abrdn plc
Full year results 2022

28 February 2023

Building a stronger abrdn

- Creating a stronger business model with diversified earnings from three-vector strategy
- Scaling up our leading UK savings and wealth businesses
- Refocusing and simplifying our Investments business to drive efficiency, client experience and deliver growth
- Reinvesting and distributing capital to drive growth and deliver shareholder returns

Stephen Bird, Chief Executive Officer of abrdn plc, said:

"We are building a stronger abrdn. As we exit year two of our three-year strategic plan, the structure of our group is now broadly set. We are increasingly well positioned for growth.

In one of the toughest investing years in living memory, the resilience we have created in our business model helped us to deliver adjusted operating profit of £263m.

Adviser and Personal, which benefited from the acquisition of ii, both delivered increased revenue and profits. This provided an important offset to the impact of market conditions on our Investments business.

In Investments, gross flows excluding liquidity held up well at £49bn in spite of the considerably worse environment. Underlying net outflows were 3% of opening AUMA, excluding the last LBG withdrawals and liquidity, and were concentrated in equities.

We are making progress on our commitment to focus on areas of scale and strength, and to simplify and reduce costs in the business. Overall, we are increasingly well positioned for the cycle turning. Our three businesses work well together and we are building the linkages that will create value across the group.

Our capital position is strong and we are reinvesting into growth areas, while providing returns to shareholders. We look to the year ahead with confidence and a clear focus on delivering for clients and our wider stakeholders."

Summary results

	2022	2021	Change
Financial metrics			
Net operating revenue[1]	**£1,456m**	£1,515m	(4%)
Adjusted operating profit	**£263m**	£323m	(19%)
Cost/income ratio	**82%**	79%	3ppts
Adjusted capital generation	**£259m**	£366m	(29%)
IFRS (loss)/profit before tax	**(£615m)**	£1,115m	
Adjusted diluted earnings per share	**10.5p**	13.7p	(23%)
Diluted earnings per share	**(26.8p)**	46.0p	
Full year dividend per share	**14.6p**	14.6p	

Business metrics			
Gross inflows	**£69.0bn**	£72.3bn	(5%)
Net flows	**(£37.9bn)**	(£6.2bn)	
Net flows excluding LBG and liquidity[2]	**(£10.3bn)**	(£3.2bn)	
AUMA	**£500bn**	£542bn	(8%)
Investment performance (AUM) – 3 years[3]	**65%**	78%	

1. The revenue metric included within adjusted operating profit has been renamed from fee based revenue to net operating revenue. For 2022 this measure is aligned to net operating revenue as presented in the IFRS consolidated income statement. For 2021 this measure of segmental revenue excludes £28m of net operating revenue as presented in the IFRS consolidated income statement which was classified as adjusting items.
2. Excluding Institutional and Wholesale liquidity net outflows of £3.2bn (2021: £3.0bn) and LBG tranche withdrawals of £24.4bn (2021: £nil). Liquidity flows are low margin and volatile in nature. LBG tranche withdrawals relate to the settlement of arbitration with LBG.
3. The calculation of investment performance has been revised to use a closing AUM weighting basis. 2021 comparative has been restated. We believe that this approach provides a more representative view of current investment performance.

Impact of difficult market conditions on performance

- Net operating revenue 4% lower at £1,456m, with increased contributions from Adviser and Personal partially offsetting lower revenue in Investments largely driven by market movements
- AUMA at £500bn, 8% lower with interactive investor (ii) broadly offsetting the impact from markets
- Net outflows of £10.3bn (ex. LBG and liquidity), largely in equities in line with sector trends
- Adjusted operating profit 19% lower at £263m driven by the decline in Investments revenue
- Overall, adjusted operating expenses were flat. Cost savings of 7% were offset by the impact of acquisitions, FX and staff cost inflation in Investments in H2 2022
- Cost/income ratio of 82% (2021: 79%) as a result of lower revenue
- IFRS loss before tax of £615m (2021: profit £1,115m), reflects non-cash adjustments of £187m relating to the fall in share prices of our listed stakes and £369m in impairments. 2021 benefited from very substantial one-off accounting gains
- Adjusted diluted EPS of 10.5p (2021: 13.7p) reflecting lower adjusted profit after tax partially offset by lower share count
- Full year dividend of 14.6p in line with dividend policy

Successful acquisition of interactive investor, reshaping the Personal vector

- Successful acquisition of ii during 2022 delivered a substantial scaling up of our presence in the attractive UK savings and wealth market
- ii delivered a strong performance over 12 months with net operating revenue 38% higher to £176m and adjusted operating profit 109% higher to £94m (excluding Share) demonstrating the resilience of its business model
- Net customer growth for 2022 was 3% (excluding run-off from historic acquisitions), taking total customers to 402k and supporting subscription fee growth of 17% (12 months basis)
- Daily average retail trades of 17.3k (2021: 21.9k) reflected muted customer activity given the volatile market conditions
- Treasury income of £71m (12 months basis) benefited from rising interest rates with an average cash margin of 120bps. Indicative average cash margin of 160-170bps for 2023
- Cost/income ratio for ii was 47% in 2022 and 41% for the 7 months since joining abrdn
- ii performing ahead of our expectations, including a stronger performance in treasury income. Based on the last 7 months of 2022, the £1.49bn purchase price represents a multiple of 16x ii's annualised post tax adjusted earnings

A growing contribution from Adviser

- Net operating revenue in Adviser 4% higher to £185m (2021: £178m)
- Adviser benefitted from rising interest rates with an average cash margin of c85bps. Indicative average cash margin of 160-180bps for 2023
- Adjusted operating profit 16% higher at £86m (2021: £74m)
- Successful technology launch with improved capabilities, expanding capacity to attract new clients
- No.1 adviser platform in the UK by AUA with 50% of the UK's advice businesses using our platforms
- Customer satisfaction score of 95%

Further progress in reshaping Investments

- Sector-wide impacts affected flows, with net outflows of £13.4bn (ex. LBG and liquidity) (2021: £7.6bn), representing (3%) of opening AUM
- AUM of £376bn (2021: £464bn), 19% lower reflecting lower markets and the final LBG tranche withdrawals
- Investment performance is 65% of AUM above benchmark over 3 years (2021: 78% restated)
- Net operating revenue 13% lower to £1,070m, and adjusted operating profit 55% lower to £114m, largely due to lower markets impacting average AUM, particularly in equities
- Overall costs 2% lower as a result of lower staff costs, FTE and variable compensation levels
- Net cost savings of c£75m now expected to be delivered in 2023, prior to any non-core disposals
- Impact of changes in asset strategies and related pricing changes in insurance activities expected to result in further contraction of yields
- Merged or closed 58 funds in 2022
- Our investment capabilities are being focused on areas where we have both the skill and the scale to capitalise on the key themes shaping the market, through either Public markets or Alternative asset classes
- Appointed Peter Branner as Chief Investment Officer

Disciplined approach to capital management and allocation

- Strong capital position with surplus regulatory capital of £0.7bn (2021: £1.8bn) after funding the ii acquisition
- Final dividend of 7.3p, giving full year dividend of 14.6p, in line with our policy
- Dividend cost reduced through buybacks to £295m, 0.9x covered by adjusted capital generation
- Restructuring and corporate transaction expenses of £214m in 2022 comprising £169m restructuring costs, mostly in Investments, and £45m corporate transaction costs, mostly ii
- Restructuring costs (excluding corporate transaction costs) expected to be of a similar level in 2023, primarily related to the continued reshaping of the Investments vector and expected to be covered by non-core asset disposal proceeds
- Subject to economic conditions, we will continue to explore inorganic investments that are bolt-on in nature and expect to allocate capital to support such opportunities
- Committed to our stated dividend policy of 14.6p per annum until at least 1.5x covered by adjusted capital generation from when it can grow
- We realised £0.8bn from stake sales in 2022. We are committed to returning a significant proportion of capital generated from further stake sales by way of share buybacks
- Returned £0.6bn to shareholders in dividends and buybacks in 2022
- We are today announcing the sale of our Discretionary fund management arm. Our Managed Portfolio Services business is being retained

