

ST JAMES'S PLACE PROPERTY SERVICES LIMITED.
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ST. JAMES'S PLACE

ST. JAMES'S PLACE PLC ANNUAL REPORT & ACCOUNTS 2013





ST. JAMES'S PLACE

WEALTH MANAGEMENT

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St James's Place plc is the FTSE 250 listed parent company of the St James's Place Wealth Management Group. The Group provides high quality wealth management advice, investment management and related services to businesses and individuals across the UK, through its representatives – The St James's Place Partnership.

St James's Place Wealth Management Group manages £44 billion of client funds.

At the heart of the sustained growth in our business is the importance we place on maintaining long lasting relationships with our Partners and clients and serving them well. Our approach was once again publicly 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.

Financial Highlights

FUNDS UNDER MANAGEMENT

£44.3 billion

+27%
2012 £34.8 billion

NET INFLOW OF FUNDS UNDER MANAGEMENT

£4.3 billion

+28%
2012 £3.35 billion

GROSS INFLOW OF FUNDS UNDER MANAGEMENT

£6.8 billion

+21%
2012 £5.6 billion

PARTNERSHIP NUMBERS

1,958

+9.5%
2012 1,788

PROFIT BEFORE SHAREHOLDER TAX

£190.7 million

+42%
2012 £134.6 million

EEV NEW BUSINESS PROFIT

£327.2 million

+18%
2012 £276.8 million

EEV OPERATING PROFIT

£462.7 million

+26%
2012 £365.9 million

CASH RESULT

£168.8 million

+84%
2012 £91.7 million

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www.sjp.co.uk click on Investor Relations

Chief Executive's Statement

2013 will be remembered as one of the most significant years in our history. Quite apart from the strong performance in all aspects of our business, it was also a year in which we became a wholly independent FTSE company for the first time, having attracted a number of new institutional shareholders as the Lloyds Banking Group (LBG) sold their 57% holding in us.

As well as thanking Lloyds for their support in recent years, I would like to thank our existing shareholders who have increased their holdings in us. I would also like to take this opportunity to welcome our new shareholders and thank them for investing in us.

It was also a year in which we made some important decisions for the future, affecting our back office infrastructure and our distribution capabilities. I comment further on both these initiatives later in this statement.

Against this backdrop, and with the benefit of improved sentiment for investments, I am very pleased to report another record year that saw our funds under management increase by £9.5 billion to a new record high of £44.3 billion.

As I have said previously, there is a reassuring consistency about our business, which is most clearly demonstrated by the sustained growth in our funds under management over the last five years. Over this period of changing economic and market conditions, funds under management have grown by a compound 22% p.a. through new business and investment performance to £44 billion at the end of 2013.

New Business and Funds Under Management
New single investments of £7.2 billion were 22% higher than 2012, with clients choosing to invest broadly evenly across our life, pension and unit trust/ISA investment tax wrappers. Alongside those new investments, our Partners once again did an excellent job of looking after clients and this is demonstrated by the continued strong retention of existing funds enabling us to report net inflows of £4.3 billion, up 28% on the previous year. As I mentioned above, those net inflows, together with very healthy growth in most equity markets, enabled us to report growth in funds under management of 27% to £44.3 billion.

Clients

At the heart of this sustained growth is the importance we place on maintaining long lasting relationships with our Partners and clients and serving them well.

We are very clear that if we do this well, we will maintain our strong retention record and attract new clients and investments through referrals and introductions. That was further evidenced last year by the introduction of over 45,000 clients to St James's Place.

David Bellamy
Chief Executive

NET INFLOW OF FUNDS

£4.3 billion

(2012: £3.35 billion)

FUNDS UNDER MANAGEMENT

£44.3 billion

(2012: £34.8 billion)

We also regularly seek feedback from our clients and Partners. For example, each year we commission the independent research specialists, Ledbury Research, to conduct a review amongst a random sample of clients. Whilst there is always room for improvement, the results of their latest review, carried out at the end of 2013, were very encouraging with clients reporting higher levels of overall satisfaction, levels of service, communication and advocacy relative to both the feedback given in previous years and the wider marketplace.

Such research, together with the direct contact we maintain with clients, reassures us that our clients value the importance we place on looking after their wealth through our distinct approach to investment management.

Investment Management

Over the last 12 months, the slowly improving economic backdrop and the continued low interest rates have been key to the growth in investment markets in the UK, US and Europe, albeit at the expense of savers in traditional bank and building society accounts.

In the UK, the combination of economic policy and, in particular, of keeping interest rates low for so long, appears to be finally bearing fruit, with signs that the economy is improving. The key indicators on growth and employment are looking more positive now than at any time in the last five years.

Stock markets in the major economies performed strongly last year, with the FTSE 100 index up 14% in capital growth, 19% with dividends reinvested. Slightly higher growth was seen in the US and Europe, enabling investors in equities to enjoy improved returns as companies continue to return to stronger growth and profitability, the main exception being the lower growth seen in stock markets of the emerging economies and the Far East. That said, the Japanese stock market had an excellent year, making significant gains, albeit these were offset somewhat by the weakness of the currency.

Against this backdrop, St James's Place equity based and managed funds also did very well last year, providing strong double-digit returns for the majority of our clients who were invested in them. The general sentiment toward investment today is far more positive than it has been for a number of years and, at a time when access to trusted advice is increasingly in short supply, I believe our Partners are very well positioned to provide highly personalised advice to investors on how best to achieve their investment objectives.

The St James's Place Partnership

In 2013, alongside the impressive financial results, we continued to attract high quality advisers to join us. The near 10% increase in the size of the Partnership to 1,958 was very encouraging and bears testimony to the outstanding reputation that we have built for both the quality of our client proposition and the level of support and development our Partners receive. Increasing the number of Partners and providing them with the tools and support to deliver high quality outcomes for clients is one of the key drivers to our achieving our long term growth objectives.

Whilst we are confident that we can continue to attract established high quality advisers, we are conscious of the fact that very few companies are investing in the development of new advisers. In recognition of this, we have invested in our new Academy programme. Re-launched in 2012, we saw a further 60 students join the Academy last year, bringing the total to over 100. Alongside them, we also saw 40 Next Generation students (sons and daughters of existing Partners) begin their careers with us via the Academy. If all goes according to plan, we can expect around 50 or so students to graduate as either Partners or advisers during the course of the next year. We also aim to attract a further 50-60 new entrants to the Academy during 2014 and are planning to expand the programme through the introduction of regional based Academies, the first of which will begin in Manchester later this year.

We now offer the most comprehensive geographic access to wealth management advice in the UK. Notwithstanding the fact that we remain very focused on our UK business, we see an opportunity to expand our services overseas to the expatriate community. This is an area that we have been exploring for some time and I am pleased to confirm that we are close to completing the acquisition of a well-respected adviser business, which has an existing team of advisers in Singapore, Hong Kong and Shanghai specialising in the provision of financial advice to members of the expatriate community in the Far East. This is an exciting development for us that we believe sits perfectly with our comprehensive investment approach and, subject to regulatory approval, the acquisition should be finalised in the first few months of 2014.

'Back-office' Administration

In 2013, we embarked on one of the most significant developments in our back office for some time. The first step combines our two major back offices under one management, and that was completed at the start of 2014. IFDS, which already administers our unit trust and ISA business, has now taken on the management of the team in Craigforth who administer our other onshore investment business.

The second step will be to put in place one unified, client-centric computer system that will be available to all the back-offices, enabling them to deliver improved service and improved efficiency for the business.

Chief Executive's Statement *continued*

Financial Performance

I am pleased to say that the business's financial performance has been very positive in 2013

On an International Financial Reporting Standards (IFRS) basis, profit before shareholder tax increased to £190.7 million (2012 £134.6 million)

Our European Embedded Value (EEV) basis operating profit for 2013 was £462.7 million (2012 £365.9 million) reflecting good growth in new business and a strong positive experience variance

The Chief Financial Officer's Report and Financial Review, on pages 12 to 33, provide a comprehensive presentation of the financial results for the year

Dividend

Leading on from these profit results, we continue to see a growing cash result, a trend that is expected to continue with the increasing maturity of funds under management

Consequently, given our ongoing confidence in the profile of the future cash emergence, we announced at the time of our interim results a 50% increase in the 2013 interim dividend and indicated that the full year dividend would be increased by a similar amount

I am therefore pleased to confirm the underlying cash result was up 67% to £139.9 million and, in line with this statement, we are pleased to confirm the 50% increase in the final dividend of 9.58p per share, bringing the full year dividend to 15.96p per share

Furthermore, given our ongoing confidence in the cash emergence going forward, we anticipate a dividend increase in the range of 30 to 40% in 2014. Beyond that, we fully intend to continue with a progressive dividend policy, growing the future dividend in line with the underlying performance of the business

The final dividend for 2013, subject to approval of shareholders at our AGM, will be paid on 16 May 2014 to shareholders on the register at the close of business on 11 April 2014 and, as with last year, a Dividend Reinvestment Plan ('DRP') continues to be available for shareholders

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 21st anniversary of the Foundation in 2013 by raising a further £4.5 million, enabling us to support over 600 charitable projects. 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 them all for helping to raise such an impressive sum. Further details of our CSR activities are set out on pages 39 to 45

Outlook

I am confident that the growth we achieved in 2013, in both new investments and Partner numbers, bodes well for the continued momentum in our business and for future growth in line with our medium term objectives



David Bellamy
Chief Executive
24 February 2014

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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. We ensure efficient management of our business through effective outsourcing of the main administration activities.

Our business is centred on the UK, attracting clients from the mass affluent and, increasingly, the high net worth markets. Our Partners monitor and review clients' financial needs over time, adapting advice where necessary in order to ensure that recommendations remain appropriate. The enduring nature of these relationships is particularly important, and is founded on mutual respect and trust. This relationship-based approach is greatly valued by our clients, no more so than in the recent period of financial uncertainty. By focusing on getting this right, we can support the client and retain the funds under management over the long term. We also attract new business and referrals from satisfied clients.

There is an increasing demand for trusted advice from experienced advisers backed by a strong brand and an organisation which is responsible for all aspects of the service. Clients also value and benefit from our unique Investment Management Approach. We are able to support our delivery to clients (and therefore shareholders) by extending our focus on strong relationships to our interactions with investment managers and administration providers, thereby ensuring positive outcomes in these important areas of our business as well.

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 extension of our service to new clients and new funds
- Delivering on our investment proposition
 - Positive performance of our Investment Management Approach delivers growth in funds managed and helps ensure positive client relationships
- Meeting (and where possible exceeding) the expectations of our clients
 - Positive long-term relationships with clients ensures the retention of funds for the long term and results in additional business from existing clients and referrals to new clients

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 markets. We believe that the strength of relationship between our Partners and our clients, together with our approach to investment management, means we are 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 to the 'mass-affluent' market. This market is growing and in 2014 there will be 9.1 million UK individuals with between £50,000 and £5 million investable assets. Their assets total £1,700 billion. Further, it is estimated this marketplace will grow over the next four years to 10.7 million individuals with £2,100 billion investable assets (Source: Datamonitor).

Our Partners, so called because of the way they work in partnership with both their clients and their colleagues, have, on average, over 17 years' experience. We are pleased that our Partnership includes 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 also often work alongside other professional advisers, providing a complementary service and a fresh perspective.

St James's Place has chosen to promote our services exclusively through the Partnership. This reflects the confidence we have in our Partners' ability to build and maintain long-term working relationships with their clients, and so to be able to provide clients with sound financial advice. However, it also provides clients with clarity of responsibility in relation to their financial dealings. St James's Place works with our Partners to establish long-term relationships and take responsibility for the financial needs of our clients.

We believe establishing long-term relationships is important, and it is a key part of our culture. Clients need to be able to place reliance on financial advice and so, being able to call upon the services of an adviser who understands their individual personal circumstances is important. By establishing long-term relationships, the adviser can ensure the advice is appropriate and clients will benefit from a source of trusted advice as their financial needs evolve over the years. Our Partners are distributed throughout the United Kingdom, enabling face to face advice relationships to be delivered to all our clients, wherever they may be.

Finally, we are committed to supporting our Partners' ongoing professional development to ensure that they remain appropriately qualified, technically able and equipped to deliver a first class service to their clients. 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.

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 investment managers, 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 respected independent investment research consultancies, led by 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 Investment Committee meets regularly to monitor performance and consider detailed reports from our consultants and 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's monitoring activity leads to a loss of confidence in the ability of an existing manager, then it will replace them.

Successful long term investment also depends on judicious diversification. The Investment Committee provides illustrations as to how to do this through the provision of Example Portfolios, which combine various managers' funds in given proportions depending on the broad investment objective. Ultimately, however, the right solution for each client can only be achieved through the face-to-face advice process, which is the responsibility of the Partner concerned.

Long-Term Client Relationships

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-term relationships, founded on trust, with many of our clients.

We achieve this primarily through the activity of the St James's Place Partnership (see page 7) 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 often continue the working relationship with their Partner over many years, appreciating a source of trusted advice as their financial needs evolve over the years.

Given the importance of the Partner-client relationship, we are quite proud of the positive results we receive in our annual client survey, conducted by Ledbury Research, where we consistently outperform the marketplace on all core satisfaction metrics. In our 2013 client survey, 32% of clients rated their satisfaction level at ten out of ten and 86% of clients agreed that we provided excellent service. 81% of clients were likely to recommend St James's Place to others.

The following comments come from some recent client research in response to the question 'is there anything you would like to add with regard to feedback on St James's Place'.

'I'm just totally happy. I wouldn't recommend them to other people if I weren't. Recommendations can backfire, so you have to know it's good.'

'What they've got right is their rapport with their clients, it's on the right level. I work with another financial company and they seem a bit condescending, whereas St. James's Place has the right balance.'

'My St James's Place Partner is a gentleman, whom I can't recommend highly enough. He is someone I go to before I make any form of decision, in my personal affairs not just my financial affairs. He is always attentive to my needs even when I'm not investing with St James's Place, he is always concerned, the net effect of that is that when I do invest then St James's Place gets a big chunk of it.'

'I find it an excellent company and the Partner is first class. I've got no problem with them. He's got a very good attitude, he's friendly, he comes round and visits us when we ask. I honestly couldn't ask for anybody better.'

The success of our approach is also evident from the fact that over 90% of new investment is estimated to come from existing clients or from referrals and introductions from them. Further, once clients have invested, they tend to stay invested and we are particularly pleased with the consistent, year on year, low rate of surrender of funds (typically less than 5%).

Despite receiving much positive feedback from clients, we never become complacent and in 2014 we will continue our constant striving to improve our standards.

Our Objectives and Related Key Performance Indicators (KPIs)

Funds

Our objectives	Progress during 2013	Key Performance Indicators
<i>To increase funds under management (FUM) 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</i>	During 2013, FUM increased to £44.3 billion representing growth of 27% over the year as a result of £6.8 billion of gross inflows (21% increase) and £4.3 billion in net inflows (28% increase), against the backdrop of recovering markets (a 14% rise in FTSE 100 in 2013)	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	Progress during 2013	Key Performance Indicators
<i>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</i>	During 2013, 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 9.5% and APE per Partner increased by 7% to £461.8k (2012: £432.5k)	Growth in New Business (APE) (£' Million) In 2013, the growth in new business was 16% resulting in compound annual growth of 19% over the last ten years and 18% since inception. The proportion of our own business (excluding third party new business) for the year was 88%.

Financial

Our objectives	Progress during 2013	Key Performance Indicators
<i>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</i>	Profit before shareholder tax on an IFRS basis, EEV new business contribution, EEV operating profit before tax and the cash result all increased during 2013	Profit before Shareholder Tax (£' Million) The IFRS reporting basis is the statutory requirement. 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. In 2013, profit before shareholder tax (which is defined on page 16) demonstrated growth of 42%.

Gross Funds Flow (£' Billion)

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)

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

Number of Partners

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 2013, the number of Partners increased by 9.5% to 1,958.

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

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)

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 2013, the growth in EEV new business contribution was 18%.

EEV Operating Profit before Tax (£' Million)

The EEV reporting basis assesses the full value of the long-term emergence of the shareholder cash returns. In 2013, we experienced growth of 26% year on year.

Cash Result (£' Million)

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 84% in the period.

Chief Financial Officer's Report

The financial performance of the Group in 2013 was very strong across all financial measures, continuing the positive trend we have seen in recent years

We have previously commented on the growth in the size of the Partnership and the record £7.2 billion of new investments which, together with the continuing excellent retention of client funds and strong investment markets, have led to a 27% growth in funds under management to a record £44.3 billion. In this statement I will comment on the other financial results and, as usual, additional information is provided in the Financial Review on pages 16 to 33 which accompanies this statement.

2013 saw LBG sell their 57% shareholding through three successful share placings in the market which resulted in some £2 billion of our shares being acquired by both new and existing shareholders. I would like to join David in thanking our existing shareholders who acquired additional shares and in welcoming our new shareholders.

Andrew Croft
Chief Financial Officer

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.

It is worth noting that, whilst the EEV result is primarily driven by the current year events (particularly new business and investment performance), the IFRS and cash results are the cumulative effect of all previous years. Hence this year's very positive growth in IFRS and cash result reflects the impact of growth and retention of funds under management seen in earlier years.

As I commented in my Interim report, there were also a number of developments during the year which impacted the results.

Firstly, the UK life company entered into a new reinsurance treaty to reinsure the company's remaining exposure of its closed book of Protection business (life assurance, critical illness and PHI). This treaty resulted in the removal of both the insurance and persistency risk on this business from the balance sheet together with a one-off increase in the cash result of £18.3 million and a positive contribution of £8.9 million to the IFRS result.

Secondly, we were able to place a value on some historic capital losses within the Group which we now regard as being capable of utilisation over the medium term. Within the IFRS result, a deferred tax asset of £27.9 million (undiscounted) has been established and within the EEV there was a resultant positive experience variance of £22.8 million post-tax (discounted). We expect the benefit to be realised in the cash result in future years.

UNDERLYING CASH RESULT

+67%

FULL YEAR DIVIDEND

+50%

Finally, the introduction of the new regulatory rules on adviser charging at the start of 2013 has changed the nature of a number of cash flows. The two principal impacts were, firstly, application of surrender penalties to all new pension business, resulting in an acceleration of cashflow from the first six years, and secondly, the loss of tax relief on the advice cost, which reduces the value of certain business.

Looking now at the performance of the key financial measures

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 and the table below provides the five year record of the financial result under this measure.

As can be seen in Table A below, profit on this measure was £190.7 million, up 42% over the prior year. This continues the impressive growth we have seen year on year resulting in cumulative growth of 282% over the period. This sustained growth reflects the increasing cash result, driven by higher funds under management and the increasing maturity of the business.

Table A Profit before Shareholder Tax

	Profit before shareholder tax	Growth
	£' Million	%
2013	190.7	42%
2012	134.6	23%
2011	109.7	30%
2010	84.2	69%
2009	49.9	(23%)*

* Growth affected by economic conditions and excludes one-offs

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 development of these measures over the last five years is shown in Table B.

Table B Key EEV Financial Measures

	EEV new business contribution	EEV operating profit	EEV net asset value per share
	£' Million	£' Million	Pence
2013	327.2	462.7	575.3
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

The new business profit at £327.2 million was up 18% during the year and has grown in each of the years since 2009, doubling over the period. The growth in new business profit reflects increasing new business volumes, positive business mix and expense management.

The operating profit increased by 26% during the year to £462.7 million reflecting both the growth in the new business profit together with strong positive experience variance in the year.

The net asset value per share on an EEV basis at the end 2013 was 575.3 pence, some 25% higher than the start of the year and has more than doubled over the period.

Cash Result

The Group's underlying cash result is principally dependent on the value of client funds under management. Since much of our business does not generate net cash in the first six years, the level of cash result will increase as a result of new business from six years ago becoming cash generative.

The first column in the table below shows how the underlying cash arising from the business in-force at the valuation date (in-force business) has grown by 30% in the year.

Nearly 30% of funds under management are currently not yet generating any positive cash flow. However, they are expected to become cash generative once they reach the end of their sixth year, at which time they will support future strong organic growth in the cash arising from the in-force.

Column 2 of the table shows the underlying level of cash earnings that is 're-invested' in acquiring new business. Despite the new business growth during the period, the level of the investment required has not increased over the last five years. Indeed in 2013 there was a positive effect from the regulatory changes, which has actually reduced the strain. The reduction in the level of investment required means shareholders can now expect an improved return on the investment, with an expected internal rate of return of c 28.4%.

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 growth in the underlying cash result. As can be seen from Table C, the underlying cash result was up 67% in the year – a fourth successive year of significant growth, a trend that is expected to continue.

Table C Cash Result

	Cash arising on in-force business	Cash invested in acquiring new business	Underlying cash result	Growth
	£' Million	£' Million	£' Million	%
2013	188.2	(48.3)	139.9	67%
2012	144.5	(60.5)	84.0	33%
2011	125.4	(62.4)	63.0	54%
2010	102.3	(61.4)	40.9	74%
2009	88.8	(65.3)	23.5	(2%)

Chief Financial Officer's Report *continued*

The underlying cash result is an important indicator for investors as this is the key determinant in setting the annual dividend to shareholders. The continuing strong growth in this measure has enabled the board to increase the dividend significantly in recent years.

In addition to the underlying cash result, there were positive variances during the year totalling £28.9 million. The main contributor to this exceptional level of variances was the impact of the reinsurance transaction noted earlier. In addition, there were a number of other positive and negative items totalling a positive £10.6 million.

The total post tax cash result for the year was therefore £168.8 million, compared with £91.7 million for the prior year.

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.

This combination means the cash available for corporate purposes and to return to shareholders is increasing. Consequently the Board has been able to follow a strategy of increasing the dividend each year.

Having increased the dividend by 33% in each of the three previous years, at the time of the interim results, we declared an increase in the 2013 interim dividend of 50% and indicated that the full year dividend would be increased by a similar amount. Therefore, the Board has proposed a full dividend increase of 50%.

Furthermore, given our ongoing confidence in the cash emergence going forward, we anticipate a dividend increase in the range of 30 to 40% in 2014. Beyond that, we fully intend to continue with a progressive dividend policy, growing the future dividend in line with the underlying performance of the business.

Table D Dividend

	Dividend per share		Growth
	Pence	%	
2013	15.96	50%	
2012	10.64	33%	
2011	8.0	33%	
2010	6.0	33%	
2009	4.5	2.5%	

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 surplus solvency assets remain invested prudently in cash, AAA rated money market funds and UK government securities. The relative lack of balance sheet or market risk, together with this prudent investment policy has provided for an increasingly resilient solvency position over recent years, despite the difficult financial and market environment recently experienced. At the year end, the total Group solvency net assets were £507.6 million, well in excess of the combined solvency requirement of £66.4 million of the regulated entities within the Group.

Future Developments

We have commenced an investment programme working with our key 'back-office' administration provider to enhance our 'back office' systems to accommodate both continued growth and achieve future efficiency savings. Whilst the major systems development costs will be borne by the administration provider under a new long-term contract, we will incur our own internal project costs over the next couple of years and this is covered in more detail in Section 5 of the Financial Review.

Over a similar timeframe, national regulators are required to implement the new EU Solvency II regulations. We are well prepared for implementation and do not believe the Group will be adversely impacted.

Concluding Remarks

2013 has been another strong year of financial performance for the Group with the highlight being the strong underlying post-tax cash result, which has benefited from the growth and retention of funds under management, not only in the current year, but more importantly from that experienced in earlier years.

The business remains in good shape. As it continues to mature, we expect further growth in the profits and in particular increasing cash emergence. This developing cash result has enabled the Board not only to increase the 2013 dividend by 50% but also to indicate a further significant increase in the 2014 dividend.



Andrew Croft
Chief Financial Officer
24 February 2014

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, and 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 asset values. In addition, since a proportion 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' (see page 28).

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 31). In addition, the Group will incur development expenditure through investment in new client services, computer systems and other corporate initiatives.

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 28).

As the business matures, the proportion of the cash emergence from the existing business required to support the acquisition of new business is reducing. This has resulted in strong growth in both cash emergence and IFRS profits.

Given the high level of investment in new business generation each year, neither the cash emergence nor the IFRS profit provides an easy 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 being generated by the business and results using the EEV methodology (described below) are also useful in assessing 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. We believe this measure provides the most useful indication of IFRS operating performance in the period.

