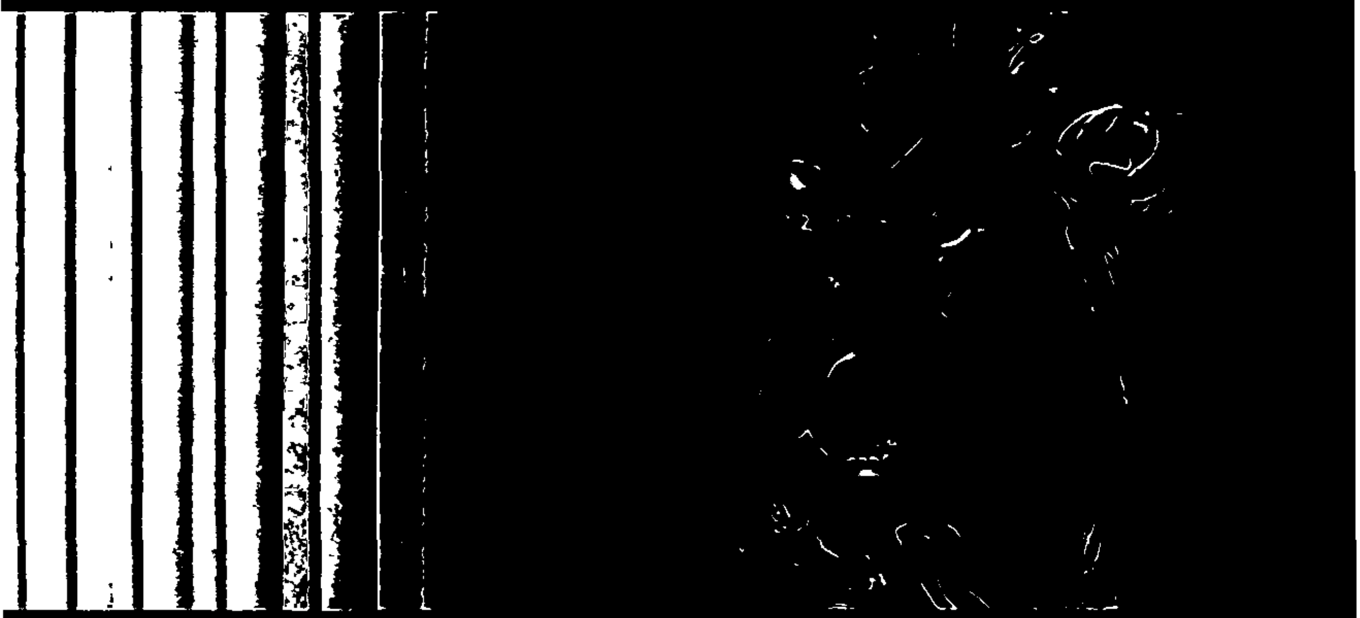
ST. JAMES'S PLACE



ST. JAMES'S PLACE PLC ANNUAL REPORT AND ACCOUNTS 2012

ST JAMES'S PLACE
WEALTH MANAGEMENT

St James's Place plc is the FTSE 250 listed parent company of the St James's Place Wealth Management Group, one of the UK's leading wealth management organisations The St James's Place Wealth Management Group offers a wide range of high quality wealth management services, specialising in the provision of face-to-face wealth management advice to individuals, businesses and trustees, and the management of client funds

The Group provides advice through its representatives – the St James's Place Partnership – supporting their advice with a wide range of products and services, which are manufactured by the Group or sourced from other 'best of breed' providers across the market

The St James's Place Wealth Management Group manages over £34 billion of funds on behalf of clients, supported by the 1,788 members of the St James's Place Partnership and in total, in excess of 2,000 qualified professionals

The strength of our relationship with clients and the quality of the advice and service that we offer was publically endorsed during the last twelve months, when St James's Place won several industry awards that were voted for by clients, members of the public and fellow industry peers

Contents

Financial Highlights

Funds under management +22%

2012: £34.8 billion
2011 £28 5 billion

Net inflow of funds under management +4%

2012: £3.35 billion
2011 £3 21 billion

Gross inflow of funds under management +8%

2012: £5.6 billion
2011 £5 2 billion

Partnership numbers +8%

2012: 1,788
2011 1,649

IFRS profit before shareholder tax +23%

2012: £134.6 million
2011 £109 7 million

EEV new business profit +13%

2012: £276.8 million
2011 £246 0 million

EEV operating profit -2%

2012: £365.9 million
2011 £371 5 million

Cash result +37%

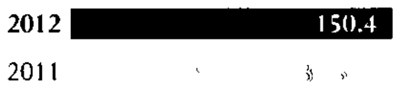
2012: £91.7 million
2011 £67 0 million

Dividend (pence per share)

Increase of
33%

IFRS Net Assets per Share (pence)

Increase of
9%



EEV Net Assets per Share (pence)

Increase of
20%

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Chairman's Statement

Charles Gregson
Chairman

Another Strong Year

Despite the difficult economic environment we faced in 2012, St James's Place has had another strong year David and Andrew cover the performance in detail in their reports, but it is particularly pleasing to achieve record new business and funds under management in this difficult environment This clearly demonstrates the strength and resilience of the St James's Place business model

A particular highlight is the increasing emergence of cash which has enabled the Board to grow the dividend in line with the 33% expectation we set last July at the time of our Interim announcement

Corporate Governance

We strive to adopt the best practice in relation to Corporate Governance throughout the Group and in relation to the disclosures

Shareholders will see in the Report and Accounts that the usual format of the Remuneration Report has changed this year as the Board has sought to be an early adopter of the Government's draft legislation relating to remuneration reporting Where practical we have implemented a year early the various changes set out in the draft legislation, although as the old legislation has yet to be repealed, the remuneration report is considerably longer than in recent years However, we hope that shareholders will appreciate the clarity of the revised format and the additional disclosures we have made

We have also adopted early the changes recommended by the Financial Reporting Council relating to Audit Committee disclosures, more details of which are set out on page 58

Board Composition
Building on the changes made in 2011, we were delighted to welcome Patience Wheatcroft to the Board in April. Her substantial business and media experience has further strengthened the wide range of skills on the Board. During 2013 we plan to continue our policy of gradually refreshing the Board by the appointment of additional Non-executive Directors, provided that suitable candidates can be identified by the Nomination Committee.

The Board and the Nomination Committee keep succession planning under regular review, with a view to ensuring that senior managers are being developed appropriately and we have the right skills around the table to drive forward the continued success of the Group.

Board Effectiveness Review
In 2012 we once again appointed Independent Audit to facilitate an evaluation of the effectiveness of the Board and its Committees, largely to review whether the various changes made in 2011 (following their last review) had achieved the objective of ensuring effective discussions around the Board table. The findings of Independent Audit were positive and further detail on the review process and findings can be found on page 52.

The Future
Looking forward, having established the Group as a well-respected and trusted provider of high quality advice and wealth management services in recent years, we now need to build on that success in the years ahead. Critical to that is meeting our customer expectations, the continued development and growth of the Partnership and the Group's investment proposition. We must remain focused on our core business principles, and the values and culture that have stood the Group in such good stead thus far.

I look forward to working with the Board in achieving these aspirations.

Charles Gregson
Chairman
27 February 2013

Chief Executive's Statement

David Bellamy
Chief Executive

2012 will be remembered for many different reasons, from the Diamond Jubilee to the Olympics and Paralympics and other sporting achievements, not to mention the amount of rain that fell

From an investment perspective, low growth, low interest rates and modest, but persistent inflation once again dominated the major economies of the Eurozone and North America, and this pattern may well be repeated in 2013 Growth in the emerging and developing economies proved stronger, another trend that looks likely to continue in the coming year

It was against this backdrop that I am pleased to report another year of strong growth further demonstrating the Group's continued resilience despite the market conditions

We have continued to attract new investments, grow our funds under management, increase the size of the Partnership and their productivity, which in turn is driving strong growth in profits and dividends to shareholders

New Business and Funds Under Management

The first six months of the year saw modest growth in new business whilst the second half of the year saw a significant pick up in activity, as investor confidence returned culminating in new business growth in the final quarter, on an annual premium equivalent basis ('APE') of 46%, resulting in the full year total APE being up 16%

New single investment and pension business at £5 88 billion was 13% higher than 2011 and it is particularly pleasing to note that we continue to maintain strong retention of existing client funds which, combined with the new investments, resulted in a net inflow of £3 35 billion

Total funds under management at 31 December 2012, at £34 8 billion, were 22% higher than the start of the year

Financial Performance

The Chief Financial Officer's Report and Financial Review which can be found on pages 12 to 29, provides a comprehensive presentation of the financial results and detail of the Group's performance for the year

On an IFRS (International Financial Reporting Standards) basis, profit before shareholder tax increased to £134 6 million (2011 £109 7 million)

European Embedded Value ('EEV') operating profits were £365 9 million (2011 £371 5 million) reflecting good growth in new business and the performance of our funds under management, but without the benefit of the £38 1 million exceptionally strong experience variances that we saw in 2011

Dividend

We have said before that a growing cash result is a trend that is expected to continue with the increasing maturity of funds under management

Shareholders have seen a 33% dividend rise in each of the last two years and, given our on going confidence in the profile of the future cash emergence, we announced at the time of our 2011 full year results that shareholders could expect a similarly significant increase in the 2012 dividend

I am therefore pleased to confirm the cash result was up 37% to £91 7 million and, in line with this statement, we are pleased to confirm the final dividend of 6 39 pence per share, up 33% as expected Consequently the full year dividend is 10 64p also up 33% on 2011

Furthermore, given our on going confidence in the profile of the cash emergence going forward, shareholders can expect a similarly significant increase in the 2013 dividend Beyond that we fully intend to maintain our progressive dividend policy in line with the underlying performance of the business

The final dividend for 2012, subject to approval of shareholders at our AGM, will be paid on 24 May to shareholders on the register at the close of business on 12 April and as with last year, a Dividend Reinvestment Plan ('DRP') continues to be available for shareholders

Clients

Access to some of the best fund managers in the world, delivering above average investment returns, together with trusted advice and reliable service are the essential elements of what we have to offer clients

We measure our performance in these areas by tracking the retention rates of our funds under management and the amount of new investments and referrals we receive from existing clients In addition, we commission regular surveys of our clients and seek feedback from them via questionnaires sent with our annual wealth accounts

All of these initiatives provide us with a rich source of regular feedback and tell us that our proposition is valued by our clients

Investment Management

One of the core elements of our business strategy is the distinctive way that we manage our clients' wealth

Despite the difficult economic environment, stock markets generally produced a solid year of growth, albeit after a short correction in the summer as concerns over a Greek exit from the Eurozone resurfaced and confidence in Spain's ability to refinance its banking system wavered Over the year as a whole, the FTSE 100 index returned around 6% in capital growth, 10% with dividends reinvested Slightly higher growth was achieved in the wider All Share index and in some overseas equity markets

Similarly, other asset classes gained ground in 2012 with corporate bonds proving to be one of the best performing asset classes By contrast, the UK commercial property market remained relatively flat with income yields being partially offset by a weakening in capital values

Net Inflow of Funds

£3.35bn

Funds Under Management

£34.8bn

Cash Result

+37%

Full Year Dividend

+33%

Chief Executive's Statement *continued*

UK interest rates remain at historic lows and this continuing benign interest rate environment has a beneficial effect on UK wealth management as clients seek to explore opportunities for higher returns than available in bank deposit funds

Against this background, the vagaries and unpredictability of markets serve as a constant reminder to clients of the need for advice and the importance of a broad diversification across asset classes, geographies and investment management styles In this respect, the investment portfolios, launched last year, have proven to be a useful starting point for discussions between our Partners and their clients about how they can create the right strategy to mitigate risk and achieve financial security

Our clients now have access to over 30 high quality investment managers, chosen from across the world, to manage their funds and we are confident that the strength and breadth of our fund offering provides an excellent platform upon which to continue to grow our funds under management in the coming years

The St James's Place Partnership
We believe that we are uniquely positioned in the UK wealth management market because we have chosen to promote our services exclusively through our dedicated adviser team, the St James's Place Partnership Increasing the number of Partners and providing them with the tools and support to deliver high quality outcomes for clients are key drivers to our achieving our long-term business growth objectives

It is therefore very pleasing to report continued growth in the size of the Partnership this year, up 8% to 1,788 and the number of diploma qualified advisers and support staff now exceeds 2,000 All members of the Partnership achieved the higher professional qualification standards required by the Financial Services Authority under the Retail Distribution Review which came into effect on 31 December 2012

Whilst we are confident that we can continue to attract established high quality advisers, February 2012 saw the re-launch of our Academy programme We are extremely pleased with the quality of the individuals that we have been able to attract so far We have just completed the initial training of our third cohort, bringing the total within the programme to 54 In addition we ran a parallel programme for the second generation of existing Partners, the sons and daughters of existing Partners who aspire to join the business in due course We anticipate that some of the Academy Partners will begin to graduate into the Partnership during the latter part of this year

Partners and Employees
The strength and continued growth of the business is due in no small part to the hard work and dedication of our Partners, their staff and all of our employees and administration support teams

On behalf of the Board and shareholders I thank everyone connected with St James's Place for their contribution to these results and for their continued enthusiasm, dedication and commitment

The St James's Place Foundation
The St James's Place Foundation has always been an important part of the Group's culture and we were delighted to celebrate the 20th anniversary of the Foundation in 2012 by raising the record sum of £5 million to help the good causes that the Foundation supports This was very much a collective effort by the whole SJP community, including employees, Partners, suppliers and others connected to SJP I would like to thank all of you for helping to raise such an impressive sum, which is particularly important in a year when surveys indicate that giving to charities has decreased by around 20% compared to 2011 Further details of our CSR activities are set out on pages 34 to 43

Outlook
Whilst we recognise that there is still economic uncertainty, everything we understand about our marketplace tells us that there has never been a greater need for high quality advice delivered by a trusted adviser, backed by a well respected company The scale and strength of the Company's adviser led approach to wealth management, twinned with a proven investment management proposition, leaves St James's Place both uniquely and well positioned to benefit from the long-term demographic and market opportunities in wealth management

We have good momentum across all aspects of the business and are therefore confident in our ability to continue our growth in line with our medium term objectives in 2013 and beyond

David Bellamy
Chief Executive
27 February 2013

Our Business Model and Strategy

Our Business Model – What do we do?
St James's Place specialises in providing face-to-face advice to clients through our dedicated advisers, the St James's Place Partnership, and in managing client wealth with our distinctive Investment Management Approach

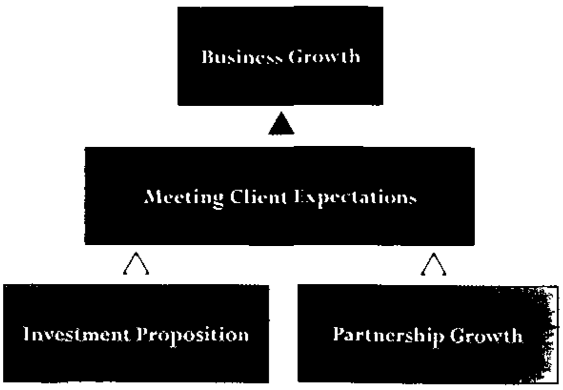
Our business is centred on the UK, attracting clients from the mass affluent and, increasingly, the high net worth markets Our advisers monitor and review clients' financial needs over time, adapting advice where necessary in order to ensure that recommendations remain appropriate By focusing on getting this right, we retain both the client relationship and the funds under management for the long-term

Our relationship-based approach is greatly valued by our clients, no more so than in the current period of financial uncertainty There is an increasing demand for trusted advice from experienced advisers backed by a strong organisation and brand Clients also value our unique investment management approach

The enduring nature of the relationships we have both with Partners and with clients is particularly important These relationships endure because they are founded on mutual respect and trust, within our community we emphasise the importance of building and maintaining long-term relationships

Our Business Strategy – Where are we going?
St James's Place has always pursued a simple but effective strategy for growth, based on

- Development of the Partnership through recruitment of new advisers and productivity improvements
  - Increased activity in the Partnership results in the attraction of new clients and new funds
- Meeting (and where possible exceeding) the expectations of our clients
  - Positive long-term relationships with clients ensure the retention of funds for the long-term
- Delivering on our investment proposition
  - Positive performance of our Investment Management Approach delivers growth in funds managed and helps ensure positive client relationships



Measured in terms of funds under management, the business has doubled over the last five years as well as in the five years preceding that, a rate of growth which we aspire to repeat in the next five years, subject of course to the vagaries of the market We believe that the strength of relationship between our Partners and our clients, together with our approach to investment management, leaves us uniquely positioned to continue to succeed in the wealth management market

The St James's Place Partnership
Members of the St James's Place Partnership play the leading role in delivering our wealth management service The Partners, so called because of the way they work in partnership with their clients, have, on average, over 17 years' experience and include some of the most experienced and able professionals working in wealth management today

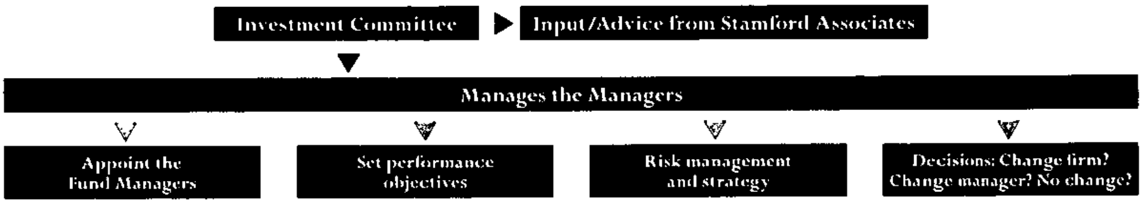
Whilst all of our Partners are experienced advisers, some have expertise in specific and highly technical areas If an individual's circumstances require additional expertise, Partners will consult with, and if necessary introduce, a specialist colleague Partners often work alongside other professional advisers, providing a complementary service and a fresh perspective

We have chosen to promote our services exclusively through the Partnership This reflects the confidence we have in our Partner's ability to provide clients with sound financial advice and to build and maintain long-term working relationships with them

Relationships are important Being able to call upon the services of an adviser who understands an individual's personal circumstances enables them to benefit from a source of trusted advice as their financial needs evolve over the years

We are committed to supporting our Partners' on going professional development to ensure that they remain appropriately qualified and technically able As a result, we are happy to guarantee the suitability of the advice that they give when recommending any of the wealth management products and services provided by companies in the St James's Place Wealth Management Group

Our Approach to Investment Management



The Investment Management Approach

At the heart of the proposition to our clients is our investment management approach

Successful investment is critical to future financial well-being, but it is a field which presents a unique problem future performance is unpredictable As a result, when clients choose an investment manager, no matter how successful, they can never be sure that they have made the right choice, and even if they have, it may not continue to be the right choice over the years to come

We believe that our approach to investment management addresses these challenges We do not place clients' money in the hands of our own team of investment managers indeed, we have no investment managers of our own Instead, we are free to choose any investment manager from any fund management firm anywhere in the world

The responsibility of selecting the range of funds and fund managers that are made available to St James's Place clients at any one time falls upon the St James's Place Investment Committee, advised by the respected independent investment research consultancy, Stamford Associates

Stamford Associates share their extensive research of the global investment markets with a small number of companies We are particularly proud to have them on our team, as St James's Place is the only company they work with that provides wealth management advice to private individuals or Trustees

The Committee meets regularly to review performance and consider detailed reports from each investment manager If a change in the marketplace calls for the addition of another manager, the Committee will select one Equally, if the Committee loses confidence in the ability of an existing manager it will replace them

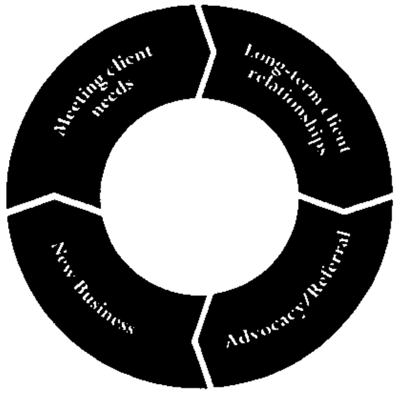
We remain committed to monitoring and reviewing all of our fund managers to ensure we generate the optimum return for our clients' investment and expect to make further new appointments, of both managers and mandates, in 2013

Long-Term Client Relationships

Everything we do is targeted at building and maintaining long-term relationships with clients this is the core of our business model

We achieve this primarily through the activity of the St James's Place Partnership and their ability to provide an individualised service to each of our clients Our Partners recognise that no one client's objectives or circumstances are the same as another and so the advice must be tailored The relationship between Partner and client is founded on mutual respect and trust, and the emphasis is on building and maintaining a long-term relationship Our high standards are maintained and reinforced by the high expectations that members of the Partnership have of each other As a result, clients choose to continue the working relationship with their Partner indefinitely, appreciating a source of trusted advice as their financial needs evolve over the years

The success of our approach can be seen from the fact that over 90% of new investments is estimated to come from existing clients or from referrals and introductions from them, and once invested clients tend to stay invested We are particularly pleased with the consistent, year on year, low rate of surrender of funds (typically less than 5%) The strength of these relationships is also underscored through our annual client survey, conducted by Ledbury Research, where we consistently outperform the market place on all core satisfaction metrics



Key Performance Indicators

Funds

Our objectives

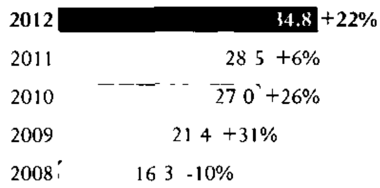
To increase funds under management through a combination of growth in new funds (new business), positive investment returns (above market median returns) and market leading retention rates of existing funds under management (FUM)

Progress during 2012

During 2012, FUM increased to £34 8 billion representing growth of 22% over the year as a result of £5 6 billion of gross inflows (8% increase) and £3 3 billion in net inflows (4% increase), against the backdrop of recovering markets (a 6% rise in FTSE 100 in 2012)

Key performance indicators

Funds under Management (£'Billion)



The profitability on all measures of the Group is ultimately driven by the income we earn from FUM The FUM have exhibited compound annual growth of 19% over the last ten years and 27% since inception

New Business

Our objectives

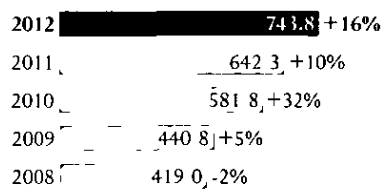
To achieve year on year growth in new business ahead of our competitors with a medium to longer term objective of annual growth of 15 to 20% This is achieved through a combination of productivity and growth in the Partnership

Progress during 2012

During 2012, the growth in new business, as measured on the Annual Premium Equivalent (APE) basis (being new regular premiums plus one-tenth of single premiums and unit trust sales) was 16% The number of Partners increased by 8% and APE per Partner also increased by 8% to £432 5k (2011 £401 2k)

Key performance indicators

Growth in New Business (APE) (£'Million)



In 2012, the growth in new business was 16% resulting in compound annual growth of 17% over the last ten years and 18% since inception

The proportion of our own manufactured business for the year was 86%

Financial

Our objectives

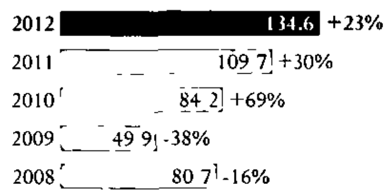
To achieve sustainable growth in reported profits on all bases and to increase the levels of cash emerging from our business as it matures, resulting in the opportunity to distribute increased earnings to our shareholders

Progress during 2012

New business contribution, IFRS profit before shareholder tax and the cash result all increased during 2012

Key performance indicators

IFRS Profit before Shareholder Tax (£'Million)



The IFRS reporting basis is the statutory requirement and requires that revenue is deferred until earned and that costs are amortised over the period in which the benefit is obtained In 2012, profit before shareholder tax on an IFRS basis demonstrated growth of 23%

Gross Funds Flow (£'Billion)

2012	5.6	+8%
2011	5.2	+11%
2010	4.7	+34%
2009	3.5	+17%
2008	3.0	-6%

Gross funds flow is the gross new investment and pensions business (principally single premium) received that contributes to the positive movement in FUM

Net Funds Flow (£'Billion)

2012	3.35	+4%
2011	3.21	+10%
2010	3.0	+30%
2009	2.3	+35%
2008	1.7	-10%

Net funds flow represents the combined effect of the gross funds flow less the outflows

Number of Partners

2012	1,788	+8%
2011	1,649	+6%
2010	1,552	+6%
2009	1,464	+9%
2008	1,340	+7%

The growth in the number of advisers in the St James's Place Partnership contributes to the growth in new business year on year It is key, not only to recruit good quality advisers, but also to retain those already with us During 2012, the number of Partners increased by 8% to 1,788

New Business (APE) per Partner (£'000)

2012	432.5	+8%
2011	401.2	+4%
2010	385.6	+23%
2009	314.1	-3%
2008	323.2	-9%

New business per Partner is a measure of the productivity of the Partnership which has contributed to the growth in new business over recent years

New Business Contribution on an EEV basis (£'Million)

2012	276.8	+13%
2011	246.0	+13%
2010	217.8	+40%
2009	155.4	+26%
2008	123.5	-18%

New business contribution represents the gross margin on the European Embedded Value ('EEV') reporting basis emerging from new business sales, less the direct expenses As such it is a measure of the profitability of new business sales In 2012, the growth in EEV new business contribution was 13%

EEV Operating Profit before Tax (£'Million)

2012	365.9	-2%
2011	371.5	+12%
2010	332.6	+45%
2009	228.9	+12%
2008	204.3	-17%

The EEV reporting basis assesses the full value of the long-term emergence of the shareholder cash returns We aim to achieve sustained growth in EEV operating profit In 2012 we experienced a fall of 2% compared with the prior year but only because of a large positive experience variance in 2011 Adjusting for this difference, we would have experienced growth of 9% year on year

Cash Result (£'Million)

2012	91.7	+37%
2011	67.0	+39%
2010	48.3	+106%
2009	23.5	-2%
2008	24.1	-7%

The cash result (which is defined on page 17) is the combination of the cash arising from the business in force at the start less the investment to acquire business in the current period - in effect a proportion of the cash arising from the in-force business is reinvested for future cash returns The cash result has grown by 37% in the year

Chief Financial Officer's Report

Andrew Croft
Chief Financial Officer

Included as part of this statement is the usual detailed Financial Review on pages 16 to 29 which provides useful information to shareholders and investors

Despite the continuing uncertain economic and stock market environment during the year, our financial performance in 2012 was strong across all key measures, continuing the positive trend we have seen in recent years

David, in his CEO statement, has covered the £5 88 billion of new business, the record funds under management and the strong growth in the Partnership In this statement I will comment on the other financial results

Financial Results

As shareholders are aware we report our results on both an IFRS and EEV basis as well as providing further detail on the cash emerging from the business Further analysis on these measures is provided on pages 16 and 17

The tables below show the five year record of the financial results under these measures starting with the IFRS basis

Profit before shareholder tax on an IFRS basis

The Board regards the profit before shareholder tax as the best measure of the performance of the business on an IFRS basis, in any particular year

As can be seen from the table below, profit on this measure was £134 6 million, up 23% over the prior year

In recent years shareholders have seen a steady increase in this measure which mirrors the development of the cash result, commented on further below, and reflects the maturing of the business

	Profit before shareholder tax
	£ Million
2012	134 6
2011	109 7
2010	84 2
2009	49 9
2008 (excluding one offs)	64 5

EEV result

The three key measures within the EEV results are the new business profit, the operating profit and the net asset value per share

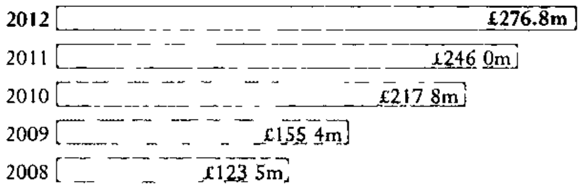
The new business profit was up 13% during the year and has grown in each of the years since 2008, doubling over the period The growth in new business profit reflects increasing new business volumes, positive business mix and expense management

The operating profit is impacted not only by the new business profit but also experience variances from the assumptions in the EEV calculation Although there was once again a positive experience variance in the current year, the greater positive experience variance in the prior year meant the operating profit for the year has marginally declined

The net asset value per share on an EEV basis at the end 2012 was 461 0 pence, some 20% higher than the start of the year and almost double the 2008 figure

	New business profit	Operating profit	Net asset value per share
	£ Million	£ Million	pence
2012	276 8	365 9	461 0
2011	246 0	371 5	385 0
2010	217 8	332 6	352 9
2009	155 4	228 9	284 5
2008	123 5	204 3	232 4

Record EEV new business profit
Growth of 124% over the period



Cash result
The Group's cash income is dependent on the level of client funds and the level of asset values Since much of our business does not generate net cash in the first six years, the level of income will also increase as a result of new business from six years ago becoming cash generative

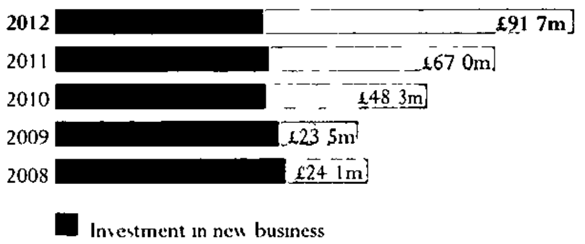
The first column in the table below shows how the cash arising from the in-force business has grown by 18% in the year

Nearly a third of the funds under management are currently not generating any positive cash flow Since they are expected to become cash generative once they reach the end of their sixth year they will support strong organic growth in the cash arising from the in-force in future

Column 2 of the table shows the cash earnings that are 're-invested' in acquiring new business The cost of this investment has remained relatively stable over the last five years notwithstanding the new business growth over the same period Shareholders should receive a good return from this investment, with an expected internal rate of return of c 22% The net effect of growing the cash arising from the in-force business whilst keeping the level of cash invested in new business relatively flat, is a growing net cash flow This net cash result was up 37% in 2012 – a third successive year of significant growth

	Cash arising on in force business	Cash invested in acquiring new business	Net cash result
	£'Million	£ Million	£ Million
2012	152 2	(60 5)	91 7
2011	129 4	(62 4)	67 0
2010	109 7	(61 4)	48 3
2009	88 8	(65 3)	23 5
2008	91 4	(67 3)	24 1

Post-tax cash result
Annual compound growth rate of c 40%



Capital
A key financial objective is to ensure the Group's solvency is managed safely through both good and difficult times This is important not only for the safeguarding of our clients' assets, but also to ensure we can maintain returns to shareholders

The Group continues to be capitalised well in excess of regulatory solvency requirements, and the assets remain invested prudently in cash, AAA rated money market funds and UK government securities The lack of significant balance sheet or market risk, together with this prudent investment policy has provided for a stable and increasingly resilient solvency position over recent years, despite the difficult financial and market environment At the year end the total Group solvency net assets were £403 5 million, well in excess of the £57 8 million total Group solvency requirement

Dividend
As the business matures, the cash emerging from the in-force business is increasing year by year, whilst the proportion of this cash that is re-invested in acquiring new business is falling

Chief Financial Officer's Report *continued*

This combination means the cash available for corporate purposes and to return to shareholders is increasing, consequently the Board has been able to increase the dividend in each of the last five years

As can be seen in the table below, the dividend was significantly increased by 33% in both 2010 and 2011 At the time of the interim results the board announced a third year of significant dividend growth and increased the 2012 interim dividend by 33% Subject to shareholder approval at the AGM, the Board has resolved to also increase the 2012 final dividend by 33%

I am also pleased to confirm that we expect to increase the 2013 dividend by a similar significant amount Thereafter, we will continue with a progressive dividend policy by growing the dividend in line with the underlying performance of the business

	Dividend per share	Growth
	Pence	%
31 December 2012	10 64	33
31 December 2011	8 0	33
31 December 2010	6 0	33
31 December 2009	4 5	2 5
31 December 2008	4 39	2 1

Future Developments

There are a number of tax and regulatory developments that have been implemented or are in the process of being implemented which will have an impact on the future financial results of the business The actual impact will be dependent upon the level of future new business and stock markets, however, we currently expect to see little change to IFRS profit, a small reduction in the EEV new business profit (and operating profit) and earlier emergence of cash flows

Further comment is included in the relevant sections of the Financial Review

Concluding Remarks

2012 has been another strong year of financial performance for the Group This is again particularly pleasing given the continuing difficult trading conditions that prevailed for the majority of the year

The business is in good shape and has already benefited from the positive stock market performance in the first two months of the year As the business continues to mature we expect further growth in the profits and in particular an increased cash emergence which should translate to further growth in dividends

Andrew Croft
Chief Financial Officer
27 February 2013

Financial Review

The Financial Model

As described earlier, the Group's strategy is to attract and retain retail funds under management on which we receive an annual management fee for as long as we retain the funds This is the principal source of income for the Group out of which we meet the overheads of the business, invest in growing the Partnership and in acquiring new funds under management

The level of income is dependent on the level of client funds and the level of asset values In addition, since much of our business does not generate net cash in the first six years, the level of income will increase as a result of new business from six years ago becoming cash generative This deferral of cash generation means the business always has six years' worth of funds 'in the gestation period', and the IFRS profits and cash result are relatively insensitive to new business levels (see page 25)

Group expenditure is carefully managed with clear targets set for growth in establishment expenses in the year Other expenses increase with business levels and are met from margins in the products (see page 28)

A small proportion of Group expenditure is required to support management of existing funds, but the majority of expenditure is investment in growing the Partnership and acquiring new funds The resulting new business is expected to generate income for an average of 14 years, and is expected to provide a good return on the investment (see page 26)

In the early years of the business, most of the cash emerging from the existing business was re-invested in the acquisition of new business therefore limiting the level of the cash result and IFRS profit before shareholder tax In recent years, the maturing of the business has resulted in strong growth in both the cash emergence and the IFRS result

Given the high level of reinvestment of emerging IFRS profits and cash back into new business generation, neither approach provides a simple guide to the profits likely to emerge in the future or the total economic value of the business However, consideration of the contribution to profits from just the in-force business does provide a good indication of the underlying value generated It can also allow a useful reconciliation of these results to the EEV result, which presents our detailed, market consistent assessment (using industry agreed principles) of the economic value of our business

Presentation of Financial Results

Management believes it is important for investors to appreciate not only the short term net income position of our business, but also the full, long-term potential We therefore complement our statutory IFRS reporting with additional disclosure on an embedded value basis (using EEV principles) This measure assesses the discounted value of all future cash flows and we believe it better reflects the full economic value of the performance of the business We also provide analysis of the sources of cash emergence in the year, which we refer to as the cash result

These three measures, which are described in more detail below, provide investors with different perspectives on the performance of the business in a particular year We believe the additional disclosure will assist them in making their own assessment of the value of the business

The **IFRS result** is the approach required for statutory reporting purposes The standards require that profits are recognised in line with the provision of services and therefore broadly in line with the cash emergence from a contract However, for long-term business it seeks to spread some of the initial cash flows over the whole duration of the contract through the use of intangible assets and liabilities (known as DAC – Deferred Acquisition Costs and DIR – Deferred Income Reserve) and recognises the value of certain future cash flows, particularly deferred tax

One point of note in the IFRS methodology is the requirement that the tax recognised in the accounts should include the tax incurred on behalf of policyholders in our UK life assurance company Since the policyholder tax charge is unrelated to the performance of the business, management believes it is useful to provide additional disclosure of the **profit before shareholder tax** This measure reflects the profit before tax adjusted for tax paid on behalf of policyholders, which we believe provides the most useful measure of IFRS operating performance in the period

The **embedded value result** is particularly useful for investors seeking to assess the full value of the long-term emergence of shareholder cash returns, since it includes an asset in the valuation reflecting the net present value of the expected future cash flows from the business This type of presentation is also commonly referred to as a 'discounted cashflow' valuation Our embedded value is based on the EEV principles, which were set out as an industry standard by the Chief Financial Officers ('CFO') Forum in 2004

Many of the future cash flows derive from fund charges, which change with movements in stock markets Since the impact of these changes is unrelated to the performance of the business, management believes that the **EEV operating profit** (reflecting the EEV profit before tax adjusted to reflect only the expected investment performance and no change in economic basis) provides the most useful measure of performance in the period

Finally, the **cash result** measure has been developed with the aim of assisting investors seeking to understand the sources of cash emergence It is based on IFRS, but removes non-cash items such as DAC, DIR and deferred tax It is also adjusted to reflect the regulatory solvency constraints on profits emerging from regulated companies such as our insurance businesses The effect is to create a measure which more reflects the underlying cash generated by the business and which can be used by the Board in determining the proposed dividend payments to shareholders

Since the cash result can be impacted by timing variances and capitalised impacts of changes in solvency requirements management believes it is also useful to present an **underlying cash result** excluding these effects Neither of these cash result measures should be confused with the IFRS cash flow statement which is prepared in accordance with IAS 7 and disclosed on page 89

Sections 1-3 below provide a commentary on the performance of the business on these bases, whilst Section 4 covers other matters of interest to shareholders

Section 1 International Financial Reporting Standards ('IFRS')

The Board regard the IFRS profit before shareholder tax as the best measure of the IFRS operating performance for the year It provides a measure of performance which recognises the emergence of profits in line with the provision of services, and is comparable with other businesses The detailed IFRS result is shown on pages 86 to 136 and is summarised in the table below

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Profit before shareholder tax	134.6	109 7
Shareholder tax	(27.5)	(2 9)
IFRS profit after tax	107.1	106 8

An analysis of the movement in the profit before shareholder tax and shareholder tax is provided below

Profit before Shareholder Tax

The profit before shareholder tax for the year was £134 6 million, up 23% on the prior year result of £109 7 million

The key driver of the improved result was higher income from funds under management During 2012, the average funds under management were more than £31 5 billion, and some 14% higher than the prior period

A breakdown by segment of the profit before shareholder tax is provided in the following table

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £ Million
Life business	111 7	89 1
Unit Trust business	33 5	27 8
Distribution business	5 3	6 1
Other	(15 9)	(13 3)
Profit before shareholder tax	134 6	109 7

Life business

The Life business profit for the year was £111 7 million (2011 £89 1 million) which was 25% higher than the prior year The principal contributor to this rise in profit was the higher income from funds under management in recent years

Unit Trust business

The Unit Trust business profit for the year was £33 5 million (2011 £27 8 million) which was also higher than the same period last year As above, the principal contributor to this rise in profit was the higher income from funds under management

Distribution business

The impact of distribution activity is separately identified from 'Other' operations St James's Place is a vertically integrated firm, allowing it to benefit from the synergies of combining management of funds with distribution Therefore, as well as the income generated on the funds under management, there is a further margin from the distribution activity In any one year this result will depend upon the level of new business and expenses

The Distribution business profit for the year was £5 3 million (2011 £6 1 million)

Other

Other operations contributed a loss of £15 9 million (2011 loss of £13 3 million) Included within this figure is the cost of expensing share options of £5 4 million for the current period (2011 £10 5 million) The additional loss in 2012 is made up of a number of items including increased cost of matching for the Foundation

Financial Review *continued*

Shareholder Tax

The actual tax rate for each year is impacted by stock market related timing differences and one off effects such as the change in corporation tax rate Therefore, to assist shareholders, the table below provides a high level analysis of shareholder tax, and a more detailed analysis is included in Note 8 to the financial statements

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£ Million
Expected shareholder tax	**(33.7)**	(29 6)
Market related tax effects	**(4.0)**	20 3
Other tax adjustments	**2.0**	(0 6)
Corporation tax rate change	**8.2**	7 0
Actual shareholder tax	**(27.5)**	(2 9)
Expected shareholder tax rate	**25.0%**	27 0%
Actual shareholder tax rate	**20 4%**	2 6%

The **expected shareholder tax** principally reflects the current corporation tax rate applicable to profits in the year, and will vary from year to year depending upon the emergence of profit between the different tax regimes which apply to the St James's Place Group companies There has been a small change this year to reassign £5 1 million of expected tax effect as being market related, which we believe will give a more useful and consistent analysis going forward More detail is included in Note 8 to the financial statements

The **market related tax effects** and **other tax adjustments** will typically be small However, the lower investment markets in 2011 resulted in a large negative market related tax effect in that year

The impact of the **corporation tax rate change** on deferred tax has reduced the tax charge in both years The impact on shareholder tax in 2011 reflects a reduction of 2% in the corporation tax rate, from 27% to 25% The impact in 2012 reflects a 2% reduction from 25% to 23% which will be the tax rate from April 2013

The overall impact of all of the above effects is to increase the tax charge on an IFRS basis to £27 5 million (2011 £2 9 million)

IFRS Profit after Tax

The following additional analysis of the IFRS profit after tax result identifies the different contributions from the business in-force at the start of the year, and the new business added during the year It starts from the cash result, which can be found on pages 23 to 25

Year Ended 31 December 2012	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Cash result	1	152 2	(60.5)	91 7
DIR amortisation	2	93 6	5 8	99 4
DAC amortisation	3	(74 7)	(5 8)	(80 5)
PVIF amortisation	4	(2 4)	–	(2 4)
DIR on new business	2	–	(155 9)	(155 9)
DAC on new business	3	–	155.0	155 0
Share options	5	(5 4)	–	(5 4)
IFRS deferred tax impacts	6	(8.3)	–	(8 3)
Other IFRS	7	5.3	–	5.3
Corporation tax rate change	8	8.2	–	8 2
IFRS profit after tax		168.5	(61.4)	107 1

Year Ended 31 December 2011	Notes	In-Force	New Business	Total
		£ Million	£ Million	£'Million
Cash result	1	129 4	(62 4)	67 0
DIR amortisation	2	82 9	5 4	88 3
DAC amortisation	3	(64 6)	(5 4)	(70 0)
PVIF amortisation	4	(2 8)	–	(2 8)
DIR on new business	2	–	(135 7)	(135 7)
DAC on new business	3	–	144 8	144 8
Share options	5	(10 5)	–	(10 5)
IFRS deferred tax impacts	6	16 4	–	16 4
Other IFRS	7	2 3	–	2 3
Corporation tax rate change	8	7 0	–	7 0
IFRS profit after tax		160 1	(53 3)	106 8

The IFRS profit after tax from the business in-force at the start of the year increased to £168 5 million (2011 £160 1 million) This reflects the increased cash result arising from the greater income from the higher funds under management However this is largely offset by the increase in the effective tax rate, reflected in this analysis by the difference in contribution from deferred tax

The loss associated with acquiring new business for the year was £61 4 million (2011 £53 3 million loss) and should be viewed as an investment for future profits The increase in the cost of new business reflected higher expenses in the year, particularly development expenses and the increased cost of the FSCS levy