Looking forward

- Outlook for global markets remains uncertain and while this presents risks, we are taking actions to put our Investments business on a better footing through both focusing on our key areas of strength to drive revenue growth and simplifying the operating model. In the short term, additional headwinds arise from changing client demand and preferences
- The benefits of diversification are already evident with our Adviser and Personal vectors on a stronger trajectory of growth, with more efficient operating margins
- We will continue to be disciplined in our allocation of capital, investing in the business in order to drive growth and to support continued returns to shareholders
- We understand the importance of dividend income to a large portion of our shareholder base and are committed to our stated dividend policy, together with returning a significant proportion of proceeds from further stake sales through share buybacks
- We returned £0.6bn of capital to shareholders by way of dividends and share buybacks in 2022, and intend to return a similar level in 2023

Annual report and accounts 2022

The Annual report and accounts 2022 (Annual report 2022) has been published today and is available at www.abrdn.com/annualreport

This press release contains certain information that has been extracted from the Annual report 2022.

Media

A conference call for the media will take place at 07:45am (GMT) on 28 February 2023. To access the conference call, you will need to pre-register at https://www.abrdn.com/corporate/media-centre/media-call

Investors and analysts

A presentation for analysts and investors will take place 09:30am (GMT) on 28 February 2023. To view the webcast live please go to www.abrdn.com/corporate

For further information please contact:

Institutional and equity investor and analysts		**Retail equity investors**	
Catherine Nash	07798 518657	Equiniti	* 0371 384 2464
Media		**Debt investors and analysts**	
Duncan Young	07920868865	Graeme McBirnie	01313 727760
Iain Dey (Teneo)	07976 295906		

* Calls may be monitored and/or recorded. Call charges will vary.

CEO statement

Key highlights

– Completed the acquisition of ii in May 2022.
– Delivered £0.8bn of value through divestments.
– Returned £0.6bn of capital to shareholders through buybacks and dividends.
– Strong progress on fund rationalisation in Investments, where overall costs were down 2%.
– Retained position as leading adviser platform.

The global economy changed dramatically during 2022

2022 was one of the hardest investing years in living memory. Almost all asset classes dropped in value as the cost of money soared to quell the rising tide of inflation. Although market conditions have had an impact on overall group performance, abrdn's more diversified model has proved resilient.

The world in which we and our clients are operating today is radically different from the environment of the past decade. The changing macro environment is resulting in the acceleration of key investment trends, notably the rise of Asia, a move to more sustainable offerings and, at an asset class level, the growth of alternatives and increasing client interest in fixed income.

We are also actively assessing the impact of these new market dynamics on pension funds and insurers, to ensure that we provide solutions to meet their complex needs. Each of these trends very much plays to our existing strengths, and we are well positioned to help our clients navigate this new investing world.

Building a stronger business model

Against this challenging backdrop, the company continued to progress as it completed the second year of its three-year strategy. We have transformed and built upon our asset management heritage and abrdn is now positioned for growth across its three businesses: Investments, Adviser and Personal.

The shape of the group is now settled following the 2022 acquisition of ii. This significantly expands our reach into the higher growth UK savings and wealth platform market, which is forecast to grow at a realistic rate of 11% by 2027. Leveraging the subscription-based model of ii, and the wider structural trends in the savings and wealth market, we benefit from income streams less exposed to market volatility. Looking ahead, we are set to exploit the synergies our new model offers.

2022 performance shows our growing resilience

The group's adjusted operating profit of £263m is 19% lower than in 2021. In line with the sector, the Investments vector faced headwinds in the market. Despite the progress made on its transformation journey, adjusted operating profit fell by £139m, principally due to a decline in revenue. Our focus on simplifying and streamlining the Investments business reduced its overall costs by 2%, although we know we have more to do to drive this down further.

The adjusted operating profit for Adviser and Personal combined increased by £76m including a £67m contribution from seven months of ii. With the Investments vector impacted by market conditions, these businesses contributed 76% of adjusted operating profit in H2 2022, clearly demonstrating the benefits of the new abrdn model.

Overall, we are reporting an IFRS loss before tax of £615m reflecting the reduction of £187m in the value of the listed stakes held on our balance sheet, and impairments of £369m largely due to a fall in market levels, 2022 performance and lower projected revenues. However, with the strong discipline applied to our capital management, I'm pleased to report that our dividend for 2022 remains unchanged at 14.6p per share. Stephanie talks more about our performance in the Chief Financial Officer's overview.

Scaling-up our UK savings and wealth businesses

The acquisition of ii in 2022 delivered a substantial scaling-up of our presence in the UK savings and wealth market. This direct-to-consumer capability now sits alongside our established Adviser business, which I'm pleased to report remains the number one adviser platform in the UK by AUA, with 50% of the UK's advice businesses using our platforms. Customer satisfaction as at end 2022 was 95%. The recent delivery of technology enhancements to our platforms will further support advisers to unlock capacity and grow their client bases.

In the seven months since joining abrdn, ii delivered £114m in net operating revenue and £67m in adjusted operating profit, at a cost/income ratio of 41%. Based on the seven months profits, the £1.49bn purchase price represents a multiple of 16 times annualised post-tax adjusted earnings.

Reductions in gross and net flows in Personal Wealth this year include the impact of market uncertainty which has resulted in lower and more muted activity by individual investors. Looking ahead, we see substantial opportunities to evolve the newly combined Personal vector to deliver an end-to-end customer proposition, that stretches from simple online transactions to more complex financial advice.

At a societal level, individuals are having to take more responsibility for building and managing their own savings, investments and retirements, while at the same time becoming increasingly accustomed to using direct-to-consumer platforms and digital tools for financial transactions. The democratisation of financial services, supported by technology, is driving structural change in the investment market and we are now well positioned to serve this growing opportunity.

Refocusing Investments

After previously competing across a very broad waterfront, the Investments business is becoming much more focused on the areas in which we have both strength and scale.

We have a long heritage in public markets, including through our capabilities in Asia and emerging markets and our strong fixed income franchise. Although 2022 has been a challenging year, particularly for equities, we are well placed to benefit from evolving conditions in China and in the bond markets. Our already strong position in alternatives is growing. Here we manage around £87bn in assets in areas such as real estate, infrastructure, logistics and private credit. A highlight has been the performance of Tritax which saw c25% growth in average AUM last year.

By focusing on these areas of strength, all underpinned by our sustainability credentials, we believe we are in a better position to deliver products that are more closely aligned with current and future client demand.

In the Insurance sector, the changing approach to asset strategies represents a headwind for the margin of this business activity. We expect continued changes from certain active equity and fixed income strategies to passive quantitative strategies which, together with related pricing changes, is expected to lead to further margin contraction for our Insurance business in future periods.

Disciplined management and deployment of capital

Our strong capital position provides resilience in uncertain times and enables targeted investment to accelerate the growth of the group. As at 31 December 2022, our surplus regulatory capital was £0.7bn.

In 2022, we generated £1.1bn of capital through organic cash generation and efficient stake sales, investing £1.4bn in the acquisition of ii, and returning £0.6bn to shareholders in buybacks and dividends. Over the near term, as we continue to build capital through a focus on profitability and ongoing monetisation of listed stakes, we continue to expect to invest in inorganic opportunities where we see capabilities we need that offer compelling value. We are committed to returning a significant proportion of proceeds from further stake sales through share buybacks, and reconfirm our stated dividend policy of 14.6p per annum until at least 1.5x covered by adjusted capital generation from when it can grow. We will continue to take a disciplined approach to capital allocation as we drive sustainable growth, relevance and scale for our business, in a way that also generates value for our shareholders.

Progress on climate

We have a critical role to play as stewards of our clients' capital, and the relationships we have with investee companies enable us to drive positive change through engagement.