In arriving at the profit before shareholder tax, it is necessary to estimate the analysis of the total tax charge between that payable in respect of policyholders and that payable by shareholders. Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders, with the balance being treated as tax in respect of policyholders. This is a refinement to the estimation approach previously used. The Directors consider that this refined approach both more appropriately reflects the tax that is borne by shareholders on their profits and simplifies the approach for investors.

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 cash flow' 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 a level of regulatory solvency constraint on profits emerging from regulated companies such as our insurance businesses in line with that required by the UK regulators. 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 dividend payments to shareholders.

Since the cash result can be impacted by one off items, 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 105.

Section 1 below provides detail on the 2013 developments impacting on the financial result, Sections 2-4 below provide a commentary on the performance of the business on the IFRS, EEV and cash result bases, whilst Section 5 covers other matters of interest to shareholders.

Section 1 Developments in 2013 Impacting the Financial Result

As noted in the Chief Financial Officer's Report, there were three developments of note during the year which had significant impacts on the financial statements and the same developments will also affect emergence of profit in future years. Comment on the impact is included in the detailed notes in the following sections, but to assist readers, a full analysis is also presented in this section.

1 Reinsurance Transaction

In early 2013 the UK life assurance company entered into a new reinsurance treaty to reinsure the Company's remaining exposure on its closed book of Protection business (life assurance, critical illness and PHI). This treatment resulted in the removal of both the insurance and persistency risk on this business from the balance sheet.

The transaction resulted in a one-off release of the prudent solvency reserves and realisation of the capitalised value of the expected future margins. Since the EEV measure already reflects future profits the impact on EEV operating profit was small. By contrast, the impact on the cash result was a one-off increase of £18.3 million in the year, due to the impact of immediate recognition of the value of future profits. Since the IFRS approach had already recognised some value for the future cashflows through a DAC asset the net impact was a positive contribution of £8.9 million to the profit before shareholder tax.

As a result of the transaction, the protection business will no longer contribute to profit on any measure. Our analysis presents the impact of the transaction as being effective at the start of the year and so the result in 2013 reflects the expected lower ongoing level of profit.

2 Group Capital Losses Tax Asset

During 2013, the Company was able to place a value on old capital losses within the Group. These are now regarded as being capable of utilisation over the medium term and so the expected value was disclosed in the interim reporting. In the second half of the year, further work has resulted in a refinement and reduction of our estimate of the benefit and, at the same time, the implementation of changes in the corporation tax rate has also reduced the overall benefit assumed in the IFRS accounts. We are now fully reflecting the value of these losses in the IFRS result though a deferred tax asset of £27.9 million (undiscounted) so there should be no further impact on IFRS profit in future years. The same tax asset is valued at £22.8 million (discounted) in the post-tax EEV, and so contributed £28.6 million to the pre-tax EEV operating profit in the year.

The Group did not utilise any of these capital losses in 2013 but expects to recognise positive impacts, of loss utilisation, in the cash result in the next few years (which will emerge through the Miscellaneous line).

3 Changes due to the Retail Distribution Review

New regulatory rules, following on from the Retail Distribution Review (RDR), came into force at the start of 2013. A key change was the introduction of 'adviser charging', with the requirement that any advice should be the cost of the client rather than a product manufacturer. This change affected the nature of a number of cash flows, and there were three consequential impacts affecting the financials:

- 1 The application of surrender penalties has been extended to all new pension business, resulting in acceleration of cashflow from the first six years.
- 2 Advice is now paid for by the client and so there is no initial charge or expenses to be deferred within the IFRS result through the DAC and DIR.
- 3 Advice costs are no longer expenses of the UK life company and so tax relief is no longer available within the life company's tax computation. (Historically the tax relief was spread over seven years so the impact depends on the reporting method).

Financial Review *continued*

The impacts of these changes are summarised in the following table

	<i>Cash Result</i>	<i>IFRS</i>	<i>EEV</i>
Application of surrender penalties	<p>The acceleration of the cashflow reduces a previous new business strain and generates an increase in the new business margin</p> <p>The positive impact is only an acceleration of cashflow, and so the benefit is offset in the following six years by an increase in the unwind of surrender penalties</p>	<p>The additional new business margin arising from the acceleration of the cashflow is deferred through the DIR, so the positive impact in the cash result is offset and the overall impact on profit is small</p> <p>The impact on future years is also small (Note that the impact of this change alone is a significant increase in the DIR on new business, but see also 'DAC and DIR' below)</p>	<p>The earlier realisation of the cashflow results in a small increase in new business contribution</p> <p>This small impact is reflected in the new business margin and future new business contribution</p>
DAC and DIR	Not relevant	<p>Since the advice related cashflows are no longer deferred, they don't actually contribute to DAC and DIR, and so the new business DAC and DIR adjustments are much smaller than in prior years. The effect of the application of surrender penalties change above on the DIR is therefore reversed and there is a further overall reduction in income deferral, which exceeds the reduction in expense deferral</p> <p>The impact of all the changes is therefore an increase in the cash result, which is partially mitigated by the new (lower) level of DIR exceeding the new level of DAC. Overall from these effects there is an increase in IFRS profit after tax of c £20 million in 2013, which will grow in line with new business in future years but offset by the additional unwind of surrender penalties noted in the cash result</p>	Not relevant

	<i>Cash Result</i>	<i>IFRS</i>	<i>EEV</i>
Loss of tax relief on advice cost	<p>Although tax relief is no longer available on the advice cost, the spreading effect means that the negative impact on the cash result is only fully recognised over seven years. During that period, the impact is expected to be a reduction of profit growth by £3-4 million each year.</p> <p>This is reflected in a number of lines within the cash result analysis but principally through a reduction in the margin arising from new business, recognising the full impact, offset by the unwinding of prior years' tax relief through the Miscellaneous line.</p>	<p>The full impact of tax relief on expenses is reflected in the IFRS result through recognition of a deferred tax asset. The loss of the tax relief therefore gets fully reflected as well and results in a reduction of c £11 million in IFRS profit after tax in 2013.</p> <p>Within our analysis of the IFRS result, the reduction will be reflected incrementally in the cash result over seven years, with the offsetting balance of the negative impact reflected in the IFRS deferred tax impacts line.</p>	<p>The full capitalised effect of the loss of tax relief on all future advice costs is reflected in the new business contribution. The impact in 2013 is a reduction of c £20-25 million.</p> <p>Future new business will reflect the new lower level of new business margin.</p>
Overall	<p>The cash result has increased significantly in 2013 over 2012 as a result of the increase in margin arising from new business.</p> <p>In future years the impact of the increase in margin arising from new business will be offset by an increase in the unwind of surrender penalties, and growth in the cash result will also be slowed by the cumulative impact of the loss of tax relief on advice costs.</p>	<p>The positive impact on the cash result in 2013 is largely mitigated by adjustments in the IFRS result, and so the IFRS profit after tax has increased only slightly above the trend from 2012 (after taking into account one-offs).</p> <p>Future profits growth will slow slightly compared to the profits growth trajectory of recent years, mitigating the positive uplift in 2013.</p>	<p>The New business contribution has reduced in the year, resulting in a corresponding reduction in the new business margin.</p> <p>Future EEV profits will reflect the lower level of new business contribution.</p>

Financial Review *continued*

Section 2 International Financial Reporting Standards (IFRS)

The Board regards the 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 102 to 155 and is summarised in the table below.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Profit before shareholder tax	190.7	134.6
Shareholder tax	(0.4)	(27.5)
IFRS profit after tax	190.3	107.1

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

Profit before Shareholder Tax

The profit before shareholder tax for the year was £190.7 million, up 42% on the prior year result of £134.6 million.

As commented on in Section 1, the 2013 result included a one-off amount of £8.9 million, arising from a new reinsurance treaty entered into by the UK life company. This treaty has reinsured the remaining insurance and persistency risk associated with that company's closed book of Protection business and the profit reflects the release of the associated prudent solvency reserves together with the realisation of the capitalised value of the expected future margin.

The key driver of the improved result was the increase in income derived from higher funds under management. During 2013, the average level of funds under management exceeded £39.5 billion, and was some 25% higher than in the prior year.

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	170.6	111.7
Unit Trust business	53.9	33.5
Distribution business	(6.1)	5.3
Other	(27.7)	(15.9)
Profit before shareholder tax	190.7	134.6

Life Business

The Life business profit for the year was £170.6 million (2012 £111.7 million) which was 53% higher than the prior year.

The principal contributor to this rise in profit was the increase in income derived from higher funds under management. The result also benefited from impact of the UK life company entering into a reinsurance treaty which resulted in a one-off positive impact of £8.9 million (as noted above).

Unit Trust Business

The Unit Trust business profit for the year was £53.9 million (2012 £33.5 million) which was also higher than the same period last year. As above, the principal contributor to this rise in profit was the increase in income arising from higher 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 loss for the year was £6.1 million (2012 profit of £5.3 million). The result reflects higher expenses in 2013 associated with the strong increase in Partner numbers (up 9.5% in the period). The benefit from this investment in recruitment will be seen in future periods with the overall loss being mitigated by higher levels of income arising from the additional Partners. The result was also impacted by levies to the Financial Services Compensation Scheme of £5.5 million (2012 £6.2 million). Whilst the overall impact on the Group of the regulatory changes in 2013 was neutral, changes in the nature of the cashflows resulted in limited reallocations of both income and expense across the Group, which also contributed to the loss in the year.

Other

Other operations contributed a loss of £27.7 million (2012 loss of £15.9 million). Included within this figure is the £8.1 million (2012 £6.0 million) development costs related to our back-office infrastructure project and regulatory change, £7.8 million (2012 £5.4 million) for the cost of expensing share options, and one-off costs in relation to the reduction in the Lloyds Banking Group ('LBG') shareholding on 11 March 2013 of £6.2 million.

Shareholder Tax

The tax reported under IFRS each year is impacted by a variety of effects, both current and future, particularly one-off events such as the change in corporation tax rate. Therefore, to assist shareholders, the table below provides a high level analysis of shareholder tax and the implied tax rate. A more detailed analysis is included in Note 8 to the financial statements.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Expected shareholder tax	(41.9)	(33.7)
Recognition of capital losses	27.9	—
Market related tax effects	—	(4.0)
Other tax adjustments	1.6	2.0
Corporation tax rate change	12.0	8.2
Actual shareholder tax	(0.4)	(27.5)
Expected shareholder tax rate	22.0%	25.0%
Actual shareholder tax rate	0.2%	20.4%

The **expected shareholder tax** principally reflects the current corporation tax rate applicable 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. More detail is included in Note 8 to the financial statements.

As commented on in Section 1, the recognition of the future effect of Group capital losses reduced the shareholder tax recognised in the year by £27.9 million.

The refinement of the method of estimation of policyholder tax during the year means the **market related tax effects** will normally be zero in future. The **other tax adjustments** are also typically small.

The impact of the **corporation tax rate change** on deferred tax has been a recurring feature in recent years and reduced the tax charge in both years. The impact on shareholder tax in 2012 reflects implementation of corporation tax rate reductions totalling 2%, from 25% to 23%. The impact in 2013 reflects the implementation of a 2% reduction from 23% to 21% effective from April 2014 and a further 1% reduction to 20% effective from April 2015.

The overall impact of all of the above effects is to decrease the tax charge reported in the IFRS results to £0.4 million (2012: £27.5 million). However it is worth noting that the current year tax charge in the year was £38.3 million (see Note 8 on page 121).

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 26 and 27.

Year Ended 31 December 2013	Notes	In-Force £' Million	New Business £' Million	Total £' Million
Cash result	1	221.1	(52.3)	168.8
DIR amortisation	2	113.7	1.8	115.5
DAC amortisation	3	(91.5)	(1.8)	(93.3)
PVIF amortisation	4	(2.5)	—	(2.5)
DIR on new business	2	—	(48.9)	(48.9)
DAC on new business	3	—	31.5	31.5
Share options	5	(7.8)	—	(7.8)
IFRS deferred tax impacts	6	14.6	—	14.6
Other IFRS	7	0.4	—	0.4
Corporation tax rate change	8	12.0	—	12.0
IFRS profit after tax		260.0	(69.7)	190.3

Financial Review *continued*

Year Ended 31 December 2012	Notes	In-Force £' Million	New Business £' Million	Total £' 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

The IFRS profit after tax from the business in-force at the start of the year increased to £260.0 million (2012 £168.5 million). This reflects both the increase in the underlying cash result as a result of the increase in income from higher funds under management but also the positive impact from recognition of the future tax benefit of capital losses (£27.9 million).

The loss associated with acquiring new business for the year was £69.7 million (2012 £61.4 million loss) and should be viewed as an investment for future profits. The IFRS method seeks to spread some initial cashflows over the whole duration of the contract and therefore the positive impact of the higher initial margin, which is evident in the lower cash result for new business, is reversed through the DIR. The increase in the cost of new business therefore reflects the underlying higher (non-deferrable) expenses in the year, particularly development expenses and investment in the business.

Notes

- 1 These figures are explained in the analysis of the post-tax cash result in Section 4.
- 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 £113.7 million (2012 £93.6 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. The expected amortisation charge for 2014 is £107.9 million.
 - (b) The deferral of the initial profit associated with new business sales reduced the IFRS result by £48.9 million in 2013 (2012 £155.9 million). The deferral of profit in any particular year will be dependent upon the level of new business.

As commented on in Section 1, the introduction of the new regulatory rules on adviser charging has resulted in a significant reduction in the level of DIR on new business in the current year. The current year deferral of £48.9 million does, however, include some business that was issued in 2013 but advised on before that date and therefore it is accounted for under the old method. This figure is therefore not representative of the on-going position. If all the new business had been advised on after the start of the year, we estimate that the DIR on new business in the year would instead have been c £35 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 £91.5 million (2012 £74.7 million) in the current year. The charge in a particular period normally depends upon the value of the DAC at the start of the year and the remaining life of the policies to which the DAC relates. However, the 2013 result was also affected by the transaction to reassess the Protection business which resulted in an impairment of the associated insurance DAC with an additional negative impact of £9.6 million post-tax. The expected amortisation charge for 2014 is £82.3 million.
- (b) The deferral of the specific acquisition costs, which were incurred in the current period, increased IFRS profits by £31.5 million (2012 £155.0 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.

As commented on in Section 1, the adoption of the new regulatory rules on adviser charging at the start of 2013 has resulted in a significant reduction in the level of DAC on new business in the current year.

The current year deferral of £31.5 million does, however, include some business that was issued in 2013 but advised on before that date and therefore it is accounted for under the old method. This figure is therefore not representative of the on-going position. If all the new business had been advised on after the start of the year, we estimate that the DAC on new business in the year would instead have been c £21 million.

- 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 £2.5 million (2012 £2.4 million). The charge for 2014 is expected to be £2.6 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 tax benefits that are expected to emerge in future. The asset then unwinds as the tax benefits are recognised in the cash result. Historically, these movements have contributed small adjustments to the IFRS profit after tax result. However, in 2013 the result was impacted by both:
 - the establishment of a £27.9 million deferred tax asset, recognising the future benefit from capital losses within the Group which we now regard as being capable of being utilised in the medium term, and
 - loss of tax relief on advice costs as a result of RDR.

Further comment on these developments is included in Section 1. Overall, the impact on IFRS profit after tax was to increase profit by £14.6 million (2012 £8.3 million charge).
- 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 thus £12.0 million (2012 £8.2 million) reflects the effect on the deferred tax assets and liabilities of the change in the tax rate from 23% to 21% in 2014 and also the further change to 20% in 2015.

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 2013	Year Ended 31 December 2012
	£' Million	£' Million
IFRS profit before tax	461.2	251.8
Policyholder tax	(270.5)	(117.2)
Profit before shareholder tax	190.7	134.6
Shareholder tax	(0.4)	(27.5)
IFRS profit after tax	190.3	107.1

In 2013, the IFRS profit before tax for the year was £461.2 million (2012 £251.8 million) with the principal contribution to the change being the movement in the policyholder tax from a £117.2 million charge in 2012 to a £270.5 million charge in 2013

The policyholder tax reflects the movement in the provision within the unit linked funds for UK tax payable. The increase in the provision arises principally as a result of the increase in the stock markets during 2013. The movement between the reporting dates has resulted in a tax charge of £270.5 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 2013	Year Ended 31 December 2012
	£' Million	£' Million
Purchased value of in-force*	32.0	33.3
Deferred acquisition costs*	720.8	757.1
Deferred income*	(466.7)	(519.2)
Other IFRS net assets	112.4	87.8
Solvency net assets	507.6	403.5
Total IFRS net assets	906.1	762.5

* net of deferred tax

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence	Pence
Net asset value per share	175.9	150.4

Section 3 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 166 to 176 and include information about the sensitivity of the results to key assumptions on page 174

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	365.7	293.9
Unit Trust business	130.8	82.6
Distribution	(6.1)	5.3
Other	(27.7)	(15.9)
EEV operating profit	462.7	365.9
Investment return variance	344.2	190.4
Economic assumption changes	10.6	(3.7)
EEV profit before tax	817.5	552.6
Tax	(161.9)	(114.5)
Corporation tax change	18.9	21.6
EEV profit after tax	674.5	459.7

Total EEV operating profit for the year, at £462.7 million, was 26% higher than the 2012 result of £365.9 million

EEV Operating Profit

Life Business

The Life business operating profit has increased to £365.7 million in the year (2012 £293.9 million) mainly due to the significant contribution from experience variances in the year. A full analysis of the result is shown below

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
New business contribution	213.6	208.9
Profit from existing business		
– unwind of the discount rate	89.4	76.9
– experience variance	53.9	6.9
– operating assumption change	4.6	(1.7)
Investment income	4.2	2.9
Life business EEV operating profit	365.7	293.9

Financial Review *continued*

The small increase in the new business contribution for the year to £213.6 million (2012 £208.9 million) reflects the positive impact of the growth in new business being greater than the growth in the associated expenses (the operational gearing), but is offset by a negative impact of some £20-25 million from the loss of tax relief on advice costs (see comment in Section 1)

The unwind of the discount rate was £89.4 million (2012 £76.9 million), principally reflecting the higher opening asset

The experience variance in the year was £53.9 million (2012 £6.9 million). The key contributor to the positive variance in the current year was a £28.6 million pre-tax (£22.8 million post tax) value placed on capital losses within the Group, which we now regard as being capable of utilisation in the medium term. In addition the continued strong retention of client funds contributed a further positive variance of £26.8 million pre-tax, with the balance made up by a number of small positive and negative variances.

There was a small positive operating assumption change of £4.6 million (2012 £1.7 million negative variance)

The investment income for the year was £4.2 million (2012 £2.9 million) and reflects an assumed interest rate earned on our free assets.

Unit Trust Business

The Unit Trust operating profit was £130.8 million (2012 £82.6 million) and a full analysis of the result is shown below

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
New business contribution	113.6	67.9
Profit from existing business		
– unwind of the discount rate	22.7	19.1
– experience variance	(6.5)	(2.3)
– operating assumption change	–	(2.6)
Investment income	1.0	0.5
Unit Trust business EEV		
operating profit	130.8	82.6

New business contribution at £113.6 million (2012 £67.9 million) was 67% higher than the prior year as a result of the strong new business growth in the period and control of growth in associated expenses.

The unwind of the discount rate was £22.7 million (2012 £19.1 million), principally reflecting the higher opening asset

There was a small negative experience variance of £6.5 million (2012 £2.3 million negative variance) which is accounted for by a number of small positive and negative items in both years.

There were no operating assumption changes during the year (2012 £2.6 million negative 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 2013, world stock markets rose, with, for example, the MSCI £ world index increasing by some 24.3%. 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 £344.2 million for the year.

In the prior year, there was a positive investment variance of £190.4 million, reflecting the lower level of stock market growth.

Economic Assumption Changes

There was a positive variance of £10.6 million arising from changes in the economic basis adopted at the year end and, in particular, increases in 'real' yields above inflation (2012 £3.7 million negative variance).

EEV Profit before Tax

The total EEV profit before tax for the year was £817.5 million (2012 £552.6 million). The increase represents both the growth in the operating profit and the higher investment variance in 2013.

Tax

The tax charge at £161.9 million (2012 £114.5 million charge) was higher than 2012 reflecting the higher profit before tax.

Corporation Tax Rate Change

A further 1% reduction in the Corporation tax rate (from 21% to 20% in 2015) was announced in the 2013 Budget which has resulted in a further reduction in the future expected tax cost of £18.9 million. This reduction has been shown as a negative tax charge.

EEV Profit after Tax

The EEV profit after tax was £674.5 million (2012: £459.7 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 (see analysis 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. In a small change to previous practice, APE margin in the table has been presented to disclose the new business margin on just our own manufactured business as this is considered to be of greater importance to our investors and moves the measure to be consistent with the PVNBP margin calculation.

- Annual Premium Equivalent (APE) – calculated as the sum of regular premiums plus 1/10th single premiums
- 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

	Year Ended 31 December 2013	Restated* Year Ended 31 December 2012
Life business		
New business contribution (£' Million)	213.6	208.9
APE (£' Million)	532.9	488.7
Margin (%)	40.1	42.7
PVNBP (£' Million)	4,758.0	4,424.4
Margin (%)	4.5	4.7
Unit Trust business		
New business contribution (£' Million)	113.6	67.9
APE (£' Million)	230.0	148.5
Margin (%)	49.4	45.7
PVNBP (£' Million)	2,300.2	1,484.7
Margin (%)	4.9	4.6
Total business		
New business contribution (£' Million)	327.2	276.8
APE (£' Million)	762.9	637.2
Margin (%)	42.9	43.4
PVNBP (£' Million)	7,058.2	5,909.1
Margin (%)	4.6	4.7

*The prior year APE figures have been restated to exclude non-manufactured business.

The Life business margin has decreased from 4.7% to 4.5% on a PVNBP basis and marginally from 42.7% to 40.1% on the APE basis.

In both cases, the movement reflects the net effect of a negative impact from the loss of tax relief on adviser charges within the UK life company's 'I-E' tax computation (as these adviser charges are now being paid direct by the client and not by the company), partially offset by the positive impact of growth in new business being greater than growth in expenses (the operational gearing).

The Unit Trust margin has increased from 4.6% to 4.9% on a PVNBP basis and from 45.7% to 49.4% on an APE basis, reflecting growth in new business volumes exceeding growth in expenses (operational gearing).

The marginal decrease over the prior year on both the measures for the manufactured business reflects the respective proportions of life and unit trust business.

In addition to our manufactured business, there was an additional £102.3 million (APE) of non-manufactured new business, resulting in a combined APE margin for the year of 37.8% (2012: 37.2%). The improved margin reflects the lower proportion of non-manufactured business in 2013.

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 2013	Year Ended 31 December 2012
	£' Million	£' Million
Value of in-force		
– Life	1,950.2	1,549.3
– Unit Trust	506.3	383.5
Solvency net assets	507.6	403.5
Total embedded value	2,964.1	2,336.3
	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence	Pence
Net asset value per share	575.3	461.0

Financial Review *continued*

Section 4 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 a level of regulatory solvency constraint on profits emerging from regulated companies, such as our insurance businesses, in line with that required by the UK regulators. 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 one off items, timing variances and capitalised impacts of changes in solvency requirements.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Underlying cash result	139.9	84.0
Reinsurance transaction	18.3	—
Variance	10.6	7.7
Cash result	168.8	91.7

In 2013, the **underlying cash result** was £139.9 million (2012: £84.0 million) some 67% higher than the prior year, principally due to an increase in the net income from funds under management. In both years, there were positive variances, and so the overall **cash result** increased to £168.8 million (2012: £91.7 million) up 84%.

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.

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 2013	Notes	In-Force £' Million	New Business £' Million	Total £' Million
Net annual management fee	1	290.5	27.0	317.5
Unwind of surrender penalties	2	(103.4)	(15.9)	(119.3)
Net income from funds under management		187.1	11.1	198.2
Margin arising from new business	3	—	37.8	37.8
Establishment expenses	4	(8.6)	(78.4)	(87.0)
Development expenses	5	—	(10.8)	(10.8)
Regulatory Fees	6	(0.9)	(8.0)	(8.9)
Shareholder interest (regulated companies)	7	3.3	—	3.3
Shareholder interest (non-regulated companies)	7	4.1	—	4.1
Miscellaneous	8	3.2	—	3.2
Underlying cash result		188.2	(48.3)	139.9
Reinsurance transaction	9	18.3	—	18.3
Variance	10	14.6	(4.0)	10.6
Cash result		221.1	(52.3)	168.8

Year Ended 31 December 2012	Notes	In Force £' Million	New Business £' Million	Total £' 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)	(68.4)	(76.2)
Development expenses	5	—	(8.8)	(8.8)
Regulatory 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	10	7.7	—	7.7
Cash result		152.2	(60.5)	91.7

Notes

Since all numbers are expressed after tax, they are impacted by the prevailing tax rate for each year. In 2013, the tax rate has reduced by 1% compared to the prior year.

