Financial review

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Review of financial performance

Overview

The Group achieved a strong improvement in adjusted profit performance in 2023 against the backdrop of ongoing geopolitical and macroeconomic uncertainty. Inflationary and interest rates pressures continued to weigh on consumer confidence and disposable income, resulting in a significant headwind to flows as consumers held off on discretionary investment and drew down on savings to service the increased cost of debt.

The Group's reported AuMA was £106.7 billion at the end of the year, a 7% increase on the opening position (2022: £99.6 billion), representing positive market movements towards the year-end of £7.0 billion and net inflows of £0.1 billion. Average AuMA of £102.1 billion for 2023 was 1% lower than prior year (2022: £102.8 billion). Adjusted profit before tax increased by 25% to £167 million (2022: £134 million) despite the subdued flow environment, reflecting the continued delivery of cost management through our Simplification programme and higher interest revenue earned on cash and capital resources. This was partially offset by a 3% decline in net management fee revenue due to lower average AuMA and a 1 bp decrease in revenue margin predominantly due to planned pricing reductions.

Alternative Performance Measures ("APMs")

We assess our financial performance using a variety of measures including APMs, as explained further on pages 174 to 175. In the headings and tables presented, these measures are indicated with an asterisk: *.

Key financial highlights

Quilter highlights	2023	2022
Assets and flows – core business		
AuMA* (£bn)	**103.4**	96.2
Gross flows* (£bn)	**11.1**	10.4
Net inflows* (£bn)	**0.8**	2.1
Net inflows/opening AuMA*	**1%**	2%
Productivity: Quilter channel gross sales per Quilter Adviser* (£m)[1]	**2.8**	2.3
Asset retention*	**89%**	92%
Assets and flows – reported		
AuMA* (£bn)	**106.7**	99.6
Gross flows* (£bn)	**11.2**	10.5
Net inflows* (£bn)	**0.1**	1.8
Net inflows/opening AuMA*	**0%**	2%
Profit and loss		
IFRS profit before tax attributable to shareholder returns (£m)	**12**	199
IFRS profit after tax (£m)	**42**	175
Adjusted profit before tax* (£m)	**167**	134
Operating margin*	**27%**	22%
Revenue margin* (bps)[2]	**47**	48
Return on equity*	**8.5%**	7.0%
Adjusted diluted EPS* (pence)	**9.4**	7.9
Recommended total dividend per share (pence)	**5.2**	4.5
Basic earnings per share (pence)	**3.1**	12.2
Non-financial		
Total Restricted Financial Planners ("RFPs") in both segments[3]	**1,489**	1,502
Discretionary Investment Managers in High Net Worth segment[3]	**174**	179

[1] Quilter channel gross sales per Quilter Adviser is a measure of the value created by our Quilter distribution channel.
[2] Revenue margin includes interest income on customer cash and cash equivalents previously presented within "Other revenue" and now included within "Net management fees".
[3] Closing headcount as at 31 December.

Financial review *continued*

Net inflows for the core business of £0.8 billion for 2023 were lower than the prior year (2022: £2.1 billion). Gross flows were 7% higher than the prior year at £11.1 billion (2022: £10.4 billion), whilst higher outflows reflected increased levels of client drawdown to offset pressures from higher inflation and interest rates coupled with market consolidation activity.

In the **Affluent segment** core business, net inflows in the Quilter channel of £1.6 billion were in line with the comparative year. Gross flows of £3.6 billion were 12% higher than the prior year (2022: £3.2 billion), demonstrating the continued strength of our integrated channel. We continued our focus on generating back book transfers in 2023, with c.£750 million of assets under advice by Quilter Financial Planning transferring onto our Platform from external platforms. Productivity, representing Quilter channel gross sales per Quilter Adviser, increased to £2.8 million (2022: £2.3 million), in line with our objectives of increasing alignment in our Advice business. Quilter channel gross outflows increased to £2.0 billion (2022: £1.6 billion) primarily due to higher levels of client drawdown during the year.