We are targeting a 50% reduction in the carbon intensity of our portfolios by 2030 versus a 2019 baseline. We are on track with a 27% reduction across in-scope public market portfolios as at 31 December 2022 and a 31% reduction for in-scope real estate as at 31 December 2021. Assets in scope for our target represent 30% of our total AUM. This is driven by data availability, maturity of methodologies and control over decision making. We recognise that methodologies may continue to evolve over time and we will review our approach as appropriate. We have also been developing our net zero solutions, including an Active Climate Transition proposition in equities and fixed income. In compliance with level one of the EU's Sustainable Finance Disclosures Regulation (SFDR), we have also been converting our range of SICAV funds to comply with SFDR Article 8 and 9 – reflecting the importance of ESG considerations in the investment opportunities we seek. In 2022 we converted 27 of our funds to Article 8 and 9. In Asia, one of our key growth markets, we launched our MyFolio Sustainable Index range of funds during 2022, and our Sustainability Institute is helping us hone our expertise to deliver for our clients.

We know that leading by example starts with our own operations. We have a corporate target to be net zero in our operations by 2040, and an ambitious interim target to achieve a 50% reduction in operational emissions by 2025, against our 2018 baseline. Colleague engagement remains critical to delivering on this.

While a significant amount of work remains to be done, I am proud of the progress we have made to date. We will continue to drive towards our commitments with a focus on transparency – through reporting and data disclosure – and by engaging with our clients, investee companies and wider stakeholders, with the aim of achieving a cleaner, greener future together.

Building a culture that supports colleagues and delivers for clients

Our culture and how it feels to work here are fundamental to our success. We want every one of our colleagues on board – believing in our purpose and focusing on our strategy and their role in delivering for clients.

Throughout 2022 our leaders worked with colleagues across the globe to create a new set of commitments and values that resonate with their collective beliefs, identifying these as Client First, Ambitious, Empowered and Transparent. We're creating a culture that gives talent the chance to thrive, and that empowers colleagues to take ownership of client outcomes. A culture of constant improvement is critical for success.

We ran our most recent all-colleague survey in January 2023 where it was pleasing to see a positive response from colleagues around areas like our people leaders and our strategy. Amid highly challenging market conditions and ongoing change within the business, employee engagement held steady, and we will continue our focus on driving progress in this area.

It's critical that diverse perspectives have an active voice in decision-making processes. I'm pleased that we've reduced our gender pay gap for the fifth year in a row, and that we have more women on our Board, in senior leadership and in investment decision-making roles. But there is still much more to do. Our industry and our wider talent pipeline need to be more representative of the diverse society we live in, and we're focused on facing up to this.

In a very challenging year for the sector, in which we have continued to go through significant change as a business, the commitment and professionalism shown by everyone across abrdn has been truly inspiring. Those qualities are what give me so much confidence about what lies ahead. On behalf of the senior leadership and my fellow Board members, I'd like to place on record our sincere thanks.

Focusing on the future

Although the external market environment remains challenging, we have the right strategy, and we have the team and the capital resources to execute it well. Diversification of revenue streams is putting the group on a sustainable growth trajectory.

In the Investments vector, there is further to go. This was always the longest-cycle transformation given the structural challenges and the nature of change in active asset management. We have taken the hard decisions and built the foundations for future growth. We're simplifying our product range and reducing cost and complexity so that we are focused on delivering higher margin products with the right performance. This work should deliver net cost savings of around £75m in the Investments vector in 2023.

CFO commentary

Performance impacted in a difficult macroeconomic environment

The impact and confluence of the challenging events of 2022 could not have been predicted. The IFRS result is a loss before tax of £615m (2021: profit £1,115m) including the impact of lower market levels on revenue, impairment of intangible assets in the Investments vector, and lower values for our significant listed investments.

Our diversification of the business in order to harness the changing market trends and improve the resilience of the financial performance has proved beneficial in these markets and has delivered results in 2022. While adjusted operating profit of £263m (2021: £323m) is 19% lower, this comprises a reduction of £139m in Investments, principally due to the decline in revenue, which is significantly offset by the increase of £76m in profits from Adviser and Personal, including seven months of ii and both businesses growing revenue and profits.

The contribution from Adviser and Personal, both operating in the UK savings and wealth arena, represented 60% of the group's adjusted operating profit in 2022. The shape of the group has been transformed following the acquisition of ii which completed in May 2022 and marked an important step forward in delivering the strategy. Following the ii acquisition in May, Adviser and Personal vectors contributed 76% of adjusted operating profit in H2 2022.

Our discipline on both targeting cost savings and reinvesting in areas of growth has continued. Following gross cost savings of £267m in 2020 and 2021, further savings of £84m or 7% benefited the results in 2022. All vectors reduced costs over 2022 (assuming 12 months of ii) although in Investments, responding to inflationary pressures on staff costs contributed to the lower reduction of 1% in the second half of 2022. The weak operating margin in Investments reinforces why the simplification of the operating model is underway and is now expected to deliver net c£75m savings in 2023. Acquisitions of ii, Tritax and Finimize which are all generating revenue, increased costs for the group by £65m (5%) in 2022. Foreign exchange impacts of c£20m were notably higher in the second half of 2022 but were more than offset by the benefits in revenue.

Our disciplined approach to capital management continues, resulting in £1.1bn of capital resources generated in 2022, including £0.8bn of capital from listed stake sales. We redeployed £1.4bn for the purchase of ii which has been immediately earnings accretive. We returned £0.6bn to shareholders by way of £0.3bn in dividends and £0.3bn in share buybacks. At 31 December 2022, our capital position remains strong, with cash and liquid resources of £1.7bn and surplus regulatory capital of £0.7bn.

Drivers of revenue performance in 2022

Assets under management and administration (AUMA) have been impacted by three key factors in 2022: market levels, the final withdrawals of LBG assets and the acquisition of ii. At 31 December 2022, AUMA was £500bn, 8% lower than prior year and average AUMA in 2022 was £478bn (excluding ii), 10% lower than 2021. This decrease is concentrated in Investments. While there had been some signs of markets improving in July, the second half of the year saw continued volatility, with the main global market indices ending the year lower, with the exception of the FTSE 100. abrdn's investment bias in Asia and emerging markets increased the impact suffered in revenue during 2022 as those indices experienced double digit losses.

Given the reliance on market levels, the impact on net operating revenue of lower AUMA is most marked in Investments, contributing c£95m of the £161m reduction in Investments revenue. Average AUM in Investments declined by 11%, largely driven by LBG tranche withdrawals and adverse market movements, particularly in equities. In combination, this reversed the progress seen in 2021, resulting in 13% lower Investments revenue in 2022. Within the asset classes, revenue in Public markets (equities, fixed income, multi-asset, quantitatives and liquidity) declined by 18% to £746m, while in Alternatives asset classes (real assets, alternatives, private equity and private credit) revenue of £324m, was 2% higher, benefiting from a full year contribution from Tritax.

While AUMA as a driver has been negative for Investments in 2022, our focus on diversification of the group's revenues has benefited performance. ii's subscription model does not rely on market levels and account fees, together with higher net interest margin on customer cash balances (treasury income) in 2022, more than offset lower trading activity by customers. For the period since acquisition, ii contributed £114m to revenue in 2022. While Adviser is impacted by market levels, continued net positive inflows in 2022, combined with the benefit from higher treasury income, increased revenue by 4% to £185m. Treasury income totalled £69m across the Personal and Adviser vectors due to increased interest rate levels throughout 2022.

Overall, the diversification that now drives our sources of revenue has helped to mitigate the impact of the market volatility in 2022, with an overall reduction in net operating revenue of £59m (4%), to £1,456m.

Changing nature of our flows during 2022

Excluding LBG tranche withdrawals and liquidity, total net outflows were £10.3bn, representing 2% of opening AUMA, compared with c0.5% last year. Total net outflows were £37.9bn (2021: £6.2bn) reflecting the final LBG tranche withdrawal of £24.4bn.