- 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 (0.77% after tax) of funds under management. The level of net annual management fee was some 25% higher than 2012. This increase is in line with the growth in funds under management which averaged £39.5 billion in 2013 compared to £31.5 billion in 2012.
- 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 increases with the impact of investment growth of funds under management. However the increase is also impacted by new funds but offset by the fact that the funds added six years ago have completed the surrender penalty period. As commented on in Section 1, the level of unwind of surrender penalties will increase in future years due to the application of surrender penalties being extended to all pension business. This will act as a slight brake on the future growth in net income from funds under management.
- Margin arising from new business. This is the cash impact of new business in the year after taking into account the directly attributable expenses. As commented on in Section 1, as part of the implementation of the RDR rules, the application of surrender penalties was extended to all pension business. This resulted in a significant increase in the margin arising from new business. However, as also noted in Section 1, the positive impact has been offset by loss of tax relief on advice costs. The overall impact was still an increase in the margin arising from new business, to £37.8 million in the year from £13.3 million in 2012. The impact of this increase in the margin was the key driver of the reduction in the cost of investment in new business in the year.
- Establishment expenses. These are the expenses of running the Group's infrastructure as shown in the table on page 31. In line with the rest of this table, they are presented after allowance for tax. These expenses were 13% higher in the current year. The post-tax figure in this analysis has increased at a slightly higher rate than shown on the aforementioned table due to the impact of differing tax rates between the two reporting periods.
- Development expenses. These represent the sum of the other expenditure noted in the table on page 31 (e.g. developments, the cost of regulatory change and Academy). The impact on the cash result in the year was £10.8 million (2012: £8.8 million).
- Regulatory fees. This relates to the fees payable to the Regulatory bodies and the FSCS levy for the year. The regulatory fees payable in the year were £8.9 million (2012: £9.0 million).
- Shareholder interest arising from regulated and non-regulated business. This is the actual 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 small increase in interest received reflects the increased level of assets invested.
- Miscellaneous. This represents the cash flow of the business not covered in any of the other categories. In addition to the income and expenses from other operations of the business, this item has historically included the emerging profit of the group's protection (life, critical illness and PHI) business. As commented on in Section 1, as a result of the Reassurance transaction in the year, the emerging profits were capitalised and are reflected elsewhere. This item has therefore reduced by c. £3 million compared to prior years. This item also reflects the impact of structural timing differences in the life company tax computation. As a consequence of the loss of tax relief on advice costs commented on in Section 1, this item reflects the benefit of the unwind of the outstanding tax relief on historic advice costs. The positive impact in 2013 is expected to reduce by c. £1-2 million per annum over the next six years. However, the item will instead benefit from the positive impact of utilisation of the Group capital losses during this period.
- Reinsurance transaction. As commented on in Section 1, there has been a one-off impact on the cash result of £18.3 million, reflecting the release of the associated prudent solvency reserves together with the realisation of the capitalised value of expected future margins.
- 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 2013, the impact of strong investment performance, improvements in real yields and some assumption changes contributed to a significant reduction in insurance reserves, releasing additional profit of £5.1 million. The result also benefited by £6.0 million from utilisation of brought forward pension losses and by nearly £10 million from other tax variance effects. The positive impacts were offset by a £4.0 million (post tax) cost of back-office infrastructure costs and £4.6 million (post tax) cost associated with LBG. The overall impact in the year was an increase in the result of £10.6 million. The variance of £7.7 million in 2012 included £4.0 million from a modification to the calculation of the surrender penalty position.

Financial Review *continued*

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 and, consequently, this business does not make a meaningful contribution 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
2008	1.4
2009	1.6
2010	2.1
2011	2.2
2012	2.4
2013	3.5
Total	13.2

The total business not yet contributing to the cash result is £13.2 billion* which is nearly 30% of the total funds under management at 31 December 2013. Clearly, the potential of this business depends on retention of our clients, however, for illustration purposes, if all the business reached the end of the surrender period then the annual post-tax cash result (based on 0.77% post-tax earnings from funds under management) would be some £102 million higher*.

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

The Board therefore expects 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 26, £52.3 million (2012: £60.5 million) of the cash arising from the in-force business has been re-invested in acquiring the new business during the year.

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 2013	Year Ended 31 December 2012
Post-tax investment in new business (£' Million)	(52.3)	(60.5)
Post-tax present value of expected future cash returns (£' Million)	314.1	278.8
Post-tax present value of expected profit from investment (£' Million)	261.8	218.3
Gross inflow of funds under management (£' Billion)	6.8	5.6
Investment as % of gross inflow*	0.8%	1.1%
New business margin (% of manufactured APE)	42.9%	43.4%
Cash payback period (years)	4	4
Internal rate of return (net of tax)	28.4%	22.5%

* The investment as a percentage of net inflow of funds under management was 1.2% compared with 1.8% for the prior year.

The level of investment to acquire new business is not expected to increase significantly in future years and therefore the proportion of the cash generated from the in-force business that will be available to pay dividends to shareholders is expected to continue expanding

Capital Position

In addition to presenting an IFRS balance sheet (on page 104) and an EEV balance sheet (on page 168), we believe it is beneficial to provide a balance sheet using the approach underlying our cash result. This is because the cash result is adjusted for non-cash items such as DAC, DfR and deferred tax. The Board therefore considers this cash result balance sheet provides the best indication of the free capital of the Group which could be available to pay dividends.

The following table analyses the differences between the IFRS balance sheet and the cash result balance sheet. These adjustments include netting out assets and liabilities of the policyholder interest in unit-linked funds, and removal of a number of significant 'non-cash' adjustments (in particular DAC, DfR and deferred tax).

	IFRS Balance Sheet	Adjustment ¹	Adjustment ²	Cash Result Balance Sheet	2012
	£' Million	£' Million	£' Million	£' Million	£' Million
Assets					
Deferred acquisition costs	888.8	—	(888.8)	—	—
Acquired value of in force business	40.0	—	(40.0)	—	—
Developments	8.7	—	—	8.7	14.6
Property and equipment	5.8	—	—	5.8	3.6
Deferred tax assets	181.8	—	(181.8)	—	—
Investment property	732.7	(732.7)	—	—	—
Equities	29,614.8	(29,614.8)	—	—	—
Fixed income securities	5,965.7	(5,898.0)	—	67.7	84.4
Investment in Collective Investment Schemes	3,244.3	(2,722.0)	—	522.3	321.7
Derivative financial instruments	142.9	(142.9)	—	—	—
Reinsurance assets	64.2	—	—	64.2	38.6
Insurance & investment contract receivables	49.9	—	—	49.9	46.5
Income tax assets	—	—	—	—	85.2
Other receivables	554.0	(324.0)	(4.0)	226.0	192.8
Cash & cash equivalents	3,845.7	(3,648.6)	—	197.1	182.4
Total assets	45,339.3	(43,083.0)	(1,114.6)	1,141.7	969.8
Liabilities					
Insurance contract liabilities	466.4	(395.0)	7.9	79.3	94.6
Other provisions	9.7	—	—	9.7	9.2
Investment contracts	33,717.5	(33,710.9)	—	6.6	54.4
Borrowings	98.7	—	—	98.7	70.8
Derivative financial instruments	87.8	(87.8)	—	—	—
Deferred tax liabilities	496.6	(39.5)	(210.5)	246.6	35.3
Insurance & investment contract payables	38.1	—	—	38.1	24.9
Deferred income	538.6	—	(538.6)	—	—
Income tax liabilities	4.9	—	—	4.9	77.3
Other payables	439.4	(314.4)	—	125.0	184.8
NAV attributable to unit holders	8,535.4	(8,535.4)	—	—	—
Preference shares	0.1	—	—	0.1	—
Total liabilities	44,433.2	(43,083.0)	(741.2)	609.0	551.3
Net assets	906.1	—	(373.4)	532.7	418.5

Adjustments

- 1 Nets out the policyholder interest in unit-linked assets and liabilities
- 2 Removal of IFRS non-cash adjustments

Financial Review *continued*

The movement in the cash result net assets is equal to the cash result adjusted for dividends paid in the year and other changes in equity excluding the cost of share options (see page 103 – Consolidated Statement of Changes in Equity)

The table above provides an analysis of the differences between the IFRS balance sheet and the cash result balance sheet. As in previous years, we also provide an analysis of the Solvency position. The key difference between the cash result net assets (above) and the Solvency net assets is an amount of additional reserves arising from the Irish solvency regulations. These reserves include additional prudential reserves over that required by the UK regulator. As a result, the Solvency position is £507.6 million, which is £25.1 million lower than the cash result net assets of £532.7 million (2012: £403.5 million and £418.5 million, respectively).

The Solvency position can be further analysed between regulated and non-regulated entities, and can be assessed against the solvency capital requirement as noted in the table below.

	Life £' Million	Other Regulated £' Million	Other £' Million	Total £' Million
Solvency position				
Solvency net assets	284.2	38.9	184.5	507.6
Solvency requirement	49.3	17.1		
Solvency ratio	576%	227%		

Included within the 'other' capital resources is an implied reserve that is being built up to cover one year's dividend cost. At 31 December 2013 the amount set aside to date was £70 million compared to a full year dividend cost of £82 million.

Comparison with previous valuations would show that the Group solvency position has become increasingly resilient, despite market volatility in recent years, reflecting the Group's low appetite for market, credit and liquidity risk in relation to solvency.

The Group continues to be capitalised well in excess of regulatory solvency requirements, with nearly 70% of cash result and solvency assets invested prudently in cash, AAA rated money market funds and UK government securities. Other assets (principally other receivables) are less liquid. An analysis of the liquid asset holdings is provided below.

Analysis of Liquid Assets

Holding Name	£' Million	£' Million
UK government gilts		
2.25% UK Treasury 07/03/2014	9.4	
5% UK Treasury 07/09/2014	7.4	
5.8% UK Treasury 26/07/2016	12.0	
2.5% UK Treasury Index Linked 17/07/2024	17.3	
2% UK Treasury Index Linked 26/01/2035	21.6	67.7
AAA rated money market funds		
BlackRock	112.1	
HSBC	94.4	
Insight	85.0	
Legal & General	75.0	
Scottish Widows	65.0	
JP Morgan	55.0	
RBS	34.8	
Santander	1.0	522.3
Bank balances		
UK banks*	194.5	
Others	2.6	197.1
		787.1

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

Solvency II

National regulators are required to implement the Solvency II regulations (when finalised) on 1 January 2016. As noted previously, we do not believe the Group will be adversely impacted by the new requirements and expect to see a reduction in the total capital we are required to hold for regulatory purposes.

Share Options Maturity

At 31 December 2013, there were 6.8 million share options outstanding under the various share option schemes which, if exercised, will provide up to £19.1 million (2012: £34.0 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 2014	2.80	5.3	14.8
Jan – Jun 2014	2.42	0.2	0.6
Jul – Dec 2014		–	–
Jan – Jun 2015	2.96	0.3	0.8
Jul – Dec 2015	2.75	0.8	2.0
Jan – Jun 2016	3.88	0.2	0.9
		6.8	19.1

Section 5: 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 2013	Restated* Year Ended 31 December 2012
		£ Million	£ Million
<i>Paid from policy margins and advice charges</i>			
Partner remuneration	1	407.1	307.0
Investment expenses	1	101.8	89.4
Third party administration	1	37.7	32.6
		546.6	429.0
<i>Direct expenses</i>			
Other new business related costs	2	69.0	59.5
Establishment costs	3	113.4	100.2
Academy costs	4	2.7	1.9
Other development costs	5	8.5	4.6
Back office infrastructure costs	6	5.0	–
Regulatory fees	7	11.6	12.0
Regulatory change costs	8	3.1	6.0
Contribution from third party product sales	9	(20.4)	(21.4)
		192.9	162.8
		739.5	591.8

* We have changed the presentation of this analysis of Group expenses to provide further information on corporate initiatives, investments and other developments. The 2012 comparative has been restated to be in a consistent format.

Financial Review *continued*

Notes

- 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 other new business related costs, such as Partner incentivisation, vary with the level of new business. As new business rises or falls, these costs will move in the corresponding direction
- 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 and business volumes. The growth in establishment expenses during the year was higher than our original expectations as a consequence of an increase in expenditure associated with the high level of Partner recruitment in the year together with the costs relating to the higher business volumes. We expect establishment expenses in 2014 to increase marginally ahead of our usual 10% operating target reflecting the full year costs of the additional infrastructure added in 2013.
- We have reverted to showing the Academy costs separately given the importance of this investment we are making for the future. The increase in the costs in 2013 reflects the increased number of students within the programme. 2014 will see further growth in this investment as the Academy continues to expand and with the commencement of a regional academy in Manchester later in the year.
- Other development costs represent the expenditure associated with the on going development in our investment proposition, corporate initiatives, technology improvements and other system developments. These costs will vary year by year depending upon the extent of change and/or investment planned. The development expenses were £8.5 million during 2013 (2012: £4.6 million) and we expect a further increase in costs in 2014.
- As announced in the half year report, we have commenced an investment programme working with our key outsourced provider to bring together and enhance our 'back office' systems, preparing us for continued growth and achieve future efficiency savings. As expected, the project costs for 2013 were £5.0 million and we anticipate expenditure of some £10.0 million during 2014.
- The regulatory costs represent the fees payable to the regulatory bodies of £6.1 million (2012: £5.1 million), together with our required contribution to the Financial Services Compensation Scheme of £5.5 million (2012: £6.9 million).
- These are the one-off costs of changing our systems and process for the implementation of the adviser charging rules. As these changes have now been implemented, we do not expect further expenditure in 2014.
- Contribution from third party product new business reflects the net income received from wealth management business of £8.2 million (2012: £7.8 million), from group pension business of £0.5 million (2012: £0.9 million) and from Protection business of £11.7 million (2012: £12.7 million).

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 2013	Year Ended 31 December 2012
	£' Billion	£' Billion
Opening funds under management	34.8	28.5
New money invested	6.8	5.6
Investment return	5.2	3.0
	46.8	37.1
Regular withdrawals/maturities	(0.7)	(0.7)
Surrenders/part surrenders	(1.8)	(1.6)
Closing funds under management	44.3	34.8
Implied surrender rate as % of average funds under management	4.7%	4.9%
Net inflow of funds	£4.30bn	£3.35bn
Net inflow as % of opening funds under management	12.4%	11.8%

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 a net inflow of funds of £4.3 billion, £1.0 billion higher than the prior year. This net inflow represents 12.4% (2012: 11.8%) of opening funds under management and can be viewed as the organic growth of the business.

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 2013 split by geography and asset type

	2013	2012
	£' Billion	£' Billion
UK Equities	13.3	10.6
North American Equities	8.4	4.6
European Equities	5.0	4.1
Asia & Pacific Equities	3.9	3.9
Property	1.1	0.8
Fixed Interest	6.1	5.0
Alternative Investments	1.3	1.3
Cash	3.6	3.2
Other	1.6	1.3
Total	44.3	34.8

Risk, Risk Management and Internal Control

The mechanisms for identifying, assessing, managing and monitoring risks, including internal controls, 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 10 and 11. However, in establishing the system of internal control, the Directors have regard to the materiality of relevant risks, the likelihood of risks occurring and the costs of mitigating risks. The system 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.

Risk Management Framework

The Risk Management Framework, which is the responsibility of the Board, 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 on behalf of the Board is the Risk Committee. This is made up of Non-executive Board members and is responsible for ensuring that a culture of effective risk identification and management is fostered across the Group. A report of their activity during the year is on pages 62 and 63.

The Risk Committee is supported by a Risk Executive Committee and the Risk Management team, which take the lead in ensuring an appropriate framework is in place and that there is on-going development and co-ordination of risk management within the Group.

Ultimately, each division of the Group is responsible for identifying, managing and reporting its own risks each quarter. Each risk is assessed by considering its potential impact and the probability of its occurrence and impact assessments are made against financial and non-financial metrics. Establishment of appropriate controls is a core part of the risk management process. The Risk Management team supports Divisional managers in these activities.

Financial Reporting Processes

Specifically in relation to the financial reporting processes, the main features of the internal control and risk management systems include

- Extensive documentation, operation and assessment of controls in key risk areas
- Monthly review and sign-off of all financial accounting data submitted by outsourced providers and the results of all subsidiaries within the Group
- Formal review of financial statements by senior management, for both individual companies and the consolidated Group

Control Self-assessment

In 2013, the Group has introduced a process of control self-assessments to support and challenge line managers in their risk management. The process requires business areas to review their key controls and sign-off on their efficacy. Where appropriate, action plans are documented to improve the design and operation of the controls. Following a successful pilot with some key areas the process is now being rolled-out more widely.

Compliance with Corporate Governance Code and Turnbull

These processes for identifying, evaluating and managing the significant risks faced by the Group have been in place for all of the year under review and up to the date of approval of the Annual Report and Accounts. They are regularly reviewed by the Risk Committee on behalf of the Board and accords with the Guidance for Directors in C 2.1 of the UK Corporate Governance Code and with the Turnbull Guidance for Directors on Internal Control.

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 embody 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 this.

In support of our Risk Appetite Statement, we have a number of Risk Policies which clearly establish our objectives, principles and high level management activities in relation to each of the main types of risk that the Group faces. When analysing risks, 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 and Finance Executive Committees, Risk Committee and Board. The Risk Management and Finance functions also monitor risk capital. These schedules and indicators provide a mechanism for capturing and considering the significant risks facing the business.

Risk, Risk Management and Internal Control *continued*

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:

<i>Risk</i>	<i>Description</i>	<i>Management and Controls</i>
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 they 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 to develop 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. We use these to identify any potential adverse impacts upon, or trends within, our culture, which allows us to respond appropriately.
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 firms of professional advisers – led by Stamford Associates – to help them with this key task. At the same time, and to ensure clients can manage their risks as well, we offer a broad range of funds, which allows client diversification and mitigates our 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 marketplace for signs of any potential new entrants or threats, for example, a crowding of the high net worth marketplace 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.

<i>Risk</i>	<i>Description</i>	<i>Management and Controls</i>
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	<p>We are a relationship business and believe in the value of maintaining close working relationships, particularly with our outsourcing partners who are central to our business model. Our focus on positive relationships means we are able to work effectively and efficiently together to deliver the best result. However, it also provides protection as we would have warning of any material change that could significantly impact our business. In the extreme event, all our 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 also continually tested and improved and scenario analysis carried out.</p> <p>In recent years we have commenced an investment programme to bring our 'back office' administration systems together, to accommodate continued growth. We believe this initiative has strengthened our business administration outsourcing arrangements.</p>
Regulatory, legislative and tax environment	That changes in the wider regulatory, legislative or tax environment could have an adverse impact on the Group's business and/or the Group could face a fine or regulatory censure from failure to comply with applicable regulations	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 regulators 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 relevant public relations and communications consultants.
Retail Distribution Review	Further changes to the market, following the completion of the regulators' review of outcomes and other thematic work, adversely impact the Group	During the period of implementing the original changes, the strength of the relationship with our clients was invaluable in sustaining both our clients and our business through the period of change and uncertainty. We are monitoring the regulators' activity and thinking, to mitigate as far as possible the risk of any further changes arising from the Retail Distribution Review.

Risk, Risk Management and Internal Control *continued*

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

<i>Risk</i>	<i>Description</i>	<i>Management and Controls</i>
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 business objectives. Loans and advances to Partners are assessed on a prudent basis and monitored carefully.
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 business objectives. Generally, free assets are invested in cash or near cash assets with strong counterparties and the Group's cash position and forecast are monitored on a monthly basis. The Group also makes use of some bank financing. In certain, unlikely, circumstances (including change of control) the terms of these agreements could mandate immediate repayment.
Market	The risk of loss due to the impact of movement in the value of equity or other asset 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 business 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 levels.
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. Historically, the Group insured mortality and morbidity risks, through protection business, but much of this risk has now been fully reinsured through a combination of treaties. Work continues on an arrangement to fully reinsure the remaining protection business which, if successful, would leave only a small amount of mortality risk existing on other investment and pension insurance contracts. The Group has no longevity risk as we have never written annuity business.

Further detail about the Group's exposure to financial risks is included in Note 28 of 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 of the Company 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 by this philosophy are provided regularly, for example, through the promotion within our community of the St James's Place Foundation and the charities it supports, through team meetings and by encouraging our Partners and staff to live up to the high standards expected of them.

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 in the Shares Awards, and by our peers, winning in the insurance sector the Britain's Most Admired Companies award, and
- Maintaining our inclusion in the FTSE4GOOD Index, which comprises companies that meet globally recognised corporate social responsibility criteria.

Corporate Social Responsibility Report *continued*

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 aspect 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 sub-committees, 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.

	<i>Managing Committee</i>	<i>Remit</i>
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
Our Investments	Investment Committee	To ensure the Investment Management Approach and our fund managers deliver in line with mandates and client expectations
CSR overview, Local Community, Suppliers and the Environment	CSR Group	To co-ordinate SJP's approach to CSR, with particular focus on promoting local community engagement and environmental matters
The St James's Place Foundation	Foundation Trustees	To manage the SJP Foundation, including overseeing grant-making and compliance with the charity's objectives

Our Culture

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

We recognise that as our business grows we will have to take care to ensure that the culture we have nurtured is able to retain its key elements whilst evolving to continue to deliver business success. Our employee numbers have grown beyond 1,000 in 2013 and the number of Partners has increased to 1,958. Both are expected to continue to grow in future years.

To ensure continuity of our culture, we ensure that all employees and Partners joining the business are selected for their fit with our corporate values, as well as their competency, and that they are given a full induction as the first step in their career with our business.

At induction, all employees and Partners receive a booklet entitled 'Our Approach', 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 in recent years. 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 of our community to develop a common awareness of the financial and economic factors affecting the Company's performance.

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 seek to reward them competitively taking into account the whole package and by encouraging equity ownership. We give credit where credit is due, and work hard to recognise individual performance.

Employees

We are committed to maintaining an appropriately skilled and diverse workforce irrespective of age, sex, colour, race, nationality, ethnicity or disability. Information about the breakdown of employees by gender is shown in the following table.

	Female	Male
Board Directors	2	8
Managers and decision-makers	42	262
Total employees	517	519

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 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.

We have a calendar of regular communication with employees and this includes an employee satisfaction survey which we conduct every other year. Our most recent survey was in 2012 and we received a strong survey response rate of 86% (compared to 85% in 2010) which provided us with a good understanding of how our employees are feeling on a number of important issues. Our overall engagement score was 86%, which was significantly higher than the financial services benchmark of 73%. We plan to continue with the bi-annual process which means our next survey will be in 2014.

We are keen to ensure that all individuals are encouraged to develop and are given opportunities to seek new challenges across the business. We offer a range of development options which reflect business priorities and offer employees the opportunity to grow their careers with us. For example:

- we have built on our apprenticeship programme launched in 2012, retaining 100% of our initial intake of five and more than doubling the size of the intake in 2013 to fourteen,
- we are members of the Institute of Customer Service ('ICS'), and have a number of employees involved in the scheme both as candidates and mentors of others,
- we offer a rolling programme of Knowledge Development Meetings ('KDMs') which are short sessions available to all employees to develop their knowledge of our business and the external environment in which we operate,
- we support employees who want to achieve an externally recognised professional qualification,
- we run management development activities for those with the interest and ability to develop their careers as leaders in our business, and
- we offer specific development programmes for the specialist roles within our Field Management Team.

In 2013, the competitive nature of our rewards package for employees was validated by a detailed review and comparison with the wider financial services market.

Partners

Each year, we consult with Partners on a range of topics and we continue to receive a good response rate with 74% of Partners responding to our 2013 Partner survey (75% in 2012). The research provides us with useful feedback on areas where Partners believe we are doing well and also where they believe improvements can be made. It was particularly pleasing to see Partners giving an average score of 8.6 out of 10 when asked to rate the SJP proposition, with more than 90% of Partners rating the proposition as better than 7 out of 10. However, some of the feedback did reinforce the importance of focusing on maintaining our commitment to our culture.

Our separate research with new Partners, who we consult with once they have been with us for six months, continued throughout the year. Despite the increase in number of new Partners joining during the year, more than 85% of these new recruits rated their initial months with the Partnership as 7 or more out of 10. It is also pleasing that more than 90% indicate a willingness to recommend St James's Place to former colleagues.