In 2013 we expect to see some change in this breakdown of the IFRS profit after tax result, as a result of the introduction of the adviser charging rules However the overall impact of the changes is expected to be small

Notes
1 These figures are explained in the analysis of the post tax cash result in Section 3
2 DIR IFRS requires any initial profit which arises on new business (either through an initial charge or surrender penalty) to be deferred at the outset and then amortised over the life of the associated product or the surrender penalty period This required treatment gives rise to two adjustments to arrive at the IFRS result
   (a) The amortisation of the opening deferred income, which increases profit for the period, was £93 6 million (2011 £82 9 million) in the current year The release in a particular year will depend upon the value of DIR at the start of the year and the remaining life of the policies to which the DIR relates or the remaining surrender penalty period
   In 2012 there was a modification to the outstanding surrender penalty position which increased the level of cash profits resulting in a £1 7 million reduction in the amortisation of the DIR in the year from the expected level of £95 3 million The expected release for 2013 is £113 8 million
   (b) The deferral of the initial profit associated with new business sales reduced the IFRS result by £155 9 million in 2012 (2011 £135 7 million) The deferral of profit in any particular year will be dependent upon the level of new business In addition the modification noted above has resulted in an increase in the DIR on new business in the year by nearly £8 million
3 DAC Specific new business acquisition expenses are required to be deferred in the year they arise and then amortised in future years over the life of the policies to which the costs relate The treatment of these acquisition expenses gives rise to two adjustments in the IFRS result
   (a) The amortisation of the opening DAC which reduces profit for the period, was £74 7 million (2011 £64 6 million) in the current year The charge in a particular period will depend upon the value of the DAC at the start of the year and the remaining life of the policies to which the DAC relates The expected amortisation charge for 2013 is £84 8 million
   (b) The deferral of the specific acquisition costs, which were incurred in the current period, increased IFRS profits by £155 million (2011 £144 8 million) The deferral of expenses in any particular year will be dependent upon the level of the acquisition costs which themselves will be determined by the level of new business
4 PVIF The IFRS balance sheet includes an asset representing purchased value of in force (PVIF) This asset is amortised over the remaining life of the policies associated with this asset The amortisation charge for the year was £2 4 million (2011 £2 8 million) The charge for 2013 is expected to be £2 5 million
5 Share options this figure is the notional cost that is associated with the various share option schemes
6 IFRS deferred tax Under IFRS a deferred tax asset is established for future tax benefits that are expected to emerge This is not recognised in the cash result The significant change between the two years reflects the establishment of an additional tax asset in respect of excess E from the tax calculation for the life business in the prior year and the utilisation of this asset in the current year Both years also benefit from an expected small underlying positive contribution, also related to taxation in the life business
7 Other IFRS This item reflects a number of other adjustments from the cash result For instance, the cash result reflects the regulatory solvency requirement to hold prudent actuarial reserves but these are not held in the IFRS result Therefore movements in these reserves (generally related to movements in the stock markets) will impact the cash result but are reversed in the IFRS There will be a small impact either positive or negative, depending upon stock market movements, in future years
8 Corporation tax rate change the above adjustments are all shown net of deferred tax rates prevailing at the end of each year, and this £8 2 million (2011 £7 0 million) reflects the effect on the deferred tax assets and liabilities of the change in the tax rate from 25% to 23%

Financial Review *continued*

Whilst the Board considers the profit before shareholder tax is the best measure of the performance of the business, the total IFRS result is presented, grossed up for the inclusion of tax incurred on behalf of policyholders, in the table below

IFRS Profit before Tax

	Year Ended 31 December 2012 £' Million	Year Ended* 31 December 2011 £ Million
IFRS profit/(loss) before tax	251 8	(20 1)
Policyholder tax	(117.2)	129 8
Profit before shareholder tax	134.6	109 7
Shareholder tax	(27.5)	(2 9)
IFRS profit after tax	107 1	106 8

* To more appropriately reflect the IFRS profit before tax figure, the 2011 policyholder tax has been re presented to include a credit of £41 4 million in relation to the tax provision for tax deductions on deemed disposals of unit trust holdings which was previously treated as a movement in actuarial reserves This has had the effect of reducing the prior year IFRS profit before tax by a corresponding £41 4 million More information is given in Note 1 to the financial statements

In 2012 the **IFRS profit before tax** for the year was £251 8 million (2011 £20 1 million loss) with the principal contribution to the change being the movement in the policyholder tax from a £129 8 million credit in 2011 to a charge of £117 2 million in 2012

The **policyholder tax** mainly reflects the UK tax paid or payable in the future within the life business at the policyholder tax rate of 20% and principally reflects the movement in the tax provision within the policyholder unit linked funds At the previous reporting date, there were unrealised capital losses within the funds, against which a deferred tax asset was established The increase in the stock markets over 2012 has reversed this position and as a result there are now unrealised gains in the funds, on which a deferred tax liability has been established The movement between the reporting dates has resulted in a tax charge of £117 2 million

By comparison, during 2011 stockmarkets and asset values decreased, which resulted in a tax credit of £129 8 million

Analysis of IFRS Assets and Net Assets per Share
The table below provides a summarised breakdown of the IFRS position at the reporting dates

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Purchased value of in-force*	33 3	34 8
Deferred acquisition costs*	757 1	659 0
Deferred income*	(519 2)	(446 6)
Other IFRS net assets	87.8	88 9
Solvency net assets	403 5	342 2
Total IFRS net assets	762 5	678 3

* net of deferred tax

	Year Ended 31 December 2012 Pence	Year Ended 31 December 2011 Pence
Net asset value per share	150 4	137 5

Section 2 European Embedded Value ('EEV')
Life assurance and wealth management business differs from most other businesses, in that the expected shareholder income from the sale of a product emerges over a long period in the future We therefore complement the IFRS result by providing additional disclosure on an EEV basis The EEV result brings into account the net present value of the expected future cash flows and we believe this measure is useful to investors when assessing the total economic value of the Group's operating performance

The table below and accompanying notes summarise the profit before tax of the combined business The detailed results are shown on pages 147 to 156

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £ Million
Life business	293 9	294 2
Unit Trust business	82 6	84 5
Distribution	5 3	6 1
Other	(15 9)	(13 3)
EEV operating profit	365.9	371 5
Investment return variance	190.4	(180 4)
Economic assumption changes	(3.7)	(0 3)
EEV profit before tax	552.6	190 8
Tax	(114.5)	(42 5)
Corporation tax change	21.6	50 5
EEV profit after tax	459 7	198 8

Total EEV operating profit for the year, at £365 9 million, was slightly lower than the 2011 result of £371 5 million

EEV Operating Profit

Life business

The Life business operating profit has marginally decreased to £293.9 million in the year (2011: £294.2 million) mainly due to the lower contribution from the experience variance in the year. A full analysis of the result is shown below.

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
New business contribution	208.9	182.5
Profit from existing business		
– unwind of the discount rate	76.9	72.7
– experience variance	6.9	39.4
– operating assumption change	(1.7)	(2.7)
Investment income	2.9	2.3
Life business EEV operating profit	293.9	294.2

The **new business contribution** for the year at £208.9 million (2011: £182.5 million) was over 14% higher than the prior year reflecting the higher volume of new business together with continued control over the growth in associated expenses.

The **unwind of the discount rate** was £76.9 million (2011: £72.7 million). The unwind is now calculated based on the opening discount rate.

The **experience variance** in the year was £6.9 million (2011: £39.4 million). Continued strong retention of funds under management made a positive contribution in both years, but the prior year also benefitted from negotiation of a lower level for administration costs compared with the level assumed in the embedded value calculation.

There was a small negative **operating assumption change** of £1.7 million, similar to the prior year (2011: £2.7 million negative variance).

The **investment income** for the year was £2.9 million (2011: £2.3 million) and reflects the assumed interest rate we earn on our free assets.

Unit Trust business

The Unit Trust operating profit was £82.6 million (2011: £84.5 million) and a full analysis of the result is shown in the following table.

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
New business contribution	67.9	63.5
Profit from existing business		
– unwind of the discount rate	19.1	18.5
– experience variance	(2.3)	(1.3)
– operating assumption change	(2.6)	3.3
Investment income	0.5	0.5
Unit Trust business EEV operating profit	82.6	84.5

New business contribution at £67.9 million (2011: £63.5 million) was 7% higher than the prior year as a result of the new business growth in the period and control of growth in associated expenses.

The **unwind of the discount rate** was £19.1 million (2011: £18.5 million).

There was a small negative **experience variance** of £2.3 million (2011: £1.3 million negative variance) which is accounted for by a number of small positive and negative items in both years.

There was also a small negative **operating assumption change** of £2.6 million (2011: £3.3 million positive variance).

Distribution business and Other

The results from distribution and other operations have already been commented on in the IFRS section.

Investment Return Variance

The investment return variance reflects the capitalised impact on the future annual management fees resulting from the difference between the actual and assumed investment returns. Given the size of our funds under management a small difference between the actual and assumed investment return can result in a large positive or negative variance.

During 2012, world stock markets rose, with, for example, the MSCI £ world index increasing by some 10.7%. This was reflected in the investment return on our funds, which comfortably exceeded the assumed investment return. As a result there was a positive investment return variance of £190.4 million for the year.

In the prior year there was a negative investment variance of £180.4 million, reflecting falls in stock markets, and investment growth which was lower than that assumed in the embedded value projection for the year.

Financial Review *continued*

Economic Assumption Changes
There was a small negative variance of £3.7 million arising from changes in the economic basis adopted at the year end (2011: £0.3 million negative variance).

EEV Profit before Tax
The total EEV profit before tax for the year was £552.6 million (2011: £190.8 million). The most significant contributor to the increase was the change in investment return variance reflecting stronger actual investment returns in 2012 compared to 2011.

Tax
The tax charge at £114.5 million (2011: £42.5 million charge) was higher than 2011 reflecting the higher profit before tax.

Corporation Tax Rate Change
At the last valuation, the EEV reflected a corporation tax rate of 25% in 2012, reducing over two years to a long-term rate of 23%. In the 2012 Budget the Chancellor reduced the rate of corporation tax applying from April 2012 to 24%, and in his Autumn Statement he announced further planned cuts to 23% from April 2013 and 21% from April 2014. The impact of adopting these changes has reduced the corporation tax charge by £21.6 million (2011: £50.5 million).

EEV Profit after Tax
The EEV profit after tax was £459.7 million (2011: £198.8 million). The principal reason for the variation is the change in investment return variance.

New Business Margin
The largest single element of the EEV operating profit is the new business contribution (analysed in the previous section). The level of new business contribution generally moves in line with new business performance. To demonstrate this link and aid understanding of the results we provide additional analysis of the new business margin ('Margin'). This is calculated as the new business contribution divided by a relevant new business measure, and is expressed as a percentage.

The table below presents margin results based on each of the two main measures of new business performance used by the insurance sector:

– Annual Premium Equivalent (APE) – calculated as the sum of regular premiums plus 1/10th single premiums and also including APE from non-manufactured business.
– Present Value of New Business Premium (PVNBP) – calculated as single premiums plus the present value of expected premiums from regular premium business, allowing for lapses and other EEV assumptions, but excluding non-manufactured business.

	Year Ended 31 December 2012	Year Ended 31 December 2011
Life business		
New business contribution (£'Million)	**208.9**	182.5
APE (£'Million)	**594.8**	505.4
Margin (%)	**35.1**	36.1
PVNBP (£'Million)	**4,424.4**	4,023.2
Margin (%)	**4.7**	4.5
Unit Trust business		
New business contribution (£'Million)	**67.9**	63.5
APE (£'Million)	**148.5**	136.9
Margin (%)	**45.7**	46.4
PVNBP (£'Million)	**1,484.7**	1,368.8
Margin (%)	**4.6**	4.6
Total business		
New business contribution (£'Million)	**276.8**	246.0
APE (£'Million)	**743.3**	642.3
Margin (%)	**37.2**	38.3
PVNBP (£'Million)	**5,909.1**	5,392.0
Margin (%)	**4.7**	4.6

The Life business margin has increased from 4.5% to 4.7% on a PVNBP basis, reflecting not only growth in new business being greater than growth in expenses (the operational gearing), but also the impact of reduced Partner remuneration. This reduction in Partner remuneration reflects recent changes to equalise Partner remuneration between the Life and Unit Trust business, as noted in last year's Financial Commentary. However, on an APE basis the margin has reduced from 36.1% to 35.1%, which reflects not only the effects noted above, but also the greater proportion of lower margin non-manufactured business APE this year.

Having completed the changes to Partner remuneration on Unit Trust business in 2011, the Unit Trust margin has remained unchanged at 4.6% on a PVNBP basis and is broadly unchanged at 45.7% compared with 46.4% on an APE basis.

The combined margin has declined marginally on an APE basis, reflecting the greater proportion on non-manufactured business noted above, whilst there was a small increase in the overall PVNBP margin.

In addition to the new business profit arising in the 'manufacturing' companies, the Group also makes a profit or loss within the Distribution business Allowing for the current year result of £5 3 million (2011 £6 1 million) increases the combined margin arising on new business to 4 8% (2011 4 7%) on a PVNBP basis and to 38 0% (2011 39 2%) on an APE basis

Following the adoption of the new regulatory rules in respect of adviser charging there will be a small decline in the Life business margin in future years This reflects a loss of tax relief on certain expenses within the UK life company's I-E tax computation

Analysis of the European Embedded Value and Net Assets per Share

The table below provides a summarised breakdown of the embedded value position at the reporting dates

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£ Million
Value of in-force		
– Life	1,549 3	1,251 5
– Unit Trust	383.5	305 8
Solvency net assets	403 5	342 2
Total embedded value	2,336 3	1,899 5

	Year Ended 31 December 2012	Year Ended 31 December 2011
	Pence	Pence
Net asset value per share	461.0	385 0

Section 3: Cash Result and Capital

In addition to presenting the financial performance on the IFRS and EEV basis, we also provide an analysis of the sources of cash emergence in the year which we refer to as the cash result The cash result is based on the IFRS result, but removes non-cash items such as DAC, DIR and deferred tax It is also adjusted to reflect the regulatory solvency constraints on profits emerging from regulated companies such as our insurance businesses The effect is a measure which more reflects the underlying cash emergence of the business, and which is available to pay dividends An **underlying cash result** is also presented, stripping out the effects of timing variances and capitalised impacts of changes in solvency requirements

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£ Million
Underlying cash result	84 0	63 0
Variance	7 7	4 0
Cash result	91 7	67 0

In 2012, the **cash result** was £91 7 million (2011 £67 0 million) which was 37% higher than the prior year, principally from increased net income from funds under management In both years there were positive variances and within these results the **underlying cash result** was £84 0 million (2011 £63 0 million) up 33%

The cash result is a combination of the cash emerging from the business in force at the start of the year less the investment made to acquire new business during the year

Financial Review *continued*

The tables and commentary below provide an indicative analysis of the cash result, identifying the different contributions from the business in-force at the start of the year, and the new business added during the year

Year Ended 31 December 2012	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Net annual management fee	1	231.1	22.2	253.3
Unwind of surrender penalties	2	(85.5)	(10.7)	(96.2)
Net income from funds under management		145.6	11.5	157.1
Margin arising from new business	3	–	13.3	13.3
Establishment expenses	4	(7.8)	(70.0)	(77.8)
Development expenses	5	–	(7.2)	(7.2)
FSA/FSCS Fees	6	(0.9)	(8.1)	(9.0)
Shareholder interest (regulated companies)	7	2.4	–	2.4
Shareholder interest (non-regulated companies)	7	3.1	–	3.1
Miscellaneous	8	2.1	–	2.1
Underlying cash result		144.5	(60.5)	84.0
Variance	9	7.7	–	7.7
Cash result		152.2	(60.5)	91.7

Year Ended 31 December 2011	Notes	In Force	New Business	Total
		£'Million	£'Million	£'Million
Net annual management fee	1	196.4	19.5	215.9
Unwind of surrender penalties	2	(69.3)	(7.0)	(76.3)
Net income from funds under management		127.1	12.5	139.6
Margin arising from new business	3	–	(1.2)	(1.2)
Establishment expenses	4	(7.2)	(65.0)	(72.2)
Development expenses	5	–	(3.3)	(3.3)
FSA/FSCS fees	6	(0.6)	(5.4)	(6.0)
Shareholder interest (regulated companies)	7	2.9	–	2.9
Shareholder interest (non-regulated companies)	7	2.2	–	2.2
Miscellaneous	8	1.0	–	1.0
Underlying cash result		125.4	(62.4)	63.0
Variance	9	4.0	–	4.0
Cash result		129.4	(62.4)	67.0

Notes

Since all numbers are expressed after tax, they are impacted by the prevailing tax rate for each year. In 2012 the tax rate has reduced by 2% compared to the prior year.

1. The net annual management fee: This is the manufacturing margin the Group retains from the funds under management after payment of the associated costs (e.g. investment advisory fees and Partner remuneration). Broadly speaking the Group retains around 1% before tax (0.75% after tax) of funds under management.
   The level of net annual management fee was some 17% higher than 2011. This increase is in line with the growth in funds under management which averaged £31.5 billion in 2012 compared to £27.7 billion in 2011.
2. Unwind of surrender penalties: This relates to the reserving methodology applied to the surrender penalties within the charging structure of the single premium life bonds and pensions. At the outset of the product we establish a liability net of the outstanding surrender penalty which would apply if the policy were to be encashed.
   As the surrender penalty reduces to zero, so the liability to the policyholder is enhanced by increasing their funds by 1% per annum over the first six years of the product life, to correspond to this 'unwind' of the surrender penalty. In other words there is a cost which offsets the annual management fee above.
   Like the net annual management fee, the unwind of surrender penalties has increased due to growth in funds under management. However, the increase has been partly offset by the fact that the funds under management added six years ago have completed the surrender penalty period.
   In addition, during 2012 we have modified the calculation of the outstanding surrender penalty position, resulting in an increase in the level of outstanding surrender penalty on the existing business. However this modification has resulted in a similar increase in the amount of the unwind of surrender penalties for 2012 compared to 2011.
3. Margin arising from new business: This is the cash impact of new business in the year after taking into account the directly attributable expenses.
   In 2012 the reduction in initial Partner remuneration on Life business noted last year, combined with the modification noted above, has increased the margin arising from new business to £13.3 million (2011: £1.2 million negative variance).
4. Establishment expenses: These are the expenses of running the Group's infrastructure as shown in the table on page 28. In line with the rest of this table they are presented after allowance for tax. These expenses were 7.8% higher in the current year.
5. Development expenses: These represent the expenditure associated with significant developments in our investment proposition together with the costs associated with regulatory changes. The impact on the cash result in the year was £7.2 million (2011: £3.3 million).
6. FSA/FSCS Fees: The fees payable to the FSA and the FSCS in the year were £9.0 million (2011: £6.0 million).
7. Shareholder interest arising from regulated and non-regulated business: This is the assumed income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.
   The interest received is at a similar level to the prior year and reflects the low prevailing interest rates we obtain on the free assets.
8. Miscellaneous: This represents the cash flow of the business not covered in any of the other categories. It includes product charges from a closed book of protection business as well as income and expenses from other operations of the business. The contribution to the cash result increased slightly to £2.1 million (2011: £1.0 million).
9. Variance: This reflects variances in the cash result in a year due to the impact of actual experience (including economic assumptions changes and investment performance) on insurance reserves, as well as variances in the settlement of tax related liabilities between the policyholders (unit-linked funds), the shareholder and HMRC. In 2012 the variance also reflects £4.0 million from the modification to the calculation of the surrender penalty position noted above.

Following the adoption of the new regulatory rules on adviser charging the future cash flows on some new business will be recognised earlier. This should have a positive impact on the future cash result.

Return on In-Force Business

As shown in the tables above, the return on the in-force business is mainly driven by the level of the annual management fees, the unwind of the surrender penalties, and the level of expenses.

The vast majority of the return relates to the net income from funds under management (annual management fees less the unwind of the surrender penalty). Funds under management have been increasing and as they continue to develop, the future net income should also increase correspondingly.

In addition, a proportion of the new business has a surrender penalty which unwinds during the first six years, meaning that this business does not contribute to the cash result until year seven. The table below provides an estimated breakdown of the single premium business over the last six years where these surrender penalties apply. These premiums are not yet generating income within the cash result.

Year	With surrender penalties £' Billion
2007	1.6
2008	1.4
2009	1.6
2010	2.1
2011	2.2
2012	2.4
Total	11.3

The total business not yet contributing to the cash result is £11.3 billion* which is just about a third of the total funds under management at 31 December 2012. Once this business reaches the end of the surrender period the cash result will increase. For illustration purposes, if all the business was now at this level of maturity then the annual post-tax cash result (based on 0.75% post-tax earnings from funds under management) would be some £85 million higher*.

* ignores stock market movements and outflows since the date of original client investment

The Board therefore expect the cash earnings from the in-force business to increase as funds under management grow and the business matures.

Return on Investment in New Business

As noted in the table on page 24, £60.5 million (2011: £62.4 million) of the cash arising from the in-force business has been re-invested in acquiring the new business during the year.

Financial Review *continued*

This investment in new business will generate income in the future that should significantly exceed the cost of investment and therefore provide positive returns for shareholders The table below provides details of the new business added during the reporting periods and different measures of valuing the investment

	Year Ended 31 December 2012	Year Ended 31 December 2011
Post-tax investment in new business (£'Million)	**(60 5)**	(62 4)
Post-tax present value of expected future cash returns (£'Million)	**278 8**	253 5
Post-tax present value of expected profit from investment (£'Million)	**218 3**	191 1
Gross inflow of funds under management (£'Billion)	**5 6**	5 2
Investment as % of gross inflow*	**1.1%**	1 2%
New business margin (% of APE)	**37 2%**	38 3%
Cash payback period (years)	**4**	5
Internal rate of return (net of tax)	**22 5%**	20 6%

* The investment as a percentage of net inflow of funds under management was 1 8% compared with 1 9% for the prior year

The cost of this re-investment to acquire new business is not expected to increase significantly and therefore the proportion of cash generated from the in-force business available to pay dividends to shareholders is expected to expand

Capital Position

The capital position of the Group, calculated on the regulatory basis ('solvency net assets') and allowing for the regulatory solvency requirement, is shown in the table below

The Group continues to be capitalised well in excess of regulatory solvency requirements, and the assets are invested prudently in cash, AAA rated money market funds and UK government securities

Comparison with previous valuations would show that the Group solvency position has remained stable despite market volatility, reflecting the low appetite for market, credit and liquidity risks in relation to solvency

	Life	Other Regulated	Other	Total
	£'Million	£'Million	£'Million	£'Million
Solvency position				
Solvency net assets	199 1	29 4	175 0	403 5
Solvency requirement	43 8	14 0		
Solvency ratio	455%	210%		
Analysis of solvency net assets				
UK government gilts	84 3	–	–	84 3
AAA rated money market funds	232 7	45 7	43 2	321 6
Bank balances	99 9	47 5	35 1	182 5
Liquid assets	416 9	93 2	78 3	588 4
Fixed assets	–	–	3 5	3 5
Actuarial reserves	(84 3)	–	–	(84 3)
Other assets and liabilities	(133 5)	(63 8)	93 2	(104 1)
Solvency net assets	199 1	29 4	175 0	403 5
Reconciliation to IFRS net assets				
Solvency net assets	199 1	29 4	175 0	403 5
– Purchased VIF	33 3	–	–	33 3
– DAC and DIR	272 9	(35 0)	–	237 9
– Other	86 4	1 4	–	87 8
Total IFRS net assets	591 7	(4 2)	175 0	762 5

Included within the 'other' capital resources is an implied reserve that is being built up to cover one years' dividend cost At 31 December 2012 the amount set aside to date was £45 million compared to a full year dividend cost of £53 8 million

Analysis of Liquid Assets
As noted in the previous table the Group has liquid assets of £588 4 million and these amounts are held in UK Government backed debt, AAA rated money market funds and bank deposits A further analysis of the holdings is provided below

Holding Name	£'Million	£'Million
UK government gilts		
4 5% UK Treasury 07/03/2013	5 2	
8% UK Treasury 27/09/2013	7 0	
2 5% UK Treasury Index Linked 26/07/2016	12 2	
2 5% UK Treasury Index Linked 17/07/2024	18 3	
2% UK Treasury Index Linked 26/01/2035	21 8	
4 25% UK Treasury 07/12/2055	4 6	
3 5% War Loan	15 2	84 3
AAA rated money market funds		
BlackRock	60 6	
HSBC	60 7	
Insight	63 2	
Legal & General	40 0	
RBS	57 1	
Scottish Widows	40 0	321 6
Bank balances		
UK banks*	181 0	
Others	1 5	182 5
		588 4

* HSBC, Barclays, Lloyds TSB Bank of Scotland, RBS, Santander and NatWest

We are not intending to change our approach of investing in UK Government Gilts following the recent credit downgrade of the UK

Solvency II
We are well advanced in our preparation for the adoption of the new EU Solvency II requirements, and to minimise unnecessary expense arising from the delayed implementation we are re-aligning our processes to reflect the expected new rules as far as possible We expect to be able to manage any period of 'dual running' with minimal cost As noted previously, we don't believe the Group will be adversely impacted by the new requirements and we expect to see a reduction in the total capital we are required to hold for regulatory purposes

Share Options Maturity
At 31 December 2012 there were 12 5 million share options outstanding under the various share option schemes which, if exercised, will provide up to £34 0 million (2011 £49 1 million), of future capital for the Company

The table below provides a breakdown by date and exercise price

Earliest date of exercise	Average exercise price	Number of share options outstanding	Potential proceeds
	£	Million	£' Million
Prior to 1 Jan 2013	2 73	10 9	29 8
Jan – Jun 2013	2 04	0 2	0 5
Jul – Dec 2013		–	–
Jan – Jun 2014	2 42	0 3	0 6
Jul – Dec 2014		–	–
Jan – Jun 2015	2 96	0 3	0 9
Jul – Dec 2015	2 75	0 8	2 2
		12 5	34 0

Financial Review *continued*

Section 4 Other Matters

This final section covers a number of additional areas that will be of interest to shareholders

Expenses

The table below provides a breakdown of the expenditure (before tax) for the combined financial services activities

	Notes	Year Ended 31 December 2012	Year Ended 31 December 2011
		£' Million	£ Million
Paid from policy margins			
Partner remuneration	1	**307.0**	276 7
Investment expenses	1	**89 4**	92 5
Third party administration	1	**32 6**	33 5
		429 0	402 7
Direct expenses			
Other new business related costs	2	**59.5**	54 5
Establishment costs	3	**102.4**	95 0
Development costs	4	**10.3**	4 5
FSA/FSCS levy	5	**12.0**	8 0
Contribution from third party product sales	6	**(21.4)**	(13 5)
		162.8	148 5
		591 8	551 2

Notes

1 These costs are met from corresponding policy margins and any variation in them from changes in the volumes of new business or the level of the stock markets does not directly impact the profitability of the Company
The reduction in investment expenses in recent years reflects the consolidation of our investment approach resulting in a move towards our insurance business funds investing through our unit trusts As a result, the investment expenses within those unit trusts that have been invested into by our insurance funds, are no longer explicitly reported, which results in a reduction in the reported investment expense in the year of change

2 The other new business related costs such as sales force incentivisation, vary with the level of sales – determined on our internal measure As production rises or falls these costs will move in the corresponding direction

3 Establishment costs are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term although they are subject to inflationary increases These costs will increase as the infrastructure expands to manage the higher number of existing clients and the growth in the Partnership
The growth in establishment expenses during the year was 7 8%, above our original expectations of 5% as a result of increased costs associated with the high level of Partner recruitment in the year

4 Development costs represent the expenditure associated with a significant development in our investment proposition together with the costs associated with regulatory change
The development expenses were £10 3 million during 2012 and we expect further costs in 2013 of £5 3 million

5 The FSA/FSCS costs represent the fees payable to the FSA of £5 1 million (2011 £4 5 million) together with our required contribution to the Financial Services Compensation Scheme of £6 9 million (2011 £3 5 million)

6 Contribution from third party product sales reflects the net income received from wealth management sales of £0 9 million (2011 £3 5 million), sales of group pension products of £7 8 million (2011 £1 5 million) and sales through the Protection Panel of £12 7 million (2011 £8 5 million)

During the current year, £3 6 million of software development costs have been capitalised as an intangible asset in accordance with IAS 38 This asset will be amortised over the following four years

Movement in Funds Under Management

The table below shows the movement in the funds under management of the Group during the reporting period

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Billion	£ Billion
Opening funds under management	28.5	27.0
New money invested	5.6	5.2
Investment return	3.0	(1.8)
	37.1	30.4
Regular withdrawals/maturities	(0.7)	(0.5)
Surrenders/part surrenders	(1.6)	(1.4)
Closing funds under management	34.8	28.5
Implied surrender rate as % of average funds under management	4.9%	5.2%
Net inflow of funds	3.35	3.21
Net inflow as % of opening funds under management	11.8%	11.9%

Shareholders will be pleased to note that the continued strong retention of funds under management, together with the level of new money invested, provides for **net inflow of funds** of £3.35 billion, slightly higher than the prior year. This net inflow represents 11.8% (2011: 11.9%) of opening funds under management and can be viewed as the organic growth in funds.

Noted below is an explanation of regular withdrawals, maturities and surrenders.

The **regular withdrawals** represent those amounts selected by clients which are paid out by way of periodic income. The withdrawals have been assumed in the calculation of the embedded value new business profit.

Maturities are those sums paid out where the plan has reached the selected maturity date (e.g. retirement date). The expected maturities have been assumed in the calculation of the embedded value new business profit.

Surrenders and part surrenders are those amounts where clients have chosen to withdraw money from their plan. Surrenders are assumed to occur in the calculation of the embedded value new business profit based on actual experience, updated on an annual basis, by plan duration and the age of the client. The implied surrender rate shown in the table above is very much a simple average and reflects only recent experience. Whilst it could be compared with the long-term assumptions underlying the calculation of the embedded value, it should not be assumed that small movements in this rate will result in a change to the long-term embedded value assumptions.

Analysis of Funds Under Management

The following table provides an analysis of the funds under management at 31 December 2012 split by geography and asset type.

	FUM	% of total
	£'Billion	
UK Equities	10.6	31%
North American Equities	4.6	13%
European Equities	4.1	12%
Asia & Pacific Equities	3.9	11%
Property	0.8	2%
Fixed Interest	5.0	14%
Alternative Investments	1.3	4%
Cash	3.2	9%
Other	1.3	4%
Total	34.8	100%

Risk Management Report

The mechanisms for identifying, assessing, managing and monitoring risks are an integral part of the management processes of the Group. Understanding the risks we face, and managing them appropriately, enables effective decision-making, contributes to our competitive advantage and helps us to achieve our business objectives as set out on pages 8 and 9.

Risk Management Framework

The Risk Management Framework enables the continuous identification and assessment of risks that may impact on the successful delivery of our Group business objectives.

Overseeing our Risk Management Framework is the Risk Committee. The Risk Committee is made up of Non-executive Board members responsible for ensuring that a culture of effective risk identification and management is fostered across the Group. Further information setting out the activities of the Risk Committee is on pages 60 and 61.

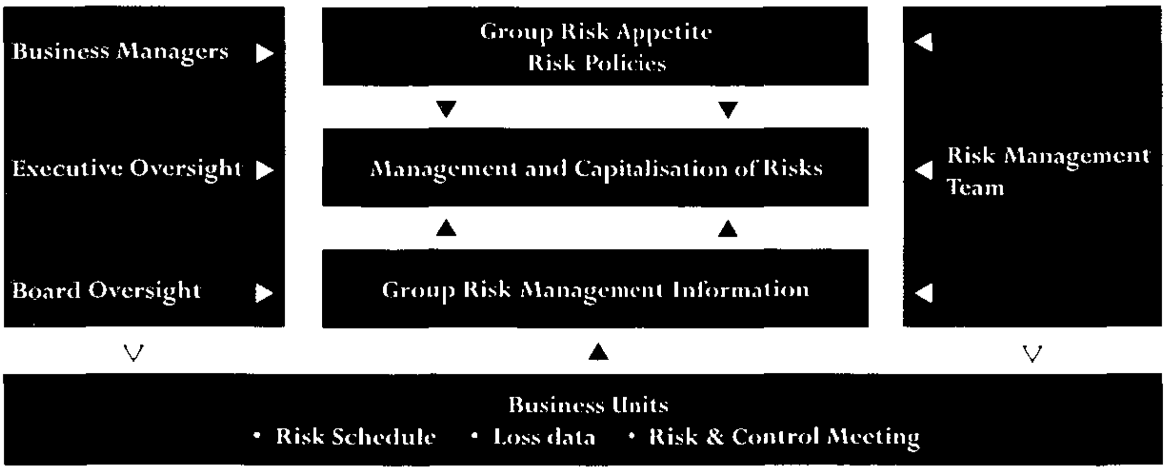
The Risk Committee is supported by a Risk Executive Committee and Risk Management team which are responsible for ensuring that an appropriate framework is in place and for the on-going development and co-ordination of risk management within SJP.

Each division of the Group is responsible for identifying, managing and reporting its risks as part of a quarterly process. Each risk is assessed by considering its potential impact and the probability of its occurrence. Impact assessments are made against financial and non-financial metrics. The Risk Management team support divisions in this activity.

This process for identifying, evaluating and managing the significant risks faced by the Group has been in place for all of the year under review and up to the date of approval of the Annual Report and Accounts. It is regularly reviewed by Risk Committee on behalf of the Board and accords with the Guidance for Directors in the UK Corporate Governance Code.

A diagram showing the key aspects of our Risk Management Framework is set out below.

Risk Management Framework



Risk Appetite and Risk Policies

At the centre of our Risk Management Framework is the Risk Appetite Statement. In our Risk Appetite Statement, the Board clearly sets out risk 'boundaries' i.e. a specification of the types of risks the Group is willing to take and to what extent. The Statement is regularly reviewed and updated to ensure that it continues to outline the values which drive how the Group conducts itself. It also sets out how the Group operates in its chosen business and specifies appropriate metrics for monitoring compliance.

In support of our Risk Appetite Statement, we have a number of Risk Policies which clearly establish our objectives, principles and high level management activity in relation to each of the main types of risk that the Group faces. When analysing risk, we use these categories to help improve understanding and management of our exposure.

Risk Schedules and Key Risk Indicators

Corporate and Divisional risk schedules and quarterly Key Risk Indicator reports are produced to facilitate the monitoring of risks by the Risk Executive Committee, Risk Committee and Board The Risk Management and Finance functions also regularly monitor risk capital These schedules and indicators provide a mechanism for capturing and considering the significant risks facing the business

Principal Risks and Uncertainties

The following tables summarise the principal risks and uncertainties that are inherent within both the Group's business model and the market in which we operate These principal risks and uncertainties, and the high level controls and processes through which we aim to mitigate them, are as follows

Risk	Description	Management
Advice	Advice given by an individual Partner or authorised by the Group is deemed unsuitable leading to redress, costs, potential reputational damage and prospective/retrospective regulatory intervention	Advice guidelines are agreed by technical specialists and reviewed by Group management These guidelines are supported by Training and Accreditation arrangements with close compliance monitoring to ensure the advice guidelines are followed Appropriate incentives exist to promote Partner compliance, whilst non-compliance is subject to censure and other sanctions The Group also has appropriate professional indemnity insurance in place
Distribution Capability	The Group's distribution strength may be eroded due to an inability to recruit and retain Partners of the appropriate quality	We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners Formal retention strategies are in place to ensure that, wherever possible, we retain good quality and experienced Partners All recruitment and retention activity is closely monitored We are also continuing with the SJP Academy, overseen by a dedicated senior management team, to broaden our recruitment streams
Ethos	Changes to the SJP ethos and culture adversely impact the continuing success of the business	We have a range of strategic mechanisms in place including, for example, regular surveys and consultation groups, which enable us to monitor the sentiment of our staff and Partners, to identify any potential adverse impacts upon our culture and allow us to take action
Investment Management Approach	Our approach to investment management may fail to deliver expected returns to clients of the Group	We actively manage and monitor the performance of our investment managers through the Investment Committee which also makes use of a firm of professional advisers – Stamford Associates – to help them with this key task At the same time, and to ensure clients can manage their risk as well, we offer a broad range of funds, which allows diversification and mitigates new business, persistency and market risks
Market Changes	A new entrant or competitor in the adviser-based wealth management market has an impact on the success of SJP's business	We closely monitor competitor activity and the market place, for signs of any potential new entrants or threats, for example, a crowding of the high net worth market place if firms concentrate on wealthier clients As noted above, we have a proven track record in Partner acquisition and retention, which we believe would make it difficult for a new entrant to challenge SJP's position In addition, more established SJP Partners often have significant equity stakes in their practices and their ability to access these is structured to aid retention

Risk Management Report *continued*

Risk	Description	Management
Outsourcing	The Group's dependence on outsourcing may come under threat should any of its key investment management or administration business partners decide to exit the market, significantly revise their strategy or fail	We maintain close working relationships with our outsourced business partners to ensure we would have warning of any material change that would significantly impact our business model All relationships are governed by formal agreements with notice periods and full exit management plans, and if required, strong alternative providers exist in the market Business continuity arrangements of each outsourcer are continually tested and improved and scenario analysis carried out
Regulatory, Legislative and Tax Environment	That the Group could face a fine or regulatory censure from failure to comply with applicable regulations, or that changes in the wider regulatory, legislative or tax environment could have an adverse impact on the Group's business	Our governance structures, management committees and compliance monitoring activities seek to ensure we remain compliant with regulation Our active approach to maintaining an open and mutually beneficial relationship with our regulator provides intelligence to mitigate the risk of operating in a highly regulated sector Membership of appropriate trade bodies can also provide information about proposed changes The Group also engages the services of public relations and communications consultants
Retail Distribution Review	Market adjustments following the implementation of the changes adversely impact the Group	Although we have successfully implemented the changes required by the new rules, some uncertainty remains about how clients and the financial services market place will react in the medium to long-term to the new regime During the course of this year, any impact will become clearer, but we believe the strength of the client relationships, on which our business is built, should help mitigate any adverse effect

Other Key Risks and Uncertainties

In addition to the principal risks and uncertainties mentioned above there are other key risks and uncertainties that are inherent within the businesses and markets in which we operate These are detailed in the following table under the relevant risk categories, together with the high level controls and processes through which we aim to mitigate these risks

Financial risks

Risk	Description	Management
Credit	The risk of loss due to a debtor's non-payment of a loan or other line of credit, including holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions	The Group has adopted a risk averse approach to credit risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives
Liquidity	The risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost	The Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives Generally free assets are invested in cash or near cash assets and the Group's cash position and forecast are monitored on a monthly basis
Market	The risk of loss due to the impact of movement in the value of equity or other assets markets	The Group adopts a risk averse approach to market risk, with a stated solvency policy of not actively pursuing or accepting market risk except where necessary to support other objectives Generally, free assets are invested in cash or near cash to minimise market movement impact However, future profits are dependent on annual management charges which will vary with market movements
Insurance	The risk that arises from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities The Group assumes insurance risk by issuing insurance contracts under which it agrees to compensate the client if a specified future event occurs	The Group has a medium appetite for insurance risk, only actively pursuing it where beneficial, or in support of strategic objectives The Group insures mortality and morbidity risks but has no longevity risk as we have never written annuity business
Economic Environment	A major and prolonged economic downturn, a Euro area country/ countries default or stock market crash leads to a significant under-performance of the business plan	We closely monitor the performance against our business plan, the behaviour of the markets and consumer confidence through the use of daily Management Information circulated to senior management This should help us to identify early signals of the impact of a market decline, so that we can manage expenses and adjust our strategy appropriately

Further detail about the Group's exposure to financial risks is included in Note 27 to the consolidated accounts

Corporate Social Responsibility Report

St James's Place is committed to growing our business in a way that considers the economic, social and environmental impacts of what we do We understand that responsible management is important to all our stakeholders – shareholders, clients, Partners, employees, suppliers and the communities in which we operate

Our commitment to responsible management was established in the founding principles and is expressed in both the 'Our Approach' document, which is shared with all members of our community, and the 'What it means to be a member' brochure, which sets out the expectations for our Partners We believe responsible management is embedded in our culture and exists in the heart of our organisation Reminders and encouragement to live this philosophy are provided regularly, for example through promotion within our community of our charitable foundation, through challenge to employees to deliver for clients, and by encouragement of our Partners to live up to the high standards expected of members of the Partnership

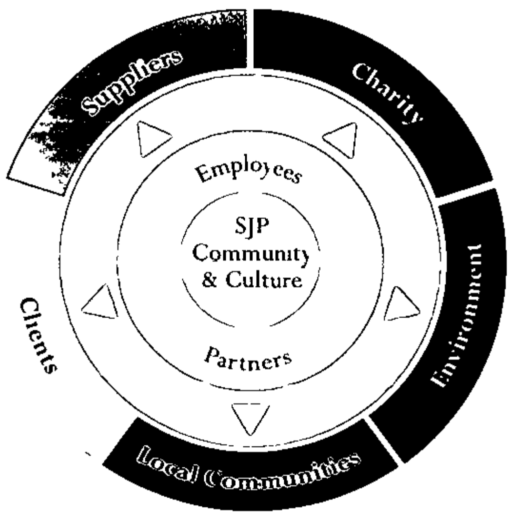
By living up to the expectations established within our culture, we believe we will be able to demonstrate trustworthiness, reliability and a commitment to the common good In a world where the reputation of the financial services industry is constantly under pressure, we aspire to create an authentic alternative which clients and suppliers can trust, and which the communities we are part of can appreciate and admire

We are constantly seeking to improve our delivery, but recent public endorsements include

- Various awards relating to our client offering including the City of London 'Wealth Management Company of the Year', the Personal Finance Awards 'Best Financial Adviser' and the Financial Times/Investors Chronicle 'Wealth Manager of the Year,
- Endorsement of our business model by the London stockmarket in the UK Stockmarket Awards, and by our peers, winning in the insurance sector in the Britain's Most Admired Companies awards, and
- Maintaining our inclusion in the FTSE4GOOD Index, which comprises companies that meet globally recognised corporate social responsibility criteria

This report provides a short summary of how we manage Corporate Social Responsibility (CSR) at St James's Place More detail can be found in our standalone CSR report and on our website at www sjp co uk

The St James's Place Approach To CSR



CSR Governance

Responsible management is central to our culture, and the task of maintaining this culture (including our CSR ambitions) is a key focus of the Executive Committee of the Board, comprising the four Executive Directors Oversight of this key asset of our business is provided by the full Board

The Executive Committee of the Board is supported in this objective (as in all of their work) by a number of ExCos, which are chaired by the Directors and which involve other members of senior management Responsibility for specific areas has been further delegated to a number of specialist sub-committees

	Managing Committee	Remit
Our Culture and People	Executive Committee of the Board	To ensure the strength and maintenance of the unique culture throughout the SJP community
Our Clients	Client Steering Group	To monitor the client care experience and promote high standards in all our interactions with clients
The St James's Place Foundation	Foundation Trustees	To manage the SJP Foundation, including overseeing grant-making and compliance with the charity's objectives
CSR overview, Local Community and Suppliers	CSR Group	To co-ordinate SJP's approach to CSR, with specific focus on promoting local community activities and volunteering
Our Investments	Investment Committee	To ensure the Investment Management Approach and our fund managers deliver in line with mandates and client expectations
The Environment	Environment Steering Group	To promote environmental considerations in the management of the business, and encourage staff in making their personal contribution

Our Culture

Our culture is central to the success of our organisation and we are pro-active in building and reinforcing it

To ensure continuity of our culture all employees and members of the St James's Place Partnership receive a booklet entitled 'Our Approach' at induction, which gives guidance on the culture and values of St James's Place We believe it is important for all areas of our community to know and understand our objectives, including the ethos behind the St James's Place brand and how its integrity and values should be maintained We are keen to promote our corporate culture and management style, to provide information about how we deal with internal and external communications, and to encourage a shared commitment to the St James's Place Foundation

Members of the Partnership are also provided with a document entitled 'What it means to be a member', which sets out a philosophy and some principles We believe the shared commitment to living up to these principles is what gives the Partnership its competitive edge and makes it a group of professionals that other advisers aspire to join The document emphasises integrity, trust, openness, partnership and teamwork and is designed to guide individual and corporate actions, decisions and standards across our community

Maintaining the freshness of the commitment to its culture is a key challenge for all businesses, and it is particularly relevant for SJP given the growth which has been achieved We recognise this challenge and are pro-active in reinforcing our culture, with key activities including an Annual Company Meeting, employee and Partner surveys, regular Partner meetings, feedback opportunities for employees with Directors, and a Leadership Conference for senior management These activities all provide opportunities to renew our joint understanding and encourage commitment to our shared culture The same activities also provide opportunities for all our community to develop a common awareness of the financial and economic factors affecting the Company's performance

Corporate Social Responsibility Report *continued*

Our People

We are a people business and take pride in all our community. We believe that our success as a business depends on the loyalty and dedication of our people, whether Partners or employees, they provide the Group with a sustainable competitive advantage and the attitude, knowledge and commitment of our people continues to be a strong differentiator. We aim to attract the best people and help them fulfil their potential. We secure their commitment by providing them with an interesting and challenging career within a first class working environment, and we reward them competitively taking into account the whole package and by encouraging equity ownership. We share ideas and are always receptive to suggestions for change. We give credit where credit is due and work hard to recognise individual performance.