Client and customer activity and resulting flows varied by vector in these volatile markets.

In Investments, net outflows of £13.4bn (2021: outflows £7.6bn) (excluding LBG tranche withdrawals and liquidity) represent 3% of opening AUM, reflecting the uncertain market environment which impacted the wider industry.

Insurance flows are now largely represented by Phoenix after the final LBG exits were completed this year. Insurance activity benefited from £2.9bn of gross inflows from bulk purchase annuities and £5.4bn of gross inflows into low margin quantitatives which were offset in the last quarter by the withdrawal of £6.3bn of actively managed equity funds reflecting Phoenix's change in investment approach. Reflecting the annualised revenue reduction of this withdrawal of £9m, a one-off contractual payment was received in the last quarter, equivalent to a year's revenue.

Within the insurance sector more broadly, the changing approach to asset strategies represents a headwind for the margin of this business activity. We expect continued changes in this area from certain active equity and fixed income strategies to passive quantitative strategies which, together with related pricing changes, will result in further contraction of yields. The impact in 2023 will be dependent on the timing of these changes during the year.

Overall, gross inflows in Investments (excluding liquidity) were 14% lower in 2022, reflecting lower client demand for equities and fixed income funds. Redemptions (excluding LBG tranche withdrawals and liquidity) were 3% lower.

Our UK wealth and savings businesses continue to deliver net positive inflows, although lower than 2021 due to overall muted levels of retail customer activity in the second half of the year. Within Adviser, net inflows of £1.6bn are 59% lower than 2021 reflecting lower client activity across the industry due to ongoing market uncertainty. Activity in Personal is dominated by ii where net flows remain robust, while lower than the record levels seen in 2021.

Continued reshaping of operating expenses

We have focused on what we can control. We have made further improvements in the shape of our cost base by investing in areas of growth through the acquisition of ii and Tritax, together with introducing further variability into the cost base by outsourcing specific activities across the group and reducing FTE (excluding ii) by 14% over 2022. Operating margins in both Adviser and Personal are efficient, while in Investments, the operating margin continues to be inefficient for the AUM and revenue generated in this vector, reinforcing the activity required to simplify the operating model.

Overall adjusted operating expenses were flat compared with last year. Cost savings were 7% in 2022, largely driven by disposals and staff and technology reductions, while other cost actions were lower than anticipated due to increased staff cost inflation in Investments in the second half of the year. This was offset by 5% higher costs due to investments into revenue generating acquisitions, and adverse foreign exchange movements which increased reported costs by 2%.

Our ambition of a 70% cost/income ratio for the group remains, however this requires us to significantly improve the cost/income ratio in the Investments vector. In 2022, Investments costs were 2% lower as a result of lower staff and variable compensation levels. With the investment platform integration completed in 2022, the simplification of Investments' operating model commenced achieving small early successes. This informed the expected savings profile. With the detailed work on simplification now well underway, delivery of net cost savings of c£75m in the Investments vector are now targeted in 2023. This excludes any cost reductions that may arise from non-core disposals in the vector. While non-core disposals are an important component of the plan, given the unpredictable nature of the timing of any non-core disposals, these are excluded from our expectations on costs movements until such time as these transactions occur.

In Adviser, costs reduced by 5%, reflecting reduced headcount as some of our colleagues transferred to our major supplier under an improved outsourcing arrangement.

Within Personal, ii's costs of £47m reflected the period since acquisition. Costs in both Adviser and Personal are expected to grow in 2023 reflecting growth in revenue, benefiting the group from their efficient cost models.

The overall group cost/income ratio (CIR) increased to 82% from 79% in 2021. At a vector level, Adviser and Personal, CIRs were 54% (2021: 58%) and 64% (2021: 91%) respectively, while Investments CIR at 89% (2021: 79%) reflects lower revenue levels.

Disciplined approach to capital allocation delivers shareholder value

Adjusted capital generation of £259m is 29% lower than 2021. During 2022, we completed a further buyback of £300m at an average cost of £1.68 per share and reducing the number of shares by 179m, benefiting earnings per share by

3%. Reflecting the lower profit in 2022, adjusted diluted earnings per share reduced to 10.5p (2021: 13.7p) and the IFRS diluted earnings per share was a loss of 26.8p (2021: profit 46.0p).

We also redeemed £92m of debt in December 2022 which had a rate of 5.5% and due to reset at a higher rate. We now have in issue £210m of AT1 debt paying fixed interest of 5.25% which was issued in December 2021 and Tier 2 debt of £569m swapped into sterling and fixed at 3.2%. The debt stack is now optimised for our funding needs, with interest rates locked in prior to the rate increases experienced in 2022.

Following actions taken in recent years to reduce risk in abrdn's principal defined benefit pension plan, we are working with the trustee on next steps. In connection with this de-risking work, the trustee expects to submit a petition to the Court of Session during H1 2023 that will seek direction on the destination of any residual surplus assets that remain after all plan-related obligations are settled or otherwise provided for. Any such residual surplus would be determined on a different basis to the IAS 19 or funding measures of the plan surplus. The IAS 19 defined benefit plan asset is not included in abrdn's regulatory capital surplus.

Restructuring expenses of £169m (2021: £224m) comprised severance, platform transformation and specific costs to effect savings in Investments, which reflected additional costs to complete platform transformation and the acceleration of staff exits compared to previous expectations. Corporate transaction costs of £45m (2021: £35m) are higher than 2021 largely in relation to ii.

During 2022, we returned £0.6bn to shareholders, £0.3bn through buybacks and £0.3bn in dividends. The dividend cost has reduced to £295m, and cover at 0.9x on an adjusted capital generation basis equates to a net impact on capital of c£35m. Our dividend policy for 2022 remains unchanged at a total annual dividend of 14.6p per share until such time as the dividend is covered 1.5x by adjusted capital generation.

The IFRS loss before tax of £615m reflects principally the reduction of £187m in the value of the listed stakes in HDFC Life, HDFC Asset Management and Phoenix and impairments of £369m, comprising £328m in Investments and £41m for Finimize which was purchased in 2021. These impairments reflect lower projected revenues as a result of the lower markets, macroeconomic conditions and 2022 results being below previous expectations. For Investments, the key impairment drivers also include the expected reduction in Phoenix revenue from asset strategy and related pricing changes, and the further work required to reduce the cost/income ratio and to improve net flows.

Our strong capital position provides us with resilience during periods of economic uncertainty and volatility. We have a disciplined approach to generation and allocation of our capital:

- Our major capital investment in ii was completed at a time when the impact of the current economic conditions could not have been envisaged. ii is performing ahead of our expectations, including a stronger performance in treasury income. It is evident that ii will be double digit earnings enhancing for the group in the first full year of ownership. Based on the last seven months of 2022, the £1.49bn purchase price represents a multiple of 16 times annualised post tax adjusted earnings.
- We will redeploy the proceeds from non-core disposals into the business to support growth, including covering future restructuring costs to improve the efficiency of the business. Restructuring costs (excluding corporate transaction costs) are expected to be c£0.2bn in 2023, primarily related to the continued reshaping of the Investments vector.
- Subject to economic conditions, we will continue to explore inorganic investments that are bolt-on in nature and we expect to allocate capital to support such opportunities.
- Our capital strength also benefits from the value of our listed stakes in HDFC Asset Management, HDFC Life and Phoenix, which at 31 December 2022 had a total value of £1.3bn and is additional to the regulatory capital surplus.
- As part of our approach to allocating capital, the buffer of £0.5bn provides a level of management flexibility and capital strength and resilience during periods of volatility.
- We are committed to return a significant proportion of capital generated from further stake sales by way of further share buybacks which will continue to reduce the share count, benefiting earnings per share and lowering the absolute cost of the dividend.