Following the regulatory changes in 2012, 2013 saw the first anniversary of renewals of Statement of Professional Standing, confirming achievement of continuing professional development which was successfully achieved by all of our Partners. We are pleased to continue providing support for those now pursuing

Corporate Social Responsibility Report *continued*

further qualifications, with around half of Partners having plans to progress to Chartered Status. To support this we have worked with CII to develop a new St James's Place Advanced Module which will enable our Partners to progress towards their Chartered level of professional qualification. To further demonstrate our commitment to professional development across the organisation, we have also formed a partnership with Loughborough University and designed a Master's Degree Programme in Wealth Management, which will be launched in 2014 and will be available to all employees as well as members of the Partnership.

We are continuing to grow the St James's Place Academy, providing an opportunity for suitably qualified individuals to receive training and assistance to join the adviser community. We offer three intake dates per year in London and are looking at options to extend the Academy to a northern location in 2014. We have also launched a Next Generation Academy specifically aimed at bringing 'sons and daughters' of existing Partners into their businesses. This supports growth and helps build succession for existing successful businesses.

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 evacuation tests and health and safety inspections, fire risk assessments (every other year) 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 clients at the centre of everything we do is core to our culture and business model, as outlined under the section Our Business Model and Strategy on page 6. Our aim is to help clients manage their wealth in a way which reflects their personal circumstances.

In order to ensure that our business continues to be client-focused, we have established a Client Steering Group which meets regularly and monitors all areas of the business which can affect the client experience. Topics discussed cover all stages of the client life-cycle, including the suitability of advice, policy administration, claims experience and, where relevant, client complaints.

During 2013, 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:

- further development of our on-line services,
- the sharing of best practice client service examples with Partners,
- providing Field Management training on the subject of good client service, and
- the completion of thematic research focused on key areas of client feedback.

Despite receiving much positive feedback from clients, we never become complacent and in 2014 we will continue striving to improve our support for clients.

Community Activities

We are mindful of the role that we play in our local communities and providing support to those less fortunate than ourselves was a key founding principle for the Company. This resulted in the establishment of the St James's Place Foundation in 1992, a grant-making charity which receives support from all parts of the St James's Place community: employees, Partners, clients, suppliers and shareholders. During the year, the SJP community raised £2.6 million resulting in a matching grant from the Company of £1.9 million. You can find out more about support for our Foundation and its activities on pages 48 to 50 or on the website at www.sjpfoundation.co.uk.

An important element of the grants distributed by our Foundation is the focus on charities and community groups which are local to our offices. In many cases, these are organisations that are also supported by our employees or Partners.

In 2013 we started a new corporate initiative, seeking to recognise and support our employees who volunteer. Starting with those involved in sport at a grass-roots level, and having been inspired by the Olympics, we invited members of staff who give up their time to support a local sports club or association to apply for a small grant of up to £250 to be used for the benefit of the club/association. The initiative was successful and we plan to repeat and extend this initiative in 2014.

We are proud of the generous spirit of our employees and the fact that, according to feedback from our most recent employee survey, over 40% of them are actively engaged in volunteering in their local communities. This is an important part of our culture and is an area we are seeking to develop.

We are also pleased to be able to support British sport at all levels and, in the year of a home Commonwealth Games, we are pleased to be continuing our sponsorship of the Loughborough University Swimming programme. This enables 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, World Championships and Olympic Games. Our support for the programme will continue at least until the 2016 Olympic Games in Brazil.

However, the central strand of activity in our local communities remains our focus on schools and colleges. The two key initiatives are

- support for our local further education establishment, Cirencester College, and
- developing our activity in supporting schools with delivery of Financial Education

Cirencester College

Cirencester College has over 1,600 students between the ages of 16 and 19 and our main involvement is in providing support for the 'Academics Programme', of which there are four, each designed for students who aspire to work in a particular market sector. These programmes are operated through the College's affiliation with the charity Career Academies UK ('CAUK'). We regularly support students with paid summer internships and 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 CAUK level. We have also been able to offer 19 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, spoke of his experience saying

'When I started my Internship, I lacked confidence and wasn't sure what, if anything, I could contribute to a company like St. James's Place. I knew I was good with numbers, but didn't think I interacted with people particularly well which has always held me back. However, as a result of my Internship experience and the requirement to work in an office environment and frequently speak to people on the phone, I have discovered that I am a 'people person' after all and I didn't even know it! This has really opened my eyes to new opportunities that previously I would have ignored as being beyond me. It was a real boost to my confidence and I can't rate my Internship experience highly enough.'

Financial Education

St James's Place is one of the leading providers of financial advice to individuals and business owners in the UK. We firmly believe that financial education should start at a young age and, as part of our work with the local community, we are looking to make use of our expertise to also help young people learn to manage their finances better.

During the year, we continued our programme of work with local schools in conjunction with The Money Charity (previously Credit Action). 14 members of staff delivered hour long, financial education sessions at a number of local schools to more than 500 pupils. The feedback from pupils and staff was very positive with most pupils indicating that they understood more about the financial demands they will face as a young adult.

In 2013, we also started an initiative, working with teachers from local schools, to support them in the development of the financial education curriculum in their own schools. In previous initiatives we have used our resources to provide one-off events, in this initiative we are seeking to develop a sustainable teaching resource in each school, which can be used more flexibly by the schools since it is not reliant on external input.

During the course of a number of workshop days, teachers from a number of local schools developed a set of topics and activities which can either be used together to create a day dedicated to the subject ('stand-still' day), or can be spread over the course of a number of weeks if used in individual lessons. The lesson plans included topics within both the PSHE (Personal, Social and Health Education) and Maths curriculum and are targeted at pupils in Year 9 or 10. In discussion with the teachers, it became apparent that, when talking about financial matters, it is beneficial for pupils to be able to hear the experience of people other than just their teachers, and so an important element of the delivery is support provided by volunteers from SJP. The materials were trialled as a dedicated day in November, with 200 Year 10 pupils, which was supported by eight volunteers from St James's Place. The session was very much appreciated by both staff and pupils, and there were lots of ideas emerging about how to improve and further develop the materials. In 2014, we plan to work with the same schools to develop the materials further and trial their use in other schools. We will also explore developing materials for older, pre-university, pupils.

Corporate Social Responsibility Report *continued*

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: IFDS, Capita 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 £44 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 ensure that 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.

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 CO₂e emissions in recent years for our core business activities, using 2013 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 RSK.

Growth in staff numbers caused us to miss our target for Absolute Emissions related to business travel. However, we beat our targets on all other measures and were significantly ahead of our three year targets on all the key Normalised Emissions measures. A reduction in the number of buildings during the period contributed to the relative reduction in water usage, while the relative reduction in paper recycled reflected an overall reduction in paper usage as a consequence of the introduction of our Electronic Business Submission system. We will be reviewing our objectives in 2014 and setting new targets for the next period.

1) Absolute Emissions (Core business operations, year to end September)

Tonnes CO ₂ e	2010	2011	2012	2013	2013 Target	% Change on 2010	3 YR Target 2010-2013
Energy	2,954	2,947	2,683	2,704	2,844	-8.5%	-4.0%
Business travel	1,137	1,195	1,245	1,445	1,108	27.1%	-3.0%
Waste	116	112	111	108	110	-6.9%	-5.0%
Total	4,207	4,254	4,039	4,257	4,062	1.2%	-3.4%

CO₂e = 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 2014

Tonnes	2010	2011	2012	2013	Absolute change on 2010
Paper recycled	194	195	176	192	-1.0%

Cubic Metres	2010	2011	2012	2013	Absolute change on 2010
Water usage	6,371	7,856	6,579	6,835	7.3%

2) Normalised Emissions (per person, year to end September)

Tonnes CO ₂ e per person	2010	2011	2012	2013	2013 Target FTE/ CO ₂ e	% Change On 2010	3 YR Target 2010-2013
Energy (FTO)	1.992	1.869	1.611	1.492	1.841	-25.1%	-8.0%
Business travel (FTE)	1.638	1.578	1.467	1.442	1.466	-12.0%	-11.0%
Waste (FTO)	0.078	0.071	0.067	0.060	0.071	-23.1%	-10.0%
Total	3.708	3.518	3.145	2.994	3.378	-19.3%	-8.9%

Tonnes per person	2010	2011	2012	2013	Normalised change on 2010
Paper recycled (FTO)	0.131	0.124	0.105	0.106	-19.1%

Cubic Metres	2010	2011	2012	2013	Normalised change on 2010
Water used (FTO)	4.296	4.982	3.949	3.770	-12.2%

Number of persons	2010	2011	2012	2013	2013 Target
FTO (Full Time Occupants, reflecting building sharing)	1,483	1,577	1,666	1,813	1,531
FTE (Full Time Employees)	694	757	849	1,002	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

Approval of the Strategic Report

As part of the Annual Report by the Directors it is a statutory requirement to produce a Strategic Report

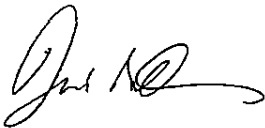
The purpose of the report is

'to inform members of the Company and help them assess how the Directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the Company)'

The objective of the report is to provide shareholders with an analysis of the Company's past performance, to impart insight into its business model, strategies, objectives and principal risks and to provide context for the financial statements in the Annual Report

The Directors consider that the report, comprising pages 1 to 50 of this document, meets the statutory purpose and objectives of the Strategic Report

On behalf of the Board



D Bellamy
Chief Executive
24 February 2014



A Croft
Chief Financial Officer

St. James's Place Foundation

The St. James's Place Foundation is a grant-making charity with a difference, reflecting the Group's culture of giving back to those less fortunate in society. The vast majority of funds raised come from fundraising or generous donations made by the Partners and employees of St. James's Place each year. These funds are then matched pound for pound by the Company.

The Foundation has grown significantly in the last 21 years and has become one of the most successful company charities in the UK with over £32 million raised and distributed to good causes during this period

The Foundation Trustees are immensely proud of the fact that over 80% of the St James's Place Community give regularly to the Foundation through their pay or earnings. The Foundation receives almost £1 million annually through regular monthly donations (before company matching) and it is this on-going support that enables the Foundation to support charities over a number of years with multi-year grants and to grow the amounts given to good causes which match the Foundation's themes

2013 Review

2013 has been a successful year for the Foundation with over £4.5 million raised, thanks to the commitment to fundraising by our community. On top of the support received from regular monthly contributions, a number of successful events were held in 2013, raising over £1 million before matching, including a canoe challenge, walks/treks, cycle rides, spinathon, dinners/balls, golf days, runs, triathlons, cake bakes and the like. The Foundation Trustees would like to thank everyone who has contributed in any way to raising over £4.5 million during the year.

These themes have been chosen by our community and are regularly reviewed and updated

In addition to small grants of over £900,000, the Foundation has been able to make three major capital investments in 2013. These capital projects will, once they have been completed, play a major part in ensuring that hundreds of deserving children and young people are given the chance of living more fulfilling lives and reaching their full potential.

Smile, Support & Care

The St James's Place Foundation has donated £1 million to the charity Smile, Support & Care to help build a new respite centre for disabled children and their families living in Hampshire, West Sussex, Dorset and Wiltshire.

The centre, which is due to open in mid-2014, will provide comfortable accommodation in peaceful surroundings and be available to children with varying needs, including the most severely disabled children who require specialist care and round the clock professional support. The new centre will enable short breaks for a disabled child at the same time giving the child's parents or carers the chance to have some respite, providing a holiday for all.

www.smilesupport.org.uk

Furthering Our Reach – Helping those who need it most
Our continued success with fundraising has meant that the Foundation has been able to further its reach by donating in excess of £4 million to good causes in 2013 both in the UK and overseas, together with a further £4 million pledged as multi-year grants to charities over the next three years subject to the satisfaction of various conditions.

The Foundation makes donations of all sizes, from a few hundred pounds to donations of over £1 million, with a particular focus on small to medium size charities whom the Trustees believe are best equipped to make a positive and lasting difference to people's lives. Charities are selected based on the suitability of their project and whether or not the work they do matches the Foundation's grant making themes and criteria. These themes currently include cancer, the hospice movement and support for children and young people with disabilities, life limiting illnesses or those who are disadvantaged socially or economically.

Chicks

Chicks is a national children's charity providing the most disadvantaged children in the UK, aged between 8 and 15, respite breaks at their current centres in Devon and Cornwall. Founded in 1992, CHICKS offers breaks to over 1,200 disadvantaged children a year, many of whom are young carers and often it's the first 'holiday' they have ever had. Generally lasting a week, the children get to experience activities such as pony trekking, swimming and rock climbing, as well as trips to the beach and zoo, and many revisit the centres annually. The charity also keeps in touch with the children throughout the year, especially at vulnerable times like Christmas and seeks ways to ensure longer term impact for each child visiting their centres.

The Foundation has agreed a 'match fund' donation of £750,000 towards the conversion and refurbishment of a new centre on the Staffordshire/Derbyshire border, to enable the charity to offer further respite breaks to those living in the Midlands and North.

www.chicks.org.uk

Onside

Finally, the Foundation has also pledged £1 million to the youth charity Onside, to be matched by The Queen's Silver Jubilee Trust, towards the building of two new youth centres in Wolverhampton and the Wirral, both set to open in 2015. The new centres will give young people in these two locations (ranked 40th and 60th respectively in the list of the UK's most deprived areas) the opportunity to participate in activities that would otherwise be out of their reach.

Onside is a national charity with one simple, but almost old-fashioned, aim – to build a network of 21st century youth centres, giving young people quality, safe and affordable places to go in their leisure time.

The new centres are modelled on the hugely successful Bolton Lads and Girls Club, which has served the young of Bolton since 1889 and is the UK's largest single youth club with nearly 3,500 regular members. Onside was established to replicate this success in other towns and cities by providing a broad range of high quality facilities and activities, such as dance studios, climbing walls, art studios, gyms, enterprise hubs, football pitches, as well as carefully designed spaces for youth work and mentoring.

Onside currently has five centres located in Carlisle, Blackburn, Oldham, Manchester and Wigan, together supporting over 10,000 young people a year, with a vision to have 20 centres in operation by 2020.

www.onsideyouthzones.org

Sport for Good – Helping young people by harnessing the power of sport to change young lives

This year, the Foundation has continued to support seven independent partner charities through the Sport for Good programme. Through the overall investment of £1.74 million the lives of over one million disadvantaged and disabled children have been improved in the last two years of the project. The seven charities include local charities Greenbank Sports Academy and Positive Futures in Liverpool, Disability Sport Wales, Norwich Community Sports Foundation and Keyfund in the North East. The charities which operate nationally include Panathlon Challenge and Laureus/Active Communities Network who work in partnership to deliver the Urban Stars project.

In 2013 alone, a total of £580,000 has been donated via the Sport for Good programme and this investment has enabled each and every charity (whether local or national) to thrive, with three of the seven charities exceeding their expected targets for the year with the support of the Foundation.

Plans for the Future

The Foundation plans to build on the success achieved over the last few years by continuing to grow our fundraising and investing in worthwhile charitable projects in the UK and overseas.

In addition to the employees and Partners contributing to the Foundation on a monthly basis, we also have a number of exciting fundraising events planned for 2014. We have no doubt that the SJP Community will continue to support the Foundation to achieve its objectives in 2014 and beyond.

Governance

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Board of Directors

Chairman

Sarah Bates

Chairman (Rem until the AGM) (N)

Sarah joined the Board as an independent Non-executive Director in 2004 and she was appointed Chairman on 1 January 2014. She is Chair of the Remuneration Committee (from which position she will retire at the AGM) and she retired from the Investment Committee on 31 December 2013. Sarah has over thirty years' investment experience and a considerable amount of board and senior management experience. She is Chairman of JP Morgan American Investment Trust plc, non-executive and senior independent director of Development Securities plc and Witan Pacific Investment Trust, and a non-executive director of Polar Capital Technology Trust and Worldwide Healthcare Trust plc. She is a member of the Investment Committee of the Universities Superannuation Scheme and an adviser to the East Riding Pension Scheme. She is Chairman of the CRC Pension Fund investment committee and was previously Chairman of the Association of Investment Companies.

Executive Directors

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. He is also a member of the Financial Conduct Authority's Practitioners Panel.

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. During 2013 he was appointed a lay adviser to the Finance & IT Board of the Royal College of Surgeons of England.

Ian Gascoigne

Managing Director

Ian 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. He is also on the Advisory Board of Loughborough University Business School.

David Lamb

Managing Director (I)

David joined SJP in 1992 and was appointed to the Board in 2007. He is a member of the Investment Committee and a Trustee of the St James's Place Foundation. David is a non-executive director of The Henderson Smaller Companies Investment Trust plc, a director of the Wealth Management Association, a member of the Council for the CBI (South West) and Governor of the University of the West of England. He is a graduate of City University, London and a Fellow of the Institute of Actuaries.

Key

(A) – Member of the Audit Committee

(R) – Member of the Risk Committee

(I) – Member of the Investment Committee

(Rem) – Member of the Remuneration Committee

(N) – Member of the Nomination Committee

Non-executive Directors

Vivian Bazalgette

Independent Non-executive Director
(I) (Rem) (A)

Vivian joined the Board in July 2011 as an independent Non-executive Director and is Chair 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, The Brunner Investment Trust plc and Perpetual Income & Growth Investment Trust plc. Vivian is currently Vice Chairman of the Governors of Dulwich College and advises the BAE Systems Plc Pension Fund and the Investment Committee of the Nuffield Foundation.

Simon Jeffreys

Independent Non-executive Director
(A)(Rem)

Simon was appointed to the Board as an independent Non-executive Director on 1 January 2014 and is a member of the Audit and Remuneration Committees. He will become Chair of the Audit Committee on 1 March 2014, following the finalisation of the 2013 accounts. Simon was a partner with PricewaterhouseCoopers LLP (1986-2006) where he led the firm's Global Investment Management practice, after which he joined Fidelity International Limited as Group Chief Administrative Officer (2006-2008). He is now Chief Operating Officer of Wellcome Trust and non-executive director at Henderson International Income Investment Trust, Aon UK Limited, and SimCorp A/S, a Danish publicly listed financial services software company.

Iain Cornish

Senior Independent Non-executive Director (A) (R) (N)

Iain joined the Board as an independent Non-executive Director in October 2011. He was appointed as Senior Independent Director and as Chair of the Risk Committee on 1 January 2014. He is currently Chair of the Audit Committee but will step down as Chair from 1 March 2014 when Simon Jeffreys will become Chair. He is also a member of the Nomination Committee. 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. 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. Iain is a non-executive director of Arrow Global Group plc, and is an independent director of the Prudential Regulation Authority. He also served as a member of the FSA Practitioner Panel from 2007 to 2011, becoming Chairman in 2009.

Baroness Wheatcroft

Independent Non-executive Director
(R) (Rem) (N)

Baroness Wheatcroft was appointed to the Board as an independent Non-executive Director in April 2012 and is a member of the Risk, Nomination and Remuneration Committees. Baroness Wheatcroft is a member of the House of Lords and is currently a non-executive director of FIAT S.p.A. and of the Association of Leading Visitor Attractions. She became chairman of the Patrons Committee and of the Investment Committee of the British Museum in 2013. 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 adviser to, or member of, various other bodies, including the UK/India Round Table.

Roger Yates

Independent Non-executive Director
(R) (Rem)

Roger was appointed to the Board as an independent Non-executive Director on 1 January 2014 and is a member of the Risk and Remuneration Committees. He will become Chair of the Remuneration Committee after the Annual General Meeting in 2014. Roger has over 30 years of investment management experience at Morgan Grenfell, Invesco and Henderson Group plc, where he was Chief Executive Officer (1999-2008), and as an independent non-executive director at F&C Asset Management plc (2009 only). He is currently non-executive Chairman of Pioneer Global Asset Management S.p.A. and Electra Private Equity plc and a non-executive director of JP Morgan Elect plc and IG Group Holdings plc.

Chairman's Report

Sarah Bates
Chairman

I am pleased to be making my first report as Chairman of St James's Place. During my time as an independent Non-executive Director of St James's Place I have been fortunate enough to serve the Board in many capacities, starting with the Investment Committee and Risk Committee, but more recently as Senior Independent Director and Chair of the Remuneration Committee. In my new role, I will also chair the Nomination Committee. As a result, I know the Company well and am proud to have been a Board member during a period of growth for clients, shareholders and employees.

That growth has been strong and the success has been reflected in a number of ways, including the recognition given to us by various industry awards such as Britain's Most Admired Company (Top in Sector) award from Management Today, but also in the progression of our stock market ranking. As a Board, our task over the next few years is to maintain such safe and sustainable growth as is in the interests of all our stakeholders. Our challenge is threefold:

- to maintain those characteristics which have led to the success of the Company over the last 23 years,
- to adapt to the changing world around us and the opportunities it provides, and
- to build the management team and approach for the next 20 years.

More information is provided in the next few pages about how your Board works, and in particular the formal structures which are necessary and helpful in ensuring sound corporate governance. However, I believe (along with many commentators) that these structures are not, on their own, sufficient to safeguard the interests of clients and shareholders. What is necessary in addition is a set of values, a culture and an operating approach, which together support the effective stewardship of shareholders' and clients' interests. The Board must therefore be prepared to be consistent and clear-sighted in continuing its leadership, support and oversight of that culture and in particular the principle that St James's Place will seek to do the right thing for its clients and thus for its shareholders. This will be my main aim in providing leadership to the Board.

Board Composition

Reflecting the continuing growth of our Company and the sale of the Lloyds Banking Group ('LBG') shareholding, the Board has seen a number of changes over the last financial year.

At the end of 2013, Charles Gregson stepped down as Chairman in order to be able to devote more time to his other directorships. We are grateful for his contribution as both a Non-executive Director and then Chairman. Mike Power also stepped down at the end of the year, having been Chair of the Risk Committee and having contributed considerably to the way we think about risk over the last nine years. However, we are pleased he will remain as an independent Non-executive Director on the Board of St James's Place International plc, the Group's Dublin-based life company. At the same time, Iain Cornish became the Senior Independent Director and Chairman of the Risk Committee.

There was much change in the representation of LBG on the Board during the year. Firstly, in June, Steve Colsell was replaced by Sue Harris and Alison Hewitt. However, following the completion of the sale of the LBG shareholding, both Sue and Alison also stepped down from the Board. We are grateful for the support and insights of all those Directors who have represented LBG during recent years.

Finally, as part of our process of ongoing renewal of the Board, we appointed two new Non-executive Directors. Simon Jeffreys has a wealth of audit and financial services experience and we are pleased that he will be taking over as Chair of the Audit Committee in March 2014. Roger Yates has extensive knowledge and experience, particularly of the investment industry, and we are pleased that he will be taking over as Chair of the Remuneration Committee following the AGM. We look forward to the expertise and experience they will bring to the Board.

The Future

2013 was a very significant year for St James's Place and its shareholders. Over the course of 12 months our shareholder base has been transformed and we have welcomed new investors from around the world. However, our ambitions for the future haven't changed. We remain a well-respected and trusted provider of high quality advice and wealth management services, and we will continue to build on that success. But we know that our success stems from our culture, and so we will continue to focus on our values, and in particular on doing the right thing for our clients and thus for our shareholders.

I look forward to working with the Board on these aspirations.



Sarah Bates

Chairman

24 February 2014

Corporate Governance Report

Board Leadership

Your Board is responsible for providing entrepreneurial leadership and direction to the Company, as well as setting out its strategic aims, vision and values. It is also responsible for ensuring that adequate controls exist in order to deliver value to shareholders and other stakeholders who derive benefit from our activities.

How have we complied with the UK Corporate Governance Code?

Under the UK Listing Rules, UK listed companies are required to state whether they have complied with the provisions of the UK Corporate Governance Code (the 'Code') during the year, and where they have not complied, they are required to explain such non-compliance. 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 pages 68 to 92. Your Board considers that the Company has fully complied with all of the Code's provisions during 2013. The provisions of the Code can be found on the Financial Reporting Council's website, at www.frc.org.uk.

How did your Board carry out its work during 2013?