The Company is committed to maintaining an appropriately skilled and diverse workforce irrespective of age, colour, race, nationality, ethnicity, sex, or disability. It is our policy to ensure that all job applicants and employees being considered for promotion are treated fairly and on merit. In particular, we strive to give full and fair consideration to applications from and promotions of disabled people, having regard to their particular aptitudes and abilities, and where appropriate, we will consider possible modifications to the working environment so they can take up opportunities or enhance their role. We will similarly make every effort to achieve continuity of employment in the event of an employee becoming ill or disabled, for example, by arranging appropriate training. By adopting best practice principles we seek to ensure that our responsibilities are met as an equal opportunity employer and that everyone can enjoy an environment that is free from discrimination of any sort.

Employee Feedback

In our 2012 Employee Survey we received a strong survey response rate of 86% (compared to 85% in 2010) which provided us with a good snapshot of how our employees are feeling on a number of important issues. A key result from the survey is the 'employee engagement index', which can be used to compare SJP's results to those of other financial services organisations. We were naturally pleased that SJP's overall engagement score was 86%, which was significantly higher than the financial services benchmark of 73%.

Partner Feedback

Our 2012 Partner Survey also elicited a strong response rate of 75% (up from 69% in 2011) and the feedback on areas as diverse as the Investment Management Approach, our new Electronic Business Submission system and the support received from local management, Head Office and our key administration centres, was pleasingly positive.

As part of our cycle of continuous improvement we also seek feedback from all new Partners six months after they join the Company. Over 90% of these new recruits rated their initial months with the Partnership as seven or more out of ten, and we are pleased that most indicated a willingness to recommend St. James's Place to former colleagues.

People Development

We are keen to ensure that all individuals are encouraged to develop and are given opportunities to seek new challenges across the business. Many of our initiatives in 2012 will continue into the future including:

- Membership of the Institute of Customer Service ('ICS'), with a number of employees involved in the scheme
- A new Apprenticeship programme welcoming five school leavers into the business
- Knowledge Development Meetings (KDMs), helping employees develop their understanding of our business and enhance their knowledge
- Management development opportunities, including mentoring from more senior managers and specific workshops for new managers
- Specific development programmes for the specialist roles within our Field Management Team

2012 was a key year for members of the Partnership as the changes in regulation required many of them to gain a higher level qualification by the end of the year. Having worked hard to support Partners, the Company was very pleased that all Partners were able to qualify in advance of the deadline. We are also pleased to be providing support for those now pursuing further qualifications, with 45% having plans to achieve Chartered status. We continue to provide training for our Partner support teams and seek to ensure they are qualified to a similar or even higher level than the Partnership.

2012 also saw the relaunch of the Academy initiative, providing an opportunity for suitably qualified individuals to receive training and assistance to join the adviser community. We now have 54 participants in three phases of the Academy programme and the success of earlier programmes has resulted in the establishment of careers for more than 40 new financial advisers.

Health and Safety

We work hard to create an excellent working environment for employees and Partners. We ensure every office complies with Health and Safety regulations and also seek to improve awareness through regular training sessions on subjects such as manual handling, fire marshal and first aider training.

Each year we carry out fire risk assessments, fire evacuation tests and health and safety inspections and the actions identified from these are completed appropriately and overseen by the Health and Safety working group The working group is chaired by the Operations Director and meets at least quarterly to review policies, review the progress against targets and agree the action plan for the following year

Our Clients

Putting the client at the centre of everything we do is core to our culture and means we seek to run a genuinely client-focused business Through our relationship-based advice service, we aim to help clients manage their wealth in a way which reflects their personal circumstances This approach has allowed us to develop long-lasting relationships, founded on trust, with many of our clients

We seek to deliver for clients by

- Providing personal face-to-face financial advice from our experienced Partners
- Giving them the opportunity to review their financial affairs regularly
- Ensuring all investments are managed effectively
- Ensuring that our correspondence and literature is clear and easy to understand
- Listening to feedback
- Ensuring that we are sensitive to their individual needs at all times

The St James's Place Partnership plays the leading role in delivering our service The Partnership, so called because they work in partnership with their clients, includes some of the most experienced and able professionals working in wealth management today and we are committed to supporting their on going professional development We seek to ensure they remain appropriately qualified, technically able and equipped to deliver a first class service to our clients, and as a result we are happy to guarantee the quality of the advice that they give when recommending investments and other services provided by companies in the St James's Place Group

Given the importance of the Partner-client relationship we are quite proud of the positive results we receive in our regular client consultation work This work is undertaken via client surveys and focussed research and is our key way of eliciting feedback about the service clients receive and what they expect In our 2012 client survey 25% of clients rated their satisfaction level at ten out of ten and 82% of clients confirmed they were happy with the frequency of contact from their Partner

The following two responses from our recent survey are examples of the benefit clients have gained from our client focus and service ethos

'I am very pleased with the service I am a woman on my own and I have put my trust in someone who takes time to explain things two or three times to make sure I understand'

'I was recommended to St James's Place by someone after a double bereavement It was one of life's crossroads They explained what I could do and what I could not do, to make sure I was safe and secure as I wanted'

Despite receiving much positive feedback from clients, we never become complacent We are constantly striving to improve our standards, and areas for improvement identified in the client survey will be followed up during 2013

In order to ensure that our business continues to be client focussed we have established a Client Steering Group, which meets regularly and monitors all areas of the business which can affect the client experience Areas discussed cover all stages of the client life cycle, from the suitability of advice, through the policy administration and investment performance, to the insurance claim experience and, where relevant, client complaints During 2012 the group was able to recommend enhancements to existing processes and the development of new ideas to bring about improvements in the client experience, including development of our on-line services and the sharing of examples of best practice client service with Partners

In all we do, St James's Place seeks to meet the needs and expectations of our clients, and the evidence suggests we achieve this goal for many clients In addition to the positive feedback we receive from our client survey work, we also experience low rates of surrender of funds, typically less than 5% p a A further reflection of the level of client satisfaction is that the number of complaints we receive is low, and it remained low in 2012 despite further growth in both numbers of clients and funds under management

Corporate Social Responsibility Report *continued*

St James's Place Foundation

The St James's Place Foundation was established in 1992, in the same year that the Group began trading and support for the Foundation (and the underlying principle of giving back to those less fortunate in society) has always been a core part of our culture The Foundation has grown significantly in the last 20 years and has become one of the most successful company charities in the UK It also enjoys considerable support from the SJP community, as demonstrated from the results of the recent employee survey where 96% of employees stated that they 'felt proud of the work SJP does to help others through the SJP Foundation'

20th Anniversary – a record year

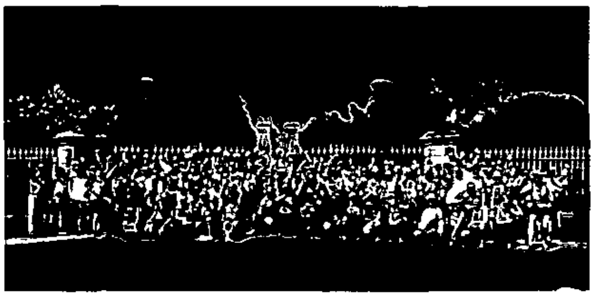
To celebrate the 20th anniversary of the Foundation, the Trustees challenged the SJP community to raise the record sum of £4 million in 2012, a substantial increase on the £3,062,000 raised in 2011 Each office was asked to organise fundraising events and nearly everyone within the SJP community played their part in helping the Foundation reach (and exceed) the target, whether by organising or attending events, sponsoring others, or by contributing to the Foundation through the regular giving scheme

As is so often the case, the SJP community considerably exceeded the expectations of the Trustees by raising just over £5 million in 2012 The Trustees wish to express their gratitude to everyone who contributed to making the 20th anniversary of the Foundation such a resounding success, both in terms of funds raised and the support we were able to provide to the various good causes that the Foundation supports In a year when surveys have suggested that charitable contributions have reduced by around 20% due to the economic climate, it is particularly pleasing that St James's Place community has been able to increase its charitable giving by 69%

As in previous years, all funds raised by members of the SJP community were matched pound for pound by the Company, thus doubling the impact of local fundraising Over 80% of all Partners and employees continued to make regular monthly donations out of their income or salary to the Foundation and this type of longer-term support enabled the Trustees to help charities over a longer period via multi-year grants Much of the remainder was raised through the many events organised by our community throughout the UK, including,

Everest Challenge

A team of 25 employees and Partners took part in a trek to Everest Base Camp, with Roger Owen, one of our employees, successfully climbing to the summit and the team together raising in excess of £700,000



Palace to Palace 24 Hour Walk

A team of 117 walkers set off from Windsor Palace in May intent on walking 50 miles of the Thames Path and finishing at Buckingham Palace within 24 hours, raising in excess of £100,000

Cycle Challenge

97 cyclists successfully rode over 500 kilometres from London to Reims in France raising over £270,000

Less strenuous activities included balls, quiz nights, fashion shows and a variety of other events organised across the country, providing hundreds of employees, Partners, suppliers and friends with the opportunity to celebrate 20 years of the Foundation whilst raising additional funds for good causes

Supporting those most in need

In light of the record funds raised in 2012, the Foundation was able to increase the support it gives to the charitable sector, in a year that many charities are finding that they are being forced to cut back on the services they deliver due to budget cuts and the withdrawal of local government funding

In 2012 the Foundation was able to donate over £3 8 million to UK Registered Charities operating both in the UK and overseas The Foundation also launched two major projects designed to change the lives of many disadvantaged and disabled young people, as well as those requiring palliative or end of life care in the UK Further details are featured below

The Foundation also made a number of multi-year commitments to various charities and (subject to the satisfaction of various conditions) has made conditional commitments of £3 4 million to various charities between 2013 and 2015

Sport for Good – Our Olympic Legacy

The first project Sport for Good, was initially inspired by the 2012 Olympics and the 'social legacy' that was such a significant part of the original Olympic bid The Foundation aims to use sport as the 'hook' to help disadvantaged and disabled young people across the UK In total the Foundation has committed £1,750,239 (over three years) and this support will enable seven organisations to deepen and extend their work with more marginalised young people

The project has had considerable success in its first year, with the following being achieved

- Over 5,000 young people engaged so far, working with some of the most disadvantaged young people in our community
- Over £350,000 match-funding secured
- Nearly 500 professional qualifications achieved
- Many young people helped to achieve the transition into college or the workplace

Hospice at Home Care

Research has shown that the majority of people receiving end of life or palliative care would prefer to be cared for at home, but unfortunately this is often not possible The Foundation has committed £900,000 over three years to the Hospice Movement with the first award dedicated to helping independent hospices to develop and extend their hospice at home services The Foundation has linked with Help the Hospices, the umbrella organisation for most of the UK's adult hospices, supporting eight hospices in 2012 to improve the care they provide in the home and we are in the process of choosing further projects to support in 2013

Foundation Themes

The themes that guide the Foundation's regular grant making are chosen by the St James's Place community and currently those themes include,

- Supporting children and young people suffering from illness, disability or disadvantage,
- Supporting the hospices sector, and
- Supporting people with cancer

The majority of the projects the Foundation supports are based in the UK, although around one third of funding is focused overseas, mainly in Africa, Eastern Europe, India, Nepal and Guatemala In 2012 the Foundation donated £0 8 million to UK Registered Charities operating overseas and thus continued our commitment to children living in some of the most challenging parts of the world

In addition to the major projects summarised above, the Foundation continues to support small to medium sized charities that match our themes, and donated a total of £0 9 million to 158 charities through the small grants programme, with grants ranging from a few hundred pounds to up to £10,000

Plans for 2013

The Foundation plans to build on the success achieved in 2012 by continuing to support hundreds of charities operating in the UK and overseas Plans are well underway to award a major grant of over £1 million in 2013, whilst at the same time expanding on the small grants that are so vital to the charitable sector in these difficult times We have no doubt that the SJP community will continue to support the Foundation to achieve its objectives in 2013 and beyond

Corporate Social Responsibility Report *continued*

Community Activities

SJP is mindful of its role in our local communities. An important element of the grants distributed from our Foundation is focussed on charities which are local to our offices, and these are often supported by our employees or Partners as well. The Company also regularly provides support for local events, particularly in Cirencester, where our Head Office is based. Grants in 2012 have included a significant donation to match fundraising for the restoration project for the local church, and sponsorship of the local outdoor swimming pool, which was at risk of closure.

We are also proud of the generous spirit of our employees. In our recent Employee Survey over 40% indicated that they are actively engaged in volunteering in their local communities and we support them through our Employee Volunteering programme. Two examples demonstrating the breadth of activity are:

- two of our employees act as Trustees of Young Gloucestershire ('Young Glos'), the leading voluntary youth organisation in Gloucestershire, delivering high-quality programmes and training for vulnerable young people; and
- staff in our Cirencester office entered into the Christmas spirit by donating over 200 Christmas presents to the County Community Projects (CCP) Hamper Scamper Appeal supporting disadvantaged children in the county.

However the central strand of activity in our local communities is focussed on schools and colleges. The two key initiatives are:

- Cirencester College has over 1,600 students between the ages of 16 and 19 and our main involvement is in providing support for the 'Academy Programmes', of which there are five, each designed for students who aspire to work in a particular market sector. We regularly support students with paid summer internships and we also provide extensive personal mentoring and business coaching. St. James's Place sponsors a number of awards and continues to have representation on the various Academy Boards at College and National levels. We have also been able to offer thirteen Academy students jobs following their graduation, as a direct result of our relationship with the College.

  A recent Academy graduate, who completed an Internship with us, went on to win a National student award in 2012. He reflected on his internship and wrote: 'The opportunity that was given to me to complete an internship at St. James's Place, and the support and guidance you all provided me whilst I was there, was life changing for me, and I believe this was true for the other students and will be for future students to come.'

- Building on our position as one of the leading providers of financial advice (for adults), we have started exploring how we might also help young people learn to manage their finances better. During the year, nearly 50 volunteers from the Company participated in a full day of activities focussed on financial education at three local secondary schools, benefitting nearly 500 pupils in Year ten. In a parallel initiative, 12 members of staff have delivered shorter, hour long, financial education sessions at a number of other local schools. The feedback from pupils and staff was very positive, with over 97% of pupils indicating that they understood more about the financial demands they will face as a young adult. As a result of the success of these initiatives we are further developing this offering in 2013.

Finally, following such a successful Olympics, we are pleased to be continuing our sponsorship of the Loughborough University Swimming programme. Our support has enabled the squad to receive additional coaching, and, since our relationship started in 2007, the team have medalled in all major UK and International events including European, Commonwealth and World Championships, as well as the Olympics. We are pleased that our sponsorship of the programme will continue until the 2016 Olympic Games.

Suppliers

St James's Place believes in treating all our stakeholders fairly We also believe in the benefits to be gained from building long-term relationships based on mutual trust As a result, many of our key suppliers have been associated with the Group for a number of years and we have been able to cultivate very strong and mutually beneficial relationships Key examples of the positive and beneficial relationships we have been able to establish with major suppliers are those with our providers of outsourced administration services, Prudential, Capita, IFDS and State Street

More generally, we expect all our suppliers to act in accordance with the standards embedded in our culture, and will undertake due diligence on new service providers to ensure we are comfortable with their approach to socially responsible management We are particularly pleased that many of our suppliers share our desire to make a positive and lasting difference to the lives of those less fortunate than ourselves, and we are very grateful to all those who have provided support to the St James's Place Foundation, both through donations and through active participation in many of the events

St James's Place has always placed great reliance on the support of third party suppliers and the continued success of our business reflects, amongst other things, our success in cultivating and managing successful relationships with suppliers We are pleased to have signed up to the Prompt Payment Code which is encouraged by the Department of Business Innovation and Skills (BIS) and demonstrates a commitment to good practice between organisations and their suppliers Signatories to the Code commit to paying their suppliers within agreed and clearly defined terms, and commit also to ensuring that there is a proper process for dealing with any issues that may arise

Our Investments

As a result of the success of our business, St James's Place is now investing over £34 billion of assets on behalf of our clients This gives us influence on stockmarkets and we recognise our responsibility for managing these investments in a socially responsible fashion

As described under the section Our Business Model and Strategy, our investment management approach is at the heart of our investment proposition to clients, and this involves an active approach to selecting and monitoring fund managers from around the world, whilst retaining appropriate oversight responsibilities Our fund managers will each have their own standards for how they manage their portfolios responsibly, but as part of our oversight we require that they all meet a minimum requirement

The Stewardship Code is a set of principles or guidelines first released in 2010 and updated in 2012 by the Financial Reporting Council, directed at institutional investors who hold voting rights in United Kingdom companies Its principal aim is to make institutional investors, who manage other people's money, actively engage in corporate governance in the interests of their beneficiaries (the shareholders) St James's Place requires that our fund managers should comply with these principles in full and as part of our oversight of the fund managers we undertake a process of monitoring annually

Corporate Social Responsibility Report *continued*

The Environment

St James's Place is committed to managing the Group's environmental impact through effective management of our energy systems, travel, water usage and waste recycling We recognise the effect our business can have on climate change and we take a positive approach to managing our business activities, whilst at the same time encouraging all Partners and staff to consider their own personal impact on the environment

We measure our environmental data from October to September and the following tables summarise both our absolute and normalised CO_2e Emissions in recent years for our core business activities, using 2012 conversion rates as provided by DEFRA for all our emission categories We also report on levels of paper recycled and water usage The data has been checked and verified by Ecometrica

Although growth in staff numbers has caused us to miss our target for Absolute Emissions related to business travel, we are already significantly ahead of our three year targets on the key Normalised Emissions basis A reduction in the number of buildings has contributed to the reduction in water usage, while the reduction in paper recycled reflects a reduction in paper usage as a consequence of the introduction of our Electronic Business Submission system

1. Absolute Emissions (Core business operations)

Year to End September	2010 Tonnes CO_2e	2011 Tonnes CO_2e	2012 Tonnes CO_2e	2012 Target Tonnes CO_2e	% Change on 2010	3 YR Target 2010 2013
Energy	2,954	2,947	2,683	2,907	-9 2%	-4 0%
Business Travel	1,137	1,195	1,245	1,117	+9 5%	-3 0%
Waste	116	112	111	113	-4 3%	-5 0%
Total Tonnes	4,207	4,254	4,039	4,137	-4 0%	-3 4%

CO_2e = Carbon Dioxide equivalent – Methane and Nitric Acid are converted to Carbon Dioxide
Current targets were set in 2010 for three years and will be reviewed again in 2013

Year to End September	2010 Tonnes	2011 Tonnes	2012 Tonnes	Absolute change on 2010
Paper Recycled	194	195	176	-9 3%

Year to End September	2010 Cubic Metres	2011 Cubic Metres	2012 Cubic Metres	Absolute change on 2010
Water usage	6,371	7,856	6,579	+3 3%

2 Normalised Emissions (Full Time Employees (FTE)/Absolute tonnes of CO_2e)

Year to End September	2010 FTE/ CO_2e	2011 FTE/ CO_2e	2012 FTE/ CO_2e	2012 Target FTE/ CO_2e	% Change On 2010	3 YR Target 2010 2013
Energy	1 992	1 869	1 611	1 899	-19 1%	-8 0%
Business Travel	1 638	1 578	1 467	1 505	-10 4%	-11 0%
Waste	0 078	0 071	0 067	0 074	-14 1%	-10 0%
Total Tonnes	3 708	3 518	3 145	3 478	-15 2%	-8 9%

Year to End September	2010 Tonnes	2011 Tonnes	2012 Tonnes	Normalised change on 2010
Paper Recycled	0 131	0 124	0 105	-19 8%

Year to End September	2010 Cubic Metres	2011 Cubic Metres	2012 Cubic Metres	Normalised change on 2010
Water used	4 296	4 982	3 949	-8 1%

Year to End September	2010	2011	2012	2012 Target
FTE (Energy/Waste)	1,483	1,577	1,666	1,531
FTE (Business Travel)	694	757	849	742

Other Initiatives

Carbon offsetting – Recognising that we are unable to reduce our carbon emissions to a zero level while energy is primarily sourced from fossil fuels, we have made arrangements to offset our consumption through the purchase of carbon credits through the Carbon Neutral Company

Electronic shareholder communications – We remain a member of the eTree initiative (www eTreeuk com), which encourages shareholders to receive electronic communications, and is run in association with the Woodland Trust 'Tree for All' campaign

More information about our Environmental Policy and activity can be found on our website at www sjp co uk

Board of Directors


Charles Gregson
Chairman

(N)
Charles joined the Board in January 2010 as an independent Non-executive Director and was appointed Non-executive Chairman with effect from January 2012. He is Chair of the Nomination Committee. Charles is Non-executive Chairman of ICAP plc and CPP Group plc and a Non-executive Director of Caledonia Investments plc. He has extensive board and senior management experience in the UK and overseas and has more than thirty years of experience in the financial services sector. Charles has previously served on the boards of United Business Media plc, Provident Financial plc and MAI plc. Charles graduated in History and Law from Trinity Hall, Cambridge and has an MA in Law. He qualified as a solicitor in 1972.


David Bellamy
Chief Executive

David joined the Company in 1991 and was appointed to the Board in 1997, before becoming Chief Executive in 2007. He previously fulfilled a number of roles at St. James's Place including Group Operations Director and Managing Director. David has worked in the financial services industry since 1973 and is a Trustee of the St. James's Place Foundation.


Andrew Croft
Chief Financial Officer

Andrew joined the Company in 1993 and has been Chief Financial Officer since 2004. He qualified as a Chartered Accountant at PricewaterhouseCoopers in 1988 and has a degree in Accounting and Economics from Southampton University. Andrew is a Trustee of the St. James's Place Foundation.


Ian Gascoigne
Managing Director

Ian is the Managing Director responsible for the management and development of the Partnership. He has worked in the financial services industry since 1986 and joined the Company in 1991. He was appointed to the Board in 2003. He has a degree from Lancaster University and an MA from Leicester University. Ian is a Trustee of the St. James's Place Foundation.


David Lamb
Managing Director

(I)
David joined the Company in 1992 and was appointed to the Board in 2007. David is the Managing Director with responsibility for Operations, including Client Services, Marketing, Business Development and the Group's fund range. He is a member of the Investment Committee and a Trustee of the St. James's Place Foundation. David is also a Director of the Association of Private Client Investment Managers and Stockbrokers and a member of the Council for the CBI (South West). He is a graduate of City University, London and a Fellow of the Institute of Actuaries.

Key
(A) – Member of the Audit Committee
(I) – Member of the Investment Committee
(N) – Member of the Nomination Committee
(R) – Member of the Risk Committee
(Rem) – Member of the Remuneration Committee

Sarah Bates
Independent Non-executive Director

(I) (Rem)
Sarah joined the Board as an independent Non-executive Director in 2004 and became Senior Independent Director in January 2012 She is Chair of the Remuneration Committee and is a member of the Investment Committee Sarah has over thirty years' investment experience and is Chairman of the J P Morgan American Investment Trust plc, Non-executive and senior independent Director of Development Securities plc and a Non-executive Director of three other listed investment trusts Sarah is Chairman of Stena Line (UK) Pension Fund Trustees, of Rutley Russia Property Fund and of the Cancer Research UK Pension Fund Investment Committee Sarah is also an advisor to, or member of, various other investment committees and was formerly Chairman of the Association of Investment Companies Sarah graduated in Philosophy and Law from Trinity Hall, Cambridge and has an MBA from the London Business School

Vivian Bazalgette
Independent Non-executive Director

(I) (Rem) (A)
Vivian joined the Board in July 2011 as an independent Non-executive Director and is Chairman of the Investment Committee He is also a member of the Remuneration and Audit Committees Vivian has a wealth of board and senior management experience and has over thirty years' experience of investment markets He is a Non-executive Director of Henderson High Income Trust plc, Brunner Investment Trust plc and Perpetual Income & Growth Investment Trust plc Vivian is currently Vice Chairman of the Governors of Dulwich College, a Member of the Advisory Board of Greenwich Hospital and advises the BAE Systems Plc Pension Fund and the Investment Committee of the Nuffield Foundation Vivian has an English degree from Cambridge

Steve Colsell
Non-executive Director

Steve was appointed to the Board as a non independent Non-executive Director in 2009 to represent Lloyds Banking Group plc He is Finance Director of Group Strategic Initiatives, Wealth, Asset Finance & International Banking at Lloyds Banking Group Steve has held a number of senior finance and strategy roles in the life, general insurance, banking and consumer finance sectors He is a Fellow of the Institute of Actuaries and a graduate of Imperial College, London

Iain Cornish
Independent Non-executive Director

(A) (R) (N)
Iain joined the Board as an independent Non-executive Director in October 2011 He is Chairman of the Audit Committee and a member of the Risk and Nomination Committees Iain has considerable board and senior management experience and was Chief Executive of the Yorkshire Building Society from July 2003 until December 2011, having joined the Society in 1992 Iain is a Non executive Director of Vanquis Bank Limited and also served as a member of the FSA Practitioner Panel from 2007 to 2011, becoming Chairman in 2009 Prior to joining the Society, he was a Senior Consultant in KPMG's Strategy Services Consultancy Practice, specialising in banking and finance sector consultancy projects

Mike Power
Independent Non-executive Director

(A) (R) (N)
Mike joined the Board as an independent Non-executive Director in 2005 He chairs the Risk Committee, is a member of the Audit and Nomination Committees and sits on the Board of St James's Place International where he also chairs the Compliance and Risk Committee He is Professor of Accounting at the London School of Economics and Political Science and Director of the Centre for Analysis of Risk and Regulation He is a Fellow of the Institute of Chartered Accountants in England and Wales, an Associate of the UK Chartered Institute of Taxation and an Honorary Fellow of the Institute of Risk Management Mike holds honorary doctorates from the Universities of Uppsala and St Gallen and he lectures and writes on risk management, regulation and compliance issues

Baroness Wheatcroft
Independent Non-executive Director

(R) (Rem)
Baroness Wheatcroft was appointed to the Board as an independent Non-executive Director in April 2012 and is a member of the House of Lords She is currently a Non-executive Director of FIAT S p A and of the Association of Large Visitor Attractions Baroness Wheatcroft has considerable experience of the media and journalism and was previously Editor-in-Chief at the Wall Street Journal, Europe, a former Editor of the Sunday Telegraph and was Business and City Editor of The Times between 1997 and 2006 She has been a Non-executive Director of Barclays Group plc and Shaftesbury plc and acts as an advisor to, or member of, various other bodies, including the British Museum, the UK/India Round Table and Policy Exchange

Directors' Report

The Directors present their Report and the Annual Report and Accounts and the audited consolidated Financial Statements of the Group for the year ended 31 December 2012

Business Review
The information that fulfils the Companies Act requirements of the Business Review can be found in the following sections

Principal risks and uncertainties	The Risk and Risk Management section on pages 31 and 32
Performance and development of the business during the year and position at the end of the year	Chief Executive's Statement on pages 4 to 6, the Chief Financial Officer's Report on pages 12 to 14 and the Financial Review on pages 16 to 29
Information on likely future developments	Chief Executive's Statement on pages 5 and 6, the Chief Financial Officer's Report on page 14, and the Financial Review on pages 19, 25 and 27
Directors' and Officers' Indemnity and Insurance	The Corporate Governance Report on page 54
Financial and non-financial KPIs	Key Performance Indicators on pages 10 and 11
Environmental, employee and social community matters	The Corporate Social Responsibility Report on pages 34 to 43
Contractual or other arrangements essential to the business of the Company	Page 48

Results and Dividends
The consolidated statement of comprehensive income is on page 86 and profit for the financial year attributable to equity shareholders amounted to £107 1 million An interim dividend of 4 25 pence per share, which equates to £21 4 million, was paid on 19 September 2012 (2011 3 2 pence per share/£15 7 million) The Directors recommend that shareholders approve a final dividend of 6 39 pence per share, which equates to £32 4 million (2011 final dividend of 4 8 pence per share/£23 7 million) to be paid on 24 May 2013 to shareholders on the register at the close of business on 12 April 2013

The Directors introduced a Dividend Reinvestment Plan ('DRP') in 2012 Details of the DRP scheme are set out on page 158

Status of Company
The Company is registered as a public limited company under the Companies Act 2006

Principal Activities
The Company is a financial services holding company, with principal interests in the provision of wealth management advice and services to the clients of the Group A full review of the activities of the Group and the basis on which the Company generates or preserves value over the longer term is given in the Chief Executive's Statement on pages 4 to 6

Substantial Shareholders
As at 27 February 2013, the Company had been notified of the following interests disclosed to the Company under Disclosure and Transparency Rule 5

Lloyds Banking Group plc ('LBG')	288,935,818	(56 894%)
Prudential plc	28,047,643	(5 53%)

Details of the relationship agreement between Lloyds Banking Group plc and the Company are set out on page 54

The interests of the Directors, their families and any connected persons in the issued share capital of the Company are shown on page 81

Share Capital
Structure of the Company's Capital
As at 31 December 2012, the Company's issued and fully paid up share capital was 506,831,147 ordinary shares of 15 pence each All ordinary shares are quoted on the London Stock Exchange and can be held in uncertificated form via CREST Details of the movement in the issued share capital during the year are provided in Note 29 to the financial statements on page 129

Articles of Association
The full rights and obligations attaching to the ordinary shares of the Company are set out in the Articles of Association The articles can be amended by a special resolution of the members of the Company and copies can be obtained from Companies House Holders of ordinary shares are entitled to receive the Company's Reports and Accounts, attend, speak and exercise voting rights and appoint proxies to attend general meetings

Voting Rights
At any General Meeting, on a show of hands, each member who is present in person has one vote and every proxy present who has been duly appointed by a member entitled to vote on a resolution has one vote On a poll, every member who is present in person or by proxy shall have one vote for every share of which he is the holder

Forms appointing a proxy sent by the Company to shareholders, in relation to any General Meeting, must be received by the Company or their registrars not less than 48 hours before the time appointed for holding of the meeting or adjourned meeting

Restrictions on Voting Rights
If any shareholder has been sent a notice by the Company under Section 793 of the Companies Act 2006 and failed to supply the relevant information for a period of 14 days, then the shareholder may not (for so long as the default continues) be entitled to attend or vote either personally or by proxy at a shareholders' meeting, or to exercise any other right conferred by membership in relation to shareholders' meetings

If those default shares represent at least 0 25% of their class, any dividend payable in respect of the shares will be withheld by the Company and (subject to certain limited exceptions) no transfer, other than an excepted transfer, of any shares held by the member in certificated form will be registered

Restrictions on Share Transfers
There are restrictions on share transfers, all of which are set out in the Articles of Association Restrictions include transfers made in favour of more than four joint holders and transfers held in certificated form Directors may decline to recognise a transfer, unless it is in respect of only one class of share and lodged (and duly stamped) with the Transfer Office The Directors may also refuse to register any transfer of shares held in certificated form which are not fully paid Directors may also choose to decline requests for share transfers from a US Person (as defined under Regulation S of the United States Securities Act 1933) that would cause the aggregate number of beneficial owners of issued shares who are US Persons to exceed 70

The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may from time to time determine in respect of any class of shares

The Company is not aware of any agreements between shareholders that restrict the transfer of shares or voting rights attached to the shares

Directors
Details of the Directors as at 27 February 2013 and their biographies are shown on pages 44 and 45 Brief particulars of the Directors' membership of the Board committees are contained in the Corporate Governance Report on pages 50 to 64

Baroness Wheatcroft was appointed to the Board as an independent Non-executive Director on 2 April 2012 and was elected by shareholders at the AGM on 8 May 2012
Roger Walsom resigned from the Board on 8 May 2012

The Company's current Articles of Association require that any Director appointed during the year to fill a casual vacancy must stand for reappointment at the next Annual General Meeting and that, at each Annual General Meeting, all those Directors who were elected or last re-elected at or before the Annual General Meeting held in the third calendar year before the current year, shall retire from office by rotation Directors can be removed from office by an ordinary resolution of shareholders or in certain other circumstances as set out in the Articles of Association

In accordance with the recommendations of the UK Corporate Governance Code, the whole Board of Directors will retire by rotation at the AGM in 2013 Before a Director is proposed for re-election by shareholders, the Chairman considers whether his or her performance continues to be effective and whether they demonstrate commitment to the role The Chairman is pleased to confirm that, following the performance evaluation referred to on page 52, the Directors seeking re-election continue to make a valuable contribution to the effective functioning of the Board and to the appropriate mix of skills and experience needed by the Board and its committees The Chairman also confirms that the Directors have demonstrated their continued commitment to these roles and continue to dedicate sufficient time to their duties The Board therefore recommends that those Directors retiring at the forthcoming AGM should be re-elected Further details on the Directors are set out in the Directors biographies on pages 44 and 45 and in the Notice of Meeting

The Board is recommending the articles be amended at the 2013 AGM to ensure that the articles reflect the provisions of the UK Corporate Governance Code that all the Directors offer themselves for re-election annually A further explanation of the changes proposed to the Articles of Association is contained in the Notice of Meeting

Except as stated in the Directors' Remuneration Report, no Director has, or has had during the year under review, any material interest in any contract or arrangement with the Company or any of its subsidiaries Details of all Executive Directors' Service Contracts are set out in the Remuneration Report on page 72

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions in the Company's share schemes may, in certain circumstances, cause share awards granted to employees under such schemes to vest on a takeover

Power of the Directors
The Directors are responsible for managing the business of the Company and their powers are subject to any regulations of the articles, to the provisions of the Statutes and to such regulations as may be prescribed by Special Resolution of the Company

The Company's Articles of Association contain, for example, specific provisions and restrictions concerning the Company's power to borrow money They also provide that directors have the power to allot unissued shares, up to pre-determined levels

Directors' Report *continued*

set and approved by shareholders in general meetings This also applies to the directors allotting equity securities otherwise than in accordance with statutory pre-emption rules

Creditors' Payment Policy
The payment of supplier invoices is made on the Company's behalf by St James's Place Management Services Limited ('SJPMS'), a subsidiary company The Company has signed up to the Department for Business, Innovation and Skills' Prompt Payment Code, a copy of which can be obtained from the Prompt Payment Code website at www promptpaymentcode org uk SJPMS's average number of days purchases outstanding in respect of trade creditors at 31 December 2012 was 17 days (2011 20 days)

Charitable and Political Donations
Charitable contributions made by the Group to the St James's Place Foundation during the year totalled £2,439,000 (2011 £1,400,000) Contributions during the year to other charitable organisations totalled £71,000 (2011 £63,000) A list of charitable donations made by the Foundation is available on request Further details on the Foundation are included in the Corporate Social Responsibility Report on pages 38 and 39

It is the Group's policy not to make any donations to political parties within the meaning of the definitions set out in the Political Parties, Elections and Referendums Act 2000 and sections 362 to 379 of the Companies Act 2006 The Group did not make any political donations during the year (2011 Nil)

Employees
Full details of the Group's approach to employee involvement, training, development and communication can be found in the Corporate Social Responsibility Report on page 36

Bribery Act 2010
During the year, the Company undertook an annual review to ensure that it has adequate policies and procedures in place to prevent bribery and corruption This included reviewing and updating the Bribery Act Policy Statement, along with other related policies and procedures, and providing training to employees and Partners The Bribery Act Policy Statement was first issued in 2011 and is available to all employees and Partners via the Company's intranet

Significant Contracts and Change of Control
The Company has a number of contractual arrangements which it considers essential to the business of the Company Specifically, these are committed loan facilities from a number of banks and arrangements with third party providers of administration services

A change of control of the Company may cause some agreements to which the Company is party to alter or terminate These include bank facility agreements and employee share plans

The group had committed facilities totalling £70 8 million as at 27 February 2013 which contain clauses which require lender consent for any change of control Should consent not be given, a change of control would trigger mandatory prepayment of the facilities

All of the Company's employee share plans contain provisions relating to a change of control Outstanding awards and options may vest and become exercisable on a change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards

Annual General Meeting
The Company's Annual General Meeting will be held on 21 May 2013 at The Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ at 11 00am

Authority to Purchase Own Shares
At the Annual General Meeting in 2012, shareholders granted authority to the Directors for the purchase by the Company of its own shares The authority will expire at the end of the Annual General Meeting to be held in 2013, or 18 months from the date granted, whichever is earlier During the year, the Company did not purchase any of its own ordinary shares The Directors will propose the renewal of the authority to purchase own shares at the forthcoming Annual General Meeting

Going Concern
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review, as referred to on page 46 The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 16 to 29 In addition, the Notes on pages 113 and pages 119 and 120 and the Risk and Risk Management section on pages 30 to 33 include the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity

As shown on page 26 of the Financial Review, the Group's capital position is strong and well in excess of regulatory requirements The long-term nature of the business results in considerable positive cash flows, arising from existing business As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully

The Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the accounts Further information on the basis of preparation of these accounts can be seen in Note 1 to both the Consolidated Accounts under International Financial Reporting Standards and Parent Company Accounts on UK GAAP basis

Statement of Directors' Responsibilities

This statement is set out in the Corporate Governance Report on page 64 The complete Corporate Governance Report is set out on pages 50 to 64

Disclosure of Information to Auditors

Each of the Directors, at the date of approval of this report, confirms that

- So far as each Director is aware, there is no relevant audit information of which the auditors are unaware, and
- Each Director has taken all reasonable steps to ascertain relevant audit information and ensure that the auditors are aware of such information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Independent Auditors

The auditors PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a Resolution that they be re-appointed until the end of the 2014 Annual General Meeting will be put to shareholders at the Annual General Meeting on 21 May 2013

On behalf of the Board

D Bellamy
Chief Executive
27 February 2013

A Croft
Chief Financial Officer

Corporate Governance Report

Good governance is a cornerstone of a successful and sustainable company St James's Place is committed to good corporate governance across the Group, for which the Board is accountable This report explains the approach the Company has taken to apply the principles and provisions set out in the UK Corporate Governance Code (the Code) and corporate governance activities during 2012

Charles Gregson

Succession Planning

Building on the changes made in 2011, we were delighted to welcome Baroness Wheatcroft to the Board in April Her substantial business and media experience has further strengthened the wide range of skills on the Board, as well as increasing the Board's diversity

During 2013 we plan to continue our policy of gradually refreshing the Board by the appointment of additional Non-executive Directors, provided that suitable candidates can be identified by the Nomination Committee

As regards the four Executive Directors, the Board do not anticipate the need for any changes in the immediate future to the existing successful team led by David Bellamy However, both the Board and the Nomination Committee keep succession planning under regular review, with a view to ensuring that senior managers are being developed appropriately and we have the right skills around the table to drive forward the continued success of the Group

Board Effectiveness Review

In 2012 we appointed Independent Audit once again to facilitate an evaluation of the effectiveness of the Board and its Committees, largely to review whether the various changes made in 2011 (following their last review) had bedded in well and had enhanced the discussions around the Board table The findings of Independent Audit were positive and further detail on the review process and findings can be found on page 52

Corporate Governance Developments

Shareholders will see that the usual format of the Remuneration Report on pages 65 to 83 has changed this year as the Board has sought to be an early adopter of the Government's draft legislation relating to remuneration reporting Where practical we have implemented a year early the various changes set out in the draft legislation, although as the old legislation has yet to be repealed, the remuneration report is considerably longer than in recent years However, we hope that shareholders will appreciate the clarity of the revised format and the additional disclosures we have made

We have also adopted early some of the changes recommended by the Financial Reporting Council relating to Audit Committee disclosures, more details of which are set out in the Report of the Audit Committee on page 58

We will continue to strive to adopt best practice in relation to our Report and Accounts disclosures where it is practical to do so

Charles Gregson
Chairman
27 February 2013

Compliance with the UK Corporate Governance Code

St James's Place is committed to high standards of corporate governance and supports the principles set out in the Code The Listing Rules require UK listed companies to state whether they have complied with the provisions of the Code during the year The Board considers that the Company has achieved compliance with all of the provisions of the Code throughout the financial year, except in relation to the constitution of the Audit Committee for the first three months of 2012, during which Charles Gregson remained a member of the Audit Committee Charles Gregson is considered by the Code to be non-independent, following his appointment as Chairman of the Company in January 2012 The membership of the Audit (and other) Committees was reviewed following the appointment of Baroness Wheatcroft to the Board in April 2012 and as a result, Vivian Bazalgette replaced Charles Gregson on the Audit Committee on 8 May 2012 The Board considered that it was important for the continued effectiveness of the Audit Committee for Charles Gregson to remain a member of the Committee up until that time Details of how the Company has applied the principles of the Code are set out in this report, other than the principles of the Code relating to remuneration, which are set out in the Remuneration Report on page 66