The IFA channel on Quilter Investment Platform recorded gross inflows of £5.3 billion, up 7% year-on-year (2022: £4.9 billion) reflecting our continued performance in gaining market share of new business despite lower levels of new business flow across the industry. The Quilter Investment Platform continues to maintain the leading market share of gross sales against our Retail Advised Platform peers, based on the latest available Fundscape data (Q3 2023). Net outflows of £0.2 billion (2022: net inflow of £0.4 billion) reflect higher levels of client led redemptions and headwinds from the impact of industry consolidation. Our Platform has continued to win net positive flows from competitor platforms over 2023. Net inflows as a percentage of opening AuMA for the IFA channel on Quilter Investment Platform was nil% (2022: 1%).

Fund flows via third-party platforms reported net outflows of £0.3 billion (2022: net outflows of £0.6 billion), predominantly due to planned fund closures.

Asset retention for the Affluent segment of 89% was below prior year (2022: 91%) due to increased withdrawal activity, inflationary pressure and interest rate headwinds.

Within the **High Net Worth segment,** gross inflows of £2.2 billion were broadly in line with the previous year (2022: £2.3 billion). Net flows were an outflow of £0.1 billion (2022: net inflow of £0.9 billion) primarily due to the slowdown in IFA flows and a small number of larger charity and corporate account losses, which were offset by steady net inflows from the Quilter channel. Asset retention fell 4 percentage points to 91% (2022: 95%) reflecting the higher interest rate environment where some clients have opted to redeem existing investments to repay debt obligations.

The Group's core business AuMA ended the year at £103.4 billion, up 7% from the opening position (2022: £96.2 billion), due to positive year-end market movements of £6.4 billion and net inflows of £0.8 billion. The Affluent segment AuMA increased by 8% to £77.5 billion (2022: £71.5 billion) of which £25.5 billion is managed by Quilter, versus the opening position of £22.7 billion. The High Net Worth Segment AuM was £27.0 billion, up 6% from the opening position of £25.5 billion, with all assets managed by Quilter.

In total, £52.2 billion, representing 50% of core business AuMA, is managed by Quilter across the Group (2022: £48.0 billion, 50%).

The Group's revenue margin of 47 bps was 1 bp lower than the prior year (2022: 48 bps). For assets administered within the Affluent segment, the revenue margin was 27 bps in line with prior year. The revenue margin on assets managed in the Affluent segment decreased by 6 bps to 41 bps as a result of product mix changes, the planned reprice of the Cirilium Active range that occurred at the end of the first quarter of 2023, and the introduction of AuM scale discounts in the second half of the year. The High Net Worth segment's revenue margin decreased by 1 bp to 71 bps primarily due to lower commission revenue, partially offset by revenue from interest margin generated on client balances.

Adjusted profit before tax increased by 25% to £167 million (2022: £134 million). Net management fees of £477 million were lower by 3% (2022: £490 million) primarily as a result of a decline in average AuMA year-on-year of 1% to £102.1 billion (2022: £102.8 billion) and the planned reduction in net management fee margins. Interest revenue generated on client funds included within net management fees were £23 million (2022: £7 million). Other revenue of £86 million decreased by 14% (2022: £100 million) reflecting lower mortgage and protection business levels, reduced activity within the market and slightly lower adviser headcount.

Investment revenue increased from £16 million in 2022 to £62 million in 2023, due to an increase in interest income earned on shareholder cash and capital resources. This level of resources is expected to gradually decline as a result of investment in the business and planned spend on business transformation. Operating expenses decreased by 3% on the prior year to £458 million (2022: £472 million) primarily due to continued strong cost management, lower FSCS levies and Simplification cost initiative savings offset by higher inflation. The Group operating margin improved by 5 percentage points to 27% (2022: 22%).

The Group's IFRS profit after tax was £42 million compared to £175 million for 2022. The year-on-year decrease in IFRS profit is largely attributable to variances in policyholder tax outcomes which moved to an expense of £76 million in 2023 (due to net market gains) from a credit of £134 million (due to net market declines) in 2022.

Adjusted diluted earnings per share increased 19% to 9.4 pence (2022: 7.9 pence).