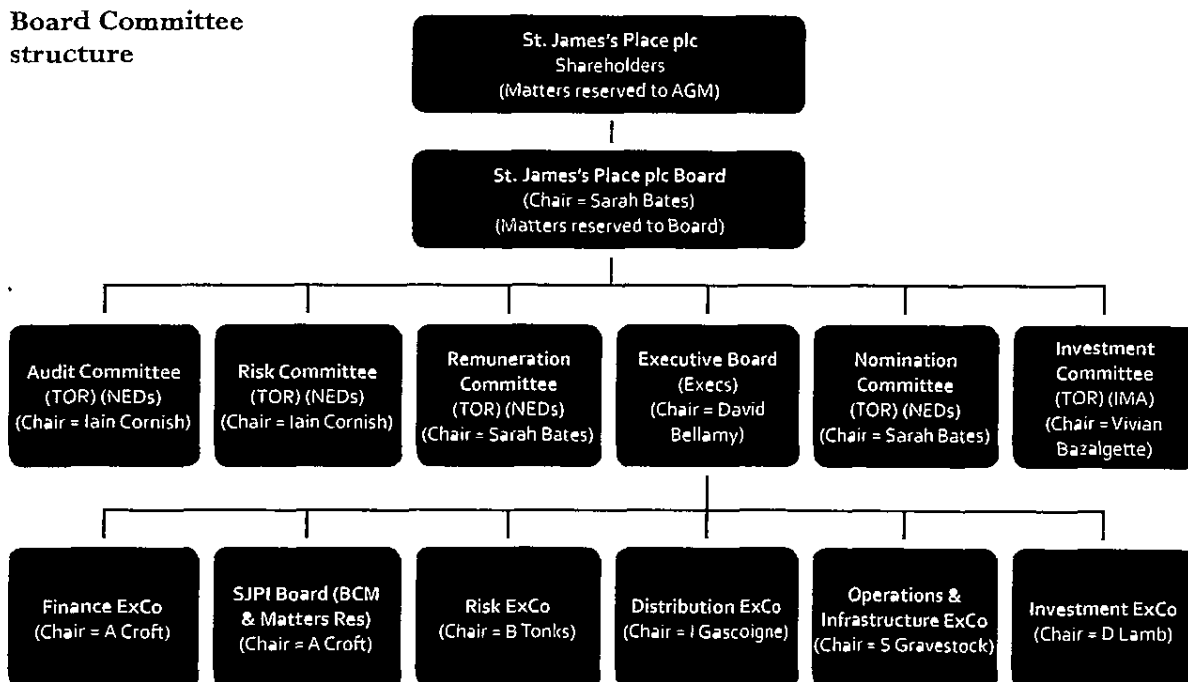
During the year, six formal Board meetings were held, including a full day Board Strategy meeting, and two ad hoc Board meetings were held by telephone conference call. Directors' attendance at Board meetings can be found on page 58.

For each Board 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.

While the Board has a formal schedule of matters specifically reserved for it, it acknowledges that it is responsible for focusing on growing the business successfully by developing and promoting appropriate policies and procedures and encouraging a culture of innovation and continual improvement. Matters specifically reserved to your Board are set out below:

- 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.

Board Committee structure



How are other matters delegated to your Board's Committees?

Operational matters are delegated to management via the Board's Executive Committee, comprising the Executive Directors of the Board (the 'Executive Board'). The Executive Board is responsible for communicating and 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. The level of committees below those of the main Board committees assist the Executive Board in executing these responsibilities.

The Company maintains a Board Control Manual which sets out the primary policy and decision-making mechanisms within the Company. It includes the terms of reference for the various committees of the Board, the Company's risk policies and risk appetite statement. In addition, detailed job descriptions for each Executive Director are 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.

How is your Board Organised?

The Roles of the Chairman and Chief Executive

Sarah Bates was appointed as Chairman on 1 January 2014, following the resignation of Charles Gregson from the Board on 31 December 2013.

The division of responsibilities between the Chairman of the Board, Sarah Bates, and the Chief Executive, David Bellamy, are clearly defined and documented. As Chairman, Sarah is responsible for leadership of the Board, ensuring its continued effectiveness, and also promoting effective communication between the Executive and Non-executive Directors, and with shareholders generally. As Chief Executive, David Bellamy's primary responsibility is to manage the Company via the executive management team and implement the strategies adopted by the Board.

The Senior Independent Director

Iain Cornish is the Senior Independent Director, having succeeded Sarah Bates in January 2014. The Senior Independent Director acts as a sounding board and confidant for the Chairman and the Non-executive Directors. Iain ensures he is available to meet with shareholders and raises shareholder concerns with the Board that are not resolved through normal channels.

Ensuring Independence

When determining whether a Non-executive Director is independent, your 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 continue to demonstrate their independence.

Procedures to Deal with Conflicts of Interest

Rigorous procedures are in place to deal with potential or actual conflicts of interest. Under this 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 and/or impose conditions on such waiver, if it believes this to be in the best interests of the Company. Conflict authorisations are reviewed annually by the Board.

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 2013, and remain in force at the date of this report.

How are your Board Committees Structured?

There are five 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 52 and 53.

Corporate Governance Report *continued*

Attendance at Meetings

The attendance by individual Directors at Board meetings during the year ended 31 December 2013 was as follows

	Board (6 meetings)
Sarah Bates	6/6
Vivian Bazalgette	6/6
David Bellamy	6/6
Steve Colsell ⁽¹⁾	3/3
Iain Cornish	6/6
Andrew Croft	6/6
Ian Gascoigne	6/6
Charles Gregson ⁽²⁾	6/6
Sue Harris ⁽¹⁾	2/3
Alison Hewitt ⁽¹⁾	3/3
David Lamb	6/6
Mike Power ⁽²⁾	6/6
Baroness Wheatcroft	6/6

(1) Steve Colsell ceased being a member of the Board with effect from 1 June 2013 and Sue Harris and Alison Hewitt were appointed non-independent Non-executive Directors on 1 June 2013, as representatives of Lloyds Banking Group ('LBG') pursuant to the Relationship Agreement between the Company and LBG. Under this agreement, LBG was entitled to appoint up to two Non-executive Directors to the SJP Board. The agreement terminated in accordance with its terms on 13 December 2013 following the disposal by LBG of its shareholding in SJP. As a consequence Sue Harris and Alison Hewitt ceased being members of the Board with effect from 31 December 2013.

(2) Charles Gregson and Mike Power ceased being members of the Board with effect from 31 December 2013.

The Group Risk Director is invited to attend some Board meetings during the year to present his Group Risk report. He also attends Risk and Audit Committee meetings during the year.

How is your Board Supported?

Induction and Continuing Professional Development

An appropriate induction programme is designed to enable new Directors 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 2014, the Chairman and the Company Secretary will continue to implement the induction programmes for Simon Jeffreys and Roger Yates, and will also ensure continuing professional development for all your Directors, based on their individual requirements. This includes training on topical issues, visits to head office and other locations to meet with staff and members of the Partnership and attend seminars or other events taking place throughout the year. In addition to this, ad hoc training is 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 are provided with the opportunity to meet with shareholders, as necessary.

Directors have access to the advice of the Company Secretary at all times, as well as independent professional advice where needed in order to assist them in carrying out their duties.

Board Evaluation

Following the externally-led evaluations carried out by Independent Audit Limited in 2011 and 2012, and in light of the significant changes to the Board during the year, the Board undertook a formal internal evaluation exercise in 2013. The Chairman assessed the individual performance of each of the members of the Board by a process involving interviews with each Board member, and the provision of feedback where relevant. This process also enabled the Chairman to review the completion of the various actions arising from the Board evaluation carried out in 2012 and to carry out a handover process with the incoming Chairman, Sarah Bates, prior to him stepping down from the Board at the end of 2013.

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 the Group's brokers 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.

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. 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.

The key activities of the Committee during 2013 included

- reviewing the annual and half yearly Report and Accounts, and associated announcements, including the external auditors' reports,
- monitoring and reviewing the effectiveness of the Internal Audit function, including progress against the Internal Audit plan,
- engaging with development of the Internal Audit plan for the year and subsequently considering the results of the Internal Audit activity, particularly the major areas of internal audit focus during the year, and
- considering the results of the Internal Control Evaluation process

The Committee also maintained an appropriate relationship with the Company's external auditors

This report aims to provide more in-depth details of the role of the Audit Committee and the work it has undertaken during the year

Iain Cornish

Membership and Attendance in 2013

Committee members	Attendance
Iain Cornish	6/6
Vivian Bazalgette	6/6
Mike Power ⁽¹⁾	6/6

(1) Mike Power ceased being a member of the Committee on 31 December 2013 and Simon Jeffreys joined the Committee on 1 January 2014

Role of the Committee in Summary

- To be responsible for the accuracy and integrity of the Group's financial statements,
- To review the external auditors' reports thereon,
- To monitor the effectiveness of the Internal Audit function,
- To ensure the effectiveness of the systems of internal control,
- To review, and where appropriate refer on to the Board, any significant control failures, and
- To report to the Board on how it has discharged its responsibilities

Iain Cornish

On behalf of the Audit Committee

24 February 2014

Report of the Audit Committee *continued*

Committee Membership during 2013

The membership of the Committee changed at the end of 2013 following the resignation of Mike Power from the Board. Simon Jeffreys joined the Committee on 1 January 2014 and it is intended that he will become Chair of the Committee from 1 March 2014, following the process to finalise the 2013 Financial Statements. All members of the Audit Committee at the end of the year were independent Non-executive Directors and this remains the case at the date of this report. The Board remains satisfied that all members of the Audit Committee have the experience and qualifications to perform their roles, noting in particular that a majority of members have recent and relevant financial experience and expertise.

Attendees at meetings during the year included the Chief Executive, 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 until his resignation in June 2013, thereafter Sue Harris attended a further meeting as LBG's replacement representative. In addition, as part of the annual development programme, Charles Gregson was invited to attend as an observer at three of the Audit Committee meetings, and Sarah Bates was invited to attend one of the Audit Committee meetings.

Committee Activities during 2013

Report and Accounts

As in previous years, the Committee spent a significant amount of time reviewing the annual and half yearly Report and Accounts. The focus was particularly on process and control issues, for example, confirming the process of how judgements were made, who was involved and how decisions were implemented. The topics discussed were driven both by consideration of risk of mis-statement of accounts, but also by consideration of risks in the business. Topics that received dedicated time in the year, both in Committee meetings and in separate less formal sessions, included –

- actuarial assumptions, with a particular focus on persistency used in the assessment of the embedded value,
- review of principal areas where the Group applies accounting estimates, including valuation of deferred tax assets and liabilities and impairment testing of other intangible assets,
- impact on the business of regulatory and legal risks, including disclosure and accounting,
- process for extending loans or advances to Partners and assessing the risk of them being unable to repay,
- future financial implications of the new outsourced administration contract with IFDS, and
- reporting and disclosure of the fees paid by the Company in connection with the placing by Lloyds Banking Group plc of shares in the Company in March 2013.

Having reviewed how all of these points were represented in the Report and Accounts, the Committee concluded that their treatment was appropriate.

Early in the year, as part of a series of presentations by senior managers from the business and following the announcement by the FCA of an industry review, the Committee received a presentation on unit pricing. This provided the Committee with an opportunity to challenge the management and controls in this important area. The presentation also included consideration of the relationship with State Street and the control environment around regular valuation of assets and funds, which is also a key part of the accounts.

Finally in relation to the review of the Report and Accounts, as part of the regular Internal Audit plan, the Company's reporting processes were, as usual, the subject of a number of internal audits. These audits complemented the external audit and were taken into account in the Committee's review of the Report and Accounts.

Internal Audit Function Effectiveness

In relation to the effectiveness of the Internal Audit function, the Committee spent a considerable period of time in early 2013 discussing the scope and objectives of the Internal Audit Plan and testing to ensure that the internal audit department had the necessary resources, both internal and external, to implement the plan in a timely manner.

As part of that review, the Committee appointed Deloitte LLP ('Deloitte') to conduct an independent review of the internal audit function. This review assessed the function in light of the growth of the Group, relevant industry standards, good practice and the expectations of the Board, regulators and other stakeholders. Deloitte presented their findings to the Committee in July 2013. The review confirmed that the Internal Audit function was operating with the necessary independence and objectivity when carrying out its work. However, Deloitte recommended a number of changes intended to strengthen the profile and resources of the internal audit team and improve its alignment with the risk functions operating within the Group. The Committee accepted the recommendations in full and has monitored the progress of the actions to be implemented. The remaining actions are expected to be completed in early 2014.

Internal Audit Activity

As in previous years, the Committee was actively engaged in approving the Internal Audit Plan which was risk based. The plan covered a wide range of areas across the business but some of the key topics addressed included anti-fraud controls and the supervision of Partners. The anti-fraud controls work was in support of the External Auditors. Internal audit activity in relation to Partner activity is carried out annually given the importance of managing the advice risk in the business.

Reflecting the importance of the current project working with IFDS to upgrade some of the Group's policy administration systems, the Audit Committee also requested that the Internal Audit team undertook work to review (and advise on controls for) the project. The project is expected to run for a number of years.

and Internal Audit will continue to monitor progress to help ensure a successful outcome

Throughout the year, the Committee received regular updates from the Head of Internal Audit in relation to the results from completed audits. The Committee paid careful attention to any areas where the audit led to remedial action being recommended. The actions arising were monitored to ensure completion. In practice 93% of actions were completed in line with the original agreed deadline, with the rest being completed by appropriately revised deadlines.

Internal Control Evaluation

The Board, through the Audit Committee, conducts an annual review of the effectiveness of the Group's systems of internal control, in line with the requirements of the UK Corporate Governance Code. The Group adopts the 'three lines of defence model' as the design basis for its internal control framework and the process for reviewing the effectiveness of the framework is aligned to the same model.

In summary, the Chief Executive has ultimate responsibility for the first two lines of defence and uses his knowledge of the business, and that of his senior management team, to provide his opinion on the control systems. Internal Audit then provides an independent second opinion, from a third line perspective, based on Internal Audit activity conducted throughout the year and Internal Audit's appraisal and triangulation on the output from a wide range of other sources.

In 2013, the Chief Executive was also able to take into account the output of the new 'controls self-assessment' ('CSA') processes for a number of departments within the Group. This work had been encouraged by the Audit Committee and was facilitated by the Internal Audit function. The processes are now being embedded and will be extended to the rest of the Group functions during 2014.

Jointly, the two opinions assist the Audit Committee in completing its annual review and enable the Audit Committee to attest on behalf of the Board that it has been able to properly review the effectiveness of the Company's system of internal control in accordance with the Turnbull Guidance for Directors on Internal Control. Where any matters have arisen from the review, the Audit Committee has ensured that corrective action has been taken.

Other Activity

Finally, a variety of joint presentations about the business were received from senior management. The Committee also carried out a formal review of the risk schedules, and received updates from the Chair of the Risk Committee and reports from the Audit Committee of St James's Place International plc (the Group's Irish-registered life company). The Committee also carefully considered the changes to the UK Corporate Governance Code. The Committee's terms of reference were reviewed during the year and it is satisfied that they remain appropriate and conform to best practice.

'Fair, Balanced and Understandable' Opinion

The UK Corporate Governance Code now requires the Board to give their opinion as to whether they consider the Company's Report and Accounts to be fair, balanced and understandable. To aid the Board, the Audit Committee formally reviewed the Report and Accounts in relation to this requirement and were able to confirm the opinion of the Committee, based on the activities and information described above, being that the Report and Accounts for the year ended 31 December 2013 for St James's Place plc are indeed fair, balanced and understandable.

External Auditor

The Committee has responsibility for the work of the external auditors of the Company and during the year senior management carried out its annual review of the effectiveness, independence and objectivity of the Company's external auditor. As a result of 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.

In relation to the review of the independence of the auditors, the Committee noted the existence of a formal policy for the provision of non-audit services by the External Auditor. The aim of the policy is to ensure that external auditor objectivity and independence is safeguarded by setting out the categories of non-audit services which the external auditor is allowed to provide to the Group and limiting the amount of activity. 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. The amounts 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 120, but the amount for non-audit related services in the year was £nil (2012: £nil). The Committee remains satisfied that PricewaterhouseCoopers LLP remains independent and objective in relation to its audit activities carried out for the Group.

PricewaterhouseCoopers LLP was appointed as the Company's external auditor in 2009. In 2014 the Lead Partner will rotate, and since the audit service provided in recent years has been deemed fit for purpose, the Company considers that putting the audit engagement out to tender is not necessary at the current time. Having assessed the performance and independence of the auditors as outlined above, the Committee recommends that PricewaterhouseCoopers LLP be re-appointed as external auditor and a resolution to effect this will be put to shareholders at the Annual General Meeting.

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

Report of the Risk Committee

Fostering a culture of effective risk management is of the utmost importance to the Directors. The Risk Committee assists the Board in developing this culture, by providing leadership, direction and oversight of the Group's management of risk.

In pursuing these objectives, the Committee's key activities in 2013 included

- Monitoring and reviewing the effectiveness of risk management in the Group and the risk management functions,
- Reviewing the risk appetite as well as the principal risks and uncertainties affecting the Group,
- Considering reports produced by the Group's Risk and Compliance functions, to monitor the ongoing compliance interaction with the Group's regulators, and
- Receiving presentations from members of senior management about their business areas and reviewing the management of the associated risks.

The following report sets out in more detail the Committee's key activities in 2013.

Iain Cornish

Membership and Attendance in 2013

Committee Members	Attendance
Mike Power ⁽¹⁾	5/5
Iain Cornish ⁽²⁾	5/5
Baroness Wheatcroft	5/5

(1) Mike Power ceased being a member of the Committee on 31 December 2013 and Roger Yates joined the Committee on 1 January 2014, when Iain Cornish became Chair.

(2) Attended one meeting by telephone.

Iain Cornish

On behalf of the Risk Committee

24 February 2014

Role of the Committee in Summary

- To foster a culture of effective risk identification and management throughout the Group,
- To provide leadership, direction and oversight of the Group's management of risk,
- To review the principal risks affecting the Group and the ways in which the risks are controlled and mitigated, and
- To report any material areas of concern to the full Board.

Committee Membership during 2013

The membership of the Risk Committee changed with effect from 1 January 2014, with Mike Power stepping down on 31 December 2013 and being replaced by Roger Yates. Ian Cornish was appointed Chair of the Committee. All members of the Risk Committee have considerable financial, risk and/or other experience and are independent Non-executive Directors.

Regular attendees at Committee meetings during the year included the Chief Executive, Managing Director, Group Risk Director, the Compliance Officer, Head of Risk Management, the Corporate Actuary and a representative from Lloyds Banking Group, the Company's major shareholder during 2013. Also, as part of the annual development programme, Charles Gregson and Sarah Bates attended a number of Risk Committee meetings.

Committee Activities during 2013

Oversight of the Risk Management Framework is key to delivery of the responsibilities of the Committee. The framework and associated documents are subject to annual review, and in 2013, particular focus was given to the articulation of the Group's Risk Appetite Statement and the breadth of the associated Key Risk Indicator Suite. The risk policies were also considered at the same time in a dedicated meeting.

The Committee is supported in its oversight of the Risk Management Framework by the Risk Management team and the Committee spends a significant proportion of its time receiving updates from the Group Risk Director and the Head of Risk Management, who both have direct access to the Chairman of the Risk Committee should the need arise. The Committee is also able to review and provide challenge on the implementation of risk mitigation in the business, and can test how effectively the culture is embedded.

As in previous years, the Committee regularly received and discussed a suite of management information to aid their monitoring of risks and risk exposure in the business. The information included:

- Risk Schedules, setting out the principal risks and uncertainties facing the Group, as well as how they are mitigated, and
- Key Risk Indicators (KRIs), assessing the current exposure to key risks.

During the year, and with the encouragement of the Committee, the KRI suite was reviewed. The Committee, working actively with Risk Management and the Executive Board, contributed extensively to the re-design and refinement of the new suite of information.

As part of their oversight of risk management in the business, the Committee continued to receive and review reports from a number of Executive Committees and other functions in the Group including:

- minutes of the Risk and Finance Executive Committee meetings, where executive oversight is given to the appropriateness and observance of the Group's Risk Appetite,
- reports from the Risk Committee of St James's Place International (the Group's Irish registered insurance company),
- reports produced by the Compliance and Actuarial functions relating to the management of the risks faced by the regulated subsidiary entities within the Group,
- an annual report from the Head of Risk Management on the effectiveness of the Group's risk management systems, and
- an annual report from the Money Laundering Reporting Officer on the anti-money laundering, bribery and fraud activities taking place within the Group.

Since most of the activity within the Group is regulated, the Committee also considered regular updates on the Group's ongoing interactions with the PRA and FCA, and the wider regulatory interactions with firms in the financial services marketplace. This allowed them to monitor ongoing compliance with regulation.

Finally, the Committee continued to receive regular updates from senior executives on key corporate initiatives and spent time discussing management of the associated risks. The Committee finds these presentations particularly useful in giving an opportunity for more detailed discussion and challenge of particular areas of risk in the business. Most of the topics were presented as joint sessions with the Audit Committee and allowed members of both Committees wider experience of the management of the Group and an opportunity to challenge senior management. Presentations in 2013 included:

- the Compliance Officer explaining the processes in place to monitor the quality of advice provided by the St James's Place Partnership, including the ongoing supervision arrangements and business checking procedures,
- the Commercial Director outlining the strategy of the Group to attract larger Independent Financial Advisers to join the Partnership, often through the acquisition of larger established businesses. The Committee also reviewed the due diligence carried out prior to any acquisition taking place and the procedures used to monitor the integration of the businesses into the SJP Group,
- the Corporate Actuary reporting on recent ICAAP (Internal Capital Adequacy Assessment Process) work and discussing the key risks affecting the financial position of the regulated subsidiary entities within the Group, the management of these and the implied capital requirement, and
- the Business Development Director updating the Committee on the programme to upgrade the Group's third party administration arrangements in the UK, including the development of a new administration platform.

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

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

The Committee spent a considerable amount of time over the past year looking for new Non-executive Directors as part of the Company's policy of continually refreshing its Board. This process resulted in the appointment on 1 January 2014 of two new independent Non-executive Directors, Simon Jeffreys and Roger Yates

The Committee also considered who should succeed Charles Gregson as Chair of the Board, following his retirement at the end of 2013. The Committee recommended to the Board the appointment of Sarah Bates (with Charles Gregson taking no part in this process in accordance with the Code)

Succession planning is also a core remit of the Committee. In order to identify appropriate successors for each senior management role, the Committee regularly reviews the Company's succession plans. Assessing and developing the talent that lies below the Board is key to maintaining healthy motivational and retention levels amongst senior management, as well as ensuring smooth transition when senior staff move in the Company

This report provides further details of the role of the Nomination Committee and the work it has undertaken during the year

Iain Cornish

Membership and Attendance in 2013

Committee members	Attendance
Iain Cornish	3/3
Charles Gregson ⁽¹⁾	3/3
Mike Power ⁽¹⁾	3/3

(1) Charles Gregson and Mike Power ceased being members of the Committee on 31 December 2013 and Sarah Bates and Baroness Wheatcroft joined the Committee on 1 January 2014, when Sarah Bates became Chair

Role of the Committee in Summary

- To regularly review Board and committee composition and structure,
- To identify, report on and recommend for Board approval suitable candidates for appointment to the Board, and
- To appropriately consider succession planning for Directors and senior management, taking into account diversity, experience, knowledge and skills

Iain Cornish

On behalf of the Nomination Committee
24 February 2014

Committee Membership during 2013

The membership of the Committee changed at the end of 2013 following the resignation of Charles Gregson and Mike Power from the Board. Sarah Bates joined the Committee and became Chair of the Committee with effect from 1 January 2014. Baroness Wheatcroft also joined the Committee at the same date.

Committee Activities during 2013

During 2013, the Nomination Committee spent a considerable amount of time identifying two independent Non-executive Directors to join the Board. It carefully considered the calibre, skills, knowledge and experience required to fill the roles and complete the most appropriate balance in Board composition. Given the planned retirement of Mike Power from the Board, it was decided to seek a candidate with considerable accounting experience. The Committee also identified the need for a candidate with investment management experience, given the importance of this area to the success of the Group.

The Committee believed it inappropriate to narrow the search towards a particular gender since it considered it was in the best interests of the Company and shareholders as a whole to access the widest pool of non-executive talent. This is not to say, however, that the Board does not appreciate the importance of diversity. The Committee believes that, in order for a Board to be fully effective, it should consist of people from different backgrounds and skill sets so that 'group thinking' is avoided and constructive discussion enhanced. It will therefore continue to focus on all these aspects when considering candidates.

Once suitable candidate profiles had been agreed upon and drafted, an external recruitment consultant, Korn Ferry, with no connection to the Company, was engaged to identify the most appropriate candidates. These candidates met with senior management and the members of the Nomination Committee and were rigorously interviewed prior to being recommended to the Board. The Board in turn carefully examined each candidate before approving their appointments.

