub-total variable costs	199	32%	167	30%
Regulatory/ professional indemnity costs	29	5%	27	5%
Operating expenses*	**480**	**78%**	**456**	**81%**

[1]Other base costs includes depreciation and amortisation, audit fees, shareholder costs, listed Group costs and governance.
[2]Other variable costs includes FNZ costs, development spend and corporate functions variable costs.

Support staff costs have increased by 1% to £127 million (2020: £126 million) driven by incremental hiring to support ongoing controls remediation in Quilter Financial Planning offset by continued savings realised from Optimisation activities. The prior year included one-off costs relating to the initial COVID-19 response.

Operations costs have decreased by 23% to £27 million (2020: £35 million). The key factor for the reduction is the launch of the new platform resulting in some operational activities being outsourced to a third-party provider (FNZ), the costs of which are reported in other variable costs.

Technology costs have increased by 40% to £42 million (2020: £30 million). Technology costs have increased in the short term as a result of the sale of Quilter International in 2021 leaving a portion of previously shared costs to be borne by the continuing business. These increases were partially offset by the continuing Optimisation activities focusing on consolidation and decommissioning of the technology estate.

Property costs have decreased by 28% to £31 million (2020: £43 million) principally the result of a reduction in London property costs as the dual running costs for Head Office experienced in 2020 were eliminated as planned.

Other base costs have remained stable at £25 million (2020: £28 million) where discretionary spend has remained subdued as the pandemic continued throughout 2021.

Revenue-generating staff base costs have decreased by 3% to £83 million (2020: £86 million) principally driven by Optimisation activity in Quilter Financial Planning focused on adviser productivity.

Variable staff compensation increased by 45% to £80 million (2020: £55 million) reflecting the improved business performance in 2021 compared to 2020 and the impact of COVID-19 on variable remuneration following the equity market falls experienced during the prior year.

Other variable costs increased by 38% to £36 million (2020: £26 million) principally due to the recognition of operating expenses associated with the new platform and the resultant outsourcing of the operations capabilities and IT support requirements during the year.

Regulatory and insurance costs have increased by 7% to £29 million (2020: £27 million), largely driven by the increased FSCS levy of £4 million.

Taxation

The effective tax rate ("ETR") on adjusted profit before tax for the Group's continuing operations was 9% (2020: 14%). The Group's ETR is lower than the UK corporation tax rate of 19% principally due to the change in the UK corporation tax rate from 19% to 25% effective from 1 April 2023 which resulted in a rebase in the Group's deferred tax assets and liabilities. This had a net positive impact to the tax expense as a consequence of the Group currently being in a net deferred tax asset position.

The Group's IFRS income tax expense on continuing operations was a charge of £62 million for the period ended 31 December 2021, compared to a credit of £4 million for the prior period. The income tax expense or credit can vary significantly between periods as a consequence 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. In addition, the IFRS income tax credit for the period ended 31 December 2020 included first-time recognition of a deferred tax asset in relation to accrued interest expense. An adjustment is made to adjusted profit before tax to remove these distortions, as explained further on page 62 and in note 7(b) to the consolidated financial statements.

Earnings Per Share ("EPS")

Basic EPS for 2021 was 9.4 pence (2020: 5.0 pence). Basic EPS is based on the Group's IFRS profit (including both continuing and discontinued operations). For 2021, the basic EPS relating to continuing business was 1.4 pence (2020: 0.8 pence), and 8.0 pence relates to discontinued operations (2020: 4.2 pence). Discontinued operations include profit attributable to Quilter International and the gain recognised on sale. The average number of shares in issue used for the basic EPS calculation was 1,644 million (2020: 1,760 million), after the deduction of own shares held in Employee Benefit Trusts ("EBTs") and consolidated funds of 77 million (2020: 82 million). The reduction in the number of shares in issue in the period is due to the share buyback programme, which commenced in 2020. During the year ended 31 December 2021, a total of 128.1 million shares (2020: 118.3 million) have been bought and cancelled by Quilter plc.

The average number of shares in issue used for the diluted EPS calculation was 1,683 million (2020: 1,797 million). This includes the dilutive effect of shares and options awarded to employees under share-based payment arrangements of 39 million (2020: 37 million). The dilutive effect of share awards has continued to increase due to additional shares held in the EBT's being released to employees pursuant to employee share schemes.