Information relating to substantial shareholdings, restrictions on voting rights, powers of the Directors, appointment of Directors and the authority to purchase own shares are disclosed within the Directors' Report on pages 46 to 49 The fundamental elements of the Company's business model are set out within the Business Review on pages 8 to 9

The Board

The Board is responsible for providing entrepreneurial leadership and direction to the Company and agrees the Company's strategic aims, vision and values The Board also aims to ensure that adequate controls are in place and the necessary financial and human resources to deliver value to shareholders and the wider community of individuals and organisations which benefit from the Company's activities

There were six formal Board meetings during the year, plus a full day Board Strategy meeting A table detailing the Directors' attendance at Board meetings can be found on page 53

In advance of each meeting, all members of the Board are supplied with an agenda and pack containing reports and management information on current trading, operational issues, compliance, risk, accounting and financial matters The Chairs of the various committees of the Board also report to the Board at each Board meeting and copies of committee meeting minutes are included in Board packs, for information purposes

The Board has a formal schedule of matters specifically reserved for it and its primary responsibilities include

- Determining the overall strategy of the Company,
- Ensuring that the Company's operations are well managed and proper succession plans are in place,
- Reviewing major transactions or initiatives proposed by the Executive Directors,
- Implementing appropriate corporate governance procedures,
- Periodically reviewing the results and operations of the Company,
- Ensuring that proper accounting records are maintained and adequate controls are in place to safeguard the assets of the Company from fraud and other significant risks,
- Identifying and managing risk, and
- Deciding the Company's policy on charitable and political donations

Operational matters are delegated to management via the Board's Executive Committee, comprising the Executive Directors of the Board and internally referred to as the Executive Board The Executive Board is responsible for implementing the Group's business plan objectives, ensuring that the necessary resources are put in place to achieve those objectives and managing the day-to-day operational activities of the Group

A copy of the schedule of matters reserved for the Board and the terms of reference of the Executive Board can be found on the corporate website at www sjp co uk

The Company maintains a Board Control Manual which sets out the primary policy and decision-making mechanisms within the Company The manual includes the terms of reference for the various sub-committees of the Board, the Company's risk policies and risk appetite statement In addition, detailed job descriptions for each Executive is included, as well as a general job description outlining the responsibilities of the Non-executive Directors The Board Control Manual is updated by the Company Secretary and approved by the Audit Committee on an annual basis

The Roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Charles Gregson, and the Chief Executive, David Bellamy, are clearly defined and documented No single Director has unfettered powers of decision-making The Chairman is responsible for leadership of the Board and for ensuring the continued effectiveness of the Board and for setting its agenda so that adequate time is available for substantive discussion on strategic issues The Chairman also promotes effective communication between the Executive and Non-executive Directors and with shareholders generally The Chief Executive's primary responsibility is to manage the Company via the executive management team and implement the strategies adopted by the Board

Corporate Governance Report *continued*

The Senior Independent Director

Sarah Bates is the Senior Independent Director, having succeeded Michael Sorkin in January 2012 following his retirement from the Board The Senior Independent Director acts as a sounding board for the Non-executive Directors and provides feedback to the Chairman on his performance following the Board evaluation Sarah is available to meet with shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the normal channels for investor communication

Directors and Directors' Independence

The Board currently consists of a Non-executive Chairman, four Executive Directors, five independent Non-executive Directors and one non-independent Non-executive Director, being Steve Colsell, who was nominated by the Company's largest shareholder, Lloyds Banking Group plc Biographical details of all the Directors can be found on pages 44 and 45 The terms and conditions of appointment of the Non-executive Directors are available on request and will be available for inspection at the Annual General Meeting

Charles Gregson was appointed as Non-executive Chairman on 1 January 2012, following the resignation of former Executive Chairman, Mike Wilson, who retired from the Board on 31 December 2011 The Chairman was deemed independent on appointment as a Non-executive Director in 2010 Baroness Wheatcroft joined the Board as an independent Non-executive Director with effect from 2 April 2012 Roger Walsom resigned from the Board on 8 May 2012

The quality of individual Directors and the Board's overall composition is a key contributor to the Board's effectiveness Committee membership is reviewed annually to ensure skills are refreshed over time The Board is satisfied that all Directors have sufficient time to devote to their roles

When determining whether a Non-executive Director is independent, the Board considers each individual against the criteria set out in the Code and also considers how they conduct themselves in Board meetings, including how they exercise judgement and independent thinking Taking these factors into account, the Board believes that all Non-executive Directors continued to demonstrate their independence throughout the year

Induction and Continuing Professional Development

On joining the Board, an appropriate induction programme is set up to enable the new Director to meet senior management, understand the business and future strategy, the main risks potentially affecting the Group, visit office locations and speak directly to Partners and staff around the country

During the year, the Chairman and the Company Secretary put in place an induction programme for Baroness Wheatcroft and continuing professional development for all Directors, based on their individual requirements In addition, ad hoc training was set up in the year to deal with individual requests and the Non-executive Directors are able to attend seminars or conferences which they consider will assist them in carrying out their duties Non-executive Directors are briefed on the views of major shareholders at Board meetings and have an opportunity to meet with shareholders, as necessary

Directors are regularly updated on their duties and responsibilities and have access to the advice of the Company Secretary, as well as independent professional advice where needed in furtherance of their duties Further training is made available, as necessary, to ensure that the whole Board is kept abreast of relevant developments (such as regulatory changes) applicable to their roles Topical issues are addressed prior to Board meetings by way of a presentation from a member of the senior management team During 2012, the Company Secretary and other senior executives updated the Board on an array of pertinent topics, such as the changes being brought into force by the FSA's Retail Distribution Review, the Solvency II regime and the results of client and employee surveys

Board Evaluation

The Board has committed to undertaking externally-led evaluations every three years in accordance with the UK Corporate Governance Code Following the externally led evaluation carried out by Independent Audit Limited in 2011 (the results of which were summarised in last year's Report and Accounts) it was decided to appoint Independent Audit to carry out a further more limited review in 2012, assessing the effectiveness of the various changes made to the composition and operation of the Board and its committees since the review in 2011

Independent Audit Limited has not undertaken any other work for the Group, other than the Board evaluations in 2011 and 2012, and carried out the 2012 review by undertaking confidential interviews with all the Directors and the Company Secretary The evaluation was designed to assess the quality of the Board's decision making and its overall contribution to, and impact on, the long-term health and success of the Company, and its preparation for future challenges

The review indicated that, whilst the Board had undergone considerable change in the last year, these changes had been handled smoothly and had improved the discussions, diversity and dynamics of the Board In addition, the new Chairman had adapted to his new role on the Board well, striking a good balance between allowing enough time for debate and discussion, whilst maintaining pace and momentum and ensuring each Director has the opportunity to contribute their views

As part of the evaluation process, the Board was asked to comment on the skills and attributes needed by any new Non-executives to be recruited to the Board in the future, taking into account the skills and experience of the existing Non-executive Directors. The results of this exercise have been discussed by the Nomination Committee and have assisted the drawing up of a job specification to be used by search consultants appointed to identify potential candidates to join the Board in due course.

The evaluation identified that the changes to the Board packs made at the start of 2012, including revised management information and key performance indicators, were universally welcomed by the Board. Various suggestions were made to build on the data in certain areas and these changes are in the course of being implemented. In addition, the format and timing of the Board Strategy Day is being reviewed.

As regards the various Committees of the Board, the evaluation did not identify any material issues given the well-established Committee process and standing agendas. However, it was noted that the Remuneration Committee would need to review the structure of the Group's reporting on remuneration issues in light of the reforms recently announced by the Government in this area. This process has now taken place, resulting in the revised format of the Remuneration Report set out on pages 65 to 83 of this document. In addition, the Investment Committee is in the course of reviewing how it operates, given the increasing number of funds and fund managers within the Group's investment platform.

Finally, Independent Audit discussed with the Chairman any comments on the individual performance of members of the Board, with any comments on the Chairman being discussed with the Senior Independent Director. These comments are discussed with the relevant Director at one-to-one meetings with the Chairman.

Board Committees

There are five sub-committees of the Board, Audit, Investment, Nomination, Remuneration and Risk. The membership and terms of reference of the committees are reviewed annually and the terms of reference are available on the corporate website (www.sjp.co.uk), or on request from the Company Secretary. Biographical details for members of these Committees are set out on pages 44 and 45.

Attendance at Meetings

The attendance by individual Directors at Board and Committee meetings during the year ended 31 December 2012 was as follows:

	Board(i) (6 meetings)	Risk (4 meetings)	Audit(ii) (5 meetings)	Remuneration (3 meetings)	Nomination (4 meetings)	Investment (10 meetings)
Sarah Bates	6	–	(1)	3	–	10
Vivian Bazalgette	6	–	3/3	2	–	10
David Bellamy	6	(3)	–	(3)	(2)	–
Steve Colsell	5	–	–	–	–	–
Iain Cornish	6	4	5	–	4	–
Andrew Croft	6	–	(5)	(2)	–	–
Ian Gascoigne	6	(4)	–	–	–	–
Charles Gregson(iii)	6	–	2/2 (2)	–	4	–
David Lamb	6	–	–	–	–	10
Mike Power	6	4	5	(1)	4	–
Roger Walsom(iv)	2/2	1/1	–	2/2	–	–
Baroness Wheatcroft(v)	4/4	3/3	(1)	1/1	–	–

(i) Baroness Wheatcroft was appointed to the Board 2 April 2012

(ii) Vivian Bazalgette was appointed to the Audit Committee on 8 May 2012

(iii) Charles Gregson ceased membership of the Audit Committee on 8 May 2012 and attended two further Audit Committee meetings in 2012 as an observer

(iv) Roger Walsom ceased to be a member of the Risk and Remuneration Committees when he resigned from the Board on 8 May 2012

(v) Baroness Wheatcroft was appointed to the Risk and Remuneration Committees on 8 May 2012

(vi) Figures in brackets indicate where a Director has been invited by a Committee to attend the meeting but is not a formal member of the Committee. The Group Risk Director is invited to attend Board meetings throughout the year to present his Group Risk report. He also attends Risk and Audit Committee meetings during the year.

Corporate Governance Report *continued*

Directors' and Officers' Indemnity and Insurance
The Company has taken out insurance covering Directors and officers against liabilities they may incur in their capacity as Directors or officers of the Company and its subsidiaries

The Company has granted indemnities to all of its Directors (and Directors of subsidiary companies) on terms consistent with the applicable statutory provisions Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2012, and remain in force at the date of this report

Procedures to Deal with Directors' Conflicts of Interest
Procedures have been approved by the Board to deal with situations where a Director either has a conflict of interest, or where a potential conflict of interest situation arises Under the procedure, the relevant Director must disclose to the Board the actual or potential conflict of interest for discussion by the other members of the Board The Board will consider the potential conflict on its particular facts and decide whether to waive the potential conflict if it believes this to be in the best interests of the Company The process involves keeping detailed records and Board minutes in respect of authorisations granted by the Board and the scope of approvals given Conflict authorisations are reviewed annually by the Board

Relations with Shareholders
The Board maintains close relationships with institutional shareholders through dialogue and frequent meetings and the Chief Financial Officer provides feedback to the Board on any material topics raised by shareholders The Company also meets regularly with JPMorgan Cazenove and Bank of America Merrill Lynch (joint brokers to the Group) who facilitate meetings with investors and their representatives The Chairman, Senior Independent Director and other Non-executive Directors are available for consultation with shareholders on request Board members receive copies of the latest analysts' and brokers' reports on the Company and attend shareholder and/or analyst meetings from time to time

Members of the Board will be available at the forthcoming Annual General Meeting to answer shareholders' questions on the Company's business and the activities of the Board and its committees

Relationship with Lloyds Banking Group plc
The Company entered into a Relationship Agreement (the 'Agreement') with Halifax Group plc in 2000, to regulate the relationship between the two companies after the completion of a Partial Offer The Agreement was novated to HBOS plc, following the merger between Halifax and Bank of Scotland in 2001 On 16 January 2009, HBOS plc was acquired by Lloyds TSB Bank plc, which subsequently changed its name to Lloyds Banking Group plc ('LBG')

The principal purpose of the Agreement is to ensure the Company operates independently of LBG and to provide that the relationship between LBG and the Company will be conducted on an arm's-length basis Under the Agreement, LBG has the authority to appoint a number of directors to the Board and its committees and the number varies in relation to LBG's shareholding in the Company LBG currently has the right to appoint up to three Non-executive Directors to the Board although, as at the date of this report, LBG has appointed one Non-executive Director, being Steve Colsell

Report of the Nomination Committee

Having the appropriate range of high calibre Directors on our Board is key to achieving success in the Group's strategic objectives, whilst helping to mitigate the regulatory and other risks faced by the Group. This report provides details of the role of the Nomination Committee and the work it has undertaken during the year.

Charles Gregson

Meetings and Membership

The Nomination Committee comprises two independent Non-executive Directors and the Chairman. The Committee met four times during the year and the current members and attendees are:

Members	Attendees
Charles Gregson (Chairman)	David Bellamy
Mike Power	
Iain Cornish	

Committee Role and Responsibilities

The Nomination Committee is responsible for identifying and nominating candidates to fill Board vacancies as and when they arise. Prior to any appointment being made, the Nomination Committee evaluates the skills, knowledge and experience of existing members of the Board and prepares a description of the role and capabilities required for a particular appointment. The Nomination Committee uses the services of external search consultancies to assist in finding suitable candidates from a wide range of backgrounds.

Succession planning also forms a core remit of the Nomination Committee, taking into account the challenges and opportunities facing the Company both now and in the future. The Nomination Committee regularly reviews succession plans with a view to ensuring that appropriate successors have been identified for each senior management role.

Committee Activities During 2012

As disclosed in last year's Report and Accounts, the members of the Committee were actively involved during the start of 2012 in the search and selection process which led to the recommendation and appointment of Baroness Wheatcroft to the Board in April 2012. Following an assessment of the skills and experience required for the Board going forward, the Nomination Committee began the search for potential Non-executives with the assistance of an external search agency, which has not undertaken any other work for the Group. As a result, Committee members met a number of candidates prior to recommending the appointment of Baroness Wheatcroft to the Board.

Succession Planning

In terms of Non-executive succession, the Committee noted that Sarah Bates and Mike Power will have served in excess of eight and seven years respectively on the Board in 2013, so the Committee discussed during the year the attributes needed for new Non-executives to join the Board in due course. An agency has been appointed to commence a search process for potential new Non-executive Directors ('NED') to join the Board in 2013.

As regards Executive succession, the Committee discussed in depth with the Chief Executive the succession plans in place for each Executive on the Board and senior executives below the Board, including the development being undertaken by the Executive team. The Chief Executive was asked to update the succession plans for on going discussion by the Committee on a regular basis.

Board Diversity

The Board outlined its approach to diversity in the 2011 Report and Accounts.

As regards the Executive team, the Committee noted that they have all been Directors of the Company or other group companies for many years and there are no plans to change the Executive team in the short term. Having said that, the Board acknowledges that diversity extends beyond the Boardroom and is committed to developing the members of the senior management team below the Board so that, so far as possible, they are ready to join the Board as part of a planned succession programme in due course. Naturally, the development programme for the Executives below the Board has diversity as one of its core principles, with the various elements of the programme being available to all senior employees, without reference to gender, race, religion or other discriminatory factors.

Corporate Governance Report *continued*
Report of the Nomination Committee

As regards the Non-executive team, the Nomination Committee will consider the particular skills needed for a replacement NED and draw up a job specification setting out the skills required, to assist any search firms appointed to find suitable candidates for the role The Board does not believe it would be appropriate to ask a search firm to narrow their search towards a particular gender, although the Board appreciates the importance of diversity in its widest sense All suitable candidates will be considered on merit, with the Nomination Committee recommending to the Board the person they consider to be the best suited to the role

The Board agrees with the description used in the Financial Reporting Council (FRC) guidance on board effectiveness – that boards should aim for diversity in psychological type and background, as well as gender In this way, the Board is more likely to consist of people from different backgrounds and skill sets so as to avoid any kind of 'group thinking' and enhance constructive discussion and challenge at Board meetings

As a result of the above, whilst the Board will seek to ensure that there is sufficient diversity (in the wider sense) on the Board at all times, as illustrated by the recent appointment of Baroness Wheatcroft to the Board, it does not believe that setting a target for female representation is appropriate at this time

Charles Gregson
On behalf of the Nomination Committee
27 February 2013

Report of the Remuneration Committee

In addition to reviewing the remuneration packages for the senior executives, the Committee has during the year engaged with the government's consultation process on remuneration reporting and, where practical, sought to adopt the proposed changes in this year's Remuneration Report a year early This report, together with the Remuneration Report on page 65, summarises the Committee's activities in 2012

Sarah Bates

Meetings and Membership

The Remuneration Committee comprises solely independent Non-executive Directors The Remuneration Committee met three times during the year and the current members and attendees are

Members	Attendees
Sarah Bates (Chairman)	David Bellamy
Vivian Bazalgette	Andrew Croft
Baroness Wheatcroft	

Roger Walsom ceased to be a member of the Remuneration Committee following his resignation from the Board on 8 May 2012, at which point Baroness Wheatcroft joined the Committee David Bellamy and Andrew Croft are invited to attend part of the proceedings of the Committee, as and when appropriate, to assist the Committee with its decision making

Committee Role and Responsibilities

The Committee is responsible for determining the Company's broad policy for executive remuneration and the individual remuneration packages for each of the Executive Directors, the Group Risk Director and other senior executives (where applicable), including any executive whose total remuneration is expected to exceed the median total remuneration of the Executive Directors

The Committee agrees at the start of the year the short term bonus and long-term incentive schemes for the Executive Directors, including any applicable performance conditions or metrics and then reviews the performance of individual Directors and senior management against the objectives set by the Committee In the event of a Director leaving the Group, the Committee will review and determine the scope of any termination payment and severance terms The Committee is also responsible for selecting, appointing and setting the Terms of Reference for any remuneration consultants who advise the Committee Currently, the Committee has appointed independent consultants New Bridge Street to perform this role

The terms of reference that set out the Remuneration Committee's role and authority can be found on the corporate website at www sjp co uk A detailed report to shareholders from the Remuneration Committee including a description of the Remuneration Committee's activities during the year is contained in the Directors' Remuneration Report on page 65

Sarah Bates
On behalf of the Remuneration Committee
27 February 2013

Corporate Governance Report *continued*

Report of the Audit Committee

The integrity of the Company's financial results and the effectiveness of its internal control systems are of utmost importance to the Directors, shareholders, clients and other stakeholders of the Company The Audit Committee assists the Board in its oversight and monitoring of financial reporting and internal controls, by testing and challenging these areas and working in conjunction with management and the external and internal auditors as appropriate This report summarises the Committee's activities in 2012

Iain Cornish

Meetings and Membership

The Audit Committee met five times during the year and the current members and attendees of the Committee are

Members	Attendees
Iain Cornish (Chairman)	Steve Colsell
Mike Power	Andrew Croft
Vivian Bazalgette	Bill Tonks (Group Risk Director)
	Simon Risby (Head of Internal Audit)

Iain Cornish replaced Mike Power as Chairman of the Committee on 8 May 2012 and Vivian Bazalgette joined the Committee on the same date, in place of Charles Gregson

All members of the Audit Committee at the end of the year were independent Non-executive Directors Charles Gregson remained on the Audit Committee until May 2012, following his appointment as Non-executive Chairman of the Company in January 2012 He was replaced by Vivian Bazalgette on 8 May 2012 Attendees at meetings during the year included the Chief Financial Officer, the Risk Director, the Head of Internal Audit and members of the Finance team, as well as representatives from the external auditors, PricewaterhouseCoopers Steve Colsell also attended meetings as the representative of Lloyds Banking Group The Board is satisfied that all members of the Audit Committee have the experience and qualifications to perform their roles, in particular that a majority of members have recent and relevant financial experience and expertise

Committee Role and Responsibilities

The Audit Committee is responsible for

- the accuracy and integrity of the Group's financial statements,
- reviewing the external auditors' reports thereon,
- monitoring the effectiveness of the Internal Audit function, and
- ensuring the effectiveness of the systems of internal control

This includes reviewing the Company's internal and external audit resource and examining any matters that relate to the financial affairs of the Company, monitoring the financial reporting process and advising the Board on the Company's interim and annual financial statements, its accounting policies and compliance with accounting standards The Committee also assists the Board in ensuring that the financial and non-financial information supplied to shareholders provides a balanced assessment of the Company's position

Other duties include maintaining an appropriate relationship with the external auditors, reviewing the nature and scope of the work performed by them and their responses to management

The terms of reference that set out the Committee's role and authority can be found on the corporate website at www sjp co uk

The following sections provide more detail on how the Committee fulfilled its role in these areas

Committee Activities During 2012

The key activities of the Committee during 2012 were

- Reviewing the annual and half yearly report and accounts, including the external auditors' reports and associated announcements, and
- Monitoring and reviewing the effectiveness of the Internal Audit function, including consideration of the Internal Audit plan

Whilst reviewing the annual and half yearly report and accounts, the Committee focussed on the following areas in particular

- The accounting principles, policies, assumptions and practices adopted,
- Judgements exercised in the production of the financial results including the appropriateness of persistency assumptions, the valuation of assets, and the IFRS adjustments relating to deferred acquisition costs and deferred income reserve,
- Consideration of how the future economic and regulatory developments may impact these judgements,
- Tax liabilities and deferred tax assets and liabilities, and
- Assumptions around the calculation of share option costs

Throughout the year the Committee received regular updates from the Head of Internal Audit in relation to progress against the internal audit plan and results from completed audits Audits are risk-based and during 2012 covered key areas such as outsourced services, IT systems and processes in place to control advice In preparation for the year end reporting, the Internal Audit function also facilitated an overall review of the Company's system of internal financial controls

Other activities undertaken by the Committee during the year included a formal review of the risk schedules and reviews of the Group's 'whistle-blowing' and Bribery Act policies Committee members also received updates from the chair of the Risk Committee, reports from the Audit Committee of St James's Place International plc (the Irish-registered life company) and presentations on various topics including Solvency II, a draft Own Risk and Solvency Assessment (ORSA) for St James's Place UK plc and IT governance The Committee also reviewed the control environment of the Company's key outsourced providers in conjunction with the Risk Committee

Through the Board evaluation exercise explained more fully on page 52, the Committee reviewed its own performance against the responsibilities set out in its terms of reference, which assisted the Committee Chairman in determining any special focus objectives for the coming year

External Auditor

The Committee has responsibility for the work of the auditors and during the year the annual review of the independence, effectiveness and objectivity of the external auditor was conducted by senior management Based on this review, the Committee concluded that the audit service of PricewaterhouseCoopers LLP was fit for purpose and provided a robust evaluation of the risks underlying the Company's financial statements The Committee is also satisfied, having considered the performance of PricewaterhouseCoopers LLP during their period in office, that that they remain independent and objective PricewaterhouseCoopers LLP was appointed as the Company's external auditor in 2009 to harmonise the audit arrangements with the Lloyds Banking Group Given the current relationship with Lloyds Banking Group, the Company considers that putting the audit engagement out to tender is not necessary at present Having assessed the performance and independence of PricewaterhouseCoopers LLP as outlined above, the Committee recommends that PricewaterhouseCoopers LLP be re-appointed as external auditor and a resolution will be put to shareholders at the Annual General Meeting

The Company has put in place a formal policy for the provision of non-audit services by the external auditor This policy aims to ensure that external auditor objectivity and independence is safeguarded and sets out the categories of non-audit services which the external auditor is allowed to provide to the Group The financial limit for non-audit related advice and consultancy work by the external audit firm is £100,000 per year Non-audit assignments exceeding 25% of the audit fee, either individually or cumulatively, must have the prior approval of the Audit Committee Details of the amount paid to the external auditors during the year for audit and non-audit related services are set out in the Notes to the Accounts on page 103

Iain Cornish
On behalf of the Audit Committee
27 February 2013

Corporate Governance Report *continued*
Report of the Risk Committee

Fostering a culture of effective risk identification and management is of utmost importance to the Group The Risk Committee assists the Board in providing leadership, direction and oversight of the Group's management of risk. This report summarises the Committee's key activities in 2012

Mike Power

Meetings and Membership

The Risk Committee met four times during the year and the current members and attendees are

Members	Attendees
Mike Power (Chairman)	David Bellamy
Iain Cornish	Ian Gascoigne
Baroness Wheatcroft	Bill Tonks (Group Risk Director)

Baroness Wheatcroft joined the Committee on 8 May 2012, replacing Roger Walsom

All members of the Risk Committee are independent Non-executive Directors who have considerable financial and/or risk-based experience Attendees at meetings during the year also included the Compliance Officer, Head of Risk Management, the Corporate Actuary and a representative from Lloyds Banking Group, the Company's major shareholder

Both Mike Power and Iain Cornish share common membership of the Audit Committee and the breadth of each Committee's oversight was further enhanced by joint Audit and Risk Committee presentation meetings held during July and October The terms of reference setting out the Committee's role and authority can be found on the corporate website at www sjp co uk

Committee Role and Responsibilities

The Committee's key oversight responsibilities include

- Monitoring and encouraging a culture of effective risk identification and management throughout the Group,
- Continually reviewing the principal risks and uncertainties affecting the Group, as referred to in the Principal Risks and Uncertainties section of the Business Review on pages 31 and 32, and monitoring progress on specific mitigating actions,
- Undertaking an annual review of risk management arrangements,
- Reviewing relevant reports produced by the Group's Risk and Compliance functions, and
- Liaising with the Audit Committee and reporting to the Board any material areas of concern or weakness identified

Committee Activities During 2012

At each meeting during 2012 the Committee reviewed and considered

- The principal risks and uncertainties faced by the Group, as recorded within the Emerging, Topical and Corporate Risk schedules, and challenged the executive team about their management of these risks,
- The corporate key risk indicator suite, which is aligned to the Group's Risk Appetite Statement and corporate objectives The Committee contributed to and influenced the ongoing design and refinement of the key risk indicator suite during the year, and
- Minutes of the Risk Executive Committee meetings, where executive oversight is given to the appropriateness and observance of the Group's Risk Appetite and the application of the Group's risk management framework

During the year, the Committee also received regular updates from senior executives on risk identification and mitigation against the Group's corporate objectives and principal risks These included presentations from

- The Chief Investment Officer on the identification, management and mitigation of key risks facing the Group's Investment Management Approach,
- The Corporate Actuary on preparing for Solvency II and the Own Risk and Solvency Assessment for the UK Life company,
- The Business Development Director on the product development process and the management of risks throughout this process,

- The Executive Director for IT on IT governance, the IT risk schedule and the approach to risk management within the IT function, and
- The Executive Director for Compliance on the structure of Risk and Compliance in the field

Throughout the year the Committee also received regular updates from the Group Risk Director and Head of Risk Management on emerging risk issues Both have direct access to the Chairman of the Risk Committee should the need arise The Committee also reviewed the Group's Risk Appetite Statement and Key Risk Indicator suite and recommended them for approval by the Board

The annual Money Laundering Reporting Officers' report was reviewed and approved by the Committee during the year The report included an examination of the governance framework, operation of systems and controls and training requirements in respect of anti-money laundering activities within the Group

The Committee also discussed and approved the Risk Management Annual Report during the year, which set out the views of the Risk Division on how well the Group discharged its responsibilities under the FSA's risk management principles

Mike Power
On behalf of the Risk Committee
27 February 2013

Corporate Governance Report *continued*
Report of the Investment Committee

The cornerstone of the St James's Place approach to investment management is the Investment Committee The objective of the Investment Committee is to generate consistently superior investment results over the medium term by selecting the best individuals within the appropriate investment companies This report summarises the Committee's activities in 2012


Vivian Bazalgette

Meetings and Membership
The Investment Committee met ten times during the year The current members and attendees of the Committee are

Members	Attendees
Vivian Bazalgette (Chairman)	Andrew Humphries
Sarah Bates	Chris Ralph
Peter Dunscombe	
David Lamb	
Win Robbins	

Win Robbins was appointed to the Investment Committee in September 2012 Various members of the Company's investment support team were invited to attend meetings during the year and representatives from the Company's investment advisers, Stamford Associates, attended all meetings during the year AON Hewitt also attended one meeting in an investment advisory capacity

Committee Role and Responsibilities
The Committee's main responsibilities include overseeing the Company's Investment Management Approach, monitoring the performance and suitability of the Group's range of independent Fund Managers, as well as ensuring that the Fund Managers follow the terms of their agreements with the Company Where necessary, the Committee will make recommendations in relation to the appointment or removal of Fund Managers and also considers any new funds which are to be made available to the Group's clients

Committee Activities During 2012
During the year, the Committee monitored the performance of the Group's Fund Managers and focused on specific manager issues as they arose Face-to-face reporting sessions were held with managers, which provided the Committee with an opportunity to evaluate and assess their investment philosophy and processes and question the individual fund managers on topical issues

The Committee also considered the Investment Manager Report from Stamford Associates and brought about a number of changes and additions to the Investment Managers appointed by the Group

Following a rigorous review and selection process, the Committee oversaw changes to the range of funds announced in April 2012, introducing three new fund managers to the Group's fund range and two new funds to be managed by existing managers on the platform The Committee also provided oversight on the introduction of the Defensive Portfolio which increased to eight the number of Example Portfolios available to clients

Regular additional monitoring meetings ran throughout 2012 More detail on the work of the Committee can be found in the 'Report of the Investment Committee 2012', located on the Company's website at www sjp co uk

Vivian Bazalgette
On behalf of the Investment Committee
27 February 2013

Internal Control and Risk Management

The Board retains overall responsibility for the effectiveness of the Group's system of risk management and internal control systems (including, financial, operational and compliance controls) The Audit and Risk Committees of the Board, along with appropriately structured, staffed and qualified Internal Audit, Risk Management and Compliance functions support the Directors in the discharge of these responsibilities and oversee their outcome

The Group has fully complied with provision C 2 1 of the UK Corporate Governance Code throughout the financial year and up to the date of approval of the Annual Report and Accounts

The Directors and senior managers of the Group are committed to maintaining a strong control culture within all business areas and have processes for evaluating and managing the significant risks faced by the Group Adherences to codes of conduct are required at all times and the Board actively promotes a culture of quality and integrity In addition to these ongoing procedures, the Audit Committee conducts an annual review that considers the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance The review also includes the nature and scope of the ongoing monitoring processes, including the effectiveness of the Internal Audit function and the potential impact during the year on these processes from any changes to the risks that the Group faces

The Group utilises a number of outsourced service providers to provide administration services These are detailed in formal contracts and their delivery is monitored by dedicated relationship managers against documented Service Level Agreements and Key Performance Indicators

Each year the outsourced service providers are required to confirm and evidence the adequacy and effectiveness of their internal control framework (as assessed against the requirements of the COSO Internal Control – Integrated Framework) They are also required to confirm that no material control issues have been identified in their operations over the course of the year

The Company operates a multilayered framework of internal controls over its financial reporting processes The key elements of the framework comprise the documentation, performance and assessment of controls in key risk areas, monthly review and sign off of all financial accounting data submitted by outsourced service providers together with the results of all subsidiaries within the Group, and the formal review of the financial statements by senior management, for both individual companies within the Group as well as at the consolidated Group level In addition, the published financial statements of the Company and the Group are formally reviewed by the Audit Committee, with particular focus on key areas of judgement and accounting estimates

This system of internal control is designed to ensure that the primary objectives of compliance with applicable laws and regulation, effective and efficient operations, quality financial and operational reporting and safeguarding of assets, are met

When significant control issues have occurred, the Audit Committee has received full and detailed reports from management and Internal Audit, including proposals for amending and strengthening the business systems involved in line with the Group's focus on continuous improvement Where appropriate, such issues have been referred to the Board by the Chairman of the Audit Committee and the Group Risk Director for further discussion

In establishing the system of internal control, the Directors have regard to the materiality of relevant risks, the likelihood of risks occurring and the cost of mitigating risks It is therefore designed to manage, rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, not absolute assurance against material financial mis-statement or loss

In the Board's view, the information it has received from entity-wide risk assessment, operational management, and the reports issued by Internal Audit has been sufficient to enable it to properly review the effectiveness of the Company's system of internal control, in accordance with the Turnbull Guidance for Directors on Internal Control

Corporate Governance Report *continued*

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have chosen to prepare supplementary information in accordance with the European Embedded Value Principles issued in May 2004 by the Chief Financial Officers Forum, as supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 ('the EEV Principles'). When compliance with the EEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the Embedded Value methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles.

In preparing the EEV supplementary information, the Directors have:

- prepared the supplementary information in accordance with the EEV Principles;
- identified and described the business covered by the EVM;
- applied the EVM consistently to the covered business;
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently; and
- made estimates that are reasonable and consistent.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the Directors, whose names and functions are listed in Board of Directors section of the Annual Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the European Embedded Value (EEV) supplementary information has been prepared in accordance with the European Embedded Value principles issued in May 2004 by the Chief Financial Officers Forum as supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 ('the EEV Principles'); and
- the business review referenced to in the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Hugh Gladman
Company Secretary
27 February 2013

Directors' Remuneration Report

Sarah Bates

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2012 This report sets out the Group's remuneration policy and the remuneration paid to the Executive and Non-executive Directors in respect of 2012

In anticipation of the UK Government's legislation relating to the reporting of directors' remuneration and revised requirements for shareholder approvals, we have sought to incorporate several of the expected reporting requirements into this year's report We hope this adds clarity to our reporting in this area

Our Remuneration Policy

Our remuneration policy is designed to support and drive delivery of the Group's business objectives Remuneration packages overall are sufficiently competitive to attract, retain and motivate executives of the highest calibre Our incentives are based on measures reflecting growth in long-term shareholder value and encouraging sustainable performance through delivery of a significant proportion of remuneration in St James's Place shares

Corporate Performance and Remuneration for 2012

Shareholders will be aware that the Group has achieved strong growth in the last three years, including in 2012, during a period of considerable change for the industry Our Executives' remuneration reflects this As a result of the three year performance to the end of 2012, 87% of the Executive Directors' PSP awards granted in 2010 will vest in March 2013 In addition, the Remuneration Committee determined that 46% of the maximum annual bonus should be payable for 2012, reflecting the challenging performance targets set by the Committee at the start of the year Shareholders should note that, in periods when the Group's performance has been less strong, bonus levels have been materially reduced by the Committee in the past

Our Remuneration Policy for 2013 and Looking Forwards

During the year the Committee reviewed the operation and effectiveness of its remuneration policy in supporting and driving the delivery of the Group's shorter-term and long-term business objectives It has also continued to monitor developments in remuneration in the financial services sector and companies generally and is interested in the debates about the advantages and disadvantages of various approaches to remuneration

For 2013, the Committee concluded that no material changes to SJP's overall policy are required We have awarded an increase of 3% in base salary for the Executive Directors This follows a freeze in salaries for the Executive Directors in 2012, and is in line with increases awarded to the workforce as a whole In addition, we have amended the weightings of the financial and non-financial elements of the annual bonus for 2013 in order to reduce the emphasis on new business growth and increase the emphasis on some of the non-financial objectives set out in the 2013 business plan The details of our policy are clearly set out in the policy table on page 66 in a form which follows the revised requirements currently being consulted on by the UK Government

Looking forward to 2013, the Committee intends to carry out a thorough review of the Group's remuneration policy, taking into account the latest guidelines from both investor and regulatory bodies The review is timed to coincide with the introduction of the new remuneration reporting requirements and the end of the life of the Group's long-term incentive schemes, which were approved by shareholders in 2005 The Committee looks forward to presenting the revised policy to shareholders in next year's Remuneration Report

Summary

Striking the right balance between fairness, performance and reward, and making sure that remuneration structures align executives effectively with shareholders', clients', and other stakeholders' interests is not a straightforward task The Committee believes that the policy achieves a reasonable balance and that the Executives are being rewarded fairly for the value they are creating for shareholders, particularly in the long-term

Shareholders will be invited to approve the report at the Annual General Meeting on 21 May 2013 If in the meantime you have any questions regarding our remuneration policy then my colleagues and I on the Remuneration Committee will be pleased to engage with you

Directors' Remuneration Report *continued*

Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company from 1 January 2013

In setting the remuneration policy for the Executive Directors, the Committee takes into consideration a number of different factors

- The Committee applies the principles set out in Schedule A of the UK Corporate Governance Code and also takes into account best practice guidance issued by the major UK institutional investor bodies, the FSA and other relevant organisations,
- The Committee has overall responsibility to be aware of the remuneration policies and structures of the Group as a whole and it reviews remuneration policy on a firm-wide basis When the Committee determines and reviews the remuneration policy for the Executive Directors it considers and compares it against the pay, policy and employment conditions of the Group to ensure that it is comfortable that there is alignment and equity between the two, and
- The Committee considers the external market in which the Group operates and uses comparator remuneration data from time to time, but as a guide only recognising that data can be volatile and must be used carefully to avoid the risk of an upward ratchet in remuneration The Committee recognises that there is often a need to phase-in changes over a period of time

Engagement with Shareholders

The Remuneration Committee engages with the Company's major shareholders and will discuss with them its proposals for 2014 in advance of seeking shareholder approval at the AGM in that year It also engages with the major investor bodies when a material change is proposed to the remuneration policy and gives full and proper consideration to their views

Remuneration Policy for Executive Directors

The remuneration policy is designed to support and encourage the delivery of the Group's short-term and long-term business objectives

The following table summarises each element of the remuneration policy for the Executive Directors, explaining how each element operates and how each part links to corporate strategy

Element	Purpose and link to strategy including choice of performance metrics	Operation	Maximum opportunity	Performance metrics	How policy will be implemented in 2013	Changes from prior year
Salary	Essential to recruit and retain Executives Salary levels are not artificially low and cover reasonable living expenses	Reviewed annually and fixed for 12 months commencing 1 March Level influenced by • role, experience and performance • average change in broader workforce salary • periodic benchmarking for each role against similar UK listed companies	Up to a median level based on similar UK listed companies For promotions/role changes salary increases may be higher than usual and increases may be phased	No specific metrics but salary reviews take into account experience and performance in role	Directors' salaries will be increased within the Company's policy by 3% in line with the average workforce increase From 1 March 2013, the salaries of the Executive Directors will be • David Bellamy £478,000 (2012 £465,000) • Andrew Croft £346,000 (2012 £336,000) • Ian Gascoigne £346,000 (2012 £336,000) • David Lamb £346,000 (2012 £336,000)	3% increase

Element	Purpose and link to strategy including choice of performance metrics	Operation	Maximum opportunity	Performance metrics	How policy will be implemented in 2013	Changes from prior year
Bonus	Rewards the achievement of annual financial and strategic business plan targets and delivery of team objectives Deferred element aids retention, encourages long-term shareholding, discourages excessive risk taking and aligns with shareholder interests Performance metrics reflect the key performance drivers of the annual business plan, achievement of which will reflect performance in line with the Group's strategy	Performance measures and weightings are set in line with the annual business plan Bonus payment is determined by the Committee after the year end, based on performance against the targets set 50% of any bonus payable is paid in cash with the remaining 50% used to purchase SJP shares subject to three year continuous service requirement Annual bonus payments subject to clawback	120% of base salary	Half of the annual bonus is based on the achievement of challenging financial objectives • One quarter of the bonus (a maximum of 30% of salary) determined by performance of EEV Group operating profit before tax (see note 1) • One-quarter of the bonus (up to 30% of salary) determined by EEV Group profit from new business (see note 1) • The remaining half of the bonus (up to 60% of salary) is based on the performance of the Executives as a team in delivering on various non-financial objectives relating to client satisfaction, shareholders and other stakeholders, as set out in the business plan (see note 2) • Committee discretion to adjust bonus down or up (within the overall maximum of 120% of salary) to take account of factors such as an exceptional positive or negative event	Maximum bonus opportunity remains within the policy at 120% of salary The precise targets are commercially sensitive and will be disclosed when the bonus outcome is determined and reported in the implementation section of the 2014 Report)	Balance between two profit elements and non-financial element changed from equal one thirds to 25% 25% 50% respectively Financial underpin added to non-financial element to give the Committee discretion to scale-back payment in the event that financial performance is disappointing

Directors' Remuneration Report *continued*

Element	Purpose and link to strategy including choice of performance metrics	Operation	Maximum opportunity	Performance metrics	How policy will be implemented in 2013	Changes from prior year
Performance Share Plan	Incentivises the Directors to achieve superior long-term shareholder returns Provides long-term retention Focuses the Executives on longer-term corporate performance and performance objectives A mix of three performance conditions provides an appropriate balance of targets that both incentivise the Executives to achieve stretching long-term financial performance while also keeping their interests aligned to those of shareholders and the creation of value for our long-term shareholders and focused on stock market out performance	Awards of nil-cost options are granted annually with vesting dependent on the achievement of stretching performance conditions measured over a period of three financial years Metrics and targets are set in line with the business plan and are reviewed annually to ensure they remain appropriate as well as the weighting between them Vested awards subject to clawback	Maximum award under plan rules of 200% of salary as at date of grant	The vesting of awards is dependent on the achievement of three equally weighted performance measures • EPS growth based on EEV adjusted profit from 2012 year end figure (see note 3) • EPS growth as above but excluding the impact of the EEV unwind of the discount rate from 2012 year end figure (effectively excluding the impact of stock market movements on earnings) (see note 3) • Relative TSR For EPS conditions, 25% vests at threshold (EPS growth of RPI + 5% per annum) increasing to 100% for EPS growth of RPI + 16% or more per annum with straight line vesting in between For TSR, 25% vests at median, with 100% vesting for upper quartile performance with straight line vesting in between, compared to the constituent companies in the FTSE 250, excluding investment trusts, the oil, gas and mining sectors	For 2013 an award of 190% of salary will be made to the CEO and 175% of salary for the other Executives	No change