The Committee also considered who would be the most appropriate person to succeed Charles Gregson as Chair of the Board on his retirement at the end of the year. After careful review, it was considered that Sarah Bates had the requisite experience and skills to become Chairman with effect from 1 January 2014. The Committee also confirmed that Sarah remained independent and recommended her appointment to the Board. In accordance with the Code, neither Charles Gregson nor Sarah Bates were involved in the discussions relating to the Chair of the Board.

The Committee continued to monitor and review succession planning in relation to the Company's senior management in order to encourage and develop a strong pipeline of talent. It believes that diversity extends beyond the Boardroom and that developing all members of the senior management team below Board level is vital in order to develop and maintain an effective succession programme. During the year, the Committee reviewed the Group's succession plans with the Chief Executive and made suggestions as to how the plans could be further strengthened. It was noted that the Group had introduced a number of new initiatives to develop senior talent below the Board, including bespoke training programmes with development consultants, mentoring opportunities and a pilot programme centred on healthy living and wellbeing. The Committee also reviewed the succession plans for each of the Executive Directors and members of the senior management team.

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

Report of the Investment Committee

The objective of the St James's Place approach to investment management is to generate consistently superior investment results over the medium term. The Investment Committee is the cornerstone of the approach and will select the best individuals within the appropriate investment companies, monitor their performance on behalf of clients and, when necessary, make changes to ensure the maximum probability of obtaining future good performance.

Key activities in 2013 included

- conducting nine full meetings during the year and ten manager monitoring sessions which saw 26 fund management companies,
- overseeing changes to the range of funds as announced in February and October 2013. As a result, five existing funds were subject to a fund management change following the appointment of eight additional investment managers, and
- undertaking regular reviews of the range of Growth and Income Portfolios to ensure they maintained the appropriate level of risk, volatility and diversification to deliver against their objectives. The outcome of these reviews was changes made to the Defensive, Conservative and Adventurous Portfolios.

The following report sets out in more detail the Committee's key activities in 2013.

Vivian Bazalgette
Chair of the St James's Place Investment Committee
24 February 2014

Vivian Bazalgette
Chair

Membership and Attendance in 2013

Committee members	Attendance
Vivian Bazalgette	9/9
Sarah Bates ⁽¹⁾	9/9
Peter Dunscombe	8/9
David Lamb	9/9
Win Robbins	9/9
Attendees	Attendance
Chris Ralph	9/9
Andrew Humphries	7/9

(1) Sarah Bates ceased being a member of the Committee on 31 December 2013.

Role of the Committee in Summary

- To oversee the Company's Investment Management Approach,
- To monitor the performance and suitability of the Group's range of independent fund managers,
- To ensure that the fund managers follow the terms of their agreements with the Company,
- To make recommendations in relation to the appointment or removal of fund managers, and
- To consider any new funds which are to be made available to the Group's clients.

Committee Membership during 2013

The membership of the Committee was stable throughout the year. However, Sarah Bates stepped down from the Committee at the end of the year when she became Chairman of the Board.

Committee Activities during 2013

2013 saw markets open in uncertainty but close with optimism across the developed economies. The stimulus policies of central bankers and the gradually strengthening signs of economic recovery have encouraged global markets in what has been a remarkable year for developed global equities. Returns from other assets were more muted, although the great rotation from bonds predicted by some has yet to materialise. The St James's Place fund range continues to deliver strong returns for clients with 70% of the fund range posting above average performance over the last ten years*.

The strong progress of markets in 2013 and the continued support of clients has seen the value of assets under our management grow to £44.3 billion as at 31 December 2013. This quantum of assets can provide opportunities, such as helping to keep fees down, but can also bring challenges. Much of the focus of the Committee has been on the issue of managers' capacity, working with them to understand the volume of assets they can accommodate without jeopardising the integrity of their investment style and process. With the anticipated future growth in the value of assets under management, effective oversight is key to delivering future performance and will remain a major focus for the Committee.

The changes overseen by the Committee in February 2013 saw the introduction of two new fund management groups to our panel. Hamish Douglass of Magellan Asset Management, based in Sydney, Australia was appointed to manage the International Equity fund, and Tyc Bousada and Geoff MacDonald of EdgePoint Investment Group, based in Toronto, Canada were added as satellite managers of the Global Equity fund.

In October, the Committee made a series of changes both to individual funds and to some of the Growth Portfolios. The Committee appointed a blend of new managers: Richard Rooney of Burgundy Asset Management, Jonathan Asante of First State, and George Loening and Chad Clark of Select Equity Group to manage the Worldwide Opportunities Unit Trust/Worldwide Managed fund. Secondly, the Committee appointed Luke Chappell of BlackRock and the UK equity team at Majedie, led by James de Upaugh to join John Wood of J O Hambro in the UK & General Progressive funds. Finally, Nigel Rudge of BlackRock was appointed to take responsibility for the UK Absolute Return fund.

The Committee undertook regular reviews of the range of Growth and Income Portfolios to ensure they maintained the appropriate level of risk, volatility and diversification to deliver against their objectives. These fund developments also provided an opportunity to introduce some changes to the fund allocations for the Defensive, Conservative and Adventurous Growth Portfolios.

Stamford Associates dedicated a considerable amount of resources and specialist skills to the Committee principally via comprehensive monitoring and the extensive evaluation of potential new candidates. Stamford Associates, working closely with the Investment Management team, also played an active role in the evolution of the Growth and Income Portfolios. Aon Hewitt provided specialist consultation to the Committee on the St James's Place Property funds.

Finally, the Committee has devoted considerable time to considering the impact of Neil Woodford leaving Invesco Perpetual in April this year to team up with Oakley Capital in his new venture. The Committee and Stamford Associates have held a number of in-depth meetings with Neil Woodford, Oakley Capital, Invesco's senior management and portfolio managers, and a number of alternative potential investment managers based in the UK and in the US. The Committee is pleased with the progress made and a decision will be made public in the near future.

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

* Source: Financial Express, Analytics. Data as at 31 December 2013. Weighted by St James's Place funds under management, bid to bid basis, net income reinvested. Please be aware that past performance is not indicative of future performance. The value of an investment with St James's Place will be directly linked to the performance of the funds you select and the value can therefore go down and well as up. You may get back less than you invested.

Directors' Remuneration Report

Sarah Bates
Chairman

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2013. In accordance with the new Directors' Remuneration Reporting Regulations, the report is split into two parts. Our remuneration policy for 2014 and beyond is set out in the Remuneration Policy Report. The Annual Report on Remuneration sets out the remuneration paid to the Executive and Non-executive Directors in respect of 2013, together with details of how the Remuneration Policy will be implemented in 2014.

Each part of the report will be subject to separate votes at the AGM. Shareholders will also be asked to approve a new long-term incentive plan at the AGM.

Key Remuneration Policy Considerations during 2013

As reported last year, during 2013 the Remuneration Committee has carried out a thorough review of the Group's remuneration policy. The main objectives of this review were:

- to design a suitable long-term incentive plan to replace the current plan, which expires in 2015,
- to consider overall pay levels in the context of the Group generally, the Executive Directors' sustained strong performance and the increasing scope and complexity of the Executive Directors' roles,
- to ensure our remuneration policy supports the Group's strategy through the creation of appropriate incentives to encourage safe and sustainable growth, and to put in place a remuneration policy which is regarded as fair and reasonable by shareholders, staff, partners, regulators and other stakeholders.

Summary of Main Remuneration Policy Decisions

The policy for Directors' remuneration is to support and drive the delivery of the Group's business objectives. Remuneration packages are designed to be sufficiently competitive to attract, retain and motivate executives of the highest calibre, with performance-related incentives based on measures linked to the safe and sustainable growth in long term shareholder value and the delivery of a significant proportion of remuneration in St James's Place shares, thus aligning the interests of the Executives with those of shareholders generally.

The remuneration review highlighted that our Executives' total target remuneration is some way below that of comparable executives in companies of similar size and complexity and this has been taken into account in formulating the Company's policy for 2014 and beyond. The changes that the Committee is proposing are as follows:

- Salaries will be increased by 3% for each of the Executive Directors effective from 1 March 2014 and in line with average workforce increases for the Group.
- The annual bonus potential for all of the Executive Directors will be increased from 120% to 150% of salary. As in previous years, 50% of any bonus is payable in cash, with 50% invested in SJP shares and deferred for three years.

- 2014 PSP awards for Executive Directors will remain unchanged from 2013, but will be increased in 2015 from 190% of salary up to 200% for the Chief Executive and from 175% of salary up to 190% for the other Executive Directors

With the increases to potential variable pay, the total packages of the Executives will still be below the mid market level for companies of SJP's size

The Committee is at the same time introducing other changes to the Executive Directors' remuneration policy to strengthen shareholder alignment

- A post-vesting holding requirement has been introduced for PSP awards granted from 1 January 2014 under the existing PSP scheme, whereby Executive Directors will not be able to sell their shares for a period of six months post vesting. For awards granted from 1 January 2015 under the new PSP scheme, this holding period will be extended to two years post vesting (five years from grant of the award) except to meet income tax and expenses on vesting/exercise
- The required level of shareholding that Executive Directors are expected to build in the Company will also increase to 150% of salary (from 100%). In addition, Executive Directors will be required to hold a further 50% of base salary either in Company shares or SJP funds, providing further alignment with shareholders and clients

The Company will seek shareholder approval for a new long-term incentive plan ('The 2014 Performance Share Plan'), to replace the existing PSP. This new plan will be used for the granting of awards from 1 January 2015. The 2014 PSP will be similar in design to the existing plan, but taking into account where relevant developments in market and best practice. The maximum level of awards which can be granted under the plan will be 250% of salary (increased from 200% in the current plan) and the Committee will retain flexibility in the policy to increase awards up to the maximum, but will consult with its major shareholders if the Committee contemplates making awards that exceed the 2015 levels referred to above.

The total shareholder return (TSR) comparator group for the TSR performance measure under the PSP is currently based on the constituents of the FTSE 250 excluding certain sectors. Reflecting the more recent market capitalisation of SJP, the 2014 awards will use the companies ranked FTSE 51 to 150 at the date of grant (excluding investment trusts, the oil, gas and mining sectors). No change is being proposed to the PSP performance measures based on earnings per share.

During 2013, as part of the Committee's review of the Group's remuneration policy, the Committee consulted with the Group's major shareholders and investor representative bodies regarding the proposed new long-term incentive plan and changes to the Executive Directors' remuneration policy. The Committee received helpful and welcome feedback on its proposals and our major investors were supportive of our proposals. We are grateful to shareholders for their responses to our consultation and for the support they have given.

Corporate Performance and Remuneration for 2013

Shareholders will be aware that the Group has achieved strong growth in recent years, which has continued in 2013, during a period of considerable change for the industry. The key highlights are set out on pages 2 to 4 of this document.

Our Executives' remuneration for 2013, on which we are reporting, reflects this. Based on the three-year performance to the end of 2013, 95% of the Executive Directors' PSP awards granted in 2011 will vest in March 2014, as a result of total shareholder return (TSR) and earnings per share (EPS) growth near to or above the challenging performance targets set by the Committee for the three years to 31 December 2013. In addition, the Remuneration Committee determined that 98% of the maximum annual bonus should be payable for 2013, reflecting the strong financial results for 2013 and excellent progress against other strategic objectives set by the Committee at the start of the year. Further details are set out in the Remuneration Report on pages 83 and 84.

Summary

The Remuneration Committee has worked hard to ensure that the changes to the remuneration policy that it is proposing to make this year support our corporate objectives over the longer term and reflect the strong performance of the Company and management. The Committee believes that the new policy achieves this objective.

I hope that you will be supportive of the remuneration resolutions to be proposed at the next AGM. 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 address them.

Sarah Bates

Chairman of the Remuneration Committee

24 February 2014

Directors' Remuneration Report

for the year ended 31 December 2013

Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company, which will be subject to shareholder approval at our AGM on 14 May 2014. The Remuneration Committee ('the Committee') is currently operating under this remuneration policy although it will be legally effective (under the new Directors' Reporting Regulations) from the date it receives shareholder approval at the AGM.

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 FCA 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 unwarranted upward ratchet in remuneration. The Committee recognises that there is often a need to phase-in changes over a period of time.

The Committee's overall policy, having had due regard to the factors above, is for a substantial proportion of total remuneration to be based on variable pay. This is achieved by setting base pay and benefits up to mid-market levels, with annual bonus and long term incentive opportunities linked to the achievement of demanding performance targets. In this way, the Committee facilitates alignment between the interests of shareholders and the total remuneration paid to the Executive Directors and, historically, the levels of variable pay paid to the Executives have varied considerably, reflecting the performance of the Group in the relevant year.

Remuneration payments and payments for loss of office can only be made if they are consistent with the approved Remuneration Policy or are otherwise approved by ordinary resolution of the members of the Company.

Engagement with Shareholders

The Committee's policy is to engage with and seek the views of its major investors and investor representative bodies on any proposed major changes to remuneration policy. The Committee will also engage on those aspects of implementation of that policy that it considers appropriate. Any views expressed by shareholders at general meetings of the Company or otherwise will be considered by the Committee as part of any review of remuneration policy or sooner if appropriate.

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.

Salary

Purpose and link to strategy including choice of performance metrics	<p>To provide the core reward for the role</p> <p>Sufficient level to recruit and retain individuals of the necessary calibre, taking into account the skills, experience, demands and complexity of the role</p>
Operation	<p>Reviewed annually and fixed for 12 months commencing 1 March</p> <p>Influenced by</p> <p>role, experience and performance of the individual,</p> <p>company performance,</p> <p>external economic conditions,</p> <p>average change in broader workforce salary,</p> <p>periodic benchmarking for each role against similar UK listed companies, and</p> <p>overall policy, having regard to the factors noted, is normally to target salaries up to the mid market level</p>
Maximum opportunity	<p>Salary increases (in percentage terms) will normally be linked to the average of the workforce generally other than in exceptional circumstances such as where the increase may be higher for a significant change in responsibility, experience or increase in role or the size or complexity of the Group where increases may be phased</p> <p>Where new joiners or recent promotees have been given a starting salary below mid-market level, a series of increases above those granted to the wider workforce (in percentage terms) may be awarded over the following few years, subject to satisfactory individual performance and development in the role</p> <p>The base salaries for the Executive Directors from 1 March 2014 are set out in the Annual Report on Remuneration</p>
Performance metrics	The Committee considers all of the factors described above when deciding how the salary policy operates

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

Annual Bonus

Purpose and link to strategy including choice of performance metrics	<p>Rewards the achievement of annual financial and strategic business plan targets and delivery of strategic objectives</p> <p>Deferred element aids retention, encourages long-term shareholding, discourages excessive risk taking and aligns with shareholder interests</p> <p>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</p>
Operation	<p>Performance measures, targets and weightings are reviewed annually and set in line with the annual business plan</p> <p>Bonus payments are determined by the Committee after the year end, based on performance against the targets set</p> <p>50% of any bonus payable is paid in cash with the remaining 50% deferred into SJP shares, the vesting of which is normally subject to a three year continuous service requirement</p> <p>Dividends that accrue on the deferred shares are paid to the Executive Directors during the three-year deferral period</p> <p>All bonus payments are at the discretion of the Committee</p> <p>The Committee has the overriding discretion to scale back payments under the strategic part of the annual bonus if it deems them to be inappropriate in the context of the overall financial results of the Company</p> <p>The Remuneration Committee has the over-riding discretion to adjust the bonus outcome up or down (subject to the overall 150% maximum) to take account of factors such as an exceptional positive or negative event</p> <p>Annual bonus payments including deferred amounts are subject to claw-back if there is found to have been a material mis-statement, error or misconduct following the payment of the bonus</p>
Maximum opportunity	150% of base salary
Performance metrics	<p>Performance measured over one year</p> <p>At least half the bonus is based on financial measures reflecting the key priorities of the business for the relevant year</p> <p>Up to half of the annual bonus can be based on the achievement of key strategic objectives set at the start of the year</p> <p>Actual measures and weightings may change from year to year to reflect the business priorities at that time</p> <p>Details of performance criteria set for the year under review and performance against them is provided in the Annual Report on Remuneration</p> <p>20% of the annual bonus vests for threshold performance</p>

Performance Share Plan

Purpose and link to strategy including choice of performance metrics	<p>Incentivises the Directors to achieve superior long term shareholder returns</p> <p>Provides long term retention</p> <p>Focuses the Executives on longer term corporate performance and performance objectives</p> <p>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</p>
Operation	<p>Awards are granted annually with vesting on the third anniversary of the date of grant dependent on the achievement of stretching performance conditions measured over a period of three financial years</p> <p>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</p> <p>Awards in 2014 will be made under the current performance share plan. Dividend equivalents may accrue on awards made in 2014 under the current plan between the date of grant and the date of exercise of the awards. These dividend equivalents will be released only to the extent that awards vest. The 2014 awards will have a post-vesting holding requirement of six months whereby participants will not be able to sell their (net of tax) shares for a six month period following vesting. Awards made from 2015 onwards will be made under a new performance share plan (subject to the plan receiving shareholder approval at the 2014 AGM). These awards will have a post vesting holding period of two years (net of tax).</p> <p>For awards granted from 2015 dividend equivalents may accrue on awards between the date of grant and the end of the two-year post-vesting holding period. These dividend equivalents will be released only to the extent that awards vest.</p> <p>Subject to claw-back in the event of a material misstatement, error or misconduct allowing summary dismissal</p>
Maximum opportunity	<p>The maximum annual award under the plan rules is 250% of salary as at date of grant although the Committee will not increase above the 2015 award levels without prior consultation with the Company's major shareholders</p> <p>The PSP award levels for 2014 (as in 2013) will be 190% of salary for the Chief Executive and 175% of salary for the other Executive Directors (value of shares at date of award)</p> <p>The Committee intends to increase the PSP award levels for 2015 to 200% of salary for the Chief Executive and 190% of salary for the other Executive Directors (value of shares at date of award)</p>
Performance metrics	<p>The vesting of awards is dependent on the achievement of three equally weighted performance measures as set out below. The Committee may choose alternative measures and weightings between them if it deems it appropriate taking into account the strategic objectives of the Company. The vesting of at least one-third of the PSP award will however be determined by a relative TSR target</p> <p>The performance targets for the 2014 PSP awards will be based on</p> <ul style="list-style-type: none"> – EPS growth based on EEV adjusted profit, – EPS growth as above but excluding the impact of the EEV unwind of the discount rate (effectively excluding the impact of stock market movements on earnings), and – relative TSR performance <p>For each performance condition, a threshold and stretch level of performance is set. At threshold, 25% of the relevant element vests</p>

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

Pension

Purpose and link to strategy including choice of performance metrics	Helps recruit and retain Executives Provides a discrete element of the package to contribute to post-retirement lifestyle
Operation	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
Maximum opportunity	20% of base salary
Performance metrics	N/A

Other Benefits

Purpose and link to strategy including choice of performance metrics	Operate competitive benefits to help recruit, retain and support the well-being of employees
Operation	Including but not limited to Company car (or salary supplement in lieu), private medical insurance, life, critical illness and death in service cover, relocation assistance where necessary and the use of a driver for business purposes Participation in the Group's all employee SIP and SAYE schemes
Maximum opportunity	Benefit costs are monitored and controlled and represent a small element of total remuneration costs
Performance metrics	N/A

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 Committee and other responsibilities, with fee levels reviewed periodically by the Board. They may also be paid additional fees (calculated at an appropriate day rate) in the event of exceptional levels of additional time being required, for instance in response to corporate developments
There is no prescribed maximum annual increase. Reviews take into account market data for similar non-executive roles in other companies of a similar size and/or business to St James's Place as well as the time commitment of its Non-executive Directors
The Company's Policy is to pay up to the mid-market level based on similar time commitments of chairman and non-executives in similar sized companies

The performance measures and targets that are set for the Executive Directors' annual bonus and PSP awards are carefully selected to align with the Company's strategic and key performance indicators

For the annual bonus financial and strategic measures are reviewed and selected by the Committee annually. The measures selected and weighting between them may vary annually depending on the key priorities of the business for the year ahead. Robust and demanding targets will be set annually taking into account the economic environment, market expectations and the Company's budget and business plan for the year ahead. EEV operating profit is used to assess financial performance as this measure reflects a number of key metrics including new business, persistency, retention of funds under management and cost control. The balance is determined based on strategic measures set annually on a balanced scorecard basis.

The Company has used a comparative TSR measure and EPS growth targets for the PSP for a number of years in line with the Group's strategy of delivering profitable growth and superior returns to its shareholders. The Committee will continue to review the choice of performance measures and the appropriateness of targets prior to each PSP award being made and will set robust and stretching measures for any alternative measures used. For the EPS growth measure stretching targets will be set annually taking into account the economic environment, market expectations and the Company's budget and business plan at that time. For the comparative TSR measure the Committee's policy is to set threshold vesting for median performance rising to full vesting for upper quartile performance. The Committee will assess annually the appropriateness of the TSR comparator group.

No performance targets are set for the SAYE and SIP awards as these form part of all employee arrangements designed to encourage employees across the Group to purchase shares in the Company.

Shareholding Guidelines

Executives are required to build and maintain a shareholding equivalent to 150% of base salary. Until the threshold is reached, 50% of vested shares from the PSP and other share awards (less tax liability) must be retained. Executives are also required to hold a further 50% of salary in shares and/or in one or more SJP funds, thus providing further alignment with shareholders and clients.

Annual Bonus Plan and Share Plan Policy

The Committee will operate the annual bonus plan, deferred bonus plan, PSP and all-employee share plans according to the rules of each respective plan and consistent with normal market practice and the Listing Rules, where relevant. The Committee will retain flexibility in a number of areas regarding the operation and administration of these plans, including (but not limited to) the following:

- Who participates in the plans
- When to make awards and payments
- How to determine the size of an award, a payment, or when and how much of an award should vest
- How to deal with a change of control or restructuring of the Group
- In the case of stated good leaver reasons or otherwise, whether a director is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s) as relevant
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends)

The Committee also retains the discretion within the policy to adjust targets and/or set different measures and alter weightings for the annual bonus plan and the PSP if events happen that cause it to determine that the original targets or conditions are no longer appropriate and the amendment is required so that the targets or conditions achieve their original purpose and are not materially less difficult to satisfy.

The use of discretion would where relevant be explained in the Annual Report on Remuneration and may, as appropriate, be subject to consultation with the Company's major shareholders.

Awards made prior to the Effective Date

For the avoidance of doubt, in approving this Policy Report, authority is given to the Company to honour any commitments entered into with current or former Directors that have been disclosed to shareholders in previous remuneration reports. This includes all historic awards that were granted under any current or previous share schemes operated by the Company but remain outstanding (detailed on pages 87 to 89 of this Report) and which will remain eligible to vest based on their original award terms. Details of any payments to former Directors will be set out in the Annual Remuneration Report as they arise.

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

Approach to Remuneration for Recruitment and Promotions

The Committee would aim to set a new Executive Director's remuneration package in line with the Company's approved policy at the time of appointment. The Committee will take into account, in arriving at a total package and in considering the quantum for each element of the package, the skills and experience of the candidate, the market rate for a candidate of that experience as well as the importance of securing the best candidate. For new appointments, base salary and total remuneration may be set initially at below normal market rates on the basis that it may be increased once expertise and performance has been proven and sustained.

Annual bonus potential will not exceed 150% of salary and long-term incentives will not exceed 250% of salary (not including any arrangements to replace forfeited deferred pay). Participation in the annual bonus plan and Performance Share Plan will normally be pro-rated for the year of joining and different performance measures may be set from those applying to the other Directors, if it is appropriate to do so to reflect the individual's responsibilities and the point in the year in which they joined the Board.

The Committee may make additional cash and/or share based awards as it deems appropriate and if the circumstances so demand to take account of deferred pay forfeited by an executive on leaving a previous employer. Awards to replace deferred pay forfeited would, where possible, reflect the nature of awards forfeited in terms of delivery mechanism (cash or shares), time horizons, attributed expected value and performance conditions. Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms and any other ongoing remuneration obligations existing prior to appointment would continue.

If appropriate and in exceptional circumstances the Committee may agree, on the recruitment of a new executive, a notice period of in excess of 12 months but reducing to 12 months over a specified period.

For the appointment of a new Chairman or Non-executive Director, the fee arrangement would be set in accordance with the approved remuneration policy at that time.

Risk Management

Risk is managed within the remuneration policy through the Committee.