At our Capital Markets Day on 3 November 2021, we announced a revised Group dividend policy. The new policy sets a target pay-out range of 50% to 70% of post-tax, post-interest adjusted profits, revised from 40% to 60% of post-tax adjusted profits previously. The new policy will become effective after our 2021 final dividend is paid. The Board has recommended a final dividend of 3.9 pence per share taking the total dividend declared for 2021 to 5.6 pence per share which equates to a pay-out of 51% of the post-tax adjusted profit (i.e. based on the current dividend policy) and 53.5% of the post-tax post-interest adjusted profit (i.e. based on the new dividend policy).

Optimisation

The Optimisation programme has delivered further efficiencies and improvements in operational performance for the Group through greater technology utilisation, integration and simplification activity. In 2021, we successfully deployed Phase 1 of our new finance, HR and procurement modules as part of our general ledger consolidation and modernisation activity, with Phase 2 (final) delivery of technical releases and efficiencies in 2022. We continue to consolidate our technology estate and in particular our data centre, telephony and data reporting solutions. In Quilter Financial Planning, the streamlining and improvement in productivity of the business, which will continue in 2022, has delivered cost savings during the year.

The Group delivered £11 million of sustainable cost savings in 2021 against the 2018 cost base, with £15 million of annualised run-rate benefit. With the addition of benefits arising from prior years, the total run-rate delivered is £61 million and associated implementation costs since inception are £81 million. The Optimisation programme remains on track to deliver its target of annualised run-rate cost savings of £65 million by mid-2022, with an anticipated total associated delivery cost of up to £91 million, and includes anticipated governance, support and further severance costs through to completion of the programme.

Business simplification

The business simplification programme is anticipated to reduce operating costs by around £45 million by the end of 2024 on a run-rate basis, with costs to achieve expected to be £55 million. The programme will focus on the decommissioning of our legacy IT estate, efficiencies and automation in our operational areas and simplification of Quilter's structures as we organise ourselves to support our two segments, Affluent and High Net Worth. Implementation of the first tranche of savings is already underway.

Lighthouse DB pension transfer advice provision

As reported in the Group's 2020 Annual Report, a provision has been recognised in relation to a number of complaints received about DB to DC pension transfer advice that was provided by Lighthouse advisers prior to our acquisition of Lighthouse which may have been unsuitable and caused customers to sustain losses, and results to date from the skilled person review into historical DB to DC pension transfer advice provided by Lighthouse prior Lighthouse transitioning to our systems and controls following our acquisition of Lighthouse.

A total provision of £29 million (31 December 2020: £28 million) has been calculated for the potential redress of British Steel Pension Scheme cases and other DB to DC pension transfer cases which are subject to the skilled person review. This includes anticipated costs of legal and professional fees associated with the redress activity. The provision was increased by £7 million during 2021, which has been recognised within expenses of the Group (and excluded from adjusted profit before tax), in order to include the results to date of a review of certain non-British Steel Pension Scheme member advice that is included within the skilled person review. Redress on British Steel Pension Scheme cases of £4 million and professional fees of £2 million have been paid during the year. Subject to FCA confirmation, we anticipate the skilled person review will conclude during 2022.

The final costs of redress will depend on the final number of cases where advice is found to be unsuitable and where customers have suffered losses and will also depend on the specific calculations for each case, to be performed by the skilled person, and are also 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 costs varying from the amounts currently provided.

Reconciliation of adjusted profit before tax* to IFRS profit

Adjusted profit before tax for the Group on a continuing basis was £138 million (2020: £108 million).

IFRS accounting standards require £10 million of costs (2020: £17 million), previously reported as part of Quilter International, to be disclosed within continuing operations, as these costs did not transfer to Utmost Group on completion. Adjusted profit before tax is presented both before and after the reallocation of these costs in this report. These costs are expected to be incurred in 2022 to provide services to Utmost Group under the Transitional Services Agreement, with corresponding income to cover these costs.