Looking forward

The outlook for global markets remains uncertain and while this presents risks, we are taking actions to put our Investments business on a better footing through both focusing on our key areas of strength to drive revenue growth and simplifying the operating model to enable an efficient cost base. In the short term, additional headwinds arise from changing client demand and preferences. The benefits of diversification are already evident with our Adviser and Personal vectors on a stronger trajectory of growth with more efficient operating margins.

We will continue to be disciplined in our allocation of capital to invest in the business in order to drive growth and to support continued returns to shareholders. We understand the importance of dividend income to a large portion of our shareholder base and are committed to our stated dividend policy, together with returning a significant proportion of proceeds from further stake sales through share buybacks. We returned £0.6bn of capital to shareholders by way of dividends and buybacks in 2022, and intend to return a similar level in 2023.

Results summary

Analysis of profit	2022 £m	2021 £m
Net operating revenue	**1,456**	1,515
Adjusted operating expenses	**(1,193)**	(1,192)
Adjusted operating profit	**263**	323
Adjusted net financing costs and investment return	**(10)**	-
Adjusted profit before tax	**253**	323
Adjusting items including results of associates and joint ventures	**(868)**	792
IFRS (loss)/profit before tax	**(615)**	1,115
Tax credit/(expense)	**66**	(120)
IFRS (loss)/profit for the year	**(549)**	995

The IFRS loss before tax was £615m (2021: profit £1,115m) largely due to adjusting items of £868m:

- Impairments of goodwill and customer intangibles were £369m (2021: £nil).
- Losses of £187m (2021: losses £298m) from the change in fair value of significant listed investments (HDFC Asset Management, HDFC Life and Phoenix) as a result of the fall in the share price of these companies in 2022.
- Restructuring expenses were £169m (2021: £224m). Corporate transaction expenses were £45m (2021: £35m) reflecting principally the acquisition of ii.
- Adjusting items in 2021 benefited from a profit on disposal of interests in associates of £1,236m.

Adjusted operating profit was 19% lower than 2021, largely due to 4% lower revenue as a result of lower market levels which particularly impacted high yielding equities. The 2022 results include a contribution from ii for the seven months to 31 December 2022 which benefited net operating revenue by £114m and adjusted operating profit by £67m.

Net operating revenue

Movement in net operating revenue	£m
2021 net operating revenue	**1,515**
Net flows excluding LBG	**(23)**
Yield	**(31)**
Markets	**(109)**
Corporate actions	**100**
Performance fees, FX and other	**4**
2022 Net operating revenue	**1,456**

Net operating revenue reduced by 4% reflecting:

- Impact from net outflows excluding LBG of 2% (2021: 4%), and adverse yield movements.
- Significant c£109m impact of adverse markets on AUMA.
- Net benefit from corporate actions of c£100m mainly due to £114m from ii. This was partly offset by the net impact of other corporate actions during 2021 and 2022 relating to the disposals of Parmenion, Nordics and Bonaccord, and acquisitions of Tritax and Finimize.
- Other includes a benefit from FX movements of c£24m and the £9m one-off Phoenix payment, partly offset by the impact of lower LBG revenue following the final tranche withdrawals. Performance fees were £30m (2021: £46m) from Asia, real assets and insurance.

Adjusted operating expenses

	2022 £m	2021 £m
Staff costs excluding variable compensation	**527**	517

Variable compensation	**85**	126
Staff and other related costs	**612**	643
Non-staff costs	**581**	549
Adjusted operating expenses	**1,193**	1,192

Adjusted operating expenses were broadly flat after the inclusion of £47m of ii expenses for the post acquisition period, reflecting:

- 3% lower staff costs (excluding variable compensation and ii), with the benefit of lower FTEs (14%), partly offset by wage inflation.
- Lower variable compensation in line with Investments vector performance.
- 6% increase in non-staff costs, principally due to ii. Excluding ii, non-staff costs increased by 1% with cost savings offset by the impact of inflation, IT costs associated with regulatory change and c£20m from adverse FX movements.

The cost/income ratio increased to 82% (2021: 79%) as a result of the lower revenue in Investments.

Investments

	Total		Institutional and Wholesale		Insurance	
	2022	2021	**2022**	2021	**2022**	2021
Net operating revenue[1]	**£1,070m**	£1,231m				
Adjusted operating expenses	**(£956m)**	(£978m)				
Adjusted operating profit	**£114m**	£253m				
Cost/income ratio	**89%**	79%				
Net operating revenue yield	**25.4bps**	25.9bps	**36.1bps**	38.8bps	**10.5bps**	10.0bps
AUM	**£376bn**	£464bn	**£231bn[2]**	£253bn	**£145bn[2]**	£211bn
Gross flows	**£59.3bn**	£63.4bn	**£36.5bn**	£41.9bn	**£22.8bn**	£21.5bn
Redemptions	**(£100.3bn)**	(£74.0bn)	**(£48.1bn)**	(£47.0bn)	**(£52.2bn)**	(£27.0bn)
Net flows	**(£41.0bn)**	(£10.6bn)	**(£11.6bn)**	(£5.1bn)	**(£29.4bn)**	(£5.5bn)
Net flows excluding liquidity[3]	**(£37.8bn)**	(£7.6bn)	**(£8.4bn)**	(£2.1bn)	**(£29.4bn)**	(£5.5bn)
Net flows excluding liquidity and LBG[3,4]	**(£13.4bn)**	(£7.6bn)	**(£8.4bn)**	(£2.1bn)	**(£5.0bn)**	(£5.5bn)

1. Includes performance fees of £30m (2021: £46m).
2. Following completion of the LBG tranche withdrawals, the remaining LBG AUM of c£7.5bn which has been retained was reallocated to quantitatives in Institutional/Wholesale.
3. Institutional and Wholesale liquidity net flows excluded.
4. Flows excluding LBG do not include the tranche withdrawals of £24.4bn (2021: £nil) relating to the settlement of arbitration with LBG.

Investments vector faced market headwinds

Adjusted operating profit

- £139m (55%) reduction compared to 2021, reflecting 13% lower revenue and 2% lower costs.
- Cost reduction driven by lower staff costs, reflecting lower FTEs and lower variable compensation. This is partly offset by the impact of staff cost inflation in H2 2022 and higher IT costs associated with regulatory change and the adverse impact of FX.

Net operating revenue

- 13% lower than 2021 largely due to lower market performance impacting average AUM, particularly in equities.
- Performance fees of £30m (2021: £46m) including strong performance fees from real assets, albeit the overall total is lower than the level seen in 2021.
- Revenue in 2022 includes £9m one-off benefit as compensation for the £6.3bn Phoenix asset withdrawal.

Institutional and Wholesale

Net operating revenue

- 13% lower at £878m (2021: £1,012m) due to £14bn reduction in average AUM to £236bn (2021: £250bn). This reflects lower market values in equities, fixed income and multi-asset AUM, partly offset by a full year of revenue in Tritax, compared with nine months in 2021, and c25% growth in Tritax average AUM.

Revenue yield
- 2.7bps lower to 36.1bps largely due to the decrease in the higher margin equities average AUM impacting the asset mix. Equities are 24% (2021: 28%) of average AUM at a yield of 62.5bps while real assets accounted for 18% (2021: 14%) at 44.4bps.
- Multi-asset revenue yield has declined as in 2022 MyFolio accounts for the majority of AUM in this asset class.

Gross flows
- Excluding liquidity, £9.0bn (25%) lower at £26.3bn (2021: £35.3bn) mainly in fixed income and equities. This reflected the client response to the uncertain market environment which impacted the wider industry, as many clients delayed investment decisions.

Net flows
- Net outflows were £6.3bn higher than 2021 at £8.4bn (excluding liquidity), largely due to the lower level of gross inflows partly offset by a £2.7bn improvement in redemptions.
- Excluding liquidity, net outflows represent 4% of opening AUM compared with 1% in 2021.