- Taking into consideration the recommendations contained in the FCA 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 strategic performance metrics, where performance conditions are tailored to the business outlook and strategy, including the management of risk within the business. The Committee also retains the discretion to reduce the bonus out-turn where appropriate.
- 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.
- Requiring the Executive Directors to retain shares acquired on vesting of PSP awards granted from 1 January 2014 to 31 December 2014 for a six month period post the date of vesting, increasing to a two-year period for awards granted from 1 January 2015.
- Ensuring that the majority of the incentive pay comes in the form of a long-term incentive plan subject to stretching performance targets measured over multi-year performance periods, with the performance period for subsequent awards overlapping the previous award, together with an additional two year holding period. This ensures that there is no particular incentive to maximise performance over a particular period.
- 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

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 (other than in relation to quantum) and all employees participate in annual bonus plans. All employees, including the Executive Directors, are offered the opportunity to participate in the Group's SAYE Share Option Plan and Share Incentive Plan. Senior managers participate in the long-term incentive plan.

The remuneration policy for the Executive Directors is more weighted towards variable pay than for other employees to make a greater part of their pay conditional on the successful delivery of business strategy, and in line with shareholder interests. In addition, more of senior level remuneration is deferred than in the case for the workforce as a whole.

Employees were not consulted in respect of the Directors' remuneration policy, but the Committee does consider the remuneration arrangements for the broader employee population when determining the policy for the Executive Directors.

Remuneration Scenarios for Executive Directors

The chart below shows how the proportion of each Executive Director's remuneration package varies at different levels of performance in accordance with the policy to be implemented in 2014 and using the assumptions set out below. A significant proportion of remuneration is linked to performance, particularly at maximum performance levels.

Assumptions

Threshold = fixed pay only (salary, benefits and pension)

Target = fixed pay plus 60% vesting of the annual bonus and 50% vesting of PSP awards

Maximum = fixed pay plus 100% vesting of the annual bonus and PSP awards

Salaries used are those applying on 1 March 2014 and taxable benefits are those reported for the year ending 31 December 2013

Pension is based on 2014 policy applied to 1 March 2014 salaries

Amounts have been rounded to the nearest £1,000. Participation in all employee plans, dividends payable on PSP awards over the vesting period or on deferred share bonus awards are not included in the above scenarios and the table assumes no increase to the share price.

Service Contracts

The Company's policy is that service contracts may be terminated with 12 months' notice from either the Company or from the Executive Director (except in certain exceptional recruitment situations where a longer notice period from the Company may be set provided it reduces to a maximum of 12 months with a specified time limit). Service contracts do not contain a fixed end date.

Under their service contracts the Executive Directors are entitled to salary, pension contributions and benefits for their notice period (except on termination for events such as gross misconduct where payment will be for sums earned up to the date of termination with no notice period only). The Company would seek to ensure that any payment is mitigated by use of phased payments and offset against earnings elsewhere in the event that an Executive Director finds alternative employment during his notice period. There are no contractual provisions in force other than those set out above that impact any termination payment.

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

In summary the position on cessation of employment is as follows

Provision	Detailed terms
Notice period	12 months by either party
Termination payment	Base salary plus benefits (including pension) 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 In addition any statutory amounts would be paid as necessary
Remuneration entitlements on cessation	A pro-rata bonus may also become payable for the period of active service along with the vesting of outstanding share awards (in certain circumstances as described below)
Change of control	As on termination and with remuneration entitlements as described above

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 or redundancy

Any unvested awards held under the PSP schemes will lapse at cessation, unless the individual is leaving for certain reasons (defined under the plan as death, injury, ill-health, disability, redundancy, retirement, his office or employment being either a company which ceases to be a Group member or relating to a business or part of a business which is transferred to a person who is not a Group member, or any other reason the Committee so decides) In these circumstances, unvested awards will normally vest at the normal vesting date (unless the Committee decides they should vest at cessation) subject to performance conditions being met and scaling back in respect of actual service as a proportion of the total vesting period (unless the Committee decides that scaling back is inappropriate) The same approach applies on a change of control

Any unvested awards held under the Deferred Bonus Scheme will lapse at cessation unless the Committee determines otherwise In these circumstances the Committee may determine that unvested awards will vest at the cessation (unless the Committee decides they should vest at the normal vesting date)

The Committee may agree to the payment of disbursements such as legal costs and outplacement services if appropriate and depending on the circumstances of the leaving executive

Non-executive Directors' Letters of Appointment

The Non-executive Directors (including the Chairman) do not have service contracts or any benefits in kind arrangements and do not participate in any of the Group's pension or incentive arrangements The appointment of each Non-executive Director can be terminated by giving three months' notice (subject to annual re-appointment at the AGM) Any period of service longer than six years is subject to particularly rigorous review by the Nomination Committee of the Board The Non-executive Directors' letters of appointment do not provide for any payment on termination except for accrued fees and expenses to the date of termination

The terms and conditions of Executive Directors' service contracts and the letters of appointment of the Non-executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM, the details of which can be found on page 95

External Appointments

Executive Directors are permitted to be appointed to an external board or committee so long as this is unlikely to interfere with the business of the Group Any fees received in respect of external appointments are retained by the relevant Executive Director Currently, no Executive Director acts as a non-executive director on the Board of another listed company, other than David Lamb, who is a non-executive director of The Henderson Smaller Companies Investment Trust plc

Directors' Annual Report on Remuneration

The Annual Remuneration Report will be put to an advisory shareholder vote at the 2014 AGM. The information on pages 82 to 92 has been audited where indicated.

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) during 2013 are set out below as well as their attendance at meetings during the financial year.

Name	Number of meetings attended in 2013 out of potential maximum
Sarah Bates (Committee Chairman)	7/7
Vivian Bazalgette	7/7
Patience Wheatcroft	6/7

Patience Wheatcroft was not able to attend one meeting due to a prior commitment, but reviewed the papers and gave her comments to the Committee Chairman prior to the meeting.

Simon Jeffreys and Roger Yates were appointed as members of the Committee from 1 January 2014. It is intended that Sarah Bates will step down as Chairman of the Committee after the AGM in May 2014, to be replaced by Roger Yates.

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, and
- 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 explanations on 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.

Advisers 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's appointment as adviser to the Committee is reviewed annually by the Committee.

New Bridge Street provided advice to the Committee on remuneration matters generally, including on executive pay, the new legislation on remuneration reporting and incentive plans which are of particular relevance to the Company. New Bridge Street is a signatory to the Remuneration Consultants' Code of Conduct and has confirmed to the Committee its compliance with the Code.

The total fees paid to New Bridge Street for the advice provided to the Committee during the year was £149,832. 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 property and hedge funds which Aon Hewitt provided to the Investment Committee.

The Committee has been advised of the basis on which New Bridge Street is organised and managed as part of the wider Aon organisation and the basis on which its staff are remunerated and is satisfied that these relatively minor additional services in no way compromised the independence of advice provided by New Bridge Street to the Committee.

Engagement with Shareholders

During 2013, the Remuneration Committee reviewed the Remuneration Policy for the Executive Directors and other senior executives. As part of this process, it sought the views of the Company's major shareholders and investor representatives and other members of the Board. Further details of the review process are set out on page 58.

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

How the Remuneration Policy will be applied for 2014

2014 Salary Review

The salary increase to take effect from 1 March 2014 will be 3% for all Executive Directors (this is consistent with the average salary increase provided to Group employees)

The current salaries as at 1 March 2013 and the proposed increases from 1 March 2014 are as follows

	Salary as at 1 January 2013	Salary from 1 March 2013	Salary from 1 March 2014	Increase from 1 March 2013 to 1 March 2014
David Bellamy	£465,000	£478,000	£492,000	3%
Andrew Croft	£336,000	£346,000	£356,000	3%
Ian Gascoigne	£336,000	£346,000	£356,000	3%
David Lamb	£336,000	£346,000	£356,000	3%

The salaries of the Executive Directors were not increased in 2012 in line with the policy for senior management generally

Fees for the Chairman and Non-executive Directors

The fees for the Chairman and Non-executive Directors from 1 January 2014 (together with the fees for 2013) are as set out below
Fees for 2014 have been increased by 3%

	2013	2014	Increase
Chairman	£165,000	£170,000	3%
Base fee	£26,250	£27,000	3%
Audit Committee Member	£15,750	£16,250	3%
Investment Committee Member	£25,200	£26,000	3%
Risk Committee Member	£12,600	£13,000	3%
Remuneration Committee Member	£9,450	£9,750	3%
Committee Chair	£6,300	£6,500	3%
Senior Independent Director	£2,625	£2,700	3%

Annual Bonus

The Executive Directors' maximum bonus opportunity for 2014 will be 150% of salary. Half of the annual bonus will be determined by EEV operating profit and half by key strategic targets. 50% of the annual bonus earned for performance in 2014 will be paid in cash and the remaining 50% will be deferred in SJP shares for a three year period and subject to continued service.

The EEV operating profit target set by the Committee is based on a sliding scale to progressively reward incremental performance with the bottom end of the scale representing an increase over the 2013 result. The Board considers that the performance targets for the annual bonus are commercially sensitive and is not disclosing them at this time. The performance metrics and performance against them will be disclosed in the 2014 Remuneration Report to the extent that they do not remain commercially sensitive at that time.

The team element of the 2014 annual bonus will be assessed by reference to key strategic targets based around the 2014 business plan, including elements relating to clients, shareholders and other key stakeholders. Specific objectives include the delivery of excellent service to the Group's clients as measured by surveys and other client feedback, enhancing the range of investment funds and maintaining strong investment performance, 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.

Performance Share Plan Awards

The Executive Directors will each receive a PSP award in 2014 of 175% of salary, except for David Bellamy who will receive a PSP award of 190% of salary

The PSP awards to be granted in 2014 will be subject to a relative TSR performance condition for one-third of the award and earnings per share growth targets for two-thirds of the award as follows

Performance level hurdle	TSR relative to the FTSE 51 to 150 (Note 1)		Average annual adjusted EPS growth (including the unwind of the discount rate) in excess of RPI (Note 11)		Average annual adjusted EPS growth (excluding the unwind of the discount rate) in excess of RPI (Note 11)	
	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%

Notes

(1) FTSE 51 to 150, excluding investment trusts and companies in the FTSE oil, gas producers and mining sectors. Straight line vesting occurs in between threshold and maximum vesting

(11) 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 to 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.

Straight line vesting occurs in between threshold and maximum vesting

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

Remuneration Payable in respect of Performance in 2013

Directors' Remuneration (audited)

The following table sets out each element of remuneration for the years ended 31 December 2012 and 2013 (or period thereof for appointments or cessations during the year)

		Salary & fees	Benefits ⁽ⁱ⁾	Pension ⁽ⁱⁱ⁾	Annual bonus ⁽ⁱⁱⁱ⁾	Long term incentives ^(iv)	Other ^(v)	Total
		£	£	£	£	£	£	£
Executive Directors								
David Bellamy	2013	475,833	59,516	95,167	563,244	1,726,979	—	2,920,739
	2012	465,000	53,792	93,000	255,750	1,531,736	11,102	2,410,380
Andrew Croft	2013	344,333	41,191	68,867	407,704	1,149,358	—	2,011,453
	2012	336,000	41,192	67,200	184,800	1,062,255	11,102	1,702,549
Ian Gascoigne	2013	344,333	47,619	68,867	407,704	1,149,358	—	2,017,881
	2012	336,000	46,792	67,200	184,800	1,062,255	11,102	1,708,149
David Lamb	2013	344,333	50,585	68,867	407,704	1,149,358	—	2,020,847
	2012	336,000	41,328	67,200	184,800	1,062,255	11,102	1,702,685
Non-executive Directors								
Sarah Bates	2013	66,675	—	—	—	—	—	66,675
	2012	65,564	—	—	—	—	—	65,564
Vivian Bazalgette	2013	82,950	—	—	—	—	—	82,950
	2012	76,287	—	—	—	—	—	76,287
Steve Colsell	2013	10,938	—	—	—	—	—	10,938
	2012	26,250	—	—	—	—	—	26,250
Iain Cornish	2013	67,200	—	—	—	—	—	67,200
	2012	63,876	—	—	—	—	—	63,876
Charles Gregson	2013	165,000	—	—	—	—	—	165,000
	2012	165,000	—	—	—	—	—	165,000
Sue Harris	2013	15,313	—	—	—	—	—	15,313
	2012	—	—	—	—	—	—	—
Alison Hewitt	2013	15,313	—	—	—	—	—	15,313
	2012	—	—	—	—	—	—	—
Mike Power	2013	102,200	—	—	—	—	—	102,200
	2012	79,974	—	—	—	—	—	79,974
Patience Wheatcroft	2013	48,300	—	—	—	—	—	48,300
	2012	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 contributions made to the money purchase group pension scheme for David Bellamy, Andrew Croft, Ian Gascoigne and David Lamb were £95,167 (2012 £93,000), £68,867 (2012 £67,200), £68,867 (2012 £67,200) and £68,867 (2012 £67,200) respectively, being 20% of base salary earned in 2013. To the extent that pension contributions were capped by legislation, a non-pensionable salary supplement was paid to the Executive Directors for the balance
- (iii) As explained on page 72, 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
- (iv) The value of the long-term incentives is the value of shares vesting under the PSP scheme in the year (ie the three year performance period ends in that year) together with value of the dividends that would have been received during the three year performance period
- (v) The value of the SAYE options exercised on 3 May 2012 when the mid-market price of St James's Place shares was £3.32
- (vi) Mike Wilson, a former director of the Company, was paid £200,000 in 2013 (£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 members of the St James's Place Partnership
- (vii) David Lamb was a non-executive director of the Henderson Smaller Companies Investment Trust plc during the year and was paid a fee of £4,500 in 2013 in connection with that role

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

Measure	Weighting (% of salary)	Weighting (% of maximum)	Threshold	Maximum value	Actual	Payout (% of salary)	Payout (% of maximum)
EEV operating profit range of between £382m and £417m	30%	£25%	£382m	£417m	£462.7m	30%	25%
EEV profit from new business profit range of between £280m and £325m	30%	25%	£280m	£325m	£321.1m	27.5%	23%
Strategic business plan objectives			Assessment by the Committee of the performance of the Executive Directors as a team in relation to the various objectives set by the Committee at the start of the year		Performance assessed by the Committee as described more fully below	60%	50%

Annual Bonus Strategic Targets Performance Assessment

As described in other parts of the Report and Accounts, the Company delivered strong performance in 2013 for our clients, shareholders and other stakeholders. The Committee considered these three groups when setting the strategic targets for 2013, together with other objectives set out in the 2013 business plan. In serving our clients well, developing our employees and the Partnership for the future and striving to improve the effectiveness of our organisation, we will be best placed to meet our long-term business objectives, and create additional value for our shareholders. We also focus on the importance of safe and sustainable growth through prudent management of risk and the highest standards of regulatory compliance.

The Committee assessed how well the Executive team had performed in relation to the objectives set at the start of the year. The Committee did not place fixed weightings on the factors assessed, but made a judgement based on the Committee's view of the relative importance and impact of those factors over the course of the year. For some factors the Committee was able to put in place quantitative metrics, and for others more qualitative judgments were made, depending on the nature of the strategic objective.

As regards client satisfaction, the Committee took into account the following objectives:

- The independent client satisfaction survey results for 2013 were very strong and in some categories the results were the highest achieved since the annual survey began in 2007. In summary, 84% of clients rated their 'overall satisfaction' with SJP as 8 or more out of 10 (compared to 73% in 2012) and 81% of clients would be happy to recommend SJP to their contacts compared to 70% in 2012. In the annual Wealth Account survey, 88% of clients rated the value of their relationship with their SJP Partner as 8 or more out of 10.
- Clients continued to benefit from above average performance across the majority of funds, over a three, five and ten year period. Over the ten year period 70% of funds outperformed their peer group.
- The Group won a number of industry awards, further details of which are set out on page 39, many of which were voted on by clients.
- The above factors, together with strong service levels, generally, contributed to excellent retention of funds under management, with 95% of existing funds being retained (see page 32) and an 8% reduction in complaint levels compared to 2012.

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

In terms of strategic objectives designed to ensure the success of the business in the future, the Committee took into account

- the growth in the size of the Partnership of 9.5% in 2013, considerably above the target for the year of 5-7%,
- the success of the Academy in attracting suitable candidates to the courses run in 2013, with over 80% of recruits joining the Academy in 2012 and 2013 being retained,
- the high levels of retention for both employees and members of the Partnership, assisted by additional training and development opportunities launched in 2013 for both the senior management team, the Partnership and the workforce generally, and
- the successful placing by Lloyds Banking Group plc of its major shareholding in the Company during the year, assisted by the strong levels of support and demand for SJP shares from institutional investors, due to the strong results of the Group in recent years and the Group's successful investor relations programme

In addition to the above, the Committee assessed and noted the satisfactory completion of the various strategic objectives set out in the business plan, including

- the entering into of a reinsurance treaty with SwissRe that crystallised the future value of protection policies, reduced insurance and persistency risks and resulted in an increase in cash profits of approximately £18 million,
- the completion of various objectives designed to enhance and strengthen the monitoring and mitigation of key regulatory risks impacting the Group, and
- the implementation of phase one of the back office integration programme, which included the signing of a new contract for the administration of the Group's UK life and pension policies with IFDS, who already administer the Group's unit trust and ISA policies

Taking all the above strategic objectives into account, the Committee awarded the maximum bonus available under the team performance element of the annual bonus scheme, recognising that a high proportion of the strategic objectives were graded as 'outstanding' or 'above stretch' and that all of the major business plan objectives had been satisfactorily completed

Notes

- Profit from new business is the EEV new business contribution plus the profits arising in the distribution company as shown in the segmental analysis
- The Committee has the discretion to scale back the annual bonus payable in respect of the strategic measures if it considers it inappropriate in the context of the overall financial results of the Group. The Committee reviewed the Group's performance and agreed that no scale-back was appropriate
- 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
- 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

Vesting of Performance Share Plan (PSP) awards (audited)

On 31 December 2013, the awards made on 15 March 2011 under the PSP reached the end of their three-year performance period. These will vest on 15 March 2014, being the third anniversary of the date of grant. The performance conditions which applied to the 2011 PSP awards, and the actual performance achieved against these conditions, are set out in the table below.

Performance level hurdle	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 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	18 out of 179 companies		13.8%	85%	16.8%	100%
	Above Upper Quartile	100%	Note 1		Note 1	

* FTSE 250, excluding investment trusts and companies in the FTSE oil, gas and mining sectors

Note 1 In calculating the performance target relating to EPS growth, including the unwind, for the three years to 31 December 2013, the Committee excluded the 'one-off' costs of £6.2 million incurred by the Company in relation to the placing by Lloyds Banking Group plc (LBG) of 20% of its shareholding in SJP in March 2013. The Committee considered that these costs were not incurred in the ordinary course of business and were unforeseen at the time the performance targets were set and that it was fair and reasonable to exclude them. The impact of the adjustment to the EPS growth (including the unwind) was to increase the EPS growth over the three-year period to 31 December 2013 from 13.1% to 13.8%, with the result that the percentage vesting in relation to the one-third of the award based on EPS (including the unwind) increased from 80% to 85%. The impact of the adjustment of the EPS growth (excluding the unwind) was to increase EPS growth over the three-year period to 31 December 2013 from 15.9% to 16.8%, with the result that the percentage vesting in relation to the one-third of the award based on EPS (excluding the unwind) increased from 99% to 100%.

Accordingly, the total percentage of the 2011 PSP awards vesting was 95%, which resulted in the following awards vesting to the Executive Directors

Director	Total number of shares granted	Percentage of awards vesting	Number of shares vesting	Value of shares vesting (£'000) ⁽¹⁾
David Bellamy	267,322	95%	253,970	£1,653
Andrew Croft	177,912	95%	169,025	£1,100
Ian Gascoigne	177,912	95%	169,025	£1,100
David Lamb	177,912	95%	169,025	£1,100

Note

- (1) The deemed share price used to calculate the value of shares vesting was £6.51 being the three month average to 31 December 2013 (as the awards will not actually vest until 15 March 2014)

Share Awards granted to the Executive Directors in 2013

Director	Type of award	Basis of award granted	Average shares price at date of grant	Number of SJP shares over which award was granted (Note 1)	Face value of award (£'000)	% of face value that would vest at threshold performance
David Bellamy	Nil cost option	190% of salary of £478,000	£5.155	176,178	£908	25%
Andrew Croft	Nil cost option	175% of salary of £346,000	£5.155	117,458	£606	25%
Ian Gascoigne	Nil cost option	175% of salary of £346,000	£5.155	117,458	£606	25%
David Lamb	Nil cost option	175% of salary of £346,000	£5.155	117,458	£606	25%

Note

- (1) The number of shares awarded was calculated based on the average share price over a period of three days prior to the date of grant on 21 March 2013, being £5.155 per share. The face value of the award figure is calculated by multiplying the number of shares awarded by the average share price figure of £5.155

PSP awards are structured as nil cost options and there is therefore no exercise price payable on exercise. Dividend equivalents accrue to the Executive Directors between the date of grant and exercise of the award, but are released only to the extent that awards vest. Further details of the performance conditions which apply to the awards are set out in Notes (1) and (u) on page 81.

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

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.

Total Remuneration for the Chief Executive

The table below shows the total remuneration figure for the Chief Executive during each of the financial years shown. The total remuneration figure includes the annual bonus and long-term incentive awards which vested based on performance in those years (and ending in that year for PSP scheme awards).

	Year ending 31 December				
	2009	2010	2011	2012	2013
Total Remuneration	£1,039,723	£1,495,600	£1,998,758	£2,410,380	£2,920,739
Annual Bonus (% of maximum)	92%	96%	63%	46%	98%
LTIP vesting (% of maximum)	0%	57%	83%	87%	95%

The total value of the PSP award vesting in 2013 is £1,650,000. Of this, 52% (£855,831) is due to share price increase over the vesting period.

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 2013, compared to the year ending 31 December 2012.

	2012 £' Million	2013 £' Million	Percentage change
Operating profit after tax	107.1	190.3	78%
Dividends	54.0	82.1	52%
Employee remuneration costs	67.9	88.6	30%

Percentage Increase in the Remuneration of the Chief Executive

The table below shows the percentage movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average Group employee

	% change 2012 to 2013
Chief Executive	
Salary	2.8
Benefits (Note 1)	10.6
Bonus	120.2
Average per Employee	
Salary	3.6
Benefits (Note 1)	(1.3)
Bonus	66.9

Notes

(i) See Note (i) on page 82 for further details

(ii) The benefits costs reduced mainly due to lower costs being achieved for the Group's life and critical illness cover

Share Awards

The tables below set out details of share awards that have been granted to individuals who were Directors during 2013 and which had yet to vest at some point during the year

Performance Share Plan – Awards held in return for Qualifying Services during 2013 (audited)

Director	Balance at 1 January 2013	Granted in year ⁽ⁱ⁾	Lapsed in year ⁽ⁱ⁾	Exercised in year ⁽ⁱ⁾	Balance at 31 December 2013	Dates from which exercisable
David Bellamy	316,666 ⁽ⁱ⁾	—	42,117	268,020	—	8 Mar 2013 to 8 Mar 2016
	267,322 ⁽ⁱⁱ⁾	—	—	—	267,322	15 Mar 2014 to 15 Mar 2017
	242,220 ⁽ⁱⁱⁱ⁾	—	—	—	242,220	26 Mar 2015 to 26 Mar 2018
		176,178	—	—	176,178	21 Mar 2016 to 21 Mar 2019
Andrew Croft	219,607 ⁽ⁱ⁾	—	29,208	184,411	—	8 Mar 2013 to 8 Mar 2016
	177,912 ⁽ⁱⁱ⁾	—	—	—	177,912	15 Mar 2014 to 15 Mar 2017
	161,206 ⁽ⁱⁱⁱ⁾	—	—	—	161,206	26 Mar 2015 to 26 Mar 2018
		117,458	—	—	117,458	21 Mar 2016 to 21 Mar 2019
Ian Gascoigne	219,607 ⁽ⁱ⁾	—	29,208	184,411	—	8 Mar 2013 to 8 Mar 2016
	177,912 ⁽ⁱⁱ⁾	—	—	—	177,912	15 Mar 2014 to 15 Mar 2017
	161,206 ⁽ⁱⁱⁱ⁾	—	—	—	161,206	26 Mar 2015 to 26 Mar 2018
		117,458	—	—	117,458	21 Mar 2016 to 21 Mar 2019
David Lamb	219,607 ⁽ⁱ⁾	—	29,208	185,285	—	8 Mar 2013 to 8 Mar 2016
	177,912 ⁽ⁱⁱ⁾	—	—	—	177,912	15 Mar 2014 to 15 Mar 2017
	161,206 ⁽ⁱⁱⁱ⁾	—	—	—	161,206	26 Mar 2015 to 26 Mar 2018
		117,458	—	—	117,458	21 Mar 2016 to 21 Mar 2019

Notes

(i) 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 73), (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE 250 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.