Element	Purpose and link to strategy including choice of performance metrics	Operation	Maximum opportunity	Performance metrics	How policy will be implemented in 2013	Changes from prior year
Pension	Helps recruit and retain Executives Provides a discrete element of the package to contribute to post-retirement lifestyle	Defined contribution pension scheme 20% of salary is paid into the Group personal pension scheme for the Executive or an equivalent cash amount via non-pensionable salary supplement if the Executive is affected by the pension cap	20% of base salary	None	–	No change
Other Benefits	Operate competitive benefits to help recruit and retain Certain benefits (e g private medical cover) are provided to minimise disruption to the day to day business (e g from illness)	Company car (or salary supplement in lieu), private medical insurance, life, critical illness and death in service cover Insurance based benefits provided by third party providers Participation in the Group's all employee SIP and SAYE schemes	Cost of benefit provision set out in table of Directors emoluments	None	–	No change
Shareholding guidelines		Aligns Executives with shareholders and to long-term corporate performance Executives are required to build and maintain a shareholding equivalent to 100% of base salary Until threshold is reached, 50% of vested shares from the PSP and other share awards (less tax liability) must be retained As shown on page 81, the current shareholdings of the Executive Directors are well in excess of the shareholding requirement				
Non-executive Directors' fees		To attract high quality, experienced Non-executive Directors The Chairman is paid an all encompassing annual fee, which is reviewed periodically by the Committee All Non executive Directors receive a basic annual fee for carrying out their duties, together with additional fees being paid in respect of Board Committees and other responsibilities, with fee levels reviewed periodically by the Board Reviews take into account market data for similar Non-executive roles in other company's of a similar size to St James's Place as well as the time commitment of its Non-executive Directors Policy to pay up to the median based on similar time commitments of Chairman and Non-executives in similar sized companies For 2013, there will be no increase to the fees paid to the Chairman and other Non executive Directors The table below sets out the fees payable to the Chairman and the Non-executive Directors in 2013				

Charles Gregson	£165,000
Vivian Bazalgette	£82,950
Mike Power	£102,200**
Iain Cornish	£67,200
Sarah Bates	£66,675
Baroness Wheatcroft	£48,300
Steve Colsell	£26,250*

* Fees payable to Lloyds Banking Group
** £35 000 of these fees are in respect of Mike Power's appointment as Non executive Director of St James s Place International plc the Group's Dublin based insurance company

Directors' Remuneration Report *continued*

Notes

1 The EEV operating profit metric includes the impact of persistency on funds under management and other operational variances and the profit from new business metric includes both growth in new business and the control of expenses The operating profit and profit from new business targets set by the Committee for 2013 are based on a sliding scale, to progressively reward incremental performance with the bottom end of the scale representing an increase

2 The team element of the 2013 annual bonus will be assessed by reference to three key elements being client satisfaction, shareholder experience and stakeholder satisfaction, including regulatory compliance Specific objectives include the delivery of strong investment performance, the delivery of appropriate advice to clients, the client experience as measured by surveys and awards client feedback and complaints, enhancing the range of investment funds and standards of service for St James's Place clients, the successful recruitment and retention of high quality new Partners, successfully controlling and mitigating the material risks that could impact the Group and maintaining the Group's good relations with its shareholders and regulators

3 The first EPS performance condition is calculated by reference to adjusted consolidated profit after tax on the EEV basis of accounting for both the life and unit trust businesses (on a fully diluted per share basis) The effect of the adjustment to the consolidated after tax figures will be to strip out the post tax EEV investment variance and any economic assumption change in the final year of the performance period as these factors are not within the control of management and can produce wide variations in reported earnings due to stock market fluctuations However this measure of EPS is still impacted by stock market movements in the prior year due to the impact of any such movements on the unwind of the discount rate in the current year

The second EPS performance condition is calculated in a similar way to the first EPS condition, save that a further adjustment is made to strip out the impact of the unwind of the discount rate This adjustment eliminates any direct impact of stock market volatility and changes in the economic assumptions throughout the whole three year period of the performance condition

When assessing the EPS performance conditions for the 2013 PSP awards, the Committee noted that the base point of the 2012 financial year end from where the growth in EPS would be measured represents a material increase over the previous year The Committee has also looked at analysts' forecasts for the Company and the EPS growth ranges adopted in long term incentive plans operated by similar businesses Overall it considers that the growth range is generally above those set in most other comparable businesses and represents an equivalent level of challenge to those ranges set for previous PSP awards

4 No Executive Director has a contractual right to receive an annual bonus award The satisfaction of the targets set by the Committee is assessed by reference to the Company's internal management information systems and verified by the Committee, which the Committee believes is the most appropriate method, given the internal nature of most of the performance targets Financial performance metrics are also verified by the Company's auditors

Risk Management

Risk is managed within the remuneration policy through the Committee

- Taking into consideration the recommendations contained in the FSA Remuneration Code (the 'Code') and associated guidance which the Committee considers is relevant albeit that St James's Place is not specifically required to comply with the Code
- Structuring the annual bonus plan to contain a mix of financial and non-financial performance metrics, where performance conditions are tailored to the business outlook and strategy, including the management of risk within the business
- Assessing the performance metrics from a risk perspective, with input from the Chairman of the Risk Committee
- Requiring deferral of 50% of annual bonus payments into St James's Place shares which are deferred for three years
- Ensuring that the majority of the incentive pay comes in the form of a long-term incentive subject to stretching performance targets measured over multi-year performance periods, with the performance period for subsequent awards overlapping the previous award This ensures that there is no particular incentive to maximise performance over a particular period
- Taking into account the performance of the Group on Environmental, Social and Governance (ESG) matters when assessing the annual bonus to be paid to the Executive Directors
- Incorporating claw back into the Company's bonus and long-term incentive plans
- Requiring the Executive Directors to build and maintain a substantial shareholding in the Company

Remuneration Policy across the Group

All employee long-term incentives

The Company operates a Save As You Earn Share Option Plan and a Share Incentive Plan under which all UK employees of the Group, including the Executive Directors, are eligible to participate

Group wide remuneration policy

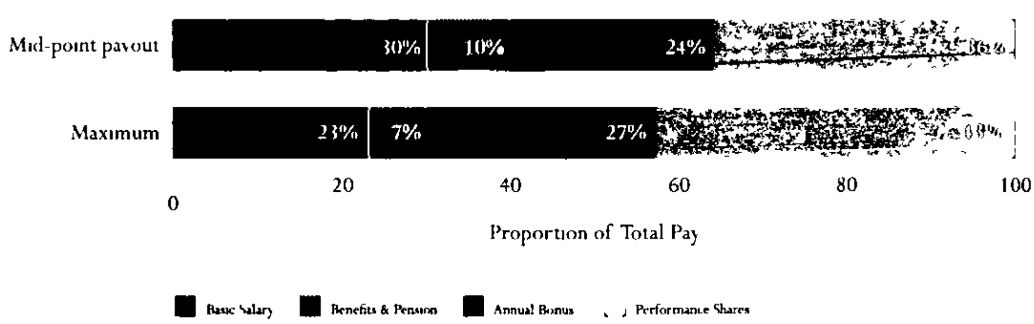
The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the group as a whole and the Committee aims, where appropriate, for there to be a consistent approach applied For instance, the suite of benefits in kind is consistent and the vast majority of employees participate in annual bonus plans All employees are offered the opportunity to participate in the Group's SAYE Share Option Plan and Share Incentive Plan

Key differences relate to the fact that there is a higher potential level of reward under performance related elements, in order to ensure that the higher potential remuneration levels at senior executive levels are driven more (and will vary more), by the performance of the business More of senior level remuneration is deferred than is the case for the workforce as a whole

Remuneration Scenarios for Executive Directors

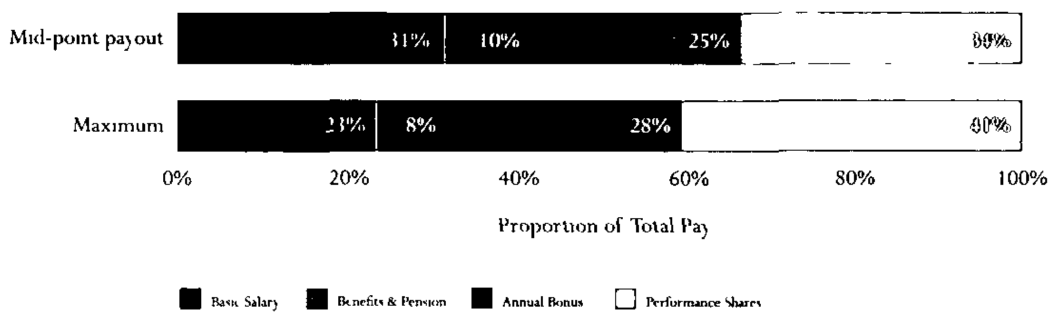
The charts below show how the proportion of each Executive Director's remuneration package varies at different levels of performance, assuming incentives pay out at one half of the maximum, and at a full payout level On this basis the charts show that, at the maximum level of performance under the annual bonus and PSP, the performance linked elements of the package comprise around 70% of total remuneration

David Bellamy, Chief Executive



Directors' Remuneration Report *continued*

Andrew Croft, Chief Financial Officer
Ian Gascoigne, Managing Director
David Lamb, Managing Director



Service Contracts
In summary the contractual provisions of the Executive Director service contracts are as follows

Provision	Detailed terms
Notice period	12 months by either party
Termination payment	An express obligation on the executive to mitigate his loss Payments can be made on a monthly basis and reduced if an executive is able to secure alternative employment
Remuneration entitlements	No enhanced rights (other than those previously approved by shareholders in relation to the Group's share incentive schemes or benefits in addition to in service entitlement)
Change of control	As on termination

When considering the size of any proposed termination payment, the Committee would take into account a number of factors including the health, length of service and performance of the relevant executive, including the duty to mitigate his own loss, with a broad aim to avoid rewarding poor performance while dealing fairly with cases where the departure is due to other reasons, for example illness

Further details of the service agreements of the Executive Directors are provided below

Director	Date of contract	Date contract automatically terminates
David Bellamy	8 August 2006	15 April 2018
Ian Gascoigne	8 August 2006	7 July 2021
David Lamb	8 August 2006	31 January 2022
Andrew Croft	8 August 2006	11 June 2029

Relative Importance of Spend on Pay

The following table sets out the percentage change in profit, dividends and overall spend on pay in the year ending 31 December 2012, compared to the year ending 31 December 2011

	2011 £m	2012 £m	Percentage change
Operating profit after tax	106 8	107 1	0 3%
Dividends	39 4	53 8	36 5%
Employee remuneration costs	59 5	61 4	3 2%

Executive Directors serving as Non-executive Directors on other Company Boards

Currently, no Executive Director acts as a Non-executive Director on the Board of another company David Lamb is on the Board of the Association of Private Client Investment Managers and Stockbrokers (APCIMS), for which no fee is paid

Chairman and Non-executive Directors

The non-executive Directors do not have service contracts or any benefits in kind arrangements and do not participate in any of the Group's pension or long-term incentive arrangements The term of the appointment of each Non-executive Director (other than those appointed by Lloyds Banking Group plc pursuant to the Relationship Agreement described more fully on page 54) is for three years, at which time the appointment will be reviewed by the Board Any period of service longer than six years is subject to particularly rigorous review by the Nomination Committee of the Board

The dates of the letters of appointment for the Non-executive Directors are as follows

Name	Date of letter of appointment
Charles Gregson	15 November 2011
Vivian Bazalgette	27 May 2011
Sarah Bates	26 July 2004
Iain Cornish	28 September 2011
Steve Colsell	30 January 2009
Mike Power	22 April 2005
Baroness Wheatcroft	7 March 2012

Directors' Remuneration Report *continued*

Implementation Report

How the Committee operates to set the Remuneration Policy

The Remuneration Committee, on behalf of the Board, determines the Company's remuneration policy and the remuneration packages of the Executive Directors of the Company and the Chairman In addition, the Committee monitors the remuneration of the senior management team, including the Group Risk Director and his colleagues in the Risk Division, and oversees the operation of the executive long-term incentive schemes and all employee share schemes

The membership and terms of reference of the Committee are reviewed annually and the terms of reference are available on the Company's website

Membership of and attendance at the Remuneration Committee meetings

The members of the Committee (all independent Non-executive Directors) are set out below as well as their attendance at meetings during the financial year

Name	Number of meetings attended out of potential maximum
Sarah Bates (Committee Chairman)	3 out of 3
Vivian Bazalgette	2 out of 3
Baroness Wheatcroft	1 out of 1

Vivian Bazalgette was not able to attend one meeting due to a prior commitment, but reviewed the papers and gave his comments to the Committee Chairman prior to the meeting There is a good level of communication between members of the Committee between meetings

The Committee receives advice from several different sources

- The Company Secretary who acts as Secretary to the Committee and provides advice on corporate governance, legal and regulatory issues as well as the design and operation of the long-term incentive schemes
- Members of the executive team or other third parties as they see fit including
  - The Chief Executive to provide information on corporate or individual performance to the Committee, or to provide recommendations regarding the remuneration packages of individual Directors
  - The Chairman to provide information on the performance of individual Directors, including the Chief Executive
  - The Chief Financial Officer to provide financial information relating to the Group
  - The Chairman of the Risk Committee as part of the Company's risk management process
  - New Bridge Street as independent adviser to the Committee

Any recommendations from the management team are discussed by the Committee and adopted or amended as the Committee sees fit No Director is present at any part of a meeting of the Committee when their individual remuneration or contractual terms are being discussed

Advisors to the Committee

The Committee is advised by independent remuneration consultants New Bridge Street (a trading name of Aon Hewitt Limited being an Aon plc company)

New Bridge Street is in regular contact with the Remuneration Committee Chairman to discuss remuneration matters which are of particular relevance to the Company, and how best it can work with the Company to meet the Committee's needs New Bridge Street is a signatory to the Remuneration Consultants' Code of Conduct

The total fees paid to New Bridge Street for the advice provided to the Committee during the year was £80,165 Fees are charged predominately on a 'time spent' basis

Neither New Bridge Street, nor its parent company Aon plc, has provided any other services to the Company during the year other than some consultancy work relating to the property fund which Aon Hewitt provided to the Investment Committee and further consultancy work relating to hedge funds The total fees paid to Aon Hewitt for consultancy work during the year was £113,000

The Remuneration Committee is satisfied that these additional services in no way compromised the independence of advice provided by New Bridge Street to the Committee

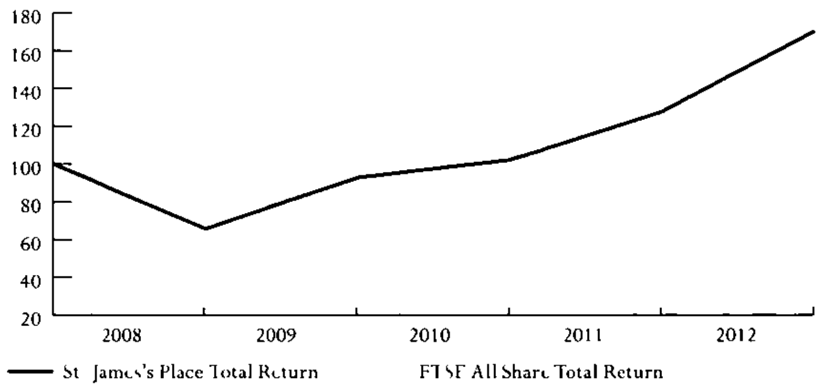
Statement of Shareholding Voting at AGM

At last year's AGM, the Directors' Remuneration Report received the following votes from shareholders

	Remuneration Report	
	Total number of votes	% of votes cast
For	423,055,306	99 3%
Against	2,945,481	0 7%
Abstentions	104,101	N/A
Total	**426,104,888**	**100%**

Total Shareholder Return performance

The graph below shows a comparison of the Company's TSR performance against the FTSE All-Share index over the last five financial years The Company considers this to be the most appropriate comparative index, given the broad nature of the index and the companies within it



Directors' Remuneration (audited)

The information set out in the following tables are subject to audit These tables have been prepared in accordance with the requirements of the existing Schedule 8 legislation, which remains the basis for statutory reporting until the new regulations take effect in October 2013

Total Directors' remuneration for the year ended 31 December 2012 is shown below, with comparative figures for the year ended 31 December 2011

	Year ended 31 December 2012	Year ended 31 December 2011
Aggregate emoluments	**£**	£
Fees to Non-executive Directors	**527,187**	428,025
Emoluments to Executive Directors	**2,466,254**	3,152,584
Aggregate gains on exercise of share awards	**3,016,563**	1,949,983
Company contributions to money purchase pension schemes – see note(iii) to the following table	**294,600**	354,668
	6,304,604	5,885,260

Directors' Remuneration Report *continued*

The following table, which has been prepared in accordance with regulatory requirements, sets out the elements of Directors' aggregate emoluments for the year ended 31 December 2012, or for the period ended 31 December 2012 if appointed during the year

Director	Salaries & Fees	Cash Bonus	Deferred Bonus	Benefits	2012 Aggregate Emoluments	2011 Aggregate Emoluments
	£	£	£	£	£	£
Sarah Bates	65,564	–	–	–	65,564	68,775
Vivian Bazalgette	76,287	–	–	–	76,287	53,175
David Bellamy	465,000	127,875	127,875	53,792	774,542	860,396
Steve Colsell	26,250	–	–	–	26,250	26,250
Iain Cornish	63,876	–	–	–	63,876	10,500
Andrew Croft	336,000	92,400	92,400	41,192	561,992	626,126
Ian Gascoigne	336,000	92,400	92,400	46,792	567,592	631,802
Charles Gregson	165,000	–	–	–	165,000	48,300
David Lamb	336,000	92,400	92,400	41,328	562,128	627,107
Mike Power	79,974	–	–	–	79,974	64,050
Roger Walsom	16,092	–	–	–	16,092	45,150
Baroness Wheatcroft	34,144	–	–	–	34,144	–

Notes

(i) Benefits comprise the entitlement to company car or cash equivalent fuel private health care, life and critical illness cover, permanent health insurance and health screening and are generally the amounts which are returned for taxation purposes

(ii) The fees in respect of the services of Steve Colsell are payable directly to Lloyds Banking Group

(iii) The contributions made to the money purchase group pension scheme for David Bellamy Andrew Croft Ian Gascoigne and David Lamb were £93,000 (2011 £91,667) £67,200 (2011 £66,667), £67,200 (2011 £66 667) and £67 200 (2011 £66,667) respectively being 20% of base salary earned in 2012 To the extent that pension contributions were capped by legislation a non pensionable salary supplement was paid to the Executive Directors for the balance

(iv) As explained on page 67, half of the annual bonus is paid in cash, with the other half being used to purchase St James's Place shares which are subject to forfeiture for three years under the terms of the Deferred Bonus Scheme

(v) Mike Wilson, a former Director of the Company was paid £200,000 in 2012 in respect of his role as Chairman of the St James s Place Foundation, assisting the Academy and the recruitment and retention of the members of the St James s Place Partnership

Details of variable pay earned in the year

Annual Bonus

For the year under report, the performance conditions which applied to the bonus and the resulting payout under these were as follows

Performance Hurdle	Proportion of total bonus available		Actual performance achieved	Resulting bonus out-turn	
	% of maximum	% of salary		% of maximum	% of salary
EEV operating profit range of between £360m to £395m	33 33%	40%	£365 9m	8 3%	10%
EEV new business profit range of between £275m and £317m (Note (i))	33 33%	40%	£282 1m	8 3%	10%
Performance of Executive Directors as a team in delivering the main strategic non-financial objectives set out in the business plan	33 33%	40%	See note (ii) below	29 2%	35%
Total	100%	120%		45 8%	55%

Notes

(i) Profit from new business is the EEV new business contribution plus the profits arising in the distribution company as shown in the segmental analysis

(ii) At the start of the year under report the Committee agreed that the performance of the Executive Directors as a team would be measured against a number of non financial objectives set out in the business plan These objectives included retention of funds under management, client satisfaction, measured through client research carried out by an independent third party during the year fund management performance compared to peer groups and benchmark indices, complaint levels, the effectiveness of the example portfolios, growth in Partnership numbers, completion of the professional qualifications and other changes to business processes required by the FSA s Retail Distribution Review (RDR) Partner productivity, the successful retention of Academy recruits the adoption of electronic business submission by the Partnership, the maintenance of good investor relations and good relations with the Group s regulators The Committee considered how the Executive Directors had performed as a team in relation to all of the above factors during 2012, taking into account the views of the Chairman and the other Non executive Directors, proposals made by the Chief Executive, and documentary evidence of the performance of the Group against various scales set by the Committee at the start of the year Taking into account the Group s performance in 2012, particularly the long term performance record, client experience the growth in the size of the Partnership, the satisfactory completion of the professional qualifications, requirements and readiness for RDR, the Committee awarded 35% of salary for the team performance element of the bonus

(iii) The Committee retains the discretion to amend each element of the bonus, up or down within the overall cap of 120% of salary, to take into account other relevant factors such as the Group's performance compared to competitor organisations or, for instance an exceptional positive or negative event which impacts the Group The Committee reviewed the Group s performance as well as competitors and the external market at the end of the performance period and agreed that no adjustment was required

(iv) Half of the bonus is paid in cash with the remainder being invested in the Company s shares and deferred for three years, under the Group s deferred bonus plan

Long-Term Incentive Awards

Performance Share Plan (audited)

On 31 December 2012, the awards made on 8 March 2010 under the Company's PSP reached the end of their three-year performance period These will vest on 8 March 2013, being the third anniversary of the date of grant The performance conditions which applied to the 2010 PSP awards, and the actual performance achieved against these conditions were as follows

	TSR relative to the FTSE 250*		Average annual adjusted EPS growth (including the unwind of the discount rate) in excess of RPI		Average annual adjusted EPS growth (excluding the unwind of the discount rate) in excess of RPI	
Performance Level Hurdle	**Performance required**	**% of one third of award vesting**	**Performance required**	**% of one third of award vesting**	**Performance required**	**% of one third of award vesting**
Below threshold	Below Median	0%	Below 5%	0%	Below 5%	0%
Threshold	Median	25%	At least 5%	25%	At least 5%	25%
Stretch or above	Upper Quartile or above	100%	16% or above	100%	16% or above	100%
Actual Achieved	66 out of 171 companies	60 1%	19 6%	100%	26 7%	100%

* FTSE 250 excluding investment trusts and companies in the FTSE Oil and Gas producers and FTSE mining sectors

Accordingly, the total percentage of the 2010 PSP awards vesting was 87%, this resulted in the following awards vesting to the Executive Directors

	Total number of shares granted	Percentage of awards vesting	Number of shares vesting	Value of shares vesting (£000)[1]
David Bellamy	316,666	87%	275,499	£1,090,976
Andrew Croft	219,607	87%	191,058	£756,590
Ian Gascoigne	219,607	87%	191,058	£756,590
David Lamb	219,607	87%	191,058	£756,590

(1) The deemed share price used to calculate the value of shares vesting was £3 96 being the three month average to 31 December 2012 (as the awards will not actually vest until 8 March 2013)

Directors' Remuneration Report *continued*

Share Awards

The tables below set out details of share awards that have been granted to individuals who were Directors during 2012 and which had yet to vest at some point during the year

Performance Share Plan - awards held in return for qualifying services during 2012 (audited)

Director	Balance at 1 January 2012	Granted in year(iv)	Lapsed in year(v)	Exercised in year	Balance at 31 December 2012	Dates from which exercisable
David Bellamy	331,168(i)	–	56,553	274,615	–	2 Mar 2012 to 2 Sept 2012
	316,666(ii)	–	–	–	316,666	8 Mar 2013 to 8 Mar 2016
	267,322 (iii)	–	–	–	267,322	15 Mar 2014 to 15 Mar 2017
		242,220	–	–	242,220	26 Mar 2015 to 26 Mar 2018
Andrew Croft	249,350(i)	–	42,581	206,769	–	2 Mar 2012 to 2 Sept 2012
	219,607(ii)	–	–		219,607	8 Mar 2013 to 8 Mar 2016
	177,912 (iii)	–	–	–	177,912	15 Mar 2014 to 15 Mar 2017
		161,206	–	–	161,206	26 Mar 2015 to 26 Mar 2018
Ian Gascoigne	249,350(i)	–	42,581	206,769	–	2 Mar 2012 to 2 Sept 2012
	219,607(ii)	–	–	–	219,607	8 Mar 2013 to 8 Mar 2016
	177,912 (iii)	–	–	–	177,912	15 Mar 2014 to 15 Mar 2017
		161,206		–	161,206	26 Mar 2015 to 26 Mar 2018
David Lamb	218,181(i)	–	37,259	180,922	–	2 Mar 2012 to 2 Sept 2012
	219,607(ii)	–	–	–	219,607	8 Mar 2013 to 8 Mar 2016
	177,912 (iii)	–	–	–	177,912	15 Mar 2014 to 15 Mar 2017
		161,206	–	–	161,206	26 Mar 2015 to 26 Mar 2018

Notes

(i) These awards were made on 2 March 2009 when the St James's Place share price was £1 73 The performance period was the three year period ending on 31 December 2011 The performance conditions relate to EPS for two thirds of the award and TSR for one third of the award compared to a comparator group of other financial services companies The EPS scale starts at RPI +7% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest with pro rata vesting between the said points The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median

(ii) These awards were made on 8 March 2010 when the St James's Place share price was £2 57 The performance period is the three year period ending on 31 December 2012 The three performance conditions, each in respect of one third of the award, relate to (i) EPS (including the impact of the unwind of the discount rate, as described more fully on page 70) (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE All Share Index excluding investment trusts and companies in the oil, gas and mining sectors The EPS scale starts at RPI +7% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro rata vesting between the said points The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median Up to 11 764 shares (being the £30k Inland Revenue cap on 'approved' share options) can be exercised via a linked award under an approved share option scheme with an exercise price of £2 55

(iii) These awards were made on 15 March 2011 when the St James's Place share price was £3 14 The performance period is the three year period ending on 31 December 2013 The performance conditions, each in respect of one third of the award, relate to (i) EPS (including the impact of the unwind of the discount rate as described more fully on page 70), (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE All Share Index, excluding investment trusts and companies in the oil, gas and mining sectors The EPS scale starts at RPI +5% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro rata vesting between the said points The TSR sliding scale is between median and upper quartile with 25% of the TSR part of the award vesting at median

(iv) These awards were made on 26 March 2012 when the St James's Place share price was £3 73 The performance period is the three year period ending on 31 December 2014 The performance conditions each in respect of one third of the award relate to (i) EPS (including the impact of the unwind of the discount rate, as described more fully on page 70) (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE All Share Index, excluding investment trusts and companies in the oil gas and mining sectors The EPS scale starts at RPI +5% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest with pro rata vesting between the said points The TSR sliding scale is between median and upper quartile, with 25% of the TSR part of the award vesting at median

(v) These awards lapsed in part due to the performance conditions based on TSR (more fully described in note (i) above) not being fully satisfied and as a result 17 07% of the award lapsed at the end of the performance period

(vi) On 13 March 2012 when the mid market price was £3 52 David Bellamy exercised 274 615 PSP share awards resulting in a gain of £953 190, Andrew Croft exercised 206,769 PSP share awards resulting in a gain of £717 696, Ian Gascoigne exercised 206 769 PSP share awards resulting in a gain of £717 696 and David Lamb exercised 180,922 PSP share awards resulting in a gain of £627 981

Deferred Bonus Scheme – Shares held during 2012 (audited)

The table below sets out details of the awards held by the Directors under the deferred element of the annual bonus scheme during 2012

Director	Balance at 1 January 2012	Released during year[i]	Awarded during year[ii]	Balance at 31 December 2012[iii]	Vesting Date
David Bellamy	34,931	34,931	–	–	4 Mar 2012
	89,990	–	–	89,990	10 Mar 2013
	77,558	–	–	77,558	15 Mar 2014
		–	49,563	49,563	26 Mar 2015
Andrew Croft	26,301	26,301	–	–	4 Mar 2012
	67,757	–	–	67,757	10 Mar 2013
	58,397	–	–	58,397	15 Mar 2014
		–	35,813	35,813	26 Mar 2015
Ian Gascoigne	26,301	26,301	–	–	4 Mar 2012
	67,757	–	–	67,757	10 Mar 2013
	58,397	–	–	58,397	15 Mar 2014
		–	35,813	35,813	26 Mar 2015
David Lamb	23,972	23,972	–	–	4 Mar 2012
	59,287	–	–	59,287	10 Mar 2013
	58,397	–	–	58,397	15 Mar 2014
		–	35,813	35,813	26 Mar 2015

Notes

(i) These deferred share awards were awarded on 4 March 2009 equal in value to the executive's 2008 annual cash bonus The St James s Place share price on the date of the award was £1 85 and on the date of release (13 March 2012) was £3 52

(ii) These deferred share awards were awarded on 26 March 2012 equal in value to the executive s 2011 annual cash bonus These shares will be held for a restricted period ending on 26 March 2015 The St James s Place share price on 26 March 2012 was £3 73

(iii) Outstanding awards at the year end relate to deferred share awards awarded in 2010, 2011 and 2012 (see (ii) above) The share price at the date of the 2010 award (10 March 2010) was £2 54 and as at the date of the 2011 award (15 March 2011) was £3 14

(iv) Further details of the deferred element of the annual bonus scheme are set out on page 67

Directors' Remuneration Report *continued*

SAYE Share Option Scheme – Options awarded in return for qualifying services during 2011 (audited)

Details of the options held by the Directors in 2012 under the SAYE scheme and any movements during the year are as follows

Director	Options held at 1 January 2012	Granted in year[i]	Lapsed in year	Exercised in year[ii]	Options held at 31 December 2012	Exercise price	Dates from which exercisable
David Bellamy	6,100	–	–	6,100	–	£1.50	1 May 2012 to 31 Oct 2012
		3,040	–	–	3,040	£2.96	1 May 2015 to 31 Oct 2015
Andrew Croft	6,100	–	–	6,100	–	£1.50	1 May 2012 to 31 Oct 2012
		3,040	–	–	3,040	£2.96	1 May 2015 to 31 Oct 2015
Ian Gascoigne	6,100	–	–	6,100	–	£1.50	1 May 2012 to 31 Oct 2012
		3,272	–	–	3,272	£2.75	1 Nov 2015 to 30 Apr 2016
David Lamb	6,100	–	–	6,100	–	£1.50	1 May 2012 to 31 Oct 2012
		3,272	–	–	3,272	£2.75	1 Nov 2015 to 30 Apr 2016

Notes

(i) David Bellamy and Andrew Croft were granted options under the SAYE share option scheme on 23 March 2012. David Lamb and Ian Gascoigne were granted options under the SAYE share option scheme on 26 September 2012.

(ii) David Bellamy, Andrew Croft, Ian Gascoigne and David Lamb exercised share options held under the SAYE share option scheme on 3 May 2012 when the mid market price of St. James's Place shares was £3.32.

(iii) At 31 December 2012 the mid market price for St. James's Place shares was £4.215. The range of prices between 1 January 2012 and 31 December 2012 was between £3.034 and £4.226.

Share Incentive Plan – Shares held during 2012 (audited)

The table below sets out details of the awards held by the Directors under the Share Incentive Plan during 2012

Director	Balance at 1 January 2012	Partnership shares allocated during year	Matching shares allocated during year	Balance at 31 December 2012	Holding period (Matching Shares)
Andrew Croft[i]	642	–	–	642	26 Mar 2010 to 26 Mar 2013
Ian Gascoigne[ii]	502	–	–	502	28 Mar 2011 to 28 Mar 2014

Notes

(i) 584 Partnership shares were awarded on 26 March 2010 under the Share Incentive Plan at a price of £2.5675 per share, in return for £1,500 being deducted from Mr Croft's pre-tax salary. A further 58 Matching shares were awarded on the same date. The Partnership and Matching shares will be held by an employee benefit trust on behalf of the Director. The Matching shares must be held for a minimum period of three years from the date of the award.

(ii) 457 Partnership shares were awarded on 28 March 2011 under the Share Incentive Plan at a price of £3.2775 per share, in return for £1,500 being deducted from Mr Gascoigne's pre-tax salary. A further 45 Matching shares were awarded on the same date. The Partnership and Matching shares will be held by an employee benefit trust on behalf of the Director. The Matching shares must be held for a minimum period of three years from the date of the award.

Between 31 December 2012 and 27 February 2013 there were no transactions in the Company's share options by Directors.

Share Interests

St James's Place plc (audited)

The interests of the Directors in the share capital of the Company as at 1 January 2012 (or as at the date of appointment, if applicable) and as at 31 December 2012 (or as at the date of resignation, if applicable) are given below

Director	31 December 2012 Ordinary Shares of 15 pence each	1 January 2012 Ordinary Shares of 15 pence each
Sarah Bates	13,500	13,500
Vivian Bazalgette	20,000	10,000
David Bellamy	1,346,608	1,177,698
Steve Colsell	–	–
Iain Cornish	–	–
Andrew Croft	746,298	643,901
Ian Gascoigne	688,515	573,924
Charles Gregson	12,535	12,535
David Lamb	428,141	410,200
Mike Power	–	–
Roger Walsom(iv)	3,194	3,194
Baroness Wheatcroft(v)	1,500	–

Notes

(i) The interests of the Directors include those of their Connected Persons as defined in section 96B(2) of the Financial Services and Markets Act

(ii) The interests of the Executive Directors set out above include deferred bonus scheme awards held in trust for the Directors, details of which are set out on page 79. The interests of the Executive Directors also include awards under the Share Incentive Plan details of which are set out on page 80

(iii) The Company's register of Directors interests contains full details of Directors shareholdings and any share awards under the Company's various share schemes

(iv) Roger Walsom resigned as a Director on 8 May 2012

(v) Baroness Wheatcroft was appointed to the Board on 2 April 2012

(vi) Disclosure of the Directors' interests in share awards is given on pages 77 to 80 of the Remuneration Report and also in Note 32 – Related Party Transactions

Between 31 December 2012 and 27 February 2013 there were no transactions in the Company's shares by Directors

Directors' Remuneration Report *continued*

Dilution

Dilution limits agreed by shareholders at the time of shareholder approval of the various long-term incentive schemes allow for the following

- up to 5% of share capital in ten years to be used for grants to employees under discretionary schemes,
- up to 10% of share capital in ten years to be used for grants to employees under all employee share schemes, and
- up to 15% of share capital in ten years to be used for grants to employees and members of the St James's Place Partnership (the Group's sales force) under all share schemes i e both the employee and 'Partner' share schemes This increased limit reflects the unique structure of the business and the importance of the Partnership to the on going success of the Group

The table below sets out, as at 31 December 2012, the number of new ordinary shares in the Company which have been issued, or are capable of being issued (subject to the satisfaction of any applicable performance conditions) as a result of options or awards granted under the various long-term incentive schemes operated by the Company in the ten years prior to 31 December 2012

Share Scheme	Number of new ordinary shares of 15 pence each	% of total issued share capital as at 31 December 2012
SAYE schemes	6,511,266	1 29%
Executive Share schemes	12,476,211	2 46%
Partners' Share schemes	21,553,779	4 25%
Total	40,541,256	8 00%

In addition, as at 31 December 2012, the Group's Employee Share Trust held 212,984 shares in the Company which were purchased in the market to satisfy awards made under the PSP and executive share option schemes

A further 2,917,453 shares, registered to employees under the terms of the Group's deferred bonus scheme, have been allocated by the Group's Employee Share Trust These shares are allocated to the relevant individuals on a restricted basis whereby the recipients are not entitled to the shares until completion of the three year restricted period Further details of the deferred bonus scheme are set out on page 67

Lloyds Banking Group plc (audited)

The Directors had no interests in the share capital of Lloyds Banking Group plc as at 31 December 2012 except for the beneficial interests set out below

Director	31 December 2012 Ordinary Shares of 10 pence each in Lloyds Banking Group	1 January 2012 Ordinary Shares of 10 pence each in Lloyds Banking Group
Steve Colsell	624,126	111,538
Ian Gascoigne	8,086	8,086
David Lamb	307	307

Between 31 December 2012 and 27 February 2013 there have been no transactions in shares of the Lloyds Banking Group by the Directors

Interests in Shares Held in Trusts

Certain Executive Directors and employees are deemed to have an interest or a potential interest as potential discretionary beneficiaries under the St James's Place Employee Share Trust As such, they were treated as at 31 December 2012 as being interested in 71,079 ordinary shares of 15 pence in the Company, such shares being held by S G Hambros Trust Company (Channel Islands) Limited, the trustee of that trust

This report was approved by the Board of Directors and signed on its behalf by

Sarah Bates
Chairman, Remuneration Committee
27 February 2013

Consoli ed Accounts
on Internationa ancial Reporting Standards Ba

Independent Auditors' Report
to the members of St. James's Place plc

We have audited the group financial statements of St James's Place plc for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 64, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements, and
- the information given in the Corporate Governance Report set out on pages 50 to 64 in the Annual Report and Accounts with respect to internal control and risk management systems and about share capital structures is consistent with the Financial Statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the directors' statement, set out in the Directors' Report, in relation to going concern,
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

Other matter

We have reported separately on the parent company financial statements of St James's Place plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited

Craig Gentle (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
27 February 2013

(a) The maintenance and integrity of the St James's Place plc website is the responsibility of the directors the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Consolidated Statement of Comprehensive Income

	Notes	Year Ended 31 December 2012	Year Ended 31 December 2011
		£' Million	£ Million
Insurance premium income		66.1	73 4
Less premiums ceded to reinsurers		(26.9)	(29 7)
Net insurance premium income		39.2	43 7
Fee and commission income	4	643 1	524 9
Investment return	5	3,407.7	(1,117 1)
Other operating income		1 2	1 6
Net income	3	4,091 2	(546 9)
Policy claims and benefits			
– Gross amount		(52 6)	(58 1)
– Reinsurers' share		21 0	23 1
Net policyholder claims and benefits incurred		(31 6)	(35 0)
Change in insurance contract liabilities			
– Gross amount		(30 0)	23 9
– Reinsurers' share		(0 4)	0 4
Net change in insurance contract liabilities		(30 4)	24 3
Investment contract benefits	1, 22	(3,246.2)	1,029 3*
Fees, commission and other acquisition costs		(409.0)	(369 3)
Administration expenses		(119.0)	(118 7)
Other operating expenses		(3 2)	(3 8)
	6	(531 2)	(491 8)
Profit/(loss) before tax	1, 3	251 8	(20 1)*
Tax attributable to policyholders' returns	1, 8	(117 2)	129 8*
Profit before tax attributable to shareholders' returns		134.6	109 7
Total tax (expense)/credit	1, 8	(144 7)	126 9*
Less tax attributable to policyholders' returns	1, 8	117.2	(129 8)*
Tax attributable to shareholders' returns	8	(27 5)	(2 9)
Profit and total comprehensive income for the year		107.1	106 8

		Pence	Pence
Basic earnings per share	9	21 5	21 9
Diluted earnings per share	9	21 2	21 2

* These figures have been re presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings There is no impact on the profit before tax attributable to shareholders returns, the profit attributable to the shareholders of the company or earnings per share More information is given in Note 1 to these accounts

The notes and information on pages 90 to 136 form part of these accounts

Consolidated Statement of Changes in Equity

	Notes	Share Capital £' Million	Share Premium £' Million	Treasury Shares Reserve £' Million	Retained Earnings £' Million	Miscellaneous Reserves £' Million	Total £' Million
At 1 January 2011		72 9	98 1	(8 2)	421 2	2 3	586 3
Profit and total comprehensive income for the year					106 8		106 8
– Dividends	10				(35 1)		(35 1)
– Issue of share capital							
– Scrip dividend		0 2	3 3				3 5
– Exercise of options		0 9	9 0				9 9
Consideration paid for own shares				(3 6)			(3 6)
Own shares vesting charge				3 3	(3 3)		–
Retained earnings credit in respect of share option charges	30				10 5		10 5
At 31 December 2011		74 0	110 4	(8 5)	500 1	2 3	678 3
Profit and total comprehensive income for the year					107 1		107 1
– Dividends	10				(45 3)		(45 3)
– Issue of share capital							
– Exercise of options		2 0	17 3				19 3
Consideration paid for own shares				(2 4)			(2 4)
Own shares vesting charge				2 0	(2 0)		–
Retained earnings credit in respect of share option charges	30				5 4		5 4
Retained earnings credit in respect of proceeds from exercise of share options held in trust					0 1		0 1
At 31 December 2012		**76 0**	**127.7**	**(8 9)**	**565 4**	**2 3**	**762.5**

The number of shares held in the Treasury Share Reserve is given in Note 29 Share Capital on page 129

Miscellaneous reserves represent other non-distributable reserves

The notes and information on pages 90 to 136 form part of these accounts

Consolidated Statement of Financial Position

	Notes	31 December 2012 £' Million	31 December 2011 £' Million
Assets			
Intangible assets			
– Deferred acquisition costs	11	**971.6**	865.1
– Acquired value of in force business	11	**43.2**	46.4
– Computer software	11	**11.7**	8.4
– Customer list	11	**3.0**	0.9
		1,029.5	920.8
Property & equipment	12	**3.6**	5.4
Deferred tax assets	13	**190.9**	248.5
Investment property	14	**597.6**	550.9
Investments			
– Equities		**18,991.6**	15,743.4
– Fixed income securities		**5,079.9**	3,758.1
– Investment in Collective Investment Schemes		**4,109.1**	3,002.7
– Derivative Financial Instruments		**86.1**	28.2
Reinsurance assets	20	**38.6**	39.0
Insurance and investment contract receivables		**46.5**	44.5
Income tax assets		**85.2**	41.3
Other receivables	16	**508.4**	530.2
Cash & cash equivalents	17	**2,997.0**	2,329.3
Total assets		**33,764.0**	27,242.3
Liabilities			
Insurance contract liabilities	19	**424.0**	394.0
Other provisions	21	**9.2**	3.1
Financial liabilities			
– Investment contracts	22	**27,147.4**	22,227.3
– Borrowings	23	**70.7**	43.8
– Derivative Financial Instruments		**53.6**	43.4
Deferred tax liabilities	24	**269.0**	218.9
Insurance and investment contract payables		**24.9**	29.9
Deferred income	25	**616.5**	536.9
Income tax liabilities		**77.2**	12.4
Other payables	26	**434.2**	376.4
Net asset value attributable to unit holders		**3,874.8**	2,677.9
Total liabilities		**33,001.5**	26,564.0
Net assets		**762.5**	678.3
Shareholders' equity			
Share capital	29	**76.0**	74.0
Share premium		**127.7**	110.4
Treasury shares reserve		**(8.9)**	(8.5)
Miscellaneous reserves		**2.3**	2.3
Retained earnings		**565.4**	500.1
Total shareholders' equity		**762.5**	678.3
		Pence	Pence
Net assets per share		**150.4**	137.5

The financial statements on pages 86 to 136 were approved by the Board of Directors on 27 February 2013 and signed on its behalf by