Insurance

Net operating revenue
- 12% lower in 2022 at £192m (2021: £219m), including the impact of LBG tranche withdrawals and lower average AUM, offset by the £9m one-off Phoenix compensation in 2022.

Revenue yield
- Net operating revenue yield improved slightly to 10.5bps. Excluding the one-off Phoenix compensation of £9m, the yield was flat at 10.0bps.

AUM
- LBG AUM within Insurance is £nil (2021: £33.6bn). This reflects the final tranche withdrawal of £24.4bn in H1 2022 with c£7.5bn of assets retained under a new quantitatives mandate included within Institutional to better reflect how the relationship is now being managed.
- Phoenix AUM decreased £32bn or 18% largely due to £28bn of adverse market movements.

Gross flows
- £1.3bn higher than 2021, with £5.4bn of gross inflows into low margin quantitatives partly offset by lower bulk purchase annuity inflows of £2.9bn (2021: £5.2bn).

Net flows
- Net outflows of £5.0bn (2021: outflows £5.5bn) excluding LBG tranche withdrawals of £24.4bn.
- Net outflows include withdrawal by Phoenix of £6.3bn of UK equities in Q4 2022 due to a change in Phoenix's approach to asset allocation strategies. This is partly offset by the higher gross inflows into low margin quantitatives highlighted above.

Investment performance

% of AUM ahead of benchmark[1]	1 year		3 years		5 years	
	2022	2021	**2022**	2021	**2022**	2021
Equities	**30**	37	**63**	74	**65**	65
Fixed income	**65**	58	**72**	79	**79**	81
Multi-asset	**13**	72	**50**	73	**22**	70
Real assets	**57**	86	**63**	58	**52**	62
Alternatives	**88**	87	**100**	98	**100**	98
Quantitative	**17**	99	**27**	15	**29**	42
Liquidity	**84**	89	**97**	92	**97**	92
Total	**41**	66	**65**	78	**58**	77

1. The calculation of investment performance has been revised to use a closing AUM weighting basis. 2021 comparative has been restated. We believe that this approach provides a more representative view of current investment performance. Calculations for investment performance are made gross of fees except where the stated comparator is net of fees. Benchmarks differ by fund and are defined in the investment management agreement or prospectus, as appropriate. These benchmarks are primarily based on indices or peer groups.

Investment performance over the key three-year time period has weakened, with 65% of AUM covered by this metric ahead of benchmark (2021: 78%). The sharp rotation in equities from growth to value in late 2021 and H1 2022 impacted many of our equity strategies which focus on quality and growth outcomes. One-year performance was particularly impacted, however longer term equities performance remains robust.

Over the key three-year time period, we have consistently delivered strong performance in alternatives as well as fixed income in the unprecedented interest rate environment. Multi-asset performance over one, three and five years was weaker with absolute return strategies relying on traditional portfolio diversification, primarily equities and fixed income, suffering negative returns.

Real assets valuation yields have weakened given the higher interest rate backdrop which has impacted one-year performance, however, long-term sector conviction remains strong.

Adviser

	2022	2021
Net operating revenue	**£185m**	£178m
Adjusted operating expenses	**(£99m)**	(£104m)
Adjusted operating profit	**£86m**	£74m
Cost/income ratio	**54%**	58%
Net operating revenue yield	**26.1bps**	24.9bps
AUA	**£69bn**	£76bn
Gross flows	**£6.6bn**	£9.1bn
Redemptions	**(£5.0bn)**	(£5.2bn)
Net flows	**£1.6bn**	£3.9bn

Resilient performance from leading Adviser platforms

Adjusted operating profit

- Profit increased to £86m, against a backdrop of challenging market conditions.
- Cost/income ratio improved to 54% with lower operating expenses benefiting from outsourcing activity in 2022.

Net operating revenue

- 4% higher than 2021 with net interest margin on client cash balances increasing to £11m (2021: £1m), reflecting the rise in interest rates. This was partly offset by the impact of lower average AUA.
- The average margin earned on client cash balances during 2022 was c85bps. The indicative Adviser average cash margin for 2023 is 160-180bps.

Revenue yield

- Increased to 26.1bps. due to the higher revenue explained above.
- Average AUA of £71bn is 1% lower than 2021.

AUA

- 10% decrease in 2022 due to adverse markets, partly offset by net inflows.

- Retained our number one position in UK adviser platform market by AUA (Source: UK Adviser platform, Fundscape Q3 2022).

Gross flows
- Sales activity reduced by 27% in 2022, reflecting muted client activity across the industry due to ongoing market uncertainty and focus on short term spending goals amongst the UK consumer base.

Net flows
- Reduction in net inflows to £1.6bn reflects lower gross flows and included a £0.2bn impact from a client exit in H1 2022 due to the acquisition by a consolidator.

Personal

	Total		interactive investor[3]		Personal Wealth	
	2022	2021	**7 months to 31 Dec 2022**	N/A	**2022**	2021
Net operating revenue	**£201m**	£92m	**£114m**		**£87m**	£92m
Adjusted operating expenses	**(£129m)**	(£84m)	**(£47m)**		**(£82m)**	(£84m)
Adjusted operating profit	**£72m**	£8m	**£67m**		**£5m**	£8m
Cost/income ratio	**64%**	91%	**41%**		**94%**	91%
Net operating revenue yield[1]					**59.2bps**	61.0bps
AUMA	**£67.1bn**	£14.4bn	**£54.0bn**		**£13.1bn**	£14.4bn
Gross flows	**£5.6bn**	£1.7bn	**£4.1bn**		**£1.5bn**	£1.7bn
Redemptions	**(£3.7bn)**	(£1.1bn)	**(£2.5bn)**		**(£1.2bn)**	(£1.1bn)
Net flows[2]	**£1.9bn**	£0.6bn	**£1.6bn**		**£0.3bn**	£0.6bn

1. Net operating revenue yield is shown for Personal Wealth only. Revenue for interactive investor is not aligned with AUA and therefore revenue yield is not presented.
2. Cash dividends which are retained on the ii platform are included in net flows for the ii business.
3. Results for interactive investor included following the completion of the acquisition on 27 May 2022.

Accelerating revenue diversification with acquisition of ii

Adjusted operating profit
- Higher profit reflects the inclusion of £67m for the seven months results for ii.
- ii has continued to perform well against an uncertain market environment, with profit performance remaining ahead of our expectations.
- Personal Wealth's adjusted operating profit in 2021 included a one-off benefit of c£3m which when excluded highlights stable underlying performance in 2022 at £5m.
- Cost/income ratio improved to 64% as a result of ii's efficient operating leverage.

Net operating revenue
- The increase in revenue reflects inclusion of £114m from ii.
- ii revenue continues to benefit from diverse revenue streams. Treasury income for the seven months contributed £58m, benefiting from interest rates rising significantly throughout H2 2022. Revenue from subscriptions continued to grow, including the benefit from increased average customer numbers compared with 2021. Trading revenue was impacted by muted levels of customer activity given the uncertain market conditions.
- Personal Wealth revenue reduced by £5m due to adverse market movements impacting AUMA and lower margins from pricing and product mix.

Revenue yield
- Personal Wealth revenue yield decreased to 59.2bps resulting from pricing pressure and changes in product mix. Average AUMA was £13.5bn, 4% lower than 2021.

AUMA
- ii's AUM of £55bn at acquisition was reported as a corporate action in the year. As at 31 December 2022, ii's AUA of £54bn reflects the benefit from net inflows offset by adverse market movements and includes customer cash balances of £6.0bn.
- Personal Wealth AUMA decreased to £13.1bn reflecting lower markets through 2022.
- Total discretionary clients increased by 4% to c16,600 (2021: c16,000).

- ii customer numbers were broadly stable at c402,000 (2021: c403,000). Excluding the tail run-off of the two most recently acquired books (Share Centre and EQi), net customer growth for the year was 3%.
- Number of ii customers holding a SIPP account increased by 17% to c51,500 (2021: c43,900).