Reconciliation of adjusted profit before tax to IFRS profit/(loss) after tax	For the year ended 31 December 2021			For the year ended 31 December 2020		
£m	Continuing operations	Discontinued operations[1]	Total	Continuing operations	Discontinued operations[1]	Total
High Net Worth	56	–	56	39	–	39
Affluent	111	50	161	105	60	165
Head Office	(29)	–	(29)	(36)	–	(36)
Adjusted profit before tax*	138	50	188	108	60	168
Reallocation of Quilter International costs	(10)	10	–	(17)	17	–
Adjusted profit before tax after reallocation*	128	60	188	91	77	168
Adjusting for the following:						
Impact of acquisition and disposal related accounting	(41)	–	(41)	(42)	–	(42)
Profit on business disposals	2	90	92	–	(1)	(1)
Business transformation costs	(51)	(19)	(70)	(70)	–	(70)
Managed Separation costs	(2)	–	(2)	–	–	–
Finance costs	(10)	–	(10)	(10)	–	(10)
Policyholder tax adjustments	(7)	–	(7)	9	–	9
Customer remediation	(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	73	–	73	36	–	36
Income tax (expense)/credit	(62)	–	(62)	4	(1)	3
Profit/(loss) after tax[2]	23	131	154	13	75	88

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

Adjusted profit before tax 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 on page 181 in the consolidated financial statements. The exclusion of certain adjusting items may result in adjusted profit before tax being materially higher or lower than the IFRS profit after tax.

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.

The profit on business disposals of £92 million (2020: loss of £1 million) includes the recognised profit on disposal of £89 million in relation to the sale of Quilter International to Utmost Group on 30 November 2021.

Business transformation costs of £70 million in 2021 (2020: £70 million) include £28 million (2020: £38 million) incurred on the UK Platform Transformation Programme with total lifetime costs of the programme at £202 million, and £22 million of costs (2020: £33 million) in relation to the Optimisation programme. The £19 million under discontinued operations represents the costs still to be incurred in decommissioning systems required to provide transitional services to Utmost Group and the ongoing management required during the TSA period.

Policyholder tax adjustments were a debit of £7 million for 2021 (2020: credit of £9 million) in relation to the removal of timing differences 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 £7 million in 2021 relates to a redress provision on advice in Lighthouse as part of the ongoing skilled person review as explained earlier in the Financial review. £5 million recognised in 2020 related solely to the impact of post-acquisition market movements on the British Steel complaints provision relating to Lighthouse.

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 on continuing business of 76% of adjusted profit after tax over 2021 (2020: 78%, restated for continuing business only following the disposal of Quilter International).

Review of financial position

Capital and liquidity

Solvency II

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%). The Solvency II information for the year to 31 December 2021 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 foreseeable dividend payment of £62 million (31 December 2020: £61 million).

Group pro forma capital (£m)	At 31 December 2021[1]	At 31 December 2020[2]
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 20 May 2022.
[2]As disclosed in the Group Solvency and Financial Condition Report for 2020.

The 58 percentage point increase in the Group Solvency II ratio from the 31 December 2020 position is primarily due to the capital movements associated with the sale of Quilter International, the £197 million share repurchase programme and the net profit recognised in the period. The SCR reduced in 2021 as a consequence of the sale of Quilter International completing on 30 November 2021.

The Board believes that the Group Solvency II surplus includes sufficient free cash and capital to complete all committed strategic investments. 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 intended to be returned to shareholders arising from the sale of Quilter International.

On 30 November 2021, the Group completed the sale of Quilter International to Utmost Group for consideration of £481 million. The Board is proposing a capital return of £328 million from the proceeds by way of a B share issue and redemption followed by a share consolidation, subject to regulatory engagement and shareholder approval.

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 2021	At 31 December 2020
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 SCR is covered by Tier 1 capital, which represents 241% of the Group SCR of £587 million. Tier 1 capital represents 87% of Group Solvency II own funds. Tier 2 capital represents 13% of Group Solvency II own funds and 20% of the Group surplus.

Dividend

The Board has recommended a final dividend of 3.9 pence per share at a total cost of £62 million. Subject to shareholder approval, the recommended final dividend will be paid on 16 May 2022 to shareholders on the UK and South African share registers on 8 April 2022. For shareholders on our South African share register a dividend of 78.25993 South African cents per share will be paid on 16 May 2022, using an exchange rate of 20.06665. This will bring the dividend for the full year to 5.6 pence per share (2020: 4.6 pence per share).