Financial review *continued*

Total net revenue*

Total net revenue 2023 (£m)	Affluent	High Net Worth	Head Office	Quilter plc
Net management fee*[1]	**292**	**185**	**–**	**477**
Other revenue*	**70**	**20**	**(4)**	**86**
Investment revenue*	**31**	**6**	**25**	**62**
Total net revenue*	**393**	**211**	**21**	**625**

Total net revenue 2022 (£m)	Affluent	High Net Worth	Head Office	Quilter plc
Net management fee*[1]	300	190	–	490
Other revenue*	79	21	–	100
Investment revenue*	8	1	7	16
Total net revenue*	387	212	7	606

[1] Net management fee includes the interest earned on client holdings in Quilter Cheviot and Quilter Investment Platform.

Total net revenue for the Affluent segment was £393 million, an increase of 2% year-on-year (2022: £387 million). Net management fees of £292 million were 3% lower than the prior year (2022: £300 million), primarily due to lower average AuMA, the Cirilium Active reprice and the introduction of AuM scale related discounts. A revised Platform pricing policy was introduced in the second half of the year, coupled with an interest sharing arrangement on cash balances held on the Platform. Interest margin generated on cash balances held on the Platform reported within net management fees, amounted to £10 million in 2023 (2022: £nil million). Other revenue predominantly reflects our share of income from the provision of advice within Quilter Financial Planning. Recurring charges and fixed fees were lower than the prior year, predominantly as a result of lower average levels of assets under advice and reduced volumes of new mortgage business. Investment revenue of £31 million (2022: £8 million) represents interest earned on shareholder capital held to meet the regulatory capital requirements of the business.

Total net revenue in the High Net Worth segment was broadly unchanged at £211 million (2022: £212 million). Net management fees, which include interest margin earned on cash balances of £13 million (2022: £7 million), were 3% lower at £185 million (2022: £190 million) largely due to lower average AuM. Investment revenue of £6 million earned on regulatory capital to support the business (2022: £1 million) was higher than prior year due to higher interest rates. Other revenue of £20 million (2022: £21 million), predominantly reflects revenue generated in Quilter Cheviot Financial Planning, and was broadly in line with prior year.

Operating expenses*

Operating expenses decreased by 3% to £458 million (2022: £472 million). Our focus on embedding sustainable cost savings through business simplification activities enabled us to achieve a lower cost base whilst absorbing significant inflationary headwinds.

	2023		2022	
Operating expense split (£m)	Operating Expenses	As a percentage of revenues	Operating Expenses	As a percentage of revenues
Support staff costs	**115**		118	
Operations	**21**		22	
Technology	**32**		35	
Property	**30**		31	
Other base costs[1]	**29**		30	
Sub-total base costs	**227**	**36%**	236	39%
Revenue-generating staff base costs	**96**	**15%**	92	15%
Variable staff compensation	**74**	**12%**	75	12%
Other variable costs[2]	**45**	**7%**	46	8%
Sub-total variable costs	**215**	**34%**	213	35%
Regulatory/professional indemnity costs	**16**	**3%**	23	4%
Operating expenses*	**458**	**73%**	472	78%

[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.

Total base costs reduced by 4% to £227 million (2022: £236 million). Base costs as a percentage of revenues reduced 3 percentage points to 36% (2022: 39%). This reduction reflects the impact of the Business Simplification programme which continued to deliver sustainable savings across support staff, operations, technology and property. This is partially offset by the impact of inflation during the year.

Revenue-generating staff base costs increased by 4% to £96 million (2022: £92 million) and remain at a similar proportion of revenues as we continue to invest in our people and proposition across our business segments to drive growth.

Variable staff compensation of £74 million were at a similar level to 2022 (2022: £75 million).

Other variable costs remained stable at £45 million (2022: £46 million) with increased development spend, which includes costs associated with enhancing our proposition and the implementation of regulatory change such as the FCA's Consumer Duty, offset by lower operating expenses associated with our Platform.

Regulatory and professional indemnity costs decreased by 30% to £16 million (2022: £23 million) predominantly reflecting the lower industry FSCS Levy in 2023. We expect these costs to increase again in 2024 and 2025.

Financial review *continued*

Taxation
The UK corporation tax rate increased to 25% from 19% on 1 April 2023, resulting in a UK blended corporate tax rate of 23.5% for the 2023 financial year. The effective tax rate ("ETR") on adjusted profit before tax was 23% (2022: 14%). The Group's ETR is broadly in line with the UK blended corporation tax rate of 23.5% and there are no material movements for the year. The Group's ETR is dependent on a number of factors, including future changes in the UK corporation tax rate.