D Bellamy *Chief Executive* **A Croft** *Chief Financial Officer*

The notes and information on pages 90 to 136 form part of these accounts

Consolidated Statement of Cash Flows

	Notes	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £ Million
Cash flows from operating activities			
Profit/(loss) before tax for the period		251 8	(20 1)*
Adjustments for			
Depreciation	12	2 3	2 6
Impairment losses	12	0.4	0 1
Amortisation of acquired value of in-force business	11	3 2	3 8
Amortisation of computer software and customer list	11	0 6	0 3
Fair value gains on non-operating investments		–	(0 3)
Share based payment charge	30	5 4	10 5
Changes in operating assets and liabilities			
Increase in deferred acquisition costs		(106 5)	(109 4)
Increase in investment property		(46 7)	(153 1)
Increase in investments		(5,734 3)	(1,195 6)
Decrease/(increase) in reassurance assets		0 4	(0 4)
Increase in insurance and investment contract receivables		(2.0)	(30 3)
(Increase)/decrease in other receivables		(12.3)	6 1
Increase/(decrease) in insurance contract liabilities		30.0	(23 9)
Increase/(decrease) in provisions		6 1	(0 5)
Increase in financial liabilities (excluding borrowings)		4,930 3	1,099 9*
Decrease in insurance and investment contract payables		(5 0)	(14 7)
Increase in deferred income		79 6	67 3
Increase/(decrease) in other payables		57.8	(57 2)
Increase in net assets attributable to unit holders		1,196 9	733 0
Cash generated from operating activities		658.0	318 1
Income taxes received/(paid)		18 0	(25 6)
Net cash from operating activities		676.0	292 5
Cash flows from investing activities			
Acquisition of property & equipment		(0 9)	(1 4)
Acquisition of intangible assets	11	(6 0)	(7 5)
Proceeds from sale of property & equipment		–	1 2
Net cash from investing activities		(6 9)	(7 7)
Cash flows from financing activities			
Proceeds from the issue of share capital		19 3	9 9
Consideration paid for own shares		(2.4)	(3 6)
Proceeds from exercise of options over shares held in trust		0 1	–
Additional borrowings		70 0	30 0
Repayment of borrowings		(43.1)	(2 1)
Dividends paid	10	(45.3)	(31 6)
Net cash from financing activities		(1 4)	2 6
Net increase in cash & cash equivalents		667 7	287 4
Cash & cash equivalents at 1 January		2,329 3	2,042 0
Effect of exchange rate fluctuations on cash held		–	(0 1)
Cash & cash equivalents at 31 December		2,997 0	2,329 3

Exchange rate fluctuations result from cash held in the unit-linked funds

* These figures have been re presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings There is no impact on the net increase in cash & cash equivalents More information is given in Note 1 to these accounts

The notes and information on pages 90 to 136 form part of these accounts

Notes to the Consolidated Accounts
under International Financial Reporting Standards

1 ACCOUNTING POLICIES
St James's Place plc ('the Company') is a company incorporated and domiciled in England and Wales

Statement of Compliance
The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group')

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and those parts of the Companies Act 2006 that are applicable when reporting under IFRS

The following amended standard, which the Group has adopted as of 1 January 2012, has not had any material impact on the Group's reported results

IFRS 7 Amendment – Financial instruments Disclosures

As at 31 December 2012, the following standards, which are relevant to the Group but have not been applied in the financial statements, were in issue but not yet effective

IAS 1	Amendment – Financial statement presentation
IAS 12	Amendment – Income taxes
IAS 28	Revised – Investments in associates and joint ventures
IAS 32	Amendment – Financial instruments Presentation
IFRS 7	Amendment – Financial instruments Disclosures
IFRS 9	Financial instruments – Classification and measurement
IFRS 10	Consolidated financial statements
IFRS 10	Amendment – Consolidated financial statements
IFRS 12	Disclosures of interests in other entities
IFRS 12	Amendment – Disclosures of interests in other entities
IFRS 13	Fair value measurement

Annual Improvements to IFRSs 2009–2011 Cycle

The adoption of the above standards and interpretation is not expected to have any material impact on the Group's results reported within the financial statements other than requiring additional disclosure or alternative presentation

The Group financial statements also comply with the revised Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006), in so far as these requirements do not contradict IFRS requirements

Basis of Preparation
As discussed in the Directors' Report, the going concern basis has been adopted in preparing these accounts

The financial statements are presented in pounds sterling, rounded to the nearest one hundred thousand pounds They are prepared on a historical cost basis except for assets classified as investment property, investments and currency forwards, and liabilities classified as investment contracts, insurance contracts and third party holdings in unit trusts, which are held at fair value

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2

The financial statements are prepared in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS and the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements

Re-presentation of tax deductions on deemed disposals of unit trust holdings
In prior years the provision for tax deductions on deemed disposals of unit trust holdings has been shown as an actuarial reserve within 'Financial liabilities – investment contracts' with the movement in that provision being shown within investment contract benefits The presentation of this provision has been changed in the current year to more appropriately reflect its nature with the provision being presented within 'Deferred tax liabilities' and the movements in the provision being reported as tax attributable to policyholders' returns within the tax charge

The consolidated statement of comprehensive income for the year ended 31 December 2011 has been re-presented to reflect this change with the credit for 'Investment contract benefits' and profit before tax being reduced by £41 4 million and the tax credit attributable to policyholders' returns and the overall tax credit being increased by £41 4 million The profit before tax attributable to shareholders' returns, the profit attributable to the shareholders of the company and earnings per share are unaffected by this presentation change The impact of this change in presentation on the consolidated statement of financial position at 31 December 2011 would not have been material and so this statement has not been re-presented The impact of this change on the consolidated statement of financial position at 1 January 2011 was to increase deferred tax liabilities by £41 4 million to £265 7 million with a corresponding reduction in 'Financial liabilities – investment contracts' to £21,150 5 million The change has no impact on the total assets, liabilities or equity at 1 January 2011 and therefore the directors do not consider it necessary to include a re-presented consolidated statement of financial position at that date

Summary of Significant Accounting Policies
(a) Basis of consolidation
The consolidated financial information incorporates the assets, liabilities and the results of the Company and of its subsidiaries Subsidiaries are those entities in which the Group directly or indirectly has the power to govern the financial and operating policies in order to gain benefits from its activities (including unit trusts in which the Group holds more than half of the units) The Group uses the acquisition method of accounting to account for business combinations The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group

Intragroup balances, and any income and expenses or unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements

(b) Product classification
The Group's products are classified for accounting purposes as either insurance contracts or investment contracts

(i) Insurance contracts
Insurance contracts are contracts that transfer significant insurance risk The Group's product range includes a variety of term assurance and whole of life protection contracts involving significant insurance risk transfer

(ii) Investment contracts
Contracts that do not transfer significant insurance risk are treated as investment contracts The majority of the business written by the Group is unit linked investment business and is classified as investment contracts

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

1. ACCOUNTING POLICIES *continued*

(c) Long-term business

(i) Insurance premium revenue

For unit linked insurance contracts, premiums are recognised as revenue when the liabilities arising from them are recognised All other premiums are accounted for when due for payment

Investment contract premiums are not included in the statement of comprehensive income but are reported as deposits to investment contract liabilities in the balance sheet

(ii) Revenue from investment contracts

Fees charged for services related to the management of investment contracts are recognised as revenue as the services are provided Initial fees, including dealing margins from unit trusts, which exceed the level of recurring fees and relate to the future provision of services, are deferred These are amortised over the anticipated period in which services will be provided

(iii) Policy claims and benefits

For insurance contracts, death claims are accounted for on notification of death Critical illness claims are accounted for when admitted All other claims and surrenders are accounted for when payment is due

For investment contracts, benefits paid are not included in the statement of comprehensive income but are instead deducted from investment contract liabilities The movement in investment contract benefits within the statement of comprehensive income principally represents the investment return credited to policyholders

(iv) Acquisition costs

For insurance contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business Acquisition costs which are incurred during a financial year, net of any impairment losses, are deferred and then amortised over the period during which the costs are expected to be recoverable and in accordance with the incidence of future related margins

For investment contracts, only directly attributable acquisition costs, which vary with and are related to securing new contracts and renewing existing contracts, are deferred to the extent that they are recoverable out of future revenue These deferred acquisition costs, which represent the contractual right to benefit from providing investment management services, net of any impairment losses, are amortised on a straight-line basis over the expected lifetime of the Group's investment contracts All other costs are recognised as expenses when incurred

(v) Insurance contract liabilities

Insurance contract liability provisions are determined following an annual actuarial investigation of the long-term fund in accordance with regulatory requirements The provisions are calculated on the basis of current information and using the gross premium valuation method The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4, as they consider current estimates of all contractual cash flows, and of related cash flow such as claims handling costs

Insurance contract liabilities can never be definitive as to their timing nor the amount of claims and are therefore subject to subsequent reassessment on a regular basis

(vi) Investment contract liabilities

All of the Group's investment contracts are unit linked Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset value of the Group's unitised investment funds, determined on a bid value, at the balance sheet date An allowance for deductions due to (or from) the Company in respect of policyholder tax on capital gains (and losses) in the life assurance funds is also reflected in the measurement of unit linked liabilities Investment contract liabilities are recognised when units are first allocated to the policyholder, they are derecognised when units allocated to the policyholder have been cancelled

The decision by the Group to designate its unit linked liabilities as fair value through the profit and loss statement reflects the fact that the underlying investment portfolio is managed, and its performance evaluated, on a fair value basis

(vii) Insurance and investment contract receivables and payables
Insurance and investment contract receivables and payables are initially recognised at fair value and subsequently at amortised cost, using the effective interest method, less impairment losses

(d) Reinsurance
Reinsurance premiums are accounted for when due for payment and reinsurance recoveries are accounted for in the same period as the related claim

Reinsurance assets, which are accounted for at amortised cost, represent amounts recoverable from reinsurers in respect of claims and in respect of insurance contract liabilities, net of any future reinsurance premiums payable and after allowance for any impairment losses

(e) Fee and commission income
Fee and commission income primarily consists of management fees on investment contracts (see accounting policy note c (ii)) and commission due in respect of products sold on behalf of third parties Commission is recognised in full on acceptance and inception of the policy by the product provider Where the product provider retains the right to clawback of commission on an indemnity basis, turnover on sale of these products is recognised net of a provision for the estimated clawback

(f) Investment return
Investment return comprises investment income and investment gains and losses Investment income includes dividends, interest and rental income from investment properties under operating leases Dividends are accrued on an ex-dividend basis, and rental income is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease Interest, which is generated on assets classified as fair value through profit or loss, is accounted for on an accruals basis

(g) Expenses
(i) Commission
Commission expense is recognised in respect of manufactured insurance and investment business, together with third party products Commission comprises initial commission (paid at policy outset within the 'initial period'), renewal commission (payable on regular contributions) and fund fee commission (based on funds under management and payable on the policy anniversary) Initial and renewal commission are recognised in line with the associated premium income, but initial commission on insurance and investment contracts may be deferred as set out in accounting policy (c) (iv) Fund fee commission is recognised on an accruals basis

Commission in respect of some insurance and investment business may be paid in advance on renewal premiums and accelerated by up to five years The unearned element of this accelerated commission is recognised as an asset within other receivables Should the contributions reduce or stop within the initial period, any unearned commission is clawed back

(ii) Operating lease payments
Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense and are spread over the life of the lease

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

1 ACCOUNTING POLICIES *continued*

(h) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax payable by the Group in respect of policyholders and shareholders Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised

(iii) Policyholder and shareholder tax

The total income tax charge is a separate adjustment within the statement of comprehensive income based on the movement in current and deferred income taxes in respect of income, gains and expenses The total charge reflects tax incurred on behalf of policyholders as well as shareholders, and so it is useful to be able to identify these separately Policyholder tax reflects the UK tax paid in the life business at the policyholder tax rate of 20%, together with other small amounts of with-holding tax incurred by the unit linked funds on behalf of policyholders All other remaining tax is shareholder

(i) Dividends

Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are paid, and, for the final dividend, when approved by the Company's shareholders at the Annual General Meeting

(j) Intangible assets

(i) Deferred acquisition costs

See accounting policy note c (iv)

(ii) Acquired value of in-force business

The acquired value of in-force business in respect of insurance business represents the present value of profits that are expected to emerge from insurance business acquired on business combinations It is calculated at the time of acquisition using best estimate actuarial assumptions for interest, mortality, persistency and expenses, net of any impairment losses, and it is amortised as profits emerge over the anticipated lives of the related contracts in the portfolio An intangible asset is also recognised in respect of acquired investment management contracts representing the fair value of contractual rights acquired under those contracts The acquired value of in-force business is expressed as a gross figure in the balance sheet with the associated tax included within deferred tax liabilities It is assessed for impairment at each reporting date and any movement is charged to the statement of comprehensive income

(iii) Computer software

Computer software is recognised as an intangible asset during development and amortised on a straight line basis over its useful life of four years, commencing when the software is operational Computer software is stated at cost less amortisation and any recognised impairment loss The carrying value is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable

(iv) Customer list
Customer list is recognised as an intangible asset and represents the value of future commission income streams following the acquisition of financial services' businesses and is amortised over four years as the income stream is realised Customer list is stated at cost less amortisation and any recognised impairment loss The carrying value is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable

(k) Property & equipment
Items of property & equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy note (p)) Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use The deemed cost of owner occupied property is the fair value determined by an independent valuer at the date of transition to IFRS

Depreciation is charged to the statement of comprehensive income to administration expenses on a straight-line basis over the estimated useful lives of the property & equipment as follows

Computers	3 years
Fixtures and fittings	5 years
Office equipment	5 years
Buildings	50 years

Land is not depreciated

(l) Investment property
Investment properties, which are all held within the unit linked funds, are properties which are held to earn rental income and/or for capital appreciation They are stated at fair value

An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every month

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion

Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income within investment income Rental income from investment property is accounted for as described in accounting policy note (f)

(m) Investments
The Group's investments are all classified at fair value through profit or loss, with all gains and losses recognised within investment income in the statement of comprehensive income The fair values of quoted financial investments, which represent the vast majority of the Group's investments, are based on current bid prices If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models

The decision by the Group to designate its investments at fair value through the profit and loss reflects the fact that the investment portfolio is managed, and its performance evaluated, on a fair value basis

The Group recognises purchases and sales of investments on trade date The costs associated with investment transactions are included within administration expenses in the statement of comprehensive income

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

1. ACCOUNTING POLICIES *continued*

(n) Currency forwards

The Group uses currency forwards within some unit linked funds to hedge exposure to foreign currency Each contract is recognised initially and subsequently at fair value, based on quoted market prices, with all changes in value recognised within investment income in the statement of comprehensive income

(o) Other receivables

Other receivables are initially recognised at fair value and subsequently held at amortised cost less impairment losses The value of any impairment recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate See accounting policy note (p) (Impairment policy) for information relating to the treatment of impaired amounts

(p) Impairment policy

Formal reviews to assess the recoverability of deferred acquisition costs on insurance and investment contracts, the acquired value of in-force business, customer list and loans are carried out at each balance sheet date The recoverability of such assets is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset The carrying amounts of the Group's other assets that are not carried at fair value are also reviewed at each balance sheet date to determine whether there is any indication of impairment If there is any indication of irrecoverability or impairment, the asset's recoverable amount is estimated based on the present value of its estimated future cash flows

Impairment losses are reversed – through the statement of comprehensive income – if there is a change in the estimates used to determine the recoverable amount Such losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation where applicable, if no impairment loss had been recognised

(q) Cash & cash equivalents

Cash & cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts to the extent that they are an integral part of the Group's cash management

Cash & cash equivalents held within unit linked and unit trust funds are classified at fair value through the profit and loss All other cash & cash equivalents are classified as loans and receivables

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate The Group recognises provisions for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract

(s) Borrowings

Borrowings are measured initially at fair value, net of directly attributable transaction costs, and subsequently stated at amortised cost The difference between the proceeds and the redemption value is recognised in the statement of comprehensive income over the borrowing period on an effective interest rate basis Borrowings are recognised on drawdown and derecognised on repayment

(t) Other payables

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

(u) Net asset value attributable to unit holders
The Group consolidates unit trusts in which it holds more than half of the units and exercises control The third party interests in these unit trusts are measured at fair value, since the underlying investment portfolios are managed on a fair value basis, and they are presented in the balance sheet as net asset value attributable to unit holders Income attributable to the third party interests is accounted for within investment income, offset by a corresponding change in investment contract benefits

(v) Employee benefits
(i) Pension obligations
The Group operates a defined contribution personal pension plan for its employees Contributions to this plan are recognised as an expense in the statement of comprehensive income as incurred

(ii) Share-based payments
The Group operates a number of share-based payment plans The fair value of equity instruments granted is recognised as an expense spread over the vesting period of the instrument which accords with the period for which related services are provided, with a corresponding increase in equity in the case of equity settled plans The total amount to be expensed is determined by reference to the fair value of the awards at the grant date, measured using standard option pricing models

At each balance sheet date, the Group revises its estimate of the number of equity instruments that are expected to vest and it recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, such that the amount recognised for employee services are based on the number of shares that actually vest The charge to the statement of comprehensive income is not revised for any changes in market vesting conditions

(w) Treasury shares
Where any Group company purchases the Company's share capital, the consideration paid is deducted from equity attributable to shareholders, as disclosed in the Treasury Shares reserve Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects

(x) Foreign currency translation
The Group's presentational and the company's functional currency is pounds sterling

Foreign currency transactions are translated into sterling using the exchange rate prevailing at the date of the transactions Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gain or losses on translation are recognised in the statement of comprehensive income

Non-monetary assets and liabilities which are held at historical cost are translated using exchange rates prevailing at the date of transaction, those held at fair value are translated using exchange rates ruling at the date on which the fair value was determined

(y) Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Company

(z) Current and non-current disclosure
Assets which are expected to be recovered or settled no more than twelve months after the balance sheet date are disclosed as current within the notes to the accounts Those expected to be recovered or settled more than twelve months after the balance sheet date are disclosed as non-current

Liabilities which are expected and due to be settled no more than twelve months after the balance sheet date are disclosed as current within the notes to the accounts Those liabilities which are expected and due to be settled more than twelve months after the balance sheet date are disclosed as non-current

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements

The primary area in which the Group has applied judgement in applying accounting policies lies in the classification of contracts between insurance and investment business Contracts with a significant degree of insurance risk are treated as insurance All other contracts are treated as investment contracts The Group has also elected to treat all assets backing linked and non unit linked contracts as fair value through profit or loss although some of the assets in question may ultimately be held to maturity

Estimates

The principal areas in which the Group applies accounting estimates are
– Determining the value of insurance contract liabilities
– Deciding the amount of management expenses that are treated as acquisition expenses
– Amortisation and recoverability of deferred acquisition costs and deferred income
– Determining the fair value, amortisation and recoverability of acquired in-force business
– Determining the fair value liability to policyholders for capital losses in unit funds

Estimates are also applied in determining the amount of deferred tax asset recognised on unrelieved expenses and the value of other provisions

Measurement of insurance contract liabilities

The assumptions used in the calculation of insurance contract liabilities that have a significant effect on the statement of comprehensive income of the Group are
– The lapse assumption, which is set prudently based on an investigation of experience during the year
– The level of expenses, which is based on actual expenses in 2012 and expected long-term rates
– The mortality and morbidity rates, which are based on the results of an investigation of experience during the year
– The assumed rate of investment return, which is based on current gilt yields

Greater detail on the assumptions applied is shown in Note 19

Acquisition expenses

Certain management expenses vary with the level of sales and have been treated as acquisition costs Each line of costs has been reviewed and its variability to sales volumes estimated on the basis of the level of costs that would be incurred if sales ceased

Amortisation and recoverability of Deferred Acquisition Costs ('DAC') and Deferred Income ('DIR')

Deferred acquisition costs and income on investment contracts are amortised on a straight-line basis over the expected lifetime of the underlying contracts The expected lifetime of the contracts has been estimated from the experienced termination rates and the age of clients at inception and maturity

Deferred acquisition costs and income on insurance contracts are amortised over the period during which the costs are expected to be recoverable in accordance with the projected emergence of future margins

Deferred acquisition costs relating to insurance and investment contracts are tested annually for recoverability by reference to expected future income levels Future income levels are projected using assumptions consistent with those underlying our embedded value calculation

Acquired in-force business

There have been no new business combinations during the year The acquired value of the in-force business is amortised on a basis that reflects the expected profit stream arising from the business acquired at the date of acquisition This profit stream is estimated from the experienced termination rates, expenses of management and age of the clients under the individual contracts as well as global estimates of investment growth, based on recent experience at the date of acquisition

The acquired value of in-force business relating to insurance and investment contracts is tested annually for recoverability by reference to expected future income levels

Valuing capital losses in unit funds

In line with IAS 12 the Group has recognised a deferred tax asset in relation to capital losses at the balance sheet date This asset has been tested for impairment against the level of capital gains realistically expected to arise in future

Much of the benefit of the deferred tax asset on capital losses will be shared with policyholders The policyholder investment contract liability has therefore been increased to reflect the fair value of this additional benefit The assumptions that have a significant effect on the fair value of the liability are as follows
- The assumed rate of investment return, which is based on current gilt yields
- The lapse assumption, which is set prudently based on experience during the year
- The assumed period for development of capital gains, which is estimated from recent experience

3. SEGMENT REPORTING

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board in order to allocate resources to the segment and to assess its performance The Group's reportable segments under IFRS 8 are therefore as follows

1 Life business – offering pensions, protection and investment products through the Group's life assurance subsidiaries,

2 Unit Trust business – offering unit trust investment products, including ISAs, through the St James's Place Unit Trust Group,

3 Distribution business – the distribution network for the St James's Place life and unit trust products as well as financial products such as annuities, mortgages and stakeholder pensions, from third party providers

The figures for segment income provided to the Board in respect of the distribution business relate to the distribution of the products of third party providers only The figures for segment profit provided to the Board take account of fees and commissions payable by the life business and unit trust business to the distribution business

4 Other – all other group activities

Separate geographical segmental information is not presented since the Group does not segment its business geographically, its customers being based and its assets managed predominantly in the United Kingdom

3. SEGMENT REPORTING *continued*

The income, profit and assets of these segments are set out below

Segment Income

Annual Premium Equivalents ('APE')

APE, being regular premiums plus one tenth of single premiums, is the income measure that is monitored on a monthly basis by the Board

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Life business	**488.7**	447.1
Unit Trust business	**148.5**	136.9
Distribution business	**106.1**	58.3
Other business	**–**	–
Total APE	**743.3**	642.3
Restatement to reconcile to IFRS basis		
Life business		
Exclude investment business APE	**(486.0)**	(443.0)
Difference between insurance business APE and premium receivable	**63.4**	69.4
Less insurance premium income ceded to reinsurers	**(26.9)**	(29.7)
Fee income (management fees)	**498.2**	394.0
Net movement on deferred income	**(43.5)**	(30.6)
Investment income (primarily in unit linked funds)	**3,016.5**	(992.0)
Unit Trust business		
Exclude unit trust APE	**(148.5)**	(136.9)
Fee income (dealing profit and management fees)	**166.3**	151.7
Net movement on deferred income	**(36.1)**	(36.7)
Investment income	**0.3**	0.5
Distribution business		
Exclude distribution APE	**(106.1)**	(58.3)
Fee and commission income receivable	**58.0**	43.5
Other investment income	**0.8**	0.3
Other business		
Income receivable	**0.2**	2.9
Investment income on third party holdings in consolidated unit trusts	**386.3**	(128.8)
Other investment income	**3.8**	2.9
Other operating income	**1.2**	1.6
Total adjustments	**3,347.9**	(1,189.2)
Net income – IFRS	**4,091.2**	(546.9)

All segment income is generated by external customers and there are no segment income transactions between operating segments as measured by APE

Segment Profit

Three separate measures of profit are monitored on a monthly basis by the Board. These are European Embedded Value ('EEV'), IFRS (both pre-tax) and the post-tax cash result.

EEV operating profit

EEV operating profit is monitored on a monthly basis by the Board. The components of the EEV operating profit are included in more detail in the Supplementary Information on EEV basis within the Annual Report and Accounts on pages 147 to 156. A reconciliation of EEV operating profit to IFRS profit before tax is shown below.

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Life business	**293.9**	294.2
Unit Trust business	**82.6**	84.5
Distribution business	**5.3**	6.1
Other business	**(15.9)**	(13.3)
EEV operating profit	**365.9**	371.5
Investment return variance	**190.4**	(180.4)
Economic assumption changes	**(3.7)**	(0.3)
EEV profit before tax	**552.6**	190.8
Adjustments to IFRS basis		
Movement in life value of in-force and policyholder tax	**(201.0)**	(196.4)*
Movement in unit trust value of in-force	**(99.8)**	(14.5)
IFRS profit before tax	**251.8**	(20.1)*

Cash result

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Life business	**59.4**	34.3
Unit Trust business	**33.6**	28.3
Distribution business	**4.0**	5.4
Other business	**(5.3)**	(1.0)
Cash result after tax	**91.7**	67.0
IFRS adjustments (after tax)		
Share option expense	**(5.4)**	(10.5)
Deferred acquisition costs (DAC)	**82.4**	82.4
Deferred income (DIR)	**(63.8)**	(54.1)
Acquired value of in-force (PVIF)	**(2.5)**	(2.9)
Sterling reserves	**5.6**	2.6
IFRS tax adjustments	**(0.9)**	22.3
IFRS shareholder profit after tax	**107.1**	106.8
Shareholder tax	**27.5**	2.9
IFRS profit before shareholder tax	**134.6**	109.7
Policyholder tax	**117.2**	(129.8)*
IFRS profit before tax	**251.8**	(20.1)*

* These figures have been re-presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings. More information is given in Note 1 to these accounts.

3. SEGMENT REPORTING *continued*

IFRS segment result

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Life business		
– shareholder	111.7	89.1
– policyholder tax gross up	117.2	(129.8)*
Unit Trust business	33.5	27.8
Distribution business	5.3	6.1
Other business	(15.9)	(13.3)
IFRS profit before tax	**251.8**	**(20.1)***

* These figures have been re-presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings. More information is given in Note 1 to these accounts.

Included within the EEV, IFRS profit before tax and post-tax cash result are the following

	Year Ended 31 December 2012 £'Million	Year Ended 31 December 2011 £ Million
Shareholder interest income	5.6	4.6
Depreciation	2.3	2.6

Segment Assets

Funds under Management ('FUM')

FUM within the St. James's Place Group, rounded to the nearest £0.1 billion, are monitored on a monthly basis by the Board.

	31 December 2012 £' Million	31 December 2011 £' Million
Life business	27,300.0	22,500.0
Unit Trust business	7,500.0	6,000.0
Total FUM	**34,800.0**	28,500.0
Exclude third party holdings in non-consolidated unit trusts	(3,508.2)	(3,360.5)
Add balance sheet liabilities in unit linked funds	486.3	267.9
Adjustments for other balance sheet assets excluded from FUM		
DAC	971.6	865.1
PVIF	43.2	46.4
Computer software	11.7	8.4
Goodwill	3.0	0.9
Property & equipment	3.6	5.4
Deferred tax assets	190.9	248.5
Fixed income securities	84.3	80.0
Collective investment schemes	322.4	208.6
Reinsurance assets	38.6	39.0
Insurance and investment contract receivables	46.5	44.5
Income tax assets	85.2	41.3
Other receivables	193.1	236.3
Other receivables eliminated on consolidation	(186.7)	–
Cash & cash equivalents	182.5	46.5
Other adjustments	(4.0)	(36.0)
Total adjustments	**(1,036.0)**	(1,257.7)
Total assets	33,764.0	27,242.3

4 FEE AND COMMISSION INCOME

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Unit Trust management fees	**106.4**	95.3
Unit Trust dealing profit	**59.9**	56.4
Third party commission income	**58.2**	46.5
Life company management fees	**498.2**	394.0
Movement in deferred income	**(79.6)**	(67.3)
Total fee and commission income	**643.1**	524.9

5 INVESTMENT RETURN

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Dividend income	**419.7**	430.6
Interest income	**285.8**	203.9
Rental income	**39.6**	31.5
Net realised gains/(losses)	**179.9**	(315.6)
Net unrealised gains/(losses)	**2,096.4**	(1,338.7)
Income attributable to third party holdings in unit trusts	**386.3**	(128.8)
Total investment return	**3,407.7**	(1,117.1)

6 EXPENSES

The following items are included within the expenses disclosed in the statement of comprehensive income

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Employee costs (see Note 7)	**61.4**	59.5
Depreciation	**2.3**	2.6
Impairment losses	**0.4**	0.1
Amortisation of acquired value of in-force business	**3.2**	3.8
Amortisation of DAC	**97.7**	86.2
Amortisation of computer software	**0.3**	0.3
Payment under operating leases	**9.9**	9.1
Fees payable to the Company's auditor for the audit of the parent Company and consolidated financial statements	**0.1**	0.1
Fees payable to the Company's auditor for other services		
– The audit of the Company's subsidiaries	**0.4**	0.2
– Audit related assurance services	**0.1**	0.1
– Tax advisory services	**–**	0.1

Impairment losses are included within administration expenses within the statement of comprehensive income

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

7 EMPLOYEE COSTS

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Wages and salaries	**46.0**	41.7
Social security costs	**6.0**	4.8
Pension costs in relation to defined contribution schemes	**4.4**	3.9
Cost of share awards and options	**5.0**	9.1
Total employee costs	**61.4**	59.5
Average number of persons employed by the Group during the year	**854**	746

The above information includes Directors' remuneration. Details of the Directors' remuneration, share options, pension entitlements and interests in shares are disclosed in the Remuneration Report on pages 66 to 83.

8. INCOME TAXES

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Policyholder tax		
Overseas withholding taxes	**5.2**	12.9
Deferred tax on unrelieved expenses		
– Current year charge/(credit)	**7.9**	(19.4)
Deferred tax in respect of gains and losses in unit linked funds	**94.5**	(119.2)*
UK corporation tax		
– Current year charge	**10.2**	4.4
– Adjustment in respect of prior year	**(0.6)**	(8.5)
Total policyholder tax charge/(credit) for the year	**117.2**	(129.8)*
Shareholder tax		
UK corporation tax		
– Current year charge	**20.8**	–
– Adjustment in respect of prior year	**(0.7)**	(0.2)
Overseas taxes		
– Current year charge	**2.4**	1.5
– Adjustment in respect of prior year	**(0.3)**	0.1
	22.2	1.4
Deferred tax on pension business losses		
– Current year charge	–	2.9
– Adjustment in respect of prior year	–	(0.4)
Deferred tax charge on other items		
– Current year charge	**15.2**	6.0
– Adjustment in respect of prior year	**(1.7)**	–
Change in tax rate		
– Current year	**(8.2)**	(7.2)
– Adjustment in respect of prior year	**–**	0.2
Total shareholder tax charge for the year	**27.5**	2.9

* Those figures have been re-presented to more appropriately reflect the nature of the tax provision for tax deductions on deemed disposals of unit trust holdings and to record the movement in the tax attributable to policyholders' returns within the tax charge. More information is given in Note 1 to these accounts.

Where deferred tax balances represent future adjustments at the policyholder rate, these are recognised as policyholder items

The deferred tax components to which the policyholder and shareholder deferred tax movements above relate to are disclosed in Note 13 Deferred Tax Assets and Note 24 Deferred Tax Liabilities

Included within the shareholder deferred tax current year charge is a credit of £0 1 million (2011 £0 9 million credit) relating to share based payments charged directly to equity, as disclosed in Note 30 Share-based Payments

The change in the corporation tax rate from 25% to 23% effective from 1 April 2013 enacted in the Finance Act 2012 has been incorporated into the deferred tax balances and is quantified in the reconciliation of the tax charge below and on page 106

In addition to the changes in rates of corporation tax disclosed above, a further reduction to the UK corporation tax rate to 21% was announced in the December 2012 Autumn Statement to be effective from 1 April 2014 This further change had not been substantively enacted at the balance sheet date, and therefore, is not included in these financial statements The estimate effect of the further reduction in rate is to reduce net deferred tax liabilities by £8 million

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£ Million
Reconciliation of tax charge		
Profit/(loss) before tax	**251 8**	(20 1)*
Tax at 24 5% (2011 26 5%)	**61.7**	(5 3)
Effects of		
Deferred tax on unrelieved expenses current year	**–**	(19 4)
Overseas withholding tax in unit linked funds	**6.1**	10 5
Deferred tax in respect of unit linked funds	**47.9**	(85 6)*
Shareholder deduction for policyholder tax	**38.2**	3 2
Difference due to Life Insurance tax regime (Shareholder FII)	**–**	(17 3)
Policyholder tax rate differential	**2.1**	3 2
Adjustment in respect of prior year	**(2.6)**	(7 7)
Change in tax rate	**(8 2)**	(7 0)
Other adjustments	**(0 5)**	(1 5)
Total tax charge/(credit) for the year	**144 7**	(126 9)

The policyholder tax rate differential relates to the effect of the difference between the shareholder tax rate of 24 5% (2011 26 5%) and the policyholder tax rate of 20%

* Those figures have been re presented to more appropriately reflect the nature of the tax provision for tax deductions on deemed disposals of unit trust holdings and to record the movement in the tax attributable to policyholders returns within the tax charge More information is given in Note 1 to these accounts

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

8. INCOME TAXES *continued*

Reconciliation of tax charge	Year Ended 31 December 2012		Year Ended 31 December 2011	
	£'Million		£'Million	
Profit/(loss) before tax	**251.8**		(20.1)*	
Tax attributable to policyholders' returns**	**(117.2)**		129.8*	
Profit before tax attributable to shareholders' returns	**134.6**		109.7	
Shareholder tax charge at corporate tax rate of 24.5% (2011: 26.5%)	**33.0**	24.5%	29.1	26.5%
Adjustments.				
Tax regime differences				
Difference due to Life Insurance tax regime (Deferred Income Reserve)	**2.1**		3.2	
Difference due to overseas subsidiaries	**(1.4)**		(2.7)	
	0.7	0.5%	0.5	0.5%
Market related				
Difference due to Life Insurance tax regime (deferral of E)	**–**		(5.1)	
Difference due to Life Insurance tax regime (UCG)	**4.0**		2.1	
Difference due to Life Insurance tax regime (Shareholder FII)	**–**		(17.3)	
	4.0	3.0%	(20.3)	(18.5%)
Other				
Adjustment in respect of prior year	**(2.6)**		(1.3)	
Other	**0.6**		1.9	
	(2.0)	(1.5%)	0.6	0.5%
Change in tax rate	**(8.2)**	(6.1%)	(7.0)	(6.4%)
Shareholder tax charge	**27.5**	20.4%	2.9	2.6%
Policyholder tax charge/(credit)	**117.2**		(129.8)*	
Total tax charge/(credit) for the year	**144.7**		(126.9)*	

* These figures have been re-presented to more appropriately reflect the nature of the tax provision for tax deductions on deemed disposals of unit trust holdings and to record the movement in the tax attributable to policyholders' returns within the tax charge. More information is given in Note 1 to these accounts.

** Profit before tax attributable to policyholder returns is equal to the policyholder tax charge.

9. EARNINGS PER SHARE

	Year Ended 31 December 2012	Year Ended 31 December 2011
	Pence	Pence
Basic earnings per share	**21.5**	21.9
Diluted earnings per share	**21.2**	21.2

The earnings per share (EPS) calculations are based on the following figures

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Earnings		
Profit after tax (*for both basic and diluted EPS*)	**107 1**	106 8
Adjustments	**–**	–
Adjusted profit (*for both basic and diluted EPS*)	**107 1**	106 8
Weighted average number of shares		
Weighted average number of ordinary shares in issue (*for basic EPS*)	**497 7**	487 6
Adjustments for outstanding share options	**8 5**	16 1
Weighted average number of ordinary shares (*for diluted EPS*)	**506 2**	503 7

10. DIVIDENDS

The following dividends have been paid by the Group

	Year Ended 31 December 2012	Year Ended 31 December 2011	Year Ended 31 December 2012	Year Ended 31 December 2011
	Pence per Share	Pence per Share	**£' Million**	£' Million
Final dividend in respect of previous financial year	**4 80**	3 975	**23.9**	19 4
Interim dividend in respect of current financial year	**4.25**	3 200	**21 4**	15 7
Total dividends	**9.05**	7 175	**45.3**	35 1

The Directors have recommended a final dividend of 6 39 pence per share (2011 4 8 pence) This amounts to £32 4 million (2011 £23 7 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 24 May 2013 to those shareholders on the register as at 12 April 2013

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

11. INTANGIBLE ASSETS

	Life business – insurance DAC	Life business – investment DAC	Unit Trust business – investment DAC	Total DAC	Acquired value of in-force business	Computer software	Customer list	Total
	£' Million	£' Million	£'Million	£' Million	£' Million	£' Million	£' Million	£' Million
Cost								
At 1 January 2011	99 2	814 5	204 4	1,118 1	73 4	2 1	–	1,193 6
Additions	4 4	150 3	40 9	195 6	–	6 6	0 9	203 1
At 31 December 2011	103 6	964 8	245 3	1,313 7	73 4	8 7	0 9	1,396 7
At 1 January 2012	**103 6**	**964.8**	**245 3**	**1,313.7**	**73.4**	**8 7**	**0 9**	**1,396.7**
Additions	**3 1**	**157 4**	**43 7**	**204.2**	**–**	**3 6**	**2 4**	**210.2**
At 31 December 2012	**106.7**	**1,122 2**	**289 0**	**1,517 9**	**73.4**	**12 3**	**3 3**	**1,606.9**
Accumulated amortisation								
At 1 January 2011	79 5	231 0	51 9	362 4	23 2	–	–	385 6
Charge for the year	6 7	63 8	15 7	86 2	3 8	0 3	–	90 3
At 31 December 2011	86 2	294 8	67 6	448 6	27 0	0 3	–	475 9
At 1 January 2012	**86.2**	**294 8**	**67.6**	**448.6**	**27.0**	**0 3**	**–**	**475 9**
Charge for the year	**6.0**	**73 1**	**18 6**	**97 7**	**3 2**	**0.3**	**0.3**	**101 5**
At 31 December 2012	**92.2**	**367 9**	**86 2**	**546 3**	**30.2**	**0 6**	**0 3**	**577 4**
Carrying value								
At 1 January 2011	19 7	583 5	152 5	755 7	50 2	2 1	–	808 0
At 31 December 2011	17 4	670 0	177 7	865 1	46 4	8 4	0 9	920 8
At 31 December 2012	**14 5**	**754 3**	**202 8**	**971 6**	**43 2**	**11 7**	**3 0**	**1,029 5**
Current								**87 9**
Non-current								**941 6**
								1,029 5
Outstanding amortisation period								
At 31 December 2011	6 years	14 years	14 years		14 years	4 years	4 years	
At 31 December 2012	**6 years**	**14 years**	**14 years**		**13 years**	**4 years**	**4 years**	

Amortisation of deferred acquisition costs is charged within the fees, commission and other acquisition costs line in the statement of comprehensive income The amortisation of the acquired value of in-force business, computer software and customer list is charged within other operating expenses Amortisation profiles are reassessed annually

12 PROPERTY & EQUIPMENT

	Fixtures, Fittings, Computers & Office Equipment £' Million	Land & Buildings £' Million	Total £' Million
Cost			
At 1 January 2011	31.2	2.2	33.4
Additions	1.2	0.2	1.4
Disposals	(0.1)	(0.9)	(1.0)
Impairment losses	–	(0.1)	(0.1)
At 31 December 2011	32.3	1.4	33.7
At 1 January 2012	**32.3**	**1.4**	**33.7**
Additions	**0.6**	**0.3**	**0.9**
Disposals	**–**	**–**	**–**
Impairment losses	**–**	**(0.4)**	**(0.4)**
At 31 December 2012	**32.9**	**1.3**	**34.2**
Accumulated depreciation			
At 1 January 2011	25.7	–	25.7
Charge for the year	2.6	–	2.6
Disposals	–	–	–
At 31 December 2011	28.3	–	28.3
At 1 January 2012	**28.3**	**–**	**28.3**
Charge for the year	**2.3**	**–**	**2.3**
Disposals	**–**	**–**	**–**
At 31 December 2012	**30.6**	**–**	**30.6**
Net book value			
At 1 January 2011	5.5	2.2	7.7
At 31 December 2011	4.0	1.4	5.4
At 31 December 2012	**2.3**	**1.3**	**3.6**
Current			**2.3**
Non-current			**1.3**
			3.6

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

13 DEFERRED TAX ASSETS

	31 December 2012	31 December 2011
	£' Million	£' Million
Life business – unrelieved expenses	**75.9**	83.8
Life business – net capital losses in unit linked funds	**3.7**	62.2
Life business – pension business	**6.4**	4.7
Life business – deferred income	**40.2**	37.2
Unit Trust business – deferred income	**57.1**	53.1
Other	**7.6**	7.5
Total deferred tax assets	**190.9**	248.5
Current	**42.5**	112.4
Non-current	**148.4**	136.1
	190.9	248.5

The utilisation of the deferred tax asset on net capital losses and unrelieved expenses depends on growth in the stock market and the consequential positive 'I – E' result in future years. Tax assets established in relation to deferred income will be utilised as the underlying income is recognised. Other assets depend on the future profitability of the business. The changes to the taxation rules for life assurance companies from 1 January 2013 have been taken into account in the assessment of the deferred tax assets.

At the balance sheet date there were unrecognised deferred tax assets of £0.2 million (2011: £0.2 million) in relation to capital losses referable to shareholders. No value has been recognised due to the uncertainty of whether there will be appropriate gains against which they can be used. There is no time limit on the use of the losses.

14 INVESTMENT PROPERTY

	31 December 2012	31 December 2011
	£' Million	£' Million
Balance at 1 January	**550.9**	397.8
Additions	**128.9**	175.4
Disposals	**(55.8)**	(10.4)
Changes in fair value	**(26.4)**	(11.9)
Balance at 31 December	**597.6**	550.9

Investment property is held within unit linked funds and is considered current.

The rental income and direct operating expenses recognised in the statement of comprehensive income in respect of investment properties are set out below. All expenses relate to property generating rental income.

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Rental income	**39.6**	31.5
Direct operating expenses	**5.4**	3.2

At the year end contractual obligations to purchase, construct or develop investment property amounted to £0.1 million (2011: £5.9 million) and to dispose of investment property amounted to £20.0 million (2011: £Nil).

15 ASSETS HELD TO COVER LINKED LIABILITIES AND THIRD PARTY HOLDINGS IN UNIT TRUSTS

Included within the balance sheet are the following assets and liabilities which represent the net assets held to cover linked liabilities and those attributable to third party holdings in unit trusts ('UTMI'). The difference between these assets and liabilities and those shown in the consolidated balance sheet represents assets and liabilities held outside the unit linked funds and the UTMI.