Capital return

The Board is proposing a capital return of £328 million, equivalent to 20 pence per share, from the net surplus proceeds arising from the sale of Quilter International by way of a B share scheme accompanied by a share consolidation, with this subject to regulatory engagement and shareholder approval at a General Meeting on 12 May 2022.

Subject to shareholder approval, B shares will be issued to shareholders on 23 May 2022. The B shares are expected to be redeemed for 20 pence per share on 24 May 2022. For shareholders on our South African share register, the B shares will be redeemed for 401.33300 South African cents per share on 24 May 2022, using an exchange rate of 20.06665, the average rate achieved on 7 and 8 March 2022, the two days immediately preceding the announcement of the capital return.

Holding company cash

The holding company cash statement includes cash flows generated by the three main holding companies within the business: Quilter plc, Quilter Holdings Limited and Quilter 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	2021	2020
Opening cash at holding companies at 1 January	517	815
Single Strategy business sale – (warranty)/deferred consideration	(2)	7
Quilter International sale proceeds	481	–
Share repurchase and Odd-lot offer	(197)	(198)
Costs of disposal	–	(24)
Dividends paid	(89)	(81)
Net capital movements	193	(296)
Head Office costs and Optimisation programme funding	(74)	(74)
Interest costs	(9)	(9)
Net operational movements	(83)	(83)
Cash remittances from subsidiaries	184	170
Net capital contributions, loan repayments and investments	(53)	(94)
Other net movements	(2)	5
Internal capital and strategic investments	129	81
Closing cash at holding companies at end of period	756	517

Net capital movements

Net capital movements in the year were an inflow of £193 million. This includes £481 million of proceeds from the sale of Quilter International, offset by £197 million relating to the share repurchase programme dividend payments made to shareholders of £61 million in May 2021 and £28 million in September 2021, and £2 million of costs relating to the disposal of the Single Strategy business in line with expectations. The costs associated with the disposal of Quilter International will be incurred, in cash terms, in 2022.

Net operational movements

Net operational movements were an outflow of £83 million for the period and include £74 million of corporate and 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 £129 million is principally due to £184 million of cash remittances from the trading businesses, partially offset by £53 million of net capital contributions made to support business operational activities, and the Platform Transformation Programme.

Balance sheet

Summary balance sheet (£m)	At 31 December 2021	At 31 December 2020		
	Total Group	Continuing operations	Discontinued operations	Total Group
Assets				
Financial investments	47,565	41,670	21,604	63,274
Contract costs	9	5	408	413
Cash and cash equivalents	2,064	1,782	139	1,921
Goodwill and intangible assets	457	504	52	556
Trade, other receivables and other assets	381	430	271	701
Other assets	264	309	198	507
Total assets	50,740	44,700	22,672	67,372
Equity	1,739	1,553	325	1,878
Liabilities				
Investment contract liabilities	41,071	35,591	21,816	57,407
Third-party interests in consolidated funds	6,898	6,513	–	6,513
Contract liabilities	–	1	378	379
Borrowings – sub-ordinated debt	199	199	–	199
Lease liabilities	100	108	12	120
Trade, other payables and other liabilities	484	543	129	672
Other liabilities	249	192	12	204
Total liabilities	49,001	43,147	22,347	65,494
Total equity and liabilities	50,740	44,700	22,672	67,372

Financial investments excluding the impact of consolidated funds increased by £5,895 million from £41,670 million at 31 December 2020 to £47,565 million at 31 December 2021, due to an increase in net inflows and positive market performance predominantly driven by the recovery in the financial markets in 2021. A corresponding increase is reflected in investment contract liabilities, with the main difference between the two being the impact of consolidated funds, which resulted in a £415 million reduction in financial investments since 31 December 2020 (as a result of certain funds no longer being subject to consolidation at 31 December 2021).

Cash and cash equivalents of £2,064 million increased by £282 million from £1,782 million at 31 December 2020, primarily due to receipt of £481 million of sales proceeds following the sale of Quilter International on 30 November 2021, together with inflows from pre-tax profits partially offset by £197 million cash consideration for the share buyback programme and £89 million of dividend paid.

Goodwill and intangible assets decreased by £47 million since 31 December 2020, principally due to the amortisation of intangible assets.

Mark Satchel
Chief Financial Officer