The Group's IFRS income tax expense was a charge of £46 million for the year ended 31 December 2023, compared to a credit of £110 million for the prior year. 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 to fund the policyholder tax liability (which is included within the Group's IFRS revenue) 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 shareholder returns. An adjustment is made to adjusted profit before tax to remove these distortions, as explained further on page 35 and in note 7(b) to the consolidated financial statements.

Business Simplification
At our Capital Markets Day in November 2021, we announced a target of £45 million of annualised run-rate savings by the end of 2024. We delivered this a year early. As announced at the half-year results in 2023, the Group expects to achieve a further £50 million of annualised run rate savings by the end of 2025. Approximately £8 million of these additional savings were achieved during 2023 on a run-rate basis.

As at 31 December 2023, the Simplification programme had delivered £53 million of annualised run-rate savings. An incremental £30 million of annualised run-rate savings were achieved during 2023 largely through the continued rationalisation of the Group's technology and property estates together with a reduction in support costs as we simplify our structures and organisation to support our two business segments, Affluent and High Net Worth. During 2023, the Group spent £25 million on Simplification initiatives (2022: £17 million). The implementation costs to deliver the remaining annualised run-rate savings are estimated to be £78 million.

Lighthouse Defined Benefit to Defined Contribution ("DB to DC") pension transfer advice provision
As reported previously, a provision was recognised in relation to DB to DC pension transfer advice provided by Lighthouse advisers prior to our acquisition of Lighthouse and their subsequent transitioning to our systems.

In 2020, the FCA commenced an enforcement investigation and required Lighthouse to commission a skilled person review in relation to certain DB to DC pension transfer advice by Lighthouse. The skilled person's review concluded in December 2022 and, in May 2023, the FCA issued a public Final Notice to Lighthouse setting out its findings. The FCA found that Lighthouse had provided unsuitable DB to DC pension transfer advice but imposed no financial penalty on Quilter. The FCA agreed that the remaining review work can be conducted as a Group-managed past business review. At 31 December 2023, a provision of £6 million (2022: £5 million) remains for the potential redress of DB to DC pension transfer cases as part of the Group-managed past business review.

Reconciliation of adjusted profit before tax* to IFRS profit
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 120 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 consolidated statement of comprehensive income, but is instead intended to provide additional comparability and understanding of the financial results.

Financial review *continued*

Reconciliation of adjusted profit before tax to IFRS profit after tax (£m)	2023	2022
Affluent	124	105
High Net Worth	41	45
Head Office	2	(16)
Adjusted profit before tax*	167	134
Adjusting items:		
Impact of acquisition and disposal-related accounting	(39)	(42)
Business transformation costs	(28)	(30)
Finance costs	(19)	(10)
Customer remediation	(6)	12
Voluntary customer repayments	-	(6)
Exchange rate movement (ZAR/GBP)	(2)	4
Policyholder tax adjustments	(62)	138
Other adjusting items	1	(1)
Total adjusting items before tax	(155)	65
Profit before tax attributable to shareholder returns	12	199
Tax attributable to policyholder returns	76	(134)
Income tax (expense)/credit	(46)	110
IFRS profit after tax	42	175

The impact of acquisition and disposal-related accounting costs of £39 million (2022: £42 million) include amortisation of acquired intangible assets.

Business transformation costs of £28 million were incurred in 2023 (2022: £30 million). Simplification costs, as already noted in this financial review, amounted to £25 million for 2023 (2022: £17 million).

The customer remediation expense of £6 million in 2023 (2022: income of £12 million) reflects an estimate of redress payable and additional legal, consulting and other costs in 2023 related to the Group-managed past business review of Lighthouse. In 2022, insurance proceeds in relation to claims in respect of legal liabilities arising in connection with Lighthouse's DB to DC pension transfer advice cases were received, contributing £12 million to the Group's profit before tax. These impacts are excluded from adjusted profit on the basis that the advice activities to which the charge and benefit relates were provided prior to the Group's acquisition of the business.