	31 December 2012	31 December 2011
	£' Million	£' Million
Assets		
Investment property	597.6	550.9
Investments		
– Equities	18,991.6	15,743.4
– Fixed income securities	4,995.6	3,678.1
– Investment in Collective Investment Schemes	3,786.7	2,794.1
– Currency forwards	57.7	13.6
– Other derivatives	8.4	–
– Contracts for differences	20.0	14.6
Other receivables	315.2	293.9
Other receivables eliminated on consolidation	186.7	–
Cash & cash equivalents	2,814.5	2,282.8
Total assets	**31,774.0**	**25,371.4**
Liabilities		
Financial liabilities		
– Currency forwards	34.9	23.3
– Other derivatives	2.8	–
– Contracts for differences	15.9	20.1
Other payables	285.1	224.5
Other payables eliminated on consolidation	147.6	–
Total liabilities	**486.3**	**267.9**
Net assets held to cover linked liabilities and third party holdings in unit trusts	**31,287.7**	**25,103.5**

Net assets held to cover linked liabilities and third party holdings in unit trusts are considered to have a maturity of up to one year since the corresponding unit liabilities are repayable and transferable on demand.

Notes to the Consolidated Accounts
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16. OTHER RECEIVABLES

	31 December 2012	31 December 2011
	£' Million	£' Million
St James's Place Partnership loans	139.9	94 4
Prepayments	15.0	14 6
Unearned commission	21.2	22 3
Unit linked funds and UTMI (including outstanding security sales)	315.2	293 9
Unit Trust dealing receivables	3.7	78 7
Miscellaneous	13.4	26 3
Total other receivables	**508.4**	530 2
Current	385.8	453 3
Non-current	122.6	76 9
	508.4	530 2

The fair value of loans and receivables included in other receivables is not materially different from amortised cost St James's Place Partnership loans are interest bearing (linked to Bank of England base rate plus a margin), repayable on demand and secured against the future renewal income streams of that Partner

£14 9 million of short term loans in anticipation of receipt of external funding has been reclassified from miscellaneous to St James's Place Partnership loans as at 31 December 2011 to match the presentation adopted as at 31 December 2012

17. CASH & CASH EQUIVALENTS

	31 December 2012	31 December 2011
	£' Million	£' Million
Cash at bank	182 5	114 5
Bank overdrafts	–	(68 0)
Cash & cash equivalents held outside unit linked and unit trust funds	182 5	46 5
Balances held within unit linked and unit trust funds	2,814.5	2,282 8
Total cash & cash equivalents	**2,997 0**	2,329 3

All cash & cash equivalents are considered current

18. INSURANCE RISK

Insurance risk arises from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities The Group assumes insurance risk by issuing insurance contracts under which the Group agrees to compensate the client (or other beneficiary) if a specified future event (the insured event) occurs The Group insures mortality and morbidity risks but has no longevity risk as we have never written any annuity business The Group has a medium appetite for insurance risk, only actively pursuing it where financially beneficial, or in support of strategic objectives

Risk	Description	Management
Underwriting	Failure to price appropriately for a risk, or the impact of anti-selection	The Group ceased writing new protection business in April 2011 Experience is monitored regularly For most business the premium or deduction rates can be re-set
Epidemic/disaster	An unusually large number of claims arising from a single incident or event	Protection is provided through reinsurance
Expense	Administration costs exceed expense allowance	Administration is outsourced and a tariff of costs is agreed The contract is monitored regularly to rationalise costs incurred Internal overhead expenses are monitored and closely managed
Retention	Loss of future profit due to more clients than anticipated withdrawing their funds	Retention of insurance contracts is closely monitored and unexpected experience is investigated Retention experience has continued in line with assumptions during 2012

19 INSURANCE CONTRACT LIABILITIES

	2012 £' Million	2011 £ Million
Balance at 1 January	**394 0**	417 9
Movement in unit linked liabilities	**28 7**	(36 5)
Movement in non-unit linked liabilities		
– New business	**(0 3)**	0 5
– Existing business	**3 6**	(0 3)
– Other assumption changes	**0 8**	9 1
– Experience variance	**(2 8)**	3 3
Total movement in non-unit linked liabilities	**1 3**	12 6
Balance at 31 December	**424 0**	394 0
Unit linked	**336 5**	307 8
Non-unit linked	**87 5**	86 2
	424 0	394 0
Current	**89.5**	82 9
Non-current	**334.5**	311 1
	424.0	394 0

Unit linked liabilities move as a function of net cash flows into policyholder funds and underlying investment performance of those funds

19. INSURANCE CONTRACT LIABILITIES *continued*

Assumptions used in the calculation of liabilities

The principal assumptions used in the calculation of the liabilities are

Assumption	Description
Interest rate	The valuation interest rate is calculated by reference to the long-term gilt yield at 31 December 2012 and the specific gilts backing the liabilities. The specific rates used are between 1.3% and 2.5% depending on the tax regime (1.5% and 2.6% at 31 December 2011)
Mortality	Mortality is based on Company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. There has been no change since 2006
Morbidity – Critical Illness	Morbidity is based on Company experience. There has been no change during 2012. Sample annual rates per £ for a male non-smoker are

	Rate	
Age	2012	2011
25	**0.000760**	0.000760
35	**0.001334**	0.001334
45	**0.003189**	0.003189

Assumption	Description
Morbidity – Permanent Health Insurance	Morbidity is based on Company experience. There has been no change during 2012. Sample annual rates per £ income benefit p.a. for a male non-smoker are

	Rate	
Age	2012	2011
25	**0.00548**	0.00548
35	**0.01447**	0.01447
45	**0.03138**	0.03138

Assumption	Description
Expenses	Contract liabilities are calculated allowing for the actual costs of administration of the business. The assumption has been amended to allow for changes to the underlying administration costs

	Annual Cost	
Product	2012	2011
Protection business	**£34.30**	£34.50

Assumption	Description
Persistency	Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2012. Sample annual lapse rates are

	Lapses		
2011 & 2012	Year 1	Year 5	Year 10
Protection business	7%	9%	8%

Sensitivity analysis

The table below sets out the sensitivity of the profit on insurance business and net assets to changes in key assumptions. The levels of sensitivity tested are consistent with those proposed in the EEV principles and reflect reasonably possible levels of change in the assumptions. The analysis reflects the change in the variable/assumption shown while all other variables/assumptions are left unchanged. In practice variables/assumptions may change at the same time as some may be correlated (for example, an increase in interest rates may also result in an increase in expenses if the increase reflects higher inflation). It should also be noted that in some instances sensitivities are non-linear. The sensitivity % has been applied to proportion the assumption e.g. application of a 10% sensitivity to a withdrawal assumption of 8% will reduce it to 7.2%.

Sensitivity analysis	Change in assumption	Change in profit before tax 2012	Change in profit before tax 2011	Change in net assets 2012	Change in net assets 2011
	%	£' Million	£' Million	£' Million	£' Million
Withdrawal rates	–10%	**(4.7)**	(5.1)	**(3.8)**	(4.1)
Expense assumptions	–10%	**1.3**	1.4	**1.1**	1.2
Mortality/morbidity	–5%	**(2.9)**	0.9	**(2.3)**	0.8

A change in interest rates will have no material impact on insurance profit or net assets.

20 REINSURANCE ASSETS

	31 December 2012	31 December 2011
	£' Million	£' Million
Reinsurers' share of insurance contract liabilities		
– Long-term insurance contract liability	**35.7**	35.8
– Claims outstanding	**2.9**	3.2
Reinsurance assets	**38.6**	39.0
Current	**10.2**	10.5
Non-current	**28.4**	28.5
	38.6	39.0

A reconciliation of the movement in the net reinsurance balance is set out below.

	2012	2011
	£' Million	£' Million
Reinsurance assets at 1 January	**39.0**	38.6
Reinsurance component of net change in claims provision	**(0.3)**	(1.7)
Reinsurance component of change in insurance liabilities	**(0.1)**	2.1
Reinsurance assets at 31 December	**38.6**	39.0

The overall impact of reinsurance on the profit for the year was a net charge of £6.3 million (2011: charge of £6.2 million).

Notes to the Consolidated Accounts
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21 OTHER PROVISIONS AND CONTINGENT LIABILITIES

	Endowments	Office Restructuring	Other Provisions	Total
	£' Million	£' Million	£' Million	£' Million
At 1 January 2012	0.3	2.8	–	3.1
Reclassification from insurance and investment contract payables	–	–	7.3	7.3
Utilised/released during the year	(0.1)	(2.4)	(1.7)	(4.2)
Additional provisions	0.3	0.6	2.1	3.0
At 31 December 2012	**0.5**	**1.0**	**7.7**	**9.2**
Current	–	0.3	5.0	5.3
Non-current	0.5	0.7	2.7	3.9
	0.5	1.0	7.7	9.2

The endowments provision relates to the cost of redress for mortgage endowment complaints. The provision is based on estimates of the total number of complaints expected to be upheld, the average cost of redress and the estimated timing of settlement.

The office restructuring provision represents the expected amounts payable under a number of non-cancellable operating leases for office space that the Group no longer occupies. The provision is based on estimates of the rental payable until the approximate dates on which the Group expects either to have sublet the affected space or to have reached break clauses within the relevant lease agreements and after making appropriate allowance for the time value of money.

A reserve in respect of self insured liabilities of £7.3 million has been reclassified as Other Provisions (previously in Insurance and Investment Contract Payables) as a result of changes to the Group's insurance arrangement.

As more fully set out in the summary of principal risks and uncertainties on pages 31 and 32, the Group could in the course of its business be subject to legal proceedings and/or regulatory activity. Should any such material circumstance arise, a provision would be established based on the Board's best estimate of the amount required to settle the obligation. While there can be no assurances, the Directors do not believe, based upon information currently available to them, there is any such activity that would have a material adverse effect on the Group's financial position.

22 INVESTMENT CONTRACT BENEFITS

	2012	2011
	£' Million	£' Million
Balance at 1 January	22,227.3	21,150.5*
Deposits	4,225.5	3,835.6
Withdrawals	(1,667.1)	(1,464.3)
Investment contract benefits (principally representing investment expense/income)	3,246.2	(1,029.3)*
Less: investment contract benefits attributable to fund deductions	(498.2)	(394.0)
(Less)/add investment contract benefits attributable to third party holdings in unit trusts	(386.3)	128.8
Balance at 31 December	**27,147.4**	22,227.3
Current	2,036.1	1,667.1
Non-current	25,111.3	20,560.2
	27,147.4	22,227.3

* These figures have been re-presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings. More information is given in Note 1 to these accounts.

23. BORROWINGS

	31 December 2012 £' Million	31 December 2011 £' Million
Bank loan	**70.7**	43.8
Current	**0.7**	4.8
Non-current	**70.0**	39.0
	70.7	43.8

During the year, bank loans previously held from Barclays Bank plc (2011: £30.0 million) drawn under a three year £30 million revolving credit facility and from Royal Bank of Scotland (2011: £13.0 million) drawn under a three year £15.0 million revolving credit facility, were fully repaid. These loans were replaced by a new £45.0 million loan from Barclays Bank plc (variable interest rate, repayable after three years (£25 million) and five years (£20 million)) and a new £25.0 million loan from Royal Bank of Scotland (variable interest rate, repayable after four years) during the year, in order to continue to finance loans from the Group to members of the St. James's Place Partnership. The Partners' loans are secured against the future renewal income streams of that Partner.

Bank loans also includes £750,000 (2011: £750,000) from Bank of Scotland which is secured on property disclosed in Note 12 to the accounts.

The Company also guarantees £89.6 million (2011: £87.7 million) of direct loans from Bank of Scotland to members of the St. James's Place Partnership drawn under a total facility of £125.0 million. In the event of default of any individual Partner loan the Company guarantees to repay the outstanding balance of that loan. These Partners' loans are secured against the future renewal income streams of that Partner. As the Company's guarantee is contingent these loans are not shown as a financial liability under borrowing.

The fair value of the outstanding bank loans are not materially different from amortised cost.

24. DEFERRED TAX LIABILITIES

	31 December 2012 £' Million	31 December 2011 £' Million
On deferred acquisition costs	**214.5**	206.1
On acquired value of in-force business	**9.9**	11.6
In respect of unit linked funds	**40.7**	–
Other	**3.9**	1.2
Total deferred tax liabilities	**269.0**	218.9
Current	**29.1**	23.9
Non-current	**239.9**	195.0
	269.0	218.9

In 2012, a deferred tax liability has been recognised on unrealised capital gains on eligible investments within the unit linked funds of £40.7 million. In 2011, there was a deferred tax asset of £62.2 million as there were losses in the unit linked funds.

Notes to the Consolidated Accounts
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25 DEFERRED INCOME

	31 December 2012 £' Million	31 December 2011 £' Million
Life business	**368.2**	324.7
Unit Trust business	**248.3**	212.2
Total deferred income	**616.5**	536.9
Current	**127.6**	111.1
Non-current	**488.9**	425.8
	616.5	536.9

26. OTHER PAYABLES

	31 December 2012 £' Million	31 December 2011 £' Million
Accruals	**58.4**	31.2
Unit Trust dealing payable	**59.3**	91.3
Unit linked funds and UTMI (including outstanding security purchases)	**285.1**	224.5
Miscellaneous	**31.4**	29.4
Total other payables	**434.2**	376.4

All other payable balances are considered current

The fair value of financial liabilities in other payables is not materially different from amortised cost

27. FINANCIAL RISK

Risk management objectives and risk policies

The Group seeks to manage risk through the operation of unit linked business whereby the policyholder bears the financial risk In addition, shareholder assets are invested in highly rated investments

Under IFRS 7, the Group is required to analyse their exposure to the following risks

- Credit risk
- Liquidity risk
- Market risk
- Currency risk

Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit Credit risk also arises from holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions The Group has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives

Risk	Description	Management
Shareholders' assets	Loss of assets	Shareholder funds are predominantly invested in AAA rated unitised money market funds and deposits with approved banks Maximum counterparty limits are set for each company within the Group and aggregate limits are also set at a Group level
Investment matching of non-linked liabilities	Loss of value of assets	These liabilities are matched by fixed interest securities with minimum AAA credit ratings or UK Government Gilts, maximum counterparty limits for such holdings are again set for each company within the Group and at an aggregate Group level
Reinsurance	Failure of counterparty or counterparty unable to meet liabilities	Credit ratings of potential reinsurers must meet or exceed minimum specified levels Consideration is also given to size, risk concentrations/exposures and ownership in the selection of reinsurers The Group also seeks to diversify its reinsurance credit risk through the use of a spread of reinsurers
Partner loans and advances	Inability of Partners to repay loans or advances from SJP	Loans and advances are managed in line with the Group's secured lending policy Loans are secured on the future renewals income stream expected from a Partner's portfolio and loan advances vary in relation to the projected future income of the relevant Partner Outstanding balances are regularly reviewed and assessed on a conservative basis Support is provided to help Partners manage their business appropriately Appropriate provision is made where there is objective evidence of impairment

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost The Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives

Risk	Description	Management
Cash or expense requirement	A significant cash or expense requirement needs to be met at short notice	All free assets are invested in cash or cash equivalents and the cash position and forecast are monitored on a monthly basis Also, the Group maintains a margin of free assets in excess of the minimum required solvency capital within its regulated entities

Notes to the Consolidated Accounts
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27. FINANCIAL RISK *continued*

Market risk is the impact a fall in the value of equity or other asset markets may have on the business The Group adopts a risk averse approach to market risk, with a stated solvency policy of not actively pursuing or accepting market risk except where necessary to support other objectives However, the Group accepts the risk that the fall in equity or other asset markets will reduce the level of annual management charge income derived from policyholder assets and the risk of lower future profits

The table below summarises the main market risks that the business is exposed to and the methods by which the Group seeks to mitigate them

Risk	Description	Management
Client liabilities	As a result of a reduction in equity values, the Group may be unable to meet client liabilities	This risk is substantially mitigated by the Group's strategic focus on unit-linked business, by not providing guarantees to clients on policy values and by the matching of assets and liabilities
Tax	In adverse market conditions, when the Group is realising investment losses rather than gains, the working of the I-E tax regime can lead to short-term capital inefficiencies, including the deferral of the cash benefit arising from tax relief on expenses	The tax position is monitored closely, in particular the size and sources of relevant income streams
Retention	Loss of future profit on investment contracts due to more clients than anticipated withdrawing their funds, particularly as a result of poor investment performance	Retention of investment contracts is closely monitored and unexpected experience variances are investigated Retention has remained consistently strong throughout 2012, despite the challenging economic environment and volatility, and fund surrender rates have remained low at c 0 5%
New Business	Poor performance in the financial markets in absolute terms, and relative to inflation, leads to existing and future clients rejecting investment in longer term assets	The benefit of longer term equity investment in a range of riskier financial assets is fundamental to our business model Advice and marketing remain valid even when market values fall, however, greater attention is required to support and give confidence to existing and future clients in such circumstances, and this is taken account of by the Group in its activities

Currency risk

The Group is not subject to any significant currency risk since all material shareholder financial assets and financial liabilities are denominated in Sterling

Categories of financial assets and financial liabilities

The categories and carrying values of the financial assets and financial liabilities held in the Group's balance sheet are summarised in the table below

	31 December 2012				31 December 2011			
	Financial assets at fair value through profit and loss(1)	Loans and receivables	Financial liabilities at fair value through profit and loss(1)	Financial liabilities measured at amortised cost	Financial assets at fair value through profit and loss(1)	Loans and receivables	Financial liabilities at fair value through profit and loss(1)	Financial liabilities measured at amortised cost
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Financial Assets								
Equities	18,991.6				15,743.4			
Fixed income securities	5,079.9				3,758.1			
Investment in Collective Investment Schemes	4,109.1				3,002.7			
Derivative financial instruments	86.1				28.2			
Other receivables(2)								
– St James's Place Partnership loans		139.9				94.4		
– Other		332.3				398.9		
Total other receivables		472.2				493.3		
Cash & cash equivalents	2,814.5	182.5			2,282.8	114.5		
Total financial assets	31,081.2	654.7			24,815.2	607.8		
Financial Liabilities								
Investment contract benefits			27,147.4				22,227.3	
Borrowings				70.7				111.8
Derivative financial instruments			53.6				43.4	
Other payables				434.2				376.4
Net asset value attributable to unit holders			3,874.8				2,677.9	
Total financial liabilities			31,075.8	504.9			24,948.6	488.2

(1) All financial assets and liabilities at fair value through profit or loss are designated as such upon initial recognition

(2) Other financial assets exclude prepayments and unearned commission from other receivables

The carrying value of the unit linked investment contract liabilities may differ from the amount contractually required to pay at maturity Maturity values of the financial liabilities vary with future policyholder investment and withdrawals as well as investment return, coupled with the impact of capital losses in the funds The contractual value required to be paid to policyholders as at 31 December 2012 would be £58.3 million lower than the investment contract benefits stated above

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

27 FINANCIAL RISK *continued*

Income, expense, gains and losses arising from financial assets and financial liabilities

The income, expense, gains and losses arising from financial assets and financial liabilities are summarised in the table below

	Year Ended 31 December 2012				Year Ended 31 December 2011			
	Financial assets at fair value through profit and loss[1]	Loans and receivables	Financial liabilities at fair value through profit and loss[1]	Financial liabilities measured at amortised cost	Financial assets at fair value through profit and loss[1]	Loans and receivables	Financial liabilities at fair value through profit and loss[1]	Financial liabilities measured at amortised cost
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Financial Assets								
Unit linked assets	3,401.5				(1,136.5)			
Fixed income securities	0.7				13.5			
Investment in Collective Investment Schemes	1.5				2.8			
Other receivables								
– St James's Place Partnership loans		3.3				2.2		
Total other receivables		3.3				2.2		
Cash & cash equivalents[2]		0.7				0.8		
Total financial assets	3,403.7	4.0			(1,120.2)	3.0		
Financial Liabilities[3]								
Investment contract benefits			2,361.7				(1,335.9)	
Borrowings				–				–
Net asset value attributable to unit holders			386.3				(128.8)	
Total financial liabilities			2,748.0				(1,464.7)	

(1) All financial assets and liabilities at fair value through profit or loss are designated as such upon initial recognition

(2) The majority of the return from cash & cash equivalents is included within unit linked assets

(3) None of the change in the fair value of financial liabilities at fair value through profit or loss is attributable to changes in their credit risk

Fair value estimation

Financial instruments, which are held at fair value in the balance sheet, are required to have disclosed their fair value measurements by level of the following fair value measurement hierarchy

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The following table presents the Group's assets and liabilities measured at fair value

31 December 2012

	Level 1 £' Million	Level 2 £' Million	Level 3 £' Million	Total balance £' Million
Financial assets at fair value through profit or loss				
Equities	18,991.6			18,991 6
Fixed income securities		5,079 9		5,079 9
Investment in Collective Investment Schemes	4,107 5		1 6	4,109 1
Derivative financial instruments		86 1		86.1
Cash & cash equivalents	2,814 5			2,814.5
Total financial assets at fair value through profit or loss	25,913 6	5,166 0	1.6	31,081 2
Financial liabilities at fair value through profit or loss:				
Investment contract benefits		27,147 4		27,147 4
Derivative financial instruments		53.6		53 6
Net asset value attributable to unit holders	3,874 8			3,874 8
Total financial liabilities at fair value through profit or loss	3,874 8	27,201 0	–	31,075.8

31 December 2011

	Level 1 £ Million	Level 2 £' Million	Level 3 £ Million	Total balance £ Million
Financial assets at fair value through profit or loss				
Equities	15,743 3		0 1	15,743 4
Fixed income securities		3,758 1		3,758 1
Investment in Collective Investment Schemes	3,001 9		0 8	3,002 7
Currency forwards		28 2		28 2
Cash & cash equivalents	2,282 8			2,282 8
Total financial assets at fair value through profit or loss	21,028 0	3,786 3	0 9	24,815 2
Financial liabilities at fair value through profit or loss.				
Investment contract benefits		22,227 3		22,227 3
Currency forwards		43 4		43 4
Net asset value attributable to unit holders	2,677 9			2,677 9
Total financial liabilities at fair value through profit or loss	2,677 9	22,270 7	–	24,948 6

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date, as described in the accounting policy (m) These instruments are included in Level 1 Instruments included in Level 1 comprise primarily listed equity instruments

The Group closely monitors the valuation of assets in markets that have become less liquid Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured Where it is determined that there is no active market, fair value is established using a valuation technique The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2 If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

27 FINANCIAL RISK *continued*

Specific valuation techniques used to value financial instruments include

- The use of observable prices for recent arm's length transactions
- Other techniques, such as discounted cash flow and option pricing models, are used to determine fair value for the remaining financial instruments

Note that all of the resulting fair value estimates are included in Level 2, except for certain equities and investments in Collective Investment Schemes (CIS) as detailed below

The following table presents the changes in Level 3 equities and investments in CIS

	2012	2011
	£'Million	£'Million
Opening balance	0.9	3.0
Transfer into/(out of) Level 3	0.7	(1.9)
Additions during the year	–	–
Disposed during the year	–	(0.1)
Losses recognised in the profit or loss	–	(0.1)
Closing balance	1.6	0.9
Total losses for the year included in profit or loss for assets held at the end of the reporting period	0.3	(0.1)

Credit risk

The following table sets out the maximum credit risk exposure and ratings of financial and other assets which are neither past due or impaired and susceptible to credit risk

31 December 2012

	AAA	AA	A	BBB	Unrated	Unit linked funds and third party holdings in unit trusts [1]	Total
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Fixed income securities	84.3					4,995.6	5,079.9
Investment in Collective Investment Schemes [2]	321.6				0.8	3,786.7	4,109.1
Cash & cash equivalents		22.6	158.9	1.0		2,814.5	2,997.0
Amounts due from reassurers							
– Claims outstanding		2.9					2.9
– Reassurers share of long-term insurance contract liabilities		35.7					35.7
Total amount due from reassurers		38.6					38.6
Other receivables					17.1	315.2	332.3
Total	405.9	61.2	158.9	1.0	17.9	11,912.0	12,556.9

(1) Credit risk relating to unit linked and unit trust funds is borne by the policyholder/unit holder
(2) Investment of shareholder assets in Collective Investment Schemes refers to investment in unitised money market funds held for the longer term

The table below sets out the comparative credit risk analysis as at 31 December 2011

31 December 2011

	AAA	AA	A	BBB	Unrated	Unit linked funds and third party holdings in unit trusts	Total
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Fixed income securities	80 0					3,678 1	3,758 1
Investment in Collective Investment Schemes	207 9				0 7	2,794 1	3,002 7
Cash & cash equivalents		21 1	92 9	0 5		2,282 8	2,397 3
Amounts due from reassurers							
– Claims outstanding		3 2					3 2
– Reassurers share of long-term insurance contract liabilities		35 8					35 8
Total amount due from reassurers		39 0					39 0
Other receivables					105 0	293 9	398 9
Total	287 9	60 1	92 9	0 5	105 7	9,048 9	9,596 0

Financial assets that are either past due or impaired

Loans to St James's Place Partnership of £139 9 million (2011 £94 4 million) are net of an impairment provision of £6 7 million (2011 £6 7 million) (see Note 16) The movement in the impairment loss recognised within administration expenses in the statement of comprehensive income was a charge of £0 7 million (2011 £0 6 million) The factors considered in determining the impairment include default history, the nature or type of the Partner loan, exposure levels to individual Partners and whether the individual Partner is active or has left

There are no other financial assets that are impaired, would otherwise be past due or impaired whose terms have been renegotiated or are past due but not impaired

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

27. FINANCIAL RISK *continued*

Contractual maturity and liquidity analysis

The following table sets out the contractual maturity analysis of the Group's financial assets and financial liabilities as at 31 December 2012

31 December 2012

	Up to 1 year	1 – 5 years	Over 5 years	Total ex Unit linked funds and other unit holders	Unit linked funds and third party holdings in unit trusts *	Total
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Financial Assets						
Equities				–	18,991 6	18,991 6
Fixed income securities	12.1	12.2	60.0	84.3	4,995 6	5,079 9
Investment in Collective Investment Schemes	322.4			322.4	3,786 7	4,109 1
Derivative financial instruments				–	86 1	86 1
Other receivables						
– St James's Place Partnership loans	34.2	82.9	22.8	139 9		139 9
– Other	17.0			17.0	315.3	332.3
Total other receivables	51.2	82 9	22.8	156.9	315 3	472 2
Cash & cash equivalents	182.5			182.5	2,814 5	2,997 0
Total financial assets	568.2	95.1	82.8	746.1	30,989 8	31,735.9
Financial Liabilities						
Investment contract benefits				–	27,147.4	27,147 4
Borrowings		70 7		70.7		70.7
Derivative financial instruments				–	53.6	53 6
Other payables	149 1			149.1	285 1	434 2
Total financial liabilities	149 1	70.7		219.8	27,486.1	27,705 9

* Financial liabilities included under unit linked funds and (net assets) attributable to unit holders are deemed to have a maturity of up to one year since the corresponding unit linked liabilities are repayable and transferable on demand In practice the contractual maturities of the assets may be longer than one year, but the majority of assets held within the unit linked and unit trust funds are highly liquid and the Group also actively monitors fund liquidity

The table below sets out comparative contractual maturity and liquidity analysis as at 31 December 2011

31 December 2011

	Up to 1 year	1 – 5 years	Over 5 years	Total ex Unit linked funds and other unit holders	Unit linked funds and third party holdings in unit trusts	Total
	£ Million	£ Million	£' Million	£ Million	£ Million	£ Million
Financial Assets						
Equities				–	15,743 4	15,743 4
Fixed income securities		12 1	67 9	80 0	3,678 1	3,758 1
Investment in Collective Investment Schemes	208 6			208 6	2,794 1	3,002 7
Derivative financial instruments				–	28 2	28 2
Other receivables						
– St James's Place Partnership loans	35 4	45 2	13 8	94 4		94 4
– Other	105 0			105 0	293 9	398 9
Total other receivables	140 4	45 2	13 8	199 4	293 9	493 3
Cash & cash equivalents	114 5			114 5	2,282 8	2,397 3
Total financial assets	463 5	57 3	81 7	602 5	24,820 5	25,423 0
Financial Liabilities						
Investment contract benefits				–	22,227 3	22,227 3
Borrowings	72 8	39 0		111 8		111 8
Derivative financial instruments				–	43 4	43 4
Other payables	151 9			151 9	224 5	376 4
Total financial liabilities	224 7	39 0		263 7	22,495 2	22,758 9

* Financial liabilities included under unit linked funds and attributable to unit holders are deemed to have a maturity up to one year as they are repayable or transferable on demand

Sensitivity analysis to market risks

The majority of the Group's business is unit linked and the direct associated market risk is therefore borne by policyholders (although there is a secondary impact as shareholder income is dependent upon the markets) Financial assets and liabilities held outside unitised funds primarily consist of fixed interest securities, units in money market funds, cash and cash equivalents, and other assets and liabilities The fixed interest securities are held to match non linked liabilities and the liability values move broadly in line with the matching asset values such that fair value interest rate risk is immaterial, although these is some residual risk due to imperfect matching Cash held in unitised money market funds and at bank is valued at par and is unaffected by movement in interest rates Other assets and liabilities are similarly unaffected by market movements

As a result of these combined factors, the Group's financial assets and liabilities held outside unitised funds are not materially subject to market risk, and movements at the balance sheet date in interest rates and equity values have an immaterial impact on the Group's profit after tax and equity Future profits from annual management charges may be affected by movements in interest rates and equity values

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

28 CAPITAL MANAGEMENT AND ALLOCATION

It is the Group's policy to maintain a strong capital base in order to
- protect policyholders' and creditors' interests,
- support the development of its business and create shareholder value, and
- meet regulatory requirements at all times

Within the Group each subsidiary manages its own capital in the context of the Group capital plan Capital generated in excess of planned requirements is returned to the Group's parent, St James's Place plc, normally by way of dividends The Group capital plan is monitored by the Finance Executive Committee on behalf of the St James's Place plc Board

The Group's policy is for each Company to hold the higher of
- the Company's internal assessment of the capital required, and
- the capital requirement of the relevant supervisory body plus a specified margin over this to absorb changes

Generally, because of the nature of the business and the current regulatory rules, the higher requirement is that of the supervisory body plus the specified margin

The following entities are under supervisory regulation and have to maintain a minimum level of regulatory capital

Entity	Regulatory Body and Jurisdiction
St James's Place UK plc	FSA Long term insurance business
St James's Place International plc	Central Bank of Ireland Life insurance business
St James's Place Unit Trust Group Limited	FSA UCITS Management Company
St James's Place Wealth Management plc	FSA Personal Investment Firm
St James's Place Reassurance (2009) Limited	FSA Reassurance Company
St James's Place Trust Company Jersey Limited	Jersey Financial Services Commission
St James's Place Wealth Management (PCIS) Limited	FSA Securities and Futures

The FSA regulatory requirement for St James's Place UK plc, which makes up the majority of the Group capital requirement, includes the prescribed minimum solvency margin requirement (the Capital Resources Requirement (CRR)) and an assessment of the risks faced under the business, known as the Individual Capital Assessment The capital requirement is assessed and monitored by the Finance Executive Committee, a committee of the St James's Place UK plc Board

The regulatory requirements for the remaining companies within the Group are assessed and monitored by the relevant Board

There has been no material change in the Group's management of capital during the period and all regulated entities exceed the minimum solvency requirements at the balance sheet date

Capital composition

The principal forms of capital are included in the following balances on the consolidated balance sheet

	31 December 2012 £' Million	31 December 2011 £ Million
Share capital	76 0	74 0
Share premium	127 7	110 4
Treasury shares reserve	(8 9)	(8 5)
Miscellaneous reserves	2.3	2 3
Retained earnings	565 4	500 1
	762.5	678 3

The above assets do not all qualify as regulatory capital Analysis of the assets which do qualify as regulatory capital is given in Section 3 of the Financial Review on page 26 The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period

29 SHARE CAPITAL

	Number of Ordinary Shares	Share Capital
		£' Million
At 1 January 2011	486,149,186	72.9
– Scrip dividend	1,107,415	0.2
– Exercise of options	6,166,150	0.9
At 31 December 2011	493,422,751	74.0
– Exercise of options	13,408,396	2.0
At 31 December 2012	**506,831,147**	**76.0**

The total authorised number of ordinary shares is 605 million (2011: 605 million), with a par value of 15 pence per share (2011: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,052,273 (2011: 3,048,030) shares held in the Treasury Shares Reserve with a nominal value of £0.5 million (2011: £0.5 million).

The number of shares reserved for issue under options and contracts for sale of shares, including terms and conditions, is included within Note 30.

30. SHARE-BASED PAYMENTS

During the year ended 31 December 2012 the Group operated a number of different equity settled share-based payment arrangements, which are aggregated as follows:

- SAYE plan – this is a standard HMRC approved scheme that is available to all employees where individuals may contribute up to £250 per month over three years to purchase shares at a price not less than 80% of the market price at the date of the invitation to participate.
- Executive deferred bonus schemes – under these plans the deferred element of the annual bonus is used to purchase shares at market value in the Company. The shares are held by the Company until vesting after three years and, in addition to the performance targets, which apply prior to any entitlement being granted, further performance conditions may also apply on vesting.
- Executive performance share plan – the Remuneration Committee of the Group Board may make awards of performance shares to the Executive Directors and other senior managers. Two-thirds of shares awarded to Directors are subject to an earnings growth condition of the Group and one-third of shares awarded to Directors are subject to a comparative total shareholder return (TSR) condition, both measured over a three year period. Further information regarding the vesting conditions of the earnings growth and total shareholder return dependent portions of the award is given in the Remuneration Report on page 68. Awards made to senior managers are largely only subject to the earnings growth condition of the Group.
- Partner share option schemes – these were offered to the Partners of the St. James's Place Partnership and vest over three to six years subject to satisfying personal sales related performance criteria. The last award under these schemes was made in 2007.
- Partner performance share plan – a new scheme was launched in January 2008 whereby Partners are entitled to purchase shares in the future at nominal value (15 pence). The number of shares the Partners are entitled to purchase will depend on their personal sales production in the year of the award and validation over the following three years. This scheme is now closed with no further awards being made.

Share options outstanding under the various share option schemes, together with shares due under the deferred bonus schemes at 31 December 2012 amount to 21.0 million shares (2011: 32.0 million). Of these, 10.7 million (2011: 20.5 million) are under option to Partners of the St. James's Place Partnership, 8.7 million (2011: 9.5 million) are under option to executives and senior management (including 3.2 million (2011: 3.5 million) under option to Directors as disclosed in the Remuneration Report on pages 78 to 80) and 1.6 million (2011: 2.0 million) are under option through the SAYE scheme. These are exercisable on a range of future dates.

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

30. SHARE-BASED PAYMENTS *continued*

The table below summarises the share-based payment awards made in 2011 and 2012

	SAYE	Executive Deferred Bonus	Executive Performance Share Plan
Awards in 2011			
Date of grant	23 March	15 March	Various
Number granted	327,130	1,133,358	1,797,964
Awards in 2012.			
Date of grant	23 March & 26 Sept	26 March	Various
Number granted	1,621,267	747,571	1,590,512
Contractual life	3 5 years	3 years	3 5 years
Vesting conditions	3 year saving period	3 years' service and achievement of personal targets in some instances	3 years' service and achievement of earnings and TSR targets

Financial assumptions underlying the calculation of fair value

The fair value expense has been based on the fair value of the instruments granted, as calculated using appropriate derivative pricing models The table below shows the assumptions and models used to calculate the grant date fair value of each award

	SAYE	Executive Deferred Bonus	Executive Performance Share Plan
Valuation model	Black-Scholes	Black-Scholes	Monte Carlo
Awards in 2011			
Fair value (pence)	125 1(2)	331 6	245 4/331 6(4)
Share price (pence)	322 3	331 6	331 6 to 355 0(5)
Exercise price (pence)	242 0	0 00	0 00
Expected volatility (% pa)(1)	44	N/A	44
Expected dividends (% pa)	1 9	N/A(3)	N/A
Risk-free interest rate (% pa)	1 9	N/A	N/A
Volatility of competitors (% pa)	N/A	N/A	14 to 111
Correlation with competitors (%)	N/A	N/A	20
Awards in 2012			
Fair value (pence)	102 1/110 6(2)	364 7	212 3/364 7(4)
Share price (pence)	362 0/369 9	364 7	341 5 to 371 0(5)
Exercise price (pence)	296 0/275 0	0 00	0 00
Expected volatility (% pa)(1)	34/32	N/A	34
Expected dividends (% pa)	2 2/2 4	N/A(3)	N/A
Risk-free interest rate (% pa)	0 7/0 3	N/A	N/A
Volatility of competitors (% pa)	N/A	N/A	17 to 69
Correlation with competitors (%)	N/A	N/A	20

Notes

(1) Expected volatility is based on an analysis of the Company's historic share price volatility over a period (typically three or five years) which is commensurate with the expected term of the options or the awards
(2) In 2011 and 2012 the vesting period for the SAYE plan was three years The vesting period may be extended by up to six months in order to catch up on missed contributions
(3) Dividends payable on the shares during the restricted period are paid out during the restricted period for the executive deferred bonus schemes and no dividend yield assumption is therefore required
(4) The awards made under the executive performance share plan are dependent upon earnings growth in the Company (two thirds of the award) and a total shareholder return of a comparator group of companies (one third of the award) This results in having two fair values for each of the awards made in the table above, the first being in relation to the comparator total shareholder return and the second relating to the Company's earnings growth
(5) Awards were made under the executive performance share plan on five separate occasions during 2012 (2011 6)
(6) There were no awards made in 2011 or 2012 for the executive share option schemes or the sales management share option schemes

	Year Ended 31 December 2012	Year Ended 31 December 2012	Year Ended 31 December 2011	Year Ended 31 December 2011
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
SAYE:				
Outstanding at start of year	**1,987,287**	**£1.70**	1,889,767	£1 62
Granted	**1,621,267**	**£2.86**	327,130	£2 42
Forfeited	**(594,764)**	**£2.88**	(121,564)	£1 97
Exercised	**(1,441,618)**	**£1.50**	(108,046)	£2 10
Expired	–		–	
Outstanding at end of year	**1,572,172**	**£2.63**	1,987,287	£1 70
Exercisable at end of year	**5,468**	**£2.25**	6,100	£1 50
Executive Share Options:				
Outstanding at start of year	**987,443**	**£1 84**	1,431,122	£1 78
Granted	–		–	
Forfeited	–		–	
Exercised	**(463,095)**	**£1.66**	(443,679)	£1 63
Expired	–		–	
Outstanding at end of year	**524,348**	**£2 01**	987,443	£1 84
Exercisable at end of year	**524,348**	**£2.01**	987,443	£1 84
Sales Management Share Options				
Outstanding at start of year	–		12,500	£2 42
Granted	–		–	
Forfeited	–		–	
Exercised	–		(12,500)	£2 42
Expired	–		–	
Outstanding at end of year	–		–	
Exercisable at end of year	–		–	
Partner Share Options				
Outstanding at start of year	**17,892,050**	**£2,45**	22,542,325	£2 38
Granted	–		–	
Forfeited	**(24,667)**	**£1.37**	(395,208)	£2 79
Exercised	**(7,456,245)**	**£2 02**	(4,255,067)	£2 01
Expired	–		–	
Outstanding at end of year	**10,411,138**	**£2 77**	17,892,050	£2 45
Exercisable at end of year	**10,398,388**	**£2 77**	17,857,625	£2 46

The average share price during the year was 357 5 pence (2011 329 2 pence)

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

30 SHARE-BASED PAYMENTS *continued*

The SAYE plan options outstanding at 31 December 2012 had exercise prices of 150 pence (2,196 options), 204 pence (233,563 options), 242 pence (247,348 options), 296 pence (303,692 options) and 275 pence (785,373 options) and a weighted average remaining contractual life of 2 1 years

The options outstanding under the executive share option schemes at 31 December 2012 had exercise prices ranging from 85 5 pence to 254 25 pence and a weighted average remaining contractual life of 1 6 years

The options outstanding under the Partner share option schemes at 31 December 2012 had exercise prices ranging from 85 5 pence to 465 pence and a weighted average remaining contractual life of 3 0 years

Executive Performance Share Plan (nil cost option – no proceeds on exercise)

	Year Ended 31 December 2012	Year Ended 31 December 2011
	Number of options	Number of options
Outstanding at start of year	**5,851,489**	5,954,291
Granted	**1,590,512**	1,797,964
Forfeited	**(407,200)**	(675,117)
Exercised	**(1,764,426)**	(1,225,649)
Expired	**–**	–
Outstanding at end of year	**5,270,375**	5,851,489
Exercisable at end of year	**40,494**	–

Partner Performance Share Plan (15 pence nominal share value option – 15 pence per share on exercise)

	Year Ended 31 December 2012	Year Ended 31 December 2011
	Number of options	Number of options
Outstanding at start of year	**2,617,500**	2,772,500
Granted	**–**	–
Forfeited	**(223,854)**	(155,000)
Exercised	**(2,086,146)**	–
Expired	**–**	–
Outstanding at end of year	**307,500**	2,617,500
Exercisable at end of year	**–**	–

Executive Deferred Bonus (no proceeds on exercise)

	Year Ended 31 December 2012	Year Ended 31 December 2011
	Number of shares	Number of shares
Outstanding at start of year	**2,690,807**	2,705,275
Granted	**747,571**	1,133,358
Forfeited	**(53,957)**	(63,295)
Exercised	**(460,734)**	(1,084,531)
Outstanding at end of year	**2,923,687**	2,690,807
Exercisable at end of year	**–**	–

Early exercise assumptions

The following allowance has been made for the impact of early exercise once options have vested

(1) SAYE plan – all option holders are assumed to exercise half-way through the six month exercise window

(2) Executive, sales management and partner share option schemes – it is assumed that 10% of option holders are forced to exercise their options each year irrespective of the level of the share price For the remainder it is assumed that one-half will exercise their options each year if the share price is at least 33% above the exercise price

Allowance for performance conditions

The executive performance share plan includes a market based performance condition based on the Company's total shareholder return relative to an index of comparator companies The impact of this performance condition has been modelled using Monte Carlo simulation techniques, which involve running many thousands of simulations of future share price movements for both the Company and the comparator index For the purpose of these simulations it is assumed that the share price of the Company and the comparator index are 20% (2011 20%) correlated and that the comparator index has volatilities ranging between 17% pa to 69% pa (2011 14% pa to 111% pa)

The performance condition is based on the Company's performance relative to the comparator index over a three year period commencing on 1 January each year The fair value calculations for the awards that were made in 2012 therefore include an allowance for the actual performance of the Company's share price relative to the index over the period between 1 January 2012 and the various award dates

Charge to the consolidated statement of comprehensive income

The table below sets out the charge to the consolidated statement of comprehensive income in respect of the share-based payment awards

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£ Million
Share-based payment expense	5 4	10 5

31 FINANCIAL COMMITMENTS

At 31 December 2012 the Group had the following annual commitments under non-cancellable operating leases in connection with the rental of office buildings and office equipment with varying lease end dates ranging from 2012 to 2027

	31 December 2012	31 December 2011
	£' Million	£ Million
Within one year	1.9	0 4
Between two and five years	2 3	3 2
In more than five years	6.6	6 4
Total financial commitments	10.8	10 0

As at 31 December 2012, there was £1 0 million (2011 £3 0 million) of future minimum sublease payments expected to be received under non-cancellable sub-leases

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

32 RELATED PARTY TRANSACTIONS

The Company and the Group have entered into related party transactions with Lloyds Banking Group plc ('LBG'), various subsidiaries of LBG and the Directors of the Company and the Group. LBG, which owns 57% of the Company's share capital, is the ultimate controlling party of the Group.