Gross and net flows
- Total net flows of £1.9bn included £1.6bn for the seven months of ii flows.
- Reductions in gross and net flows for Personal Wealth include the impact of market uncertainty which has resulted in lower and more muted activity by individuals across the industry. This included a more modest tax year-end period.

Overall performance

Segmental summary	Adjusted operating profit 2022 £m	Adjusted operating profit 2021 £m	AUMA 2022 £bn	AUMA 2021 £bn	Net flows 2022 £bn	Net flows 2021 £bn
Investments[1]	**114**	253	**376**	464	**(13.4)**	(7.6)
Adviser	**86**	74	**69**	76	**1.6**	3.9
Personal	**72**	8	**67**	14	**1.9**	0.6
Corporate/strategic[2]	**(9)**	(12)	**-**	–	**-**	0.3
Eliminations	**-**	–	**(12)**	(12)	**(0.4)**	(0.4)
Total	**263**	323	**500**	542	**(10.3)**	(3.2)
Liquidity net flows					**(3.2)**	(3.0)
LBG tranche withdrawals					**(24.4)**	–
Total net flows (including liquidity and LBG)					**(37.9)**	(6.2)

1. Investments net flows exclude Institutional/Wholesale liquidity and LBG tranche withdrawals.
2. Adjusted operating loss consists of net operating revenue £nil (2021: £14m) and adjusted operating expenses £9m (2021: £26m). 2022 comprises of only certain corporate costs. 2021 also included the Parmenion business which was held for sale. The sale of Parmenion completed in June 2021.

Adjusted net financing costs and investment return

Adjusted net financing costs and investment return resulted in a loss of £10m (2021: £nil):
- Investment losses, including from seed capital and co-investment fund holdings, were £34m (2021: gain £4m) due to adverse market conditions in the year.
- Reduced net finance costs of £5m (2021: £21m) reflecting a higher rate of interest on cash and liquid assets.
- Higher net interest credit relating to the staff pension schemes of £29m (2021: £17m) reflecting an increase in the opening discount rate due to a rise in corporate bond yields.

Adjusting items

	2022 £m	2021 £m
Profit on disposal of interests in associates	**6**	1,236
Profit on disposal of subsidiaries and other operations	**-**	127
Restructuring and corporate transaction expenses	**(214)**	(259)
Amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts	**(494)**	(99)
Change in fair value of significant listed investments	**(187)**	(298)
Dividends from significant listed investments	**68**	71
Share of profit or loss from associates and joint ventures	**2**	(22)
Loss on impairment of interests in associates	**(9)**	-
Other	**(40)**	36
Total adjusting items including results of associates and joint ventures	**(868)**	792

Profit on disposal of interests in associates of £6m relates to the sale of our stake in Origo Services Limited in May 2022. The 2021 profit of £1,236m primarily related to one-off accounting gains of £965m following the reclassification of our

HDFC Asset Management and Phoenix shareholdings from associates to investments measured at fair value. 2021 also included a £271m gain from the sale of a 5% stake in HDFC Asset Management.

Profit on disposal of subsidiaries and other operations in 2021 primarily related to the sales of Parmenion and Bonaccord.

Restructuring and corporate transaction expenses were £214m, comprising restructuring costs of £169m in severance, platform transformation and specific costs to effect savings in Investments, and £45m of corporate transaction costs largely in relation to the ii acquisition.

Amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts increased to £494m, mainly due to the impairment of goodwill and customer intangibles of £369m (2021: £nil). The impairments comprise £328m in Investments and £41m for Finimize which was purchased in 2021. These impairments reflect lower projected revenues as a result of lower markets, macroeconomic conditions and 2022 results being below previous expectations; and for Investments the expected reduction in Phoenix revenue from asset strategy and related pricing changes, and further work being required to reduce costs and grow to a net inflow position.

Change in fair value of significant listed investments of negative £187m from market movements is analysed in the table below:

	2022 £m	2021 £m
Phoenix	**(44)**	(82)
HDFC Asset Management	**(105)**	(164)
HDFC Life	**(38)**	(52)
Change in fair value of significant listed investments	**(187)**	(298)

Dividends from significant listed investments relates to our shareholdings in Phoenix (£52m), HDFC Asset Management (£15m) and HDFC Life (£1m). In 2021, dividends received from Phoenix were £69m (prior to the reduction in our shareholding from 14.4% to 10.4% in January 2022) and £2m from HDFC Life.

Share of profit or loss from associates and joint ventures increased to a profit of £2m. Phoenix and HDFC Asset Management were classified from associates in 2021. The reduction in HASL reflects mainly lower investment returns in 2022. Other relates principally to the share of loss from our shareholding in Tenet Group Ltd.

	2022 £m	2021 £m
HASL	**7**	19
Virgin Money UTM	**-**	(6)
Phoenix	**-**	(56)
HDFC Asset Management	**-**	21
Other	**(5)**	-
Share of profit or loss from associates and joint ventures	**2**	(22)

Loss on impairment of interests in associates of £9m relates to an impairment of Tenet Group Ltd.

Other adjusting items in 2022 primarily relates to a single process execution event provision of £41m. See Notes 11 and 34 for further details. Other adjusting items in 2021 included a one-off £25m net release of deferred income following the transfer of workplace pensions marketing staff to Phoenix.

Tax expense

The total IFRS tax credit attributable to the loss for the year was £66m (2021: expense £120m), including a tax credit attributable to adjusting items of £88m (2021: expense £94m), resulting in an effective tax rate of 11% on the total IFRS loss (2021: 11%). The difference to the UK Corporation Tax rate of 19% is mainly driven by:

- Goodwill impairments that are not deductible for tax purposes.
- Movements in the fair value of our investment in HDFC Asset Management being tax effected at the Indian long-term capital gains tax rate, which is lower than the UK Corporation Tax rate.
- Fair value movements relating to our investments in Phoenix and HDFC Life not being subject to tax.
- Offset by dividends from significant listed investments not being subject to tax in the UK.

The tax expense attributable to adjusted profit is £22m (2021: £26m), an effective tax rate of 9% (2021: 8%). This is lower than the 19% UK rate primarily due to the benefit of certain deferred tax assets being expected to arise after the UK Corporation Tax rate increases to 25% in 2023.

Earnings per share

- Adjusted diluted earnings per share decreased to 10.5p (2021: 13.7p) due to the lower adjusted profit after tax and the interest payment on the AT1 debt. This was partially offset by a benefit from the share buyback.
- Diluted earnings per share was a loss of 26.8p (2021: profit 46.0p) reflecting the factors above, impairments and fair value losses of significant listed investments.

Dividends

The Board has recommended a final dividend for 2022 of 7.3p (2021: 7.3p) per share. This is subject to shareholder approval and will be paid on 16 May 2023 to shareholders on the register at close of business on 31 March 2023. The dividend payment is expected to be £142m.

As a result of the decline in revenue in the year, dividend cover on an adjusted capital generation basis was 0.9 times.

It remains the Board's current intention to maintain the total annual dividend at 14.6p (with the interim and final both at 7.3p per share), until it is covered at least 1.5 times by adjusted capital generation, at which point the Board will seek to grow the dividend in line with its assessment of the underlying medium-term growth in profitability.

Return of capital

On 6 July 2022, we commenced a £300m return of capital to shareholders which completed on 12 December 2022. A total of 179m shares were repurchased at an average price of £1.68 per share.

Capital and liquidity

Adjusted capital generation

Adjusted capital generation, which shows how adjusted profit contributes to regulatory capital, decreased by 29% to £259m.

	2022 £m	2021 £m
Adjusted profit after tax	**231**	297
Less net interest credit relating to the staff pension schemes	**(29)**	(17)
Less AT1 debt interest	**(11)**	-
Add dividends received from associates, joint ventures and significant listed investments	**68**	86
Adjusted capital generation	**259**	366

Net movement in IFPR surplus regulatory capital

The indicative surplus regulatory capital at 31 December 2022 was £0.7bn (2021: £1.8bn) following the acquisition of ii. Disposal of part of our Phoenix, HDFC Asset Management and HDFC Life stakes in January 2022, August 2022 and September 2022 respectively generated sale proceeds of £0.8bn.