Exchange rate movements for 2023 were an expense of £2 million (2022: £4 million income) which relate to foreign exchange movement on cash held in South African Rand in preparation for payments to shareholders.

Policyholder tax adjustments to adjusted profit were a credit of £62 million for 2023 (2022: charge of £138 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 years. 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 before tax.

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 82% of adjusted profit after tax over 2023 (2022: 75%).

Review of financial position

Capital and liquidity

Solvency II

The Group's Solvency II surplus is £972 million at 31 December 2023 (31 December 2022: £820 million), representing a Solvency II ratio of 271% (31 December 2022: 230%). The Solvency II information for the year to 31 December 2023 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 £50 million (31 December 2022: £45 million).

Group Solvency II capital (£m)	At 31 December 2023[1]	At 31 December 2022[2]
Own funds	1,540	1,451
Solvency capital requirement ("SCR")	568	631
Solvency II surplus	972	820
Solvency II coverage ratio	271%	230%

[1] Filing of annual regulatory reporting forms due by 17 May 2024.
[2] As reported in the Group Solvency and Financial Condition Report for the year ended 31 December 2022.

The 41 percentage point increase in the Group Solvency II ratio from the 31 December 2022 position is due to a number of favourable developments including the reduction to risk margin as a result of changes to the UK Solvency II rules, positive market variances, business initiatives, and the surpluses recognised by the asset management and advice businesses. The increase in solvency is partly offset by the effect of dividends to shareholders and the capital movements associated with the Odd-lot Offer.

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 2023	At 31 December 2022
Tier 1[1]	1,336	1,249
Tier 2[2]	204	202
Group Solvency II own funds	1,540	1,451

[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 January 2023.

The Group SCR is covered by Tier 1 capital, which represents 235% of the Group SCR of £568 million. Tier 1 capital represents 87% of Group Solvency II own funds. Tier 2 capital represents 13% of Group Solvency II own funds and 21% of the Group Solvency II surplus.

Financial review *continued*

Final Dividend
The Quilter Board recommended a Final Dividend of 3.7 pence per share at a total cost of £50 million. Subject to shareholder approval at the 2024 Annual General Meeting, the recommended Final Dividend will be paid on Tuesday 28 May 2024 to shareholders on the UK and South African share registers on Friday 19 April 2024 (the "Record Date"). For shareholders on our South African share register, a Final Dividend of 89.02751 South African cents per share will be paid on Tuesday 28 May 2024, using an exchange rate of 24.06149.

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.

Holding company cash (£m)	2023	2022
Opening cash at holding companies at 1 January	**392**	756
Return of capital to shareholders	**–**	(328)
Share repurchase and Odd-lot Offer	**(14)**	(28)
Cost of disposal of Quilter International	**–**	(23)
Single Strategy business sale – price adjustment provision	**(4)**	–
Debt issuance costs	**(2)**	–
Dividends paid	**(65)**	(78)
Net capital movements	**(85)**	(457)
Head Office costs and Business transformation funding	**(43)**	(52)
Net interest received	**13**	4
Finance costs	**(18)**	(9)
Net operational movements	**(48)**	(57)
Cash remittances from subsidiaries	**176**	163
Capital contributions, loan repayments and investments	**(86)**	(15)
Other net movements	**–**	2
Internal capital and strategic investments	**90**	150
Closing cash at holding companies at the end of the year	**349**	392

Net capital movements
Net capital movements in the year totalled an outflow of £85 million. This includes £65 million of dividend payments made to shareholders and £14 million relating to the Odd-lot Offer, £2 million relating to the issuance of new debt, plus £4 million in final settlement following the disposal of the Single Strategy business.

Net operational movements
Net operational movements were an outflow of £48 million for the year, which includes £43 million of corporate and transformation costs, finance costs of £18 million relating to coupon payments on the Tier 2 bonds and non-utilisation fees for the revolving credit facility, and £13 million of net interest received on money market funds, Group loans and cash holdings.

Internal capital and strategic investments
The net inflow of £90 million is principally due to £176 million of cash remittances from the trading businesses, partially offset by £86 million of capital contributions to support business operational activities and further investment in the underlying business.

Mark Satchel
Chief Financial Officer