Transactions with LBG and LBG group companies

The following transactions were carried out, on an arm's length basis, with LBG and its subsidiaries during the year:

- Commission of £0.8 million (2011: £0.8 million) was receivable from the sale of banking services for St. James's Place Bank (a division of Halifax plc).
- Commission of £1.1 million (2011: £1.1 million) was receivable from the sale of pensions offered by Scottish Widows.
- Commission of £0.9 million (2011: £0.9 million) was receivable from the sale of Halifax, Cheltenham & Gloucester, Bank of Scotland, Birmingham Midshires, Scottish Widows and The Mortgage Business mortgages.
- Commission of £0.5 million (2011: £1.0 million) was receivable from Bank of Scotland Annuity Service.
- Commission of £37,000 (2011: £22,000) was receivable from Bank of Scotland in respect of corporate banking income in 2012.
- During the year, deposits were placed with Bank of Scotland and Lloyds TSB on normal commercial terms. At 31 December 2012 these deposits amounted to £54.7 million (2011: £21.8 million).
- Amounts lent by, or assigned to, the Bank of Scotland to members of the St. James's Place Partnership, under guarantee by St. James's Place, totalled £89.6 million (2011: £87.7 million).
- Amounts lent by the Bank of Scotland to the Group totalled £0.8 million (2011: £0.8 million).
- Tax fees of £27,000 (2011: £21,500) in respect of annual tax compliance and ad-hoc tax advice were charged by LBG plc to certain unit trusts.
- Fees of £26,250 (2011: £26,250) were payable to LBG in respect of the services of non-executive St. James's Place Board Directors.
- The Group has an arm's length contract with Prudential (which owns 5.53% of the share capital) to provide administrative services.

St. James's Place Board Directors have been included in a directors' and officers' insurance policy negotiated on a group basis by LBG.

HM Treasury is a related party of the Company as a result of its 39.2% (2011: 40.2%) holding of shares in Lloyd's Banking Group. The Group and Company have entered into transactions with HM Treasury on an arm's length basis including but not exclusively in relation to, the payment of corporation tax and value added tax.

Transactions with St. James's Place unit trusts

In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there was income recognised of £154.0 million (2011: £18.8 million expense) and the total value of transactions with those non-consolidated unit trusts was £650.9 million (2011: £668.6 million). Net management fees receivable from these unit trusts amounted to £56.2 million (2011: £62.4 million). The value of the investment into the non-consolidated unit trusts at 31 December 2012 was £1,404.1 million (2011: £925.5 million).

Transactions with key management personnel

The compensation paid to key management personnel, being the Board of Directors of St. James's Place, is set out in the Remuneration Report on page 76. The Remuneration Report also sets out transactions with the Directors under the Deferred Bonus Scheme, the Performance Share Plan, the Executive Share Option Scheme and the SAYE Share Option Schemes, together with details of the Directors' interests in the share capital of the Company.

The charge to the statement of comprehensive income in respect of the share-based payment awards made to the Executive Directors of St. James's Place during 2012 was £1.4 million (2011: £4.1 million).

Commission of £814,687 (2011: £662,391) was paid, under normal commercial terms, to St. James's Place Partners who were related parties by virtue of being connected persons with key management. The outstanding amount payable at 31 December 2012 was £230,191 (2011: £27,386).

At the start of the year a St James's Place Partner, connected to Mr Andrew Croft, held 86,000 options under the Partner share option scheme, exercisable between 1 July 2003 and 1 July 2009 (expiry dates between 31 July 2012 and 26 July 2016) at exercise prices ranging between £1 45 and £3 28, and 27,500 options under the Partner performance share plan exercisable on between 8 March 2012 and 8 March 2015 at an exercise price of £0 15 During the year 31,000 options under the Partner share option scheme were exercised (2011 51,000) at £1 45 and £2 36 leaving a balance at 31 December 2012 of 55,000 options under the Partner share option scheme In addition, 9,167 vested award shares were exercised under the Partner performance share plan at £0 15 leaving a balance at 31 December 2012 of 18,333 vested award shares under the Partners performance share plan The 31,000 options and 9,167 award shares were exercised on three separate occasions 11,000 at £1 45 on 7 June 2012 when the share price was £3 311, 20,000 at £2 36 on 1 November 2012 when the share price was £3 955, and 9,167 at £0 15 on 29 November 2012 when the share price was £4 00, realising a gain of £87,664

33 PARENT COMPANY

The company regarded by the Directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member Copies of the group financial statements may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN HBOS plc is the parent undertaking of the smallest group of undertakings for which group financial statements are drawn up Copies of the HBOS plc consolidated financial statements may be obtained from HBOS plc, The Mound, Edinburgh, EH1 1YZ

Lloyds Banking Group plc was the ultimate controlling party as at 31 December 2012 and has been the ultimate controlling party of the company since its acquisition of HBOS plc on 16 January 2009

34. PRINCIPAL SUBSIDIARIES

Investment Holding Companies	St James's Place Investments plc
	St James's Place Wealth Management Group plc
Life Assurance	St James's Place UK plc
	St James's Place International plc (*incorporated in Ireland*)
Unit Trust Management	St James's Place Unit Trust Group Limited
Distribution	St James's Place Wealth Management plc
Management Services	St James's Place Management Services Limited
Internal Reassurance	St James's Place Reassurance (2009) Limited

The Company owns either directly or indirectly 100% of the voting ordinary equity share capital of the above-named subsidiaries

A full list of subsidiaries is available on request from the registered office and will be submitted with the Company's Annual Return

All of these companies are registered in England and Wales and operate principally in the United Kingdom except where otherwise stated

Due to on going solvency requirements, there are restrictions on the amount of distributable reserves within the life assurance, unit trust and financial services operating companies of the Group which restricts their ability to transfer cash dividends to the Company

Notes to the Consolidated Accounts
under International Financial Reporting Standards *continued*

34 PRINCIPAL SUBSIDIARIES *continued*

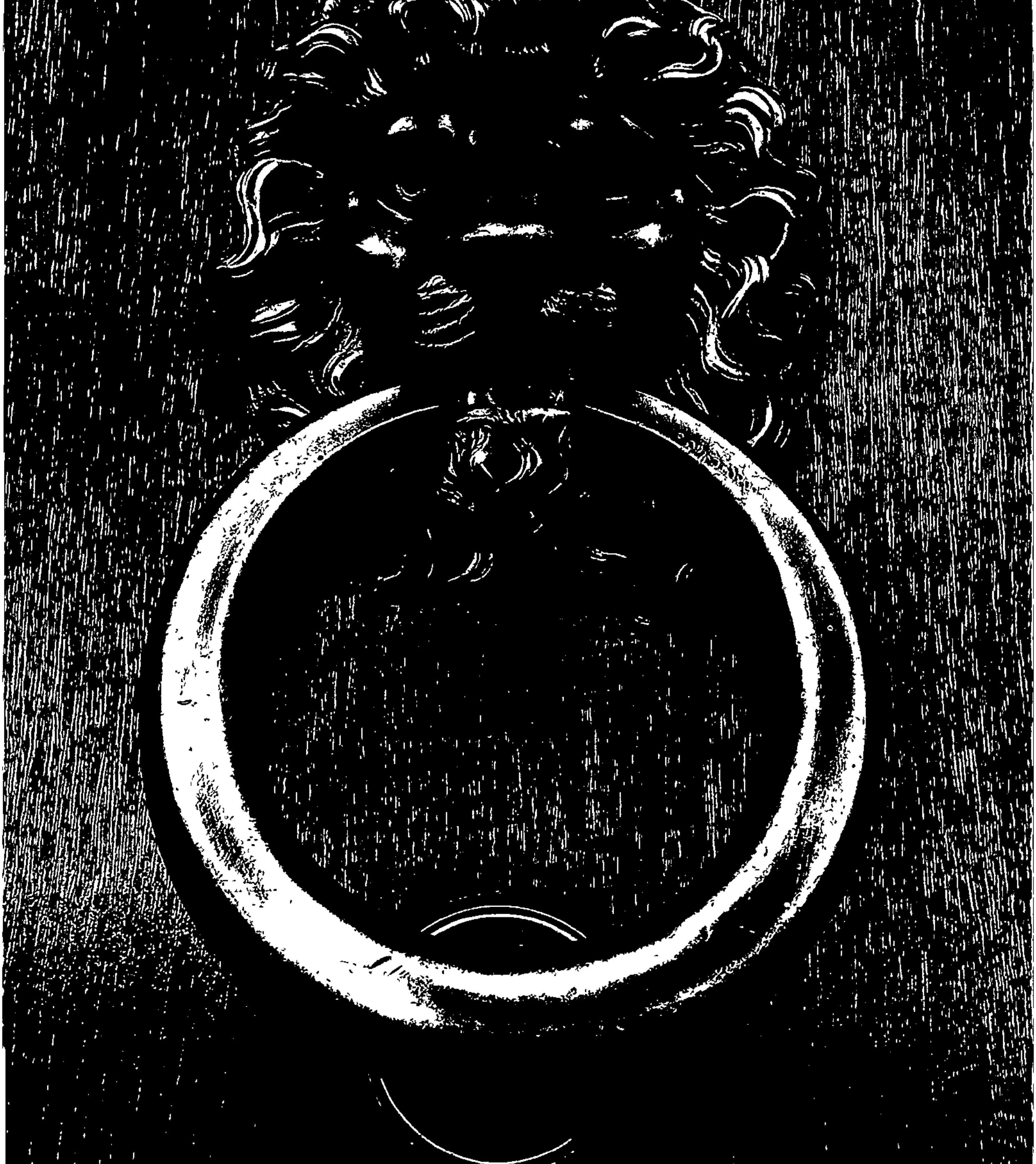
The following wholly-owned subsidiaries of St James's Place plc have taken advantage of the exemption from statutory audit granted by section 479A of the Companies Act 2006 In accordance with section 479C, St James's Place plc has therefore guaranteed all the outstanding liabilities as at 31 December 2012 of

Anglia Financial Limited (03835743)
Entellus Limited (01611224)
Lopsystem Limited (01503794)
MHS (Holdings) Limited (00559995)
SJPC Group Limited (01873546)
SJPC 7 Limited (02102279)
SJPC 2000 plc (SCO13363)
St James's Place Administration Limited (00740495)
St James's Place Investment Trust Limited (00209445)
St James's Place Investments plc (01773177)
St James's Place Partnership Limited (00425649)
St James's Place Property Services Limited (02608806)
St James's Place 1990 Limited (02513402)
St James's Properties Limited (01075927)

In addition, the Group accounts consolidate the following unit trusts
St James's Place Allshare Income Unit Trust
St James's Place Alternative Assets Unit Trust
St James's Place Balanced Managed Unit Trust
St James's Place Cash Unit Trust
St James's Place Continental European Unit Trust
St James's Place Corporate Bond Unit Trust
St James's Place Ethical Unit Trust
St James's Place Far East Unit Trust
St James's Place Gilts Unit Trust
St James's Place Global Equity Unit Trust
St James's Place Global Unit Trust
St James's Place Global Emerging Markets Unit Trust
St James's Place High Octane Unit Trust
St James's Place Index Linked Gilts Unit Trust
St James's Place International Corporate Bond Unit Trust
St James's Place Investment Grade Corporate Bond Unit Trust
St James's Place Managed Growth Unit Trust
St James's Place Multi Asset Unit Trust
St James's Place North American Unit Trust
St James's Place Strategic Managed Unit Trust
St James's Place UK Absolute Return Unit Trust
St James's Place UK and International Unit Trust
St James's Place UK Growth Unit Trust
St James's Place Worldwide Opportunities Unit Trust

All of these unit trusts are managed in the United Kingdom

Parent Company Accounts on UK GAAP Basis



Independent Auditors' Report
to the members of St. James's Place plc

We have audited the parent company financial statements of St James's Place plc for the year ended 31 December 2012 which comprise the Balance Sheet of the Parent Company and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 64, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the parent company financial statements
- give a true and fair view of the state of the company's affairs as at 31 December 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter
We have reported separately on the group financial statements of St James's Place plc for the year ended 31 December 2012

Craig Gentle (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
27 February 2013

(a) The maintenance and integrity of the St James's Place plc website is the responsibility of the directors the work carried out by the auditors does not involve consideration of these matters and, accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Balance Sheet of the Parent Company

	Notes	31 December 2012 £' Million	31 December 2011 £' Million
Fixed assets			
Investment in subsidiaries	2	**382.8**	377.4
Current assets			
Amounts owed by Group undertakings		**14.9**	–
Corporation tax assets		–	0.1
Other debtors		**0.1**	0.1
Current liabilities			
Amounts owed to Group undertakings		–	(22.6)
Net current assets/(liabilities)		**15.0**	(22.4)
Total assets less current liabilities		**397.8**	355.0
Capital and reserves			
Called up share capital	3	**76.0**	74.0
Share premium account	4	**127.7**	110.4
Share option reserve	4	**73.4**	68.0
Other reserves	4	**0.1**	0.1
Profit and loss account	4	**120.6**	102.5
Total shareholders' funds		**397.8**	355.0

The financial statements on pages 139 to 144 were approved by the Board of Directors on 27 February 2013 and signed on its behalf by

D Bellamy
Chief Executive

A Croft
Chief Financial Officer

The notes and information on pages 140 to 144 form part of these accounts

Notes to the Parent Company Accounts

1. ACCOUNTING POLICIES

Basis of preparation

St James's Place plc (the 'Company') is a limited liability company incorporated in England and Wales and whose shares are publicly traded The Company offers a range of insurance, investment and other wealth management services through its subsidiaries, which are principally incorporated in the UK and Ireland

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention The Company has elected to continue to prepare the parent financial statements in accordance with UK Generally Accepted Accounting Practice In publishing the Parent Company financial statements, the Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual profit and loss account and related notes that form part of these financial statements The Company is not required to present a statement of total recognised gains and losses

As discussed in the Directors' Report the going concern basis has been adopted in preparing these accounts

All accounting policies have been reviewed for appropriateness in accordance with Financial Reporting Standard ('FRS') 18 (*Accounting Policies*) and have been applied consistently to all periods presented in these Parent Company financial statements The Company has not presented a cash flow statement as a consolidated cash flow statement is presented in the consolidated Group financial statements

Significant accounting policies

(a) Investment return

Investment return comprises dividends from subsidiaries, which are accounted for when received

(b) Taxation

Taxation is based on profits and income for the period as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior periods

(c) Investment in subsidiaries

Investments in subsidiaries are carried at cost after impairment losses, plus the cost of share awards granted by the Company of its own shares

(d) Debtors

Debtors are stated at amortised cost less impairment losses

(e) Amounts owed to Group undertakings

Amounts owed to Group undertakings are stated at amortised cost

(f) Impairment losses

The carrying amounts of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment If there is any indication of irrecoverability or impairment, the asset's recoverable amount is estimated based on the present value of its estimated future cash flows

2 INVESTMENT IN SUBSIDIARIES

	2012	2011
	£' Million	£' Million
Cost at 1 January		
Investment in Group undertakings	311 4	311 4
Share options granted by Company	68 0	57 5
	379 4	368 9
Additions in the year		
Investment in Group undertakings	–	–
Share options granted by Company	5.4	10 5
	5 4	10 5
Cost at 31 December		
Investment in Group undertakings	311 4	311 4
Share options granted by Company	73.4	68 0
	384 8	379 4
Impairment in value		
Investment in Group undertakings	(2 0)	(2 0)
Net book value at 31 December	382 8	377 4

The Directors' believe that the carrying value of the investments is supported by their underlying net assets

Principal Subsidiary Undertakings at 31 December 2012

Investment Holding Companies	St James's Place Investments plc
	St James's Place Wealth Management Group plc
Life Assurance	St James's Place UK plc
	St James's Place International plc (*incorporated in Ireland*)
Unit Trust Management	St James's Place Unit Trust Group Limited
Distribution	St James's Place Wealth Management plc
Management Services	St James's Place Management Services Limited
Internal Reassurance	St James's Place Reassurance (2009) Limited

A full list of subsidiaries is available on request from the registered office and will be submitted with the Company's Annual Return

The Company owns either directly or indirectly 100% of the voting ordinary equity share capital of the above-named subsidiaries

All of these companies are registered in England and Wales and operate principally in the United Kingdom except where otherwise stated

Due to ongoing solvency requirements, there are restrictions on the amount of distributable reserves within the life assurance, unit trust and financial services operating companies of the Group which restricts their ability to transfer cash dividends to the Company

Notes to the Parent Company Accounts *continued*

3. CALLED UP SHARE CAPITAL

	Number of Ordinary Shares	Called up Share Capital
		£' Million
At 1 January 2011	486,149,186	72.9
– Scrip dividend	1,107,415	0.2
– Exercise of options	6,166,150	0.9
At 31 December 2011	493,422,751	74.0
– Exercise of options	13,408,396	2.0
At 31 December 2012	**506,831,147**	**76.0**

The total authorised number of ordinary shares is 605 million (2011: 605 million), with a par value of 15 pence per share (2011: 15 pence per share). All issued shares are fully paid.

13,408,396 shares were issued in the year at a nominal value of £2.0 million, for which the company received consideration of £19.3 million.

4. RESERVES

	Share Premium Account	Profit and Loss Account	Share Option Reserve	Other Reserves	Total
	£' Million	£' Million	£' Million	£' Million	£' Million
At 1 January 2011	98.1	96.1	57.5	0.1	251.8
Profit for the financial year		41.5			41.5
Dividends		(35.1)			(35.1)
Issue of share capital					
Scrip dividend	3.3				3.3
Exercise of options	9.0				9.0
Cost of share options expensed in subsidiary			10.5		10.5
At 31 December 2011	110.4	102.5	68.0	0.1	281.0
Profit for the financial year		63.4			63.4
Dividends		(45.3)			(45.3)
Issue of share capital					
Exercise of options	17.3				17.3
Cost of share options expensed in subsidiary			5.4		5.4
At 31 December 2012	**127.7**	**120.6**	**73.4**	**0.1**	**321.8**

5. AUDITORS' REMUNERATION

The total audit fee in respect of the Group is set out in Note 6 on page 103 of the consolidated financial statements. The audit fee charged to the Company for the year ended 31 December 2012 is £1,000 (2011: £1,000).

6. DIVIDENDS

The following dividends have been paid by the Group

	Year Ended 31 December 2012	Year Ended 31 December 2011	Year Ended 31 December 2012	Year Ended 31 December 2011
	Pence per share	Pence per Share	£' Million	£' Million
Final dividend in respect of previous financial year	**4.80**	3.975	**23.9**	19.4
Interim dividend in respect of current financial year	**4.25**	3.200	**21.4**	15.7
Total	**9.05**	7.175	**45.3**	35.1

The Directors have recommended a final dividend of 6.39 pence per share (2011: 4.8 pence). This amounts to £32.4 million (2011: £23.7 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 24 May 2013 to those shareholders on the register as at 12 April 2013.

7. RELATED PARTY TRANSACTIONS AND BALANCES

At the year end the following related party balances existed:

	31 December 2012	31 December 2011
	£' Million	£' Million
Investments in Group companies		
St. James's Place Partnership Limited	**42.0**	42.0
St. James's Place Wealth Management Group plc	**161.0**	155.6
St. James's Place Investments plc	**179.8**	179.8
Intra group debtors		
St. James's Place Investments plc	**14.9**	–
Intra group creditors		
St. James's Place Investments plc	**–**	22.6

During the year, the Company received £63.4 million (2011: £43.0 million) dividends from subsidiary undertakings.

The following wholly-owned subsidiaries of St. James's Place plc have taken advantage of the exemption from statutory audit granted by section 479A of the Companies Act 2006. In accordance with section 479C, St. James's Place plc has therefore guaranteed all the outstanding liabilities as at 31 December 2012 of:

Anglia Financial Limited (03835743)
Entellus Limited (01611224)
Lopsystem Limited (01503794)
MHS (Holdings) Limited (00559995)
SJPC Group Limited (01873546)
SJPC 7 Limited (02102279)
SJPC 2000 plc (SC013363)
St. James's Place Administration Limited (00740495)
St. James's Place Investment Trust Limited (00209445)
St. James's Place Investments plc (01773177)
St. James's Place Partnership Limited (00425649)
St. James's Place Property Services Limited (02608806)
St. James's Place 1990 Limited (02513402)
St. James's Properties Limited (01075927)

Notes to the Parent Company Accounts *continued*

8. DIRECTORS' EMOLUMENTS

The Directors' responsibilities relate primarily to the trading companies of the Group and accordingly their costs are charged to those companies and none are met by the Parent Company Disclosure of the Directors' emoluments is made within the Remuneration Report on page 76

9 PARENT COMPANY

The company regarded by the Directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member Copies of the group financial statements may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN HBOS plc is the parent undertaking of the smallest group of undertakings for which group financial statements are drawn up Copies of the HBOS plc consolidated financial statements may be obtained from HBOS plc, The Mound, Edinburgh, EH1 1YZ

Lloyds Banking Group plc was the ultimate controlling party as at 31 December 2012 and has been the ultimate controlling party of the Company since its acquisition of HBOS plc on 16 January 2009

Supplementary Inform
on European Embedded Value Basis

Independent Auditors' Report

to the Directors of St. James's Place plc ('the Company') on the Supplementary Information on European Embedded Value Basis

We have audited the Supplementary Information on the European Embedded Value Basis of St James's Place plc for the year ended 31 December 2012 that comprise the Consolidated Statement of Income – European Embedded Value Basis, Consolidated Statement of Changes in Equity – European Embedded Value Basis, Consolidated Statement of Financial Position – European Embedded Value Basis and the related notes ('the Supplementary Information'), which has been prepared in accordance with the European Embedded Value ('EEV') basis set out in Note I – Basis of Preparation and which should be read in conjunction with the Group's financial statements

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors Responsibilities, the directors are responsible for preparing the Supplementary Information on the EEV basis in accordance with the EEV basis set out in Note I – Basis of Preparation Our responsibility is to audit and express an opinion on the Supplementary Information in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our letter of engagement dated 6 July 2012 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the Supplementary Information

An audit involves obtaining evidence about the amounts and disclosures in the Supplementary Information sufficient to give reasonable assurance that the Supplementary Information is free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Supplementary Information In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Supplementary Information If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on the Supplementary Information

In our opinion, the Supplementary Information for the year ended 31 December 2012 has been properly prepared in all material respects in accordance with the European Embedded Value basis set out in Note I – Basis of Preparation

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
27 February 2013

(a) The maintenance and integrity of the St James's Place Plc website is the responsibility of the directors the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the Supplementary Information since they were initially presented on the website

(b) Legislation in the United Kingdom governing the preparation and dissemination of Supplementary Information may differ from legislation in other jurisdictions

Consolidated Statement of Income

European Embedded Value Basis

The following supplementary information shows the result for the Group adopting a European Embedded Value (EEV) basis for reporting the results of its wholly owned life and unit trust businesses

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£ Million
Life business	**293.9**	294.2
Unit Trust business	**82.6**	84.5
Distribution business	**5.3**	6.1
Other	**(15.9)**	(13.3)
EEV operating profit	**365.9**	371.5
Investment return variances	**190.4**	(180.4)
Economic assumption changes	**(3.7)**	(0.3)
EEV profit before tax	**552.6**	190.8
Tax		
Life business	**(89.5)**	(34.5)
Unit Trust business	**(28.9)**	(9.9)
Distribution business	**(1.3)**	(1.6)
Other	**5.2**	3.5
Corporation tax rate change	**21.6**	50.5
	(92.9)	8.0
EEV profit after tax	**459.7**	198.8

The notes and information on pages 150 to 156 form part of this supplementary information

Consolidated Statement of Changes in Equity
European Embedded Value Basis

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Opening shareholders' equity on an EEV basis	**1,899.5**	1,715 5
EEV profit after tax for the year	**459.7**	198 8
Issue of share capital	**19.3**	13 4
Retained earnings credit in respect of share option charges	**5.4**	10 5
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust	**0 1**	–
Dividends paid	**(45.3)**	(35 1)
Consideration paid for own shares	**(2 4)**	(3 6)
Closing shareholders' equity on an EEV basis	**2,336.3**	1,899 5

The notes and information on pages 150 to 156 form part of this supplementary information

Consolidated Statement of Financial Position
European Embedded Value Basis

	31 December 2012 £' Million	31 December 2011 £ Million
Assets		
Intangible assets		
Deferred acquisition costs	**971.6**	865.1
Value of long-term business in-force		
– long-term insurance	**1,223.6**	950.2
– unit trusts	**383.5**	305.8
Computer software	**11.7**	8.4
Customer list	**3.0**	0.9
	2,593.4	2,130.4
Property & equipment	**3.6**	5.4
Deferred tax assets	**190.9**	248.5
Investment property	**597.6**	550.9
Investments	**28,266.7**	22,532.4
Reinsurance assets	**38.6**	39.0
Insurance and investment contract receivables	**46.5**	44.5
Income tax assets	**85.2**	41.3
Other receivables	**508.4**	530.2
Cash & cash equivalents	**2,997.0**	2,329.3
Total assets	**35,327.9**	28,451.9
Liabilities		
Insurance contract liabilities	**424.0**	394.0
Other provisions	**9.2**	3.1
Financial liabilities	**27,271.7**	22,314.5
Deferred tax liabilities	**259.1**	207.3
Insurance and investment contract payables	**24.9**	29.9
Deferred income	**616.5**	536.9
Income tax liabilities	**77.2**	12.4
Other payables	**434.2**	376.4
Net asset value attributable to unit holders	**3,874.8**	2,677.9
Total liabilities	**32,991.6**	26,552.4
Net assets	**2,336.3**	1,899.5
Shareholders' equity		
Share capital	**76.0**	74.0
Share premium	**127.7**	110.4
Treasury share reserve	**(8.9)**	(8.5)
Miscellaneous reserves	**2.3**	2.3
Retained earnings	**2,139.2**	1,721.3
Total shareholders' equity on an EEV basis	**2,336.3**	1,899.5
	Pence	Pence
Net assets per share	**461.0**	385.0

The supplementary information on pages 147 to 156 was approved by the Board of Directors on 27 February 2013 and signed on its behalf by

D Bellamy
Chief Executive

A Croft
Chief Financial Officer

The notes and information on pages 150 to 156 form part of this supplementary information

Notes to the European Embedded Value Basis

I BASIS OF PREPARATION

The supplementary information on pages 147 to 156 shows the Group's results as measured on a European Embedded Value ('EEV') basis This includes results for the life, pension and investment business, including unit trust business The valuation is undertaken on a basis determined in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum, a group of chief financial officers from 19 major European insurers as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 (together 'the EEV Principles') The treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis The EEV basis recognises the long-term nature of the emergence of shareholder cash returns by reflecting the net present value of expected future cash flows

Under the EEV methodology, profit is recognised as it is earned over the life of the products within the covered business The embedded value of the covered business is the sum of the shareholders' net worth in respect of the covered business and the present value of the projected profit stream

II. METHODOLOGY

(a) Covered business

The covered business is the life, pension and investment business, including unit trust business, undertaken by the Group

(b) Calculation of EEV on existing business

Profit from existing business comprises the expected return on the value of in-force business at the start of the year plus the impact of any changes in the assumptions regarding future operating experience, plus changes in reserving basis (other than economic assumption changes), plus profits and losses caused by differences between the actual experience for the period and the assumptions used to calculate the embedded value at the end of the period

(c) Allowance for risk

The allowance for risk in the shareholder cash flows is a key feature of the EEV Principles The EEV Principles set out three main areas of allowance for risk in the embedded value
- The risk discount rate,
- The allowance for the cost of financial options and guarantees, and
- The cost of holding both prudential reserves and any additional capital required

The reported EEV allows for risk via a risk discount rate based on a bottom-up market-consistent approach, plus an appropriate additional margin for non-market risk The Group does not offer products that carry any significant financial guarantees or options

(d) Non-market risk

Best estimate assumptions have been established based on available information and when used within the market consistent calculations provide the primary evaluation of the impact of non-market risk However, some non-market operational risks are not symmetric, with adverse experience having a higher impact on the EEV than favourable experience Allowance has been made for this by increasing the risk discount rate by 0 8% (2011 0 8%)

(e) The risk discount rate

A market-consistent embedded value for each product class has been calculated

In principle, each cash flow is valued using the discount rate applied to such a cash flow in the capital markets However in practice, where cash flows are either independent or move linearly with market movement, it is possible to apply a simplified method known as the 'certainty equivalent' approach Under this approach all assets are assumed to earn the risk free rate and are discounted using that risk free rate A market-consistent cost of holding the required capital has also been calculated

As part of this approach, an appropriate adjustment has been made to reflect the fact that the value of tax relief on expenses does not move linearly with market movements Finally, an additional allowance for non-market risk has been made by increasing the discount rate by 0 8%

For presentational purposes, a risk discount rate has then been calculated which under the EEV basis gives the same value determined above This provides an average risk discount rate for the EEV and is described in relation to the risk free rate This average risk discount rate has also been used to calculate the published value of new business

(f) Cost of required capital

In light of the results of internal analysis, the Directors consider that the minimum regulatory capital provides adequate capital cover for the risks inherent in the covered business The required capital for the EEV calculations has therefore been set to the optimised minimum regulatory capital

The EEV includes a reduction for the cost of holding the required capital No allowance has been made for any potential adjustment that the investors may apply because they do not have direct control over their capital Any such adjustment would be subjective, as different investors will have different views of what, if any, adjustment should be made

(g) New business

The new business contribution arising from reported new business premiums has been calculated using the same assumptions as used in the EEV at the end of the financial year The value of contractual incremental premiums to existing business is treated as new business in the year of the increment, rather than at the outset of the policy This approach better reflects the way the Group manages its business

The value of new business has been established at the end of the reporting period and has been calculated using actual acquisition costs

(h) Operating profit

Operating profit is determined as the increase in the embedded value over the year excluding market-related impacts such as the effects of economic assumption changes and investment variances and grossed up for shareholder tax

(i) Tax

The EEV includes the present value of tax relief on life assurance expenses calculated on a market-consistent basis This calculation takes into account all expense and income amounts projected for the in-force business (including any carried forward unutilised relief on expenses)

In determining the market-consistent value an appropriate allowance is made to reflect the fact that the value of tax relief on expenses does not move linearly with market movements

When calculating the value of new business, priority is given to relieving the expenses relating to that business

III. ASSUMPTIONS

(a) Economic assumptions

The principal economic assumptions used within the cash flows at 31 December are set out below

	Year Ended 31 December 2012	Year Ended 31 December 2011
Risk free rate	**1.8%**	2 0%
Inflation rate	**2.5%**	2 7%
Risk discount rate (net of tax)	**4.9%**	5 1%
Future investment returns		
– Gilts	**1.8%**	2 0%
– Equities	**4.8%**	5 0%
– Unit linked funds		
– Capital growth	**1.2%**	1 4%
– Dividend income	**2.9%**	2 9%
– Total	**4.1%**	4 3%
Expense inflation	**3 4%**	3 5%

Notes to the European Embedded Value Basis

continued

III ASSUMPTIONS *continued*

(a) Economic assumptions *continued*

The risk free rate is set by reference to the yield on 10 year gilts. Other investment returns are set by reference to the risk free rate.

The inflation rate is derived from the implicit inflation in the valuation of 10 year index-linked gilts. This rate is increased to reflect higher increases in earnings related expenses.

(b) Experience assumptions

The principal experience assumptions have been set on a best estimate basis. They are reviewed regularly.

The persistency assumptions are derived from the Group's own experience or, where insufficient data exists, from external industry experience.

The expense assumptions include allowance for both the costs charged by the relevant third party administrators for acquisition and maintenance, and the corporate costs incurred in respect of covered business. The corporate costs have been apportioned so that the total maintenance costs represent the anticipated ongoing expenses, including systems development costs, which are expected to arise in future years in meeting the policy servicing requirements of the in-force business.

Mortality and morbidity assumptions have been set by reference to the Group's own experience, published industry data and the rates set by the Group's reassurers.

(c) Tax

The EEV result has been calculated allowing for tax and has been grossed up to a pre-tax level for presentation in the profit and loss account. The corporation tax rate used for this grossing up is 21.3% (2011: 22.2%) for UK life and pensions business, 12.5% (2011: 12.5%) for Irish life and pensions business and 21.7% (2011: 23.4%) for unit trust business. Future tax has been determined assuming a continuation of the current tax legislation. The reduction in tax rates for UK business reflects both the changes in tax rate enacted in the year, and also the further 2% reduction to which the government has committed in future years.

IV. COMPONENTS OF EEV PROFIT

(a) Life business

	Note	**Year Ended 31 December 2012**	Year Ended 31 December 2011
		£' Million	£' Million
New business contribution	1	**208.9**	182.5
Profit from existing business			
Unwind of discount rate		**76.9**	72.7
Experience variances		**6.9**	39.4
Operating assumption changes		**(1.7)**	(2.7)
Investment income		**2.9**	2.3
EEV operating profit		**293.9**	294.2
Investment return variances		**139.5**	(141.2)
Economic assumption changes		**(3.5)**	2.7
EEV profit before tax		**429.9**	155.7
Tax		**(89.5)**	(34.5)
Corporation tax rate change		**14.7**	37.6
EEV profit after tax		**355.1**	158.8

Note 1: New business contribution after tax is £165.2 million (2011: £142.5 million).

(b) Unit Trust business

	Note	Year Ended 31 December 2012	Year Ended 31 December 2011
		£' Million	£' Million
New business contribution	1	67.9	63.5
Profit from existing business			
Unwind of discount rate		19.1	18.5
Experience variances		(2.3)	(1.3)
Operating assumption changes		(2.6)	3.3
Investment income		0.5	0.5
EEV operating profit		82.6	84.5
Investment return variances		50.9	(39.2)
Economic assumption changes		(0.2)	(3.0)
EEV profit before tax		133.3	42.3
Tax		(28.9)	(9.9)
Corporation tax rate change		6.9	12.9
EEV profit after tax		111.3	45.3

Note 1 New business contribution after tax is £53.1 million (2011 £48.7 million)

(c) Combined Life and Unit Trust business

	Note	Year Ended 31 December 2012	Year Ended 31 December 2011
		£' Million	£' Million
New business contribution	1	276.8	246.0
Profit from existing business			
Unwind of discount rate		96.0	91.2
Experience variances		4.6	38.1
Operating assumption changes		(4.3)	0.6
Investment income		3.4	2.8
EEV operating profit		376.5	378.7
Investment return variances		190.4	(180.4)
Economic assumption changes		(3.7)	(0.3)
EEV profit before tax		563.2	198.0
Tax		(118.4)	(44.4)
Corporation tax rate change		21.6	50.5
EEV profit after tax		466.4	204.1

Note 1 New business contribution after tax is £218.3 million (2011 £191.2 million)

Notes to the European Embedded Value Basis

continued

IV. COMPONENTS OF EEV PROFIT *continued*

(d) Detailed analysis

In order to better explain the movement in capital flows, the components of the EEV profit for the year ended 31 December 2012 are shown separately between the movement in IFRS net assets and the present value of the in-force business ('VIF') in the table below. All figures are shown net of tax.

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	**(67.8)**	**286.1**	**218.3**
Profit from existing business	**160.3**	**(160.3)**	**–**
Unwind of discount rate	**–**	**75.8**	**75.8**
Experience variances	**17.3**	**(9.4)**	**7.9**
Operating assumption changes	**1.0**	**(4.4)**	**(3.4)**
Investment return	**2.8**	**–**	**2.8**
Investment return variances	**10.4**	**139.7**	**150.1**
Economic assumption changes	**(6.6)**	**3.5**	**(3.1)**
Miscellaneous	**(10.3)**	**–**	**(10.3)**
Corporation tax rate change	**–**	**21.6**	**21.6**
EEV profit after tax	**107.1**	**352.6**	**459.7**

The comparative figures for 2011 are as follows

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(65.8)	256.9	191.1
Profit from existing business	154.5	(154.5)	–
Unwind of discount rate	–	71.1	71.1
Experience variances	38.8	(6.8)	32.0
Operating assumption changes	2.1	(1.6)	0.5
Investment return	2.2	–	2.2
Investment return variances	(13.2)	(128.4)	(141.6)
Economic assumption changes	(4.9)	4.8	(0.1)
Miscellaneous	(6.9)	–	(6.9)
Corporation tax rate change	–	50.5	50.5
EEV profit after tax	106.8	92.0	198.8

V EEV SENSITIVITIES

The table below shows the estimated impact on the combined life and unit trust reported value of new business and EEV to changes in key assumptions The sensitivities are specified by the EEV principles and reflect reasonably possible levels of change In each case, only the indicated item is varied relative to the restated values

	Notes	Change in new business contribution		Change in European Embedded Value
		Pre-tax	Post-tax	Post-tax
		£' Million	£' Million	£' Million
Value at 31 December 2012		**276.8**	**218.3**	**2,336 3**
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(1 9)	(1 6)	(2 9)
10% reduction in withdrawal rates	2	25 5	20 1	117 2
10% reduction in expenses		4 9	3 9	27 4
10% reduction in market value of equity assets	3	–	–	(219 4)
5% reduction in mortality and morbidity	4	–	–	(1 1)
100bp increase in equity expected returns	5	–	–	–
100bp increase in assumed inflation	6	(4 8)	(3 8)	(20 9)

Note 1 This is the key economic basis change sensitivity The business model is relatively insensitive to change in economic basis Note that the sensitivity assumes a corresponding change in all investment returns but no change in inflation

Note 2 The 10% reduction is applied to the lapse rate For instance, if the lapse rate is 8% then a 10% sensitivity reduction would reflect a change to 7 2%

Note 3 For the purposes of this required sensitivity, all unit linked funds are assumed to be invested in equities The actual mix of assets varies and in recent years the proportion invested directly in UK and overseas equities has exceeded 70%

Note 4 Assumes the benefit of lower experience is passed on to clients and reassurers at the earliest opportunity

Note 5 As a market consistent approach is used, equity expected returns only affect the derived discount rates and not the embedded value or contribution to profit from new business

Note 6 Assumed inflation is set by reference to 10 year index linked gilt yields

	Change in new business contribution		Change in European Embedded Value
	Pre-tax	Post-tax	Post-tax
	£' Million	£' Million	£' Million
100bp reduction in risk discount rate	37 2	29 3	162 9

Although not directly relevant under a market-consistent valuation, this sensitivity shows the level of adjustment which would be required to reflect differing investor views of risk

Notes to the European Embedded Value Basis

continued

VI. RECONCILIATION OF IFRS AND EEV PROFIT BEFORE TAX AND NET ASSETS

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
IFRS profit before tax	**251.8**	(20.1)*
Movement in life value of in-force and policyholder tax	**201.0**	196.4*
Movement in unit trust value of in-force	**99.8**	14.5
EEV profit before tax	**552.6**	190.8

	31 December 2012	31 December 2011
	£' Million	£' Million
IFRS net assets	**762.5**	678.3
Less acquired value of in-force	**(43.2)**	(46.4)
Add deferred tax on acquired value of in-force	**9.9**	11.6
Add life value of in-force	**1,223.6**	950.2
Add unit trust value of in-force	**383.5**	305.8
EEV net assets	**2,336.3**	1,899.5

VII. RECONCILIATION OF LIFE COMPANY FREE ASSETS TO CONSOLIDATED GROUP EQUITY AND ANALYSIS OF MOVEMENT IN FREE ASSETS

	31 December 2012	31 December 2011
	£' Million	£' Million
Life company estimated free assets	**155.7**	122.3
Estimated required life company solvency capital	**43.8**	43.4
Other subsidiaries, consolidation and IFRS adjustments	**563.0**	512.6
IFRS net assets	**762.5**	678.3

	31 December 2012	31 December 2011
	£' Million	£' Million
Life company estimated free assets at 1 January	**122.3**	102.1
Investment in new business	**(64.4)**	(71.2)
Profit from existing business	**120.8**	108.5
Dividends paid	**(25.0)**	(15.0)
Investment return	**2.4**	1.8
Movement in required solvency capital	**(0.4)**	(3.9)
Life company estimated free assets at 31 December	**155.7**	122.3

* Those figures have been re-presented to more appropriately reflect the nature of the tax provision for tax deductions on deemed disposals of unit trust holdings. More information is given in Note 1 to these accounts.

Shareholder Information

ANALYSIS OF NUMBER OF SHAREHOLDERS

Analysis by Number of Shares	Holders	%	Shares held	%
1 – 999	2,403	44 0	920,039	0 2
1,000 – 9,999	2,357	43 1	7,092,070	1 4
10,000 – 99,999	522	9 6	14,918,173	2 9
100,000 and above	180	3 3	483,900,865	95 5
	5,462	100 0	506,831,147	100 0

FINANCIAL CALENDAR

Ex-dividend date for final dividend	10 April 2013
Record date for final dividend	12 April 2013
Announcement of first quarter new business	25 April 2013
Final date for receipt of Dividend Reinvestment Plan mandates	2 May 2013
Annual General Meeting	21 May 2013
Payment date for final dividend	24 May 2013
Announcement of Interim Results and second quarter new business	31 July 2013
Announcement of third quarter new business	31 October 2013

DIVIDEND REINVESTMENT PLAN ('DRP')

The Directors introduced a Dividend Reinvestment Plan (DRP) during 2012 If you would prefer to receive new shares instead of cash dividends, please complete a Dividend Reimbursement Plan (DRP) mandate form, which is available from our Registrars, Computershare Investor Services PLC Their contact details are on page 159

SHARE DEALING

A telephone share dealing service has been established with the Registrars, Computershare Investor Services PLC, which provides shareholders with a simple way of buying or selling St James's Place plc shares on the London Stock Exchange If you are interested in this service telephone 0870 703 0084

ELECTRONIC COMMUNICATIONS

If you would like to have access to shareholder communications such as the Annual Report and the Notice of General Meeting through the internet rather than receive them by post, please register at www etreeuk com/stjamesplace

An internet share dealing service is also available Further information about this section can be obtained by logging on to www computershare com/investor/sharedealing

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