Key movements in surplus regulatory capital are shown in the table below.

Analysis of movements in surplus regulatory capital (IFPR basis)	2022 £bn	2021 £bn
Opening surplus regulatory capital[1]	**1.8**	1.2
Sources of capital		
Adjusted capital generation	**0.3**	0.4
HDFC Life, HDFC Asset Management and Phoenix sale proceeds	**0.8**	0.9
Parmenion and Bonaccord sale proceeds	**-**	0.1
Issuance of AT1 debt	**-**	0.2
Uses of capital		
Restructuring and corporate transaction expenses (net of tax)	**(0.2)**	(0.2)
Dividends	**(0.3)**	(0.3)
Acquisition of interactive investor[2]	**(1.4)**	-
Acquisitions of Tritax and Finimize	**-**	(0.3)
Share buyback	**(0.3)**	-
Other	**-**	(0.2)
Closing surplus regulatory capital	**0.7**	1.8

1. The Group reported capital under CRD IV until 31 December 2021. 2021 figures are therefore indicative.
2. Acquisition price of £1.5bn less capital resources acquired.

The full value of the Group's significant listed investments is excluded from the capital position under IFPR and represents additional value for shareholders.

Cash and liquid resources and distributable reserves

Cash and liquid resources remained robust at £1.7bn at 31 December 2022 (2021: £3.1bn) following the £1.5bn ii acquisition. These resources are high quality and mainly invested in cash, money market instruments and short-term debt securities.

At 31 December 2022, distributable reserves were £3.2bn (2021: £2.8bn), benefiting in July 2022 from a £1.1bn transfer from the capital redemption reserve.

Appendix

Assets under management and administration

12 months ended 31 December 2022	Opening AUMA at 1 Jan 2022 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions[2] £bn	Closing AUMA at 31 Dec 2022 £bn
Institutional	**174.0**	**20.1**	**(27.3)**	**(7.2)**	**(12.4)**	**7.5**	**161.9**
Wholesale	**79.1**	**16.4**	**(20.8)**	**(4.4)**	**(5.4)**	**-**	**69.3**
Insurance	**210.5**	**22.8**	**(52.2)**	**(29.4)**	**(28.7)**	**(7.5)**	**144.9**
Investments	**463.6**	**59.3**	**(100.3)**	**(41.0)**	**(46.5)**	**-**	**376.1**
Adviser	**76.2**	**6.6**	**(5.0)**	**1.6**	**(9.3)**	**-**	**68.5**
interactive investor	**-**	**4.1**	**(2.5)**	**1.6**	**(3.0)**	**55.4**	**54.0**
Personal Wealth	**14.4**	**1.5**	**(1.2)**	**0.3**	**(1.6)**	**-**	**13.1**
Personal[1]	**14.4**	**5.6**	**(3.7)**	**1.9**	**(4.6)**	**55.4**	**67.1**
Eliminations[1]	**(12.1)**	**(2.5)**	**2.1**	**(0.4)**	**1.7**	**(0.9)**	**(11.7)**
Total AUMA	**542.1**	**69.0**	**(106.9)**	**(37.9)**	**(58.7)**	**54.5**	**500.0**

12 months ended 31 December 2021	Opening AUMA at 1 Jan 2021 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions[3] £bn	Closing AUMA at 31 Dec 2021 £bn
Institutional	171.7	22.5	(25.4)	(2.9)	5.4	(0.2)	174.0
Wholesale	80.0	19.4	(21.6)	(2.2)	1.3	–	79.1
Insurance	205.2	21.5	(27.0)	(5.5)	10.8	–	210.5
Investments	456.9	63.4	(74.0)	(10.6)	17.5	(0.2)	463.6
Adviser	67.0	9.1	(5.2)	3.9	5.3	–	76.2
interactive investor	–	–	–	–	–	–	–
Personal Wealth	13.3	1.7	(1.1)	0.6	0.5	–	14.4
Personal[1]	13.3	1.7	(1.1)	0.6	0.5	–	14.4
Parmenion	8.1	0.7	(0.4)	0.3	0.3	(8.7)	–
Eliminations[1]	(10.7)	(2.6)	2.2	(0.4)	(1.0)	–	(12.1)
Total AUMA	534.6	72.3	(78.5)	(6.2)	22.6	(8.9)	542.1

1. Eliminations remove the double count reflected in Investments, Adviser and Personal. The Personal vector includes assets that are reflected in both the discretionary investment management and financial planning businesses. This double count is also removed within Eliminations.
2. Corporate actions in 2022 relate to the acquisition of interactive investor on 27 May 2022 and also reflect the transfer of retained LBG AUM of c£7.5bn from Insurance into Institutional (quantitatives), to better reflect how the relationship is being managed. The eliminations are to remove the double count for the assets that are reflected in both interactive investor and Investments.
3. Corporate actions in 2021 relate to the acquisition of a majority interest in Tritax on 1 April 2021 (£5.8bn) and the disposals of our domestic real estate business in the Nordics region on 31 May 2021 (£3.3bn) and Bonaccord/Hark on 30 September 2021 (£1.5bn). Corporate actions also include the impact of the decision to exit the Total Return Bond strategy of £1.2bn. The sale of Parmenion completed on 30 June 2021.

12 months ended 31 December 2022	Opening AUM at 1 Jan 2022 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions £bn	Closing AUM at 31 Dec 2022 £bn
Equities	**69.0**	**7.7**	**(12.7)**	**(5.0)**	**(11.7)**	**-**	**52.3**
Fixed income	**45.8**	**6.7**	**(8.9)**	**(2.2)**	**(6.0)**	**-**	**37.6**
Multi-asset	**36.0**	**3.9**	**(5.2)**	**(1.3)**	**(6.4)**	**-**	**28.3**
Private equity	**12.3**	**0.5**	**(1.1)**	**(0.6)**	**0.6**	**-**	**12.3**
Real assets	**39.4**	**2.1**	**(3.5)**	**(1.4)**	**4.7**	**-**	**42.7**
Alternatives	**20.8**	**2.2**	**(1.6)**	**0.6**	**0.8**	**-**	**22.2**
Quantitative[1]	**5.5**	**3.2**	**(1.7)**	**1.5**	**0.5**	**7.5**	**15.0**
Liquidity	**24.3**	**10.2**	**(13.4)**	**(3.2)**	**(0.3)**	**-**	**20.8**
Institutional and Wholesale[1]	**253.1**	**36.5**	**(48.1)**	**(11.6)**	**(17.8)**	**7.5**	**231.2**

1. Corporate actions include the transfer of retained LBG AUM of c£7.5bn from Insurance into Institutional (quantitatives), to better reflect how the relationship is being managed.

12 months ended 31 December 2021	Opening AUM at 1 Jan 2021 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions £bn	Closing AUM at 31 Dec 2021 £bn
Equities	69.2	11.6	(14.6)	(3.0)	2.8	–	69.0
Fixed income	48.2	11.5	(10.3)	1.2	(1.5)	(2.1)	45.8
Multi-asset	37.7	4.2	(6.1)	(1.9)	0.2	–	36.0
Private equity	10.9	1.5	(1.2)	0.3	1.7	(0.6)	12.3
Real assets	30.0	3.3	(2.1)	1.2	5.7	2.5	39.4
Alternatives	19.5	2.0	(1.9)	0.1	1.2	–	20.8
Quantitative	6.4	1.2	(1.2)	–	(0.9)	–	5.5
Liquidity	29.8	6.6	(9.6)	(3.0)	(2.5)	–	24.3
Institutional and Wholesale	251.7	41.9	(47.0)	(5.1)	6.7	(0.2)	253.1