(ii) 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 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 73), (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE 250 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.

(iii) 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 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 73), (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE 250 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.

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

- (iv) These awards were made on 26 March 2013 when the St James's Place share price was £5 115. The performance period is the three year period ending on 31 December 2015. 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 73) (ii) EPS excluding the impact of the said unwind and (iii) TSR compared to the FTSE 250 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. Up to 774 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 £5 155.
- (v) These awards lapsed due to the performance condition based on TSR (more fully described in note (i) above) not being fully satisfied and, as a result, 13.3% of the award lapsed at the end of the performance period (42,117 shares lapsed for David Bellamy and 29,208 shares lapsed for the other Executive Directors). The additional shares that lapsed were due to the Executives exercising their linked approved share options (see note (i)) prior to the exercise of their PSP awards (see also note (vi) below for more details).
- (vi) On 23 December 2013, when the mid market price was £7 125, David Bellamy exercised 10,199 shares at an option price of £2 55 under an approved award, resulting in a gain of £46,252. As a result, David Bellamy's related PSP award over 274,549 shares lapsed in respect of 6,529 shares, equivalent in value to the gain arising on exercise of the approved award. David Bellamy then exercised the remaining balance of 268,020 shares under the related PSP award on the same date resulting in a gain of £1,903,332. On 15 August 2013, when the mid-market price was £6 175, Andrew Croft and Ian Gascoigne exercised 10,199 shares at an option price of £2 55 under an approved award, resulting in a gain of £36,971 each. As a result, Andrew Croft's and Ian Gascoigne's related PSP awards over 190,399 shares each lapsed in respect of 5,988 shares, equivalent in value to the gain arising on exercise of the approved award. Andrew Croft and Ian Gascoigne then exercised the remaining balances of 184,411 shares each under the related PSP award on the same date resulting in a gain of £1,138,737 each. On 2 April 2013, when the mid-market price was £5 105, David Lamb exercised 10,199 shares at an option price of £2 55 under an approved award, resulting in gain of £26,153. As a result David Lamb's related PSP award over 190,399 shares lapsed in respect of 5,114 shares, equivalent in value to the gain arising on exercise of the approved award. On 2 August 2013, when the mid-market price was £6 345, David Lamb exercised the remaining balance of 185,285 shares under the related PSP award resulting in a gain of £1,171,427.

Deferred Bonus Scheme – Shares held during 2013 (audited)

The table below sets out details of the awards held by the Directors under the deferred element of the annual bonus scheme during 2013

Director	Balance at 1 January 2013	Released during year ⁽ⁱ⁾	Awarded during year ⁽ⁱⁱ⁾	Balance at 31 December 2013 ⁽ⁱⁱⁱ⁾	Vesting Date
David Bellamy	89,990	89,990	–	–	10 Mar 2013
	77,558	–	–	77,558	15 Mar 2014
	49,563	–	–	49,563	26 Mar 2015
	–	–	24,591	24,591	21 Mar 2016
Andrew Croft	67,757	67,757	–	–	10 Mar 2013
	58,397	–	–	58,397	15 Mar 2014
	35,813	–	–	35,813	26 Mar 2015
	–	–	17,769	17,769	21 Mar 2016
Ian Gascoigne	67,757	67,757	–	–	10 Mar 2013
	58,397	–	–	58,397	15 Mar 2014
	35,813	–	–	35,813	26 Mar 2015
	–	–	17,769	17,769	21 Mar 2016
David Lamb	59,287	59,287	–	–	10 Mar 2013
	58,397	–	–	58,397	15 Mar 2014
	35,813	–	–	35,813	26 Mar 2015
	–	–	17,769	17,769	21 Mar 2016

Notes

- (i) These deferred share awards were awarded on 10 March 2010 equal in value to the Executive's 2009 annual cash bonus. The St James's Place share price on the date of the award was £2 54 and on the date of release (11 March 2013) was £5 365. These deferred share awards were awarded on 21 March 2013, equal in value to the Executive's 2012 annual cash bonus. These shares will be held for a restricted period ending on 21 March 2016. The St James's Place share price on 21 March 2013 was £5 07.
- (ii) Outstanding awards at the year-end relate to deferred share awards awarded in 2011, 2012 and 2013 (see (i) above). The share price at the date of the 2011 award (15 March 2011) was £3 14 and as at the date of the 2012 award (26 March 2012) was £3 733.
- (iii) Further details of the deferred element of the annual bonus scheme are set out on page 72. Dividends accrue to the Executive Directors during the three year period while the shares are subject to forfeiture.

SAYE Share Option Scheme – Shares held during 2013 (audited)

Details of the options held by the Directors in 2013 under the SAYE scheme and any movements during the year are as follows

Director	Options held at 1 January 2013	Granted in year	Lapsed in year	Exercised in year	Options held at 31 December 2013	Exercise price	Dates from which exercisable
David Bellamy	3,040	—	—	—	3,040	£2 96	1 May 2015 to 31 Oct 2015
Andrew Croft	3,040	—	—	—	3,040	£2 96	1 May 2015 to 31 Oct 2015
Ian Gascoigne	3,272	—	—	—	3,272	£2 75	1 Nov 2015 to 30 Apr 2016
David Lamb	3,272	—	—	—	3,272	£2 75	1 Nov 2015 to 30 Apr 2016

Note

(i) At 31 December 2013 the mid-market price for St James's Place shares was £7 28. The range of prices between 1 January 2013 and 31 December 2013 was between £4 253 and £7 28.

Share Incentive Plan – Shares held during 2013 (audited)

The table below sets out details of the awards held by the Directors under the Share Incentive Plan during 2013

Director	Balance at 1 January 2013	Partnership shares allocated during year	Matching shares allocated during year	Balance at 31 December 2013	Holding period (matching shares)
Andrew Croft ⁽ⁱ⁾	642	—	—	642	26 Mar 2010 to 26 Mar 2013
	—	296	29	325	26 Mar 2013 to 26 Mar 2016
Ian Gascoigne ⁽ⁱⁱ⁾	502	—	—	502	28 Mar 2011 to 28 Mar 2014

Notes

- (i) 584 partnership shares were awarded on 26 March 2010 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. 296 partnership shares were awarded on 26 March 2013 at a price of £5 065 per share, in return for £1,500 being deducted from Mr Croft's pre-tax salary. A further 29 matching shares were awarded on the same date.
- (ii) 457 partnership shares were awarded on 28 March 2011 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.
- (iii) 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 2013 and 25 February 2014 there were no exercises or other dealings in the Company's share awards by the Directors.

Share Interests and Shareholding Guidelines (audited)

To align the interests of the Executive Directors with shareholders, the Executive Directors are required to build up a shareholding equivalent to 150% of salary, to be achieved through retaining at least 50% of their net of taxes gain arising from any shares vesting or acquired under the various incentive share plans, until such time as the upper limit of their share ownership target has been met. Executives are also required to hold a further 50% of salary in shares and/or in one or more St James's Place fund portfolios, thus providing further alignment with shareholders and clients. Details of the Directors' interests in shares are shown in the following table. All of the Executive Directors have met the shareholding guideline.

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

Directors' Interests in Shares

Director	Shares held at 1 January 2013	Shares held at 31 December 2013	% of base salary held in SJP shares as at 31 December 2013 ⁽ⁱ⁾
David Bellamy	1,346,608	1,294,458	1,971%
Andrew Croft	746,298	803,738	1,691%
Ian Gascoigne	688,515	693,263	1,459%
David Lamb	428,141	415,003	873%
Sarah Bates	13,500	13,500	
Vivian Bazalgette	20,000	20,000	
Steve Colsell ⁽ⁱⁱ⁾	—	—	
Iain Cornish	—	—	
Charles Gregson ⁽ⁱⁱⁱ⁾	12,535	12,535	
Sue Harris ^(iv)	—	—	
Alison Hewitt ^(v)	—	—	
Mike Power ^(vi)	—	—	
Patience Wheatcroft	1,500	1,500	

Notes

(i) Calculated using the mid market price at 31 December 2013 of £7.28p

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

(iii) 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 88

The interests of the Executive Directors also include awards under the Share Incentive Plan, details of which are set out on page 89

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

(v) Steve Colsell ceased being a member of the Board with effect from 1 June 2013 and Sue Harris and Alison Hewitt were appointed non-independent Non-executive Directors on 1 June 2013. Sue Harris and Alison Hewitt ceased being members of the Board with effect from 31 December 2013

(vi) Charles Gregson and Mike Power ceased being members of the Board with effect from 31 December 2013

(vii) Disclosure of the Directors' interests in share awards is given on pages 87 to 89 of the Remuneration Report and also in Note 33 – Related Party Transactions

Between 31 December 2013 and 20 February 2014 there were no transactions in the Company's shares by the Directors

Executive Directors' Shareholdings and Outstanding Share Awards

Director	Beneficially owned at 31 December 2013 ⁽ⁱ⁾	Outstanding PSP awards (performance conditions) ⁽ⁱⁱ⁾	Outstanding DBS awards (no performance conditions) ⁽ⁱⁱⁱ⁾	SAYE options (no performance conditions) ^(iv)	SIP shares (no performance conditions) ^(v)
David Bellamy	1,294,458	685,720	151,712	3,040	—
Andrew Croft	803,738	456,576	111,979	3,040	967
Ian Gascoigne	693,263	456,576	111,979	3,272	502
David Lamb	415,003	456,576	111,979	3,272	—

(i) No share awards have vested but remain unexercised

(ii) Details on the PSP awards are set out on page 87

(iii) Details on the DBS awards are set out on page 88

(iv) Details on the SAYE options are set out on page 89

(v) Details on the SIP shares are set out on page 89

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 continued success of the Group. (Shareholders are not being asked to approve a 15% of share capital limit in relation to the new long-term incentive plan at the AGM.)

The table below sets out, as at 31 December 2013, 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 2013

Share Scheme	Number of new ordinary shares of 15 pence each	% of total issued share capital as at 31 December 2013
SAYE schemes	3,853,078	0.75%
Executive share schemes	13,634,552	2.64%
Partners' share schemes	21,175,793	4.11%
Total	38,663,423	7.50%

In addition, as at 31 December 2013, the Group's Employee Share Trust held 889,932 shares in the Company which were purchased in the market to satisfy awards made under the PSP and executive share option schemes

A further 2,167,880 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 72.

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 2013 as being interested in zero ordinary shares of 15p in the Company, such shares being held by S G Hambros Trust Company (Channel Islands) Limited, the trustee of that trust.

Directors' Remuneration Report *continued*

for the year ended 31 December 2013

Statement of Shareholding Voting at AGM

At last year's AGM held on 21 May 2013, 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%

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

Sarah Bates

Chairman, Remuneration Committee

24 February 2014

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 2013. All of the Directors were in office throughout the financial year and up to the date of signing this report with the exception of Steve Colsell, Charles Gregson, Sue Harris, Alison Hewitt and Mike Power, as detailed below.

The information that fulfils the Companies Act requirements of the Strategic Report can be found in the following sections:

Principal risks and uncertainties	The Risk and Risk Management section on pages 36 and 37
Internal control and risk management	Strategic Report on pages 34 and 35
Performance and development of the business during the year and position at the end of the year	Chief Executive's Statement on pages 2 to 4, the Chief Financial Officer's Report on pages 12 to 14 and the Financial Review on pages 16 to 33
Information on likely future developments	Chief Executive's Statement on pages 3 and 4, the Chief Financial Officer's Report on page 14 and the Financial Review on pages 22, 28 and 32
Directors' and Officers' Indemnity and Insurance	The Corporate Governance Report on page 57
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 39 to 45
Contractual or other arrangements essential to the business of the Company	Page 95

Results and Dividends

The consolidated statement of comprehensive income is on page 102 and profit for the financial year attributable to equity shareholders amounted to £190.3 million. An interim dividend of 6.38 pence per share, which equates to £32.7 million, was paid on 25 September 2013 (2012: 4.25 pence per share/£21.4 million). The Directors recommend that shareholders approve a final dividend of 9.58 pence per share, which equates to £49.4 million (2012: final dividend of 6.39 pence per share/£32.4 million) to be paid on 16 May 2014 to shareholders on the register at the close of business on 11 April 2014.

In 2012, the Directors introduced a Dividend Reinvestment Plan ('DRP'), details of which are set out on page 178.

Status of Company

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

Our Directors

Details of the Directors as at 24 February 2014 and their biographies are shown on pages 52 and 53. Brief particulars of the Directors' membership of the Board committees are contained in the Corporate Governance Report on pages 59 to 67.

Sue Harris and Alison Hewitt were appointed non-independent Non-executive Directors on 1 June 2013, as representatives of Lloyds Banking Group ('LBG') pursuant to the Relationship Agreement between the Company and LBG. They replaced Steve Colsell who resigned from the Board on 1 June 2013. Under the Relationship Agreement, LBG was entitled to appoint up to two Non-executive Directors to the SJP Board. The Relationship Agreement terminated in accordance with its terms on 13 December 2013 following the sale by LBG of its major shareholding in SJP and, as a consequence, Sue Harris and Alison Hewitt resigned from the Board on 31 December 2013.

Simon Jeffreys and Roger Yates were appointed to the Board as independent Non-executive Directors on 1 January 2014. Charles Gregson and Mike Power resigned from the Board on 31 December 2013.

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 Annual General Meeting in 2014. 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. After careful consideration, the Chairman is pleased to confirm that, following the performance evaluation referred to on page 58, the Directors seeking re-election continue to make a valuable contribution to the Board. Your Directors each bring a great deal of experience to the Board as a result of their varied careers and we believe this diversity is essential to contributing to the appropriate mix of skills and experience needed by the Board and its committees in order to protect shareholders' interests. The Chairman is also happy to confirm that the Directors have demonstrated their continued commitment to their roles and continue to dedicate sufficient time to their duties. The Board therefore recommends to its shareholders that all the Directors retiring at the forthcoming Annual General Meeting should be re-elected.

Directors' Report *continued*

As shown on pages 29 and 30 of the Strategic Report, 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.

Disclosure of Information to Auditors

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

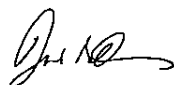
- so far as each Director is aware, there is no relevant audit information of which the auditors are unaware, and
- each Director has taken all reasonable steps to ascertain relevant audit information and ensure that the auditors are aware of such information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 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 2015 Annual General Meeting will be put to shareholders at the Annual General Meeting on 14 May 2014.

On behalf of the Board



D Bellamy
Chief Executive
24 February 2014



A Croft
Chief Financial Officer

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'),
- the Strategic 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, and
- the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

By order of the Board



H Gladman
Company Secretary
24 February 2014

Consolidated Accounts

on International Financial Reporting Standards Basis

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Independent Auditors' Report

to the members of St. James's Place plc

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion the consolidated financial statements, defined below

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of the Group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards ('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

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The consolidated financial statements, which are prepared by St James's Place plc, comprise

- the consolidated statement of financial position as at 31 December 2013,
- the consolidated statement of comprehensive income for the year then ended,
- the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') 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 (the 'Annual Report') to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially

inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Overview of our audit approach

Materiality

We set certain thresholds for materiality These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole

Based on our professional judgement, we determined materiality for the consolidated financial statements as a whole to be £15 million In arriving at this judgement we have had regard to profit before tax attributable to shareholders' returns because, in our view, this is the most relevant measure of underlying performance

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.75 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

Overview of the scope of our audit

The Group is structured to reflect its vertically integrated insurance and wealth management operations situated predominantly in the UK and also in the Republic of Ireland The consolidated financial statements are a consolidation of five financially significant reporting units, comprising the Group's operating businesses and centralised functions and the St James's Place Unit Trusts where they are considered to be subsidiaries of the Group

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors from other PwC network firms operating under our instruction Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole

Accordingly, the five financially significant reporting units required an audit of their complete financial information, due to their size and/or their risk characteristics Specific audit procedures on certain balances and transactions were also performed over those St James's Place Unit Trusts regarded as subsidiaries of the Group This, together with additional procedures performed at the consolidated level, gave us the evidence we needed for our opinion on the consolidated financial statements as a whole

Independent Auditors' Report *continued*

to the members of St. James's Place plc

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered

necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 59 to 61.

Area of focus	How the scope of our audit addressed the area of focus
Existence and valuation of financial investments and investment property. We did not assess these investments to be a significant risk area for our audit but their magnitude in the context of the financial statements meant that they were an area of focus for testing.	We agreed the existence of all holdings of the financial investment portfolio to a confirmation received from independent custodians as at 31 December 2013.
St James's Place plc outsources the custodian and valuation activities. Our audit procedures therefore focus on the evidence available over these outsourced processes.	We independently agreed the existence of a sample of holdings of Investment Properties as at 31 December to the Land Register maintained by the Land Registry.
	We obtained and read the International Standard on Assurance Engagements ('ISAE') 3402 'Assurance Reports on Controls at a Service Organisation' for State Street's Global Fund Accounting and Custody operations which provided a description of the systems and controls in place and the results of the testing of the operational effectiveness of their controls. Where appropriate, we placed reliance on the controls described in the ISAE 3402 report to gain evidence over the valuation and existence of the investments within the portfolio.
	In addition to our controls testing we independently re-priced a sample of derivative investments as at 31 December 2013. We also independently re-priced all equity, fixed income and collective investment scheme investments at a point in time during the year to complement our controls reliance. We agreed our independent prices to those provided by State Street.
	For Investment Properties we tested the inputs to the valuation process and tested the reasonableness of the rental yield assumptions used by the Directors in the valuation of the portfolio as at 31 December 2013.

Area of focus	How the scope of our audit addressed the area of focus
Fraud in revenue recognition. ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.	We evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements.
We focused on the transactions which included a judgemental element in their calculation, for example the determination of the amortisation period for the deferred income.	We assessed the Directors' judgements and estimates that had a direct impact on revenue, for example the amortisation profile of the deferred income and the classification of St James's Place plc products between insurance and investment business.
(Refer also to note 2 to the financial statements)	We tested journal entries posted to revenue accounts that met specific criteria to identify unusual or irregular items.
Risk of management override of internal controls. ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. We also tested journal entries.

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 95, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the consolidated financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the information given in the Strategic Report and the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements, and
- the information given in the Corporate Governance Statement set out on pages 61 and 94 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**Adequacy of information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Companies Act 2006, we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 97 of the Annual Report, as required by the Code Provision C 1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 60, as required by C 3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit, or
- the section of the Annual Report and Accounts describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited consolidated financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit, or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT**Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 97, the Directors are responsible for the preparation of the consolidated 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 consolidated financial statements in accordance with applicable law and ISAs (UK & 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.

OTHER MATTER

We have reported separately on the Parent Company financial statements of St James's Place plc for the year ended 31 December 2013 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
24 February 2014

Notes

- 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.
- 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 2013 £' Million	Year Ended 31 December 2012* £' Million
Insurance premium income		61.2	66.1
Less premiums ceded to reinsurers		(54.3)	(26.9)
Net insurance premium income		6.9	39.2
Fee and commission income	4	1,013.3	643.1
Investment return	5	5,831.1	3,576.7
Other operating income		2.5	1.2
Net income	3	6,853.8	4,260.2
Policy claims and benefits			
– Gross amount		(50.2)	(52.6)
– Reinsurers' share		20.5	21.0
Net policyholder claims and benefits incurred		(29.7)	(31.6)
Change in insurance contract liabilities			
– Gross amount		(42.3)	(30.0)
– Reinsurers' share		25.6	(0.4)
Net change in insurance contract liabilities		(16.7)	(30.4)
Investment contract benefits	23	(5,449.4)	(3,415.2)
Fees, commission and other acquisition costs		(734.7)	(409.0)
Administration expenses		(158.9)	(119.0)
Other operating expenses		(3.2)	(3.2)
	6	(896.8)	(531.2)
Profit before tax	3	461.2	251.8
Tax attributable to policyholders' returns	8	(270.5)	(117.2)
Profit before tax attributable to shareholders' returns		190.7	134.6
Total tax expense	8	(270.9)	(144.7)
Less tax attributable to policyholders' returns	8	270.5	117.2
Tax attributable to shareholders' returns	8	(0.4)	(27.5)
Profit and total comprehensive income for the year		190.3	107.1
Profit attributable to non-controlling interests		(0.2)	–
Profit attributable to equity shareholders		190.5	107.1
Profit and total comprehensive income for the year		190.3	107.1
		Pence	Pence
Basic earnings per share	10	37.4	21.5
Diluted earnings per share	10	36.7	21.2

* Restated to reflect the adoption of IFRS 10. See Note 1a

The Group has no other comprehensive income or expense and therefore a separate consolidated statement of comprehensive income has not been presented.

The notes and information on pages 106 to 155 form part of these accounts.

Consolidated Statement of Changes in Equity

	Notes	Attributable to Equity Shareholders					Non-controlling Interests	Total
		Share Capital	Share Premium	Treasury Shares Reserve	Retained Earnings	Misc Reserves		
		£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
At 1 January 2012		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	11				(45.3)			(45.3)
— 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	31				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
Non-controlling interests arising on the purchase of subsidiaries during the year							0.2	0.2
Profit and total comprehensive income for the year					190.5		(0.2)	190.3
— Dividends	11				(65.3)			(65.3)
— Issue of share capital		0.3						0.3
— Exercise of options		1.0	14.5					15.5
Consideration paid for own shares				(5.3)				(5.3)
Own shares vesting charge				4.0	(4.0)			—
Retained earnings credit in respect of share option charges	31				7.8			7.8
Retained earnings credit in respect of proceeds from exercise of share options held in trust					0.1			0.1
At 31 December 2013		77.3	142.2	(10.2)	694.5	2.3	—	906.1

The number of shares held in the Treasury Share Reserve is given in Note 30 Share Capital on page 147

Miscellaneous reserves represent other non-distributable reserves

The notes and information on pages 106 to 155 form part of these accounts

Consolidated Statement of Financial Position

	Notes	31 December 2013 £' Million	31 December 2012* £' Million	1 January 2012* £' Million
Assets				
Intangible assets				
– Deferred acquisition costs	12	888 8	971 6	865 1
– Acquired value of in-force business	12	40 0	43 2	46 4
– Computer software	12	8 7	11 7	8 4
– Customer list	12	–	3 0	0 9
		937.5	1,029 5	920 8
Property & equipment	13	5 8	3 6	5 4
Deferred tax assets	14	181 8	190 9	248 5
Investment property	15	732 7	597 6	550 9
Investments				
– Equities		29,614.8	21,472 8	17,306 3
– Fixed income securities		5,965 7	5,117 0	3,811 3
– Investment in Collective Investment Schemes		3,244 3	2,909 6	2,312 2
– Derivative Financial Instruments		142 9	86 1	30 1
Reinsurance assets	21	64.2	38 6	39 0
Insurance and investment contract receivables		49.9	46 5	44 5
Income tax assets		–	85 2	41 3
Other receivables	17	554 0	526 1	557 2
Cash & cash equivalents	18	3,845 7	3,080 1	2,368 1
Total assets		45,339 3	35,183 6	28,235 6
Liabilities				
Insurance contract liabilities	20	466 4	424 0	394 0
Other provisions	22	9 7	9 2	3 1
Financial liabilities				
– Investment contracts	23	33,717 5	27,147 4	22,227 3
– Borrowings	24	98 7	70 7	43 8
– Derivative Financial Instruments		87 8	52 9	43 4
Deferred tax liabilities	25	496 6	269 0	218 9
Insurance and investment contract payables		38 1	24 9	29 9
Deferred income	26	538 6	616 5	536 9
Income tax liabilities		4 9	77 2	12 4
Other payables	27	439 4	435 8	393 2
Net asset value attributable to unit holders	16	8,535 4	5,293 5	3,654 4
Preference shares		0.1	–	–
Total liabilities		44,433 2	34,421 1	27,557 3
Net assets		906 1	762 5	678 3
Shareholders' equity				
Share capital	30	77.3	76 0	74 0
Share premium		142 2	127 7	110 4
Treasury shares reserve		(10 2)	(8 9)	(8 5)
Miscellaneous reserves		2.3	2 3	2 3
Retained earnings		694 5	565 4	500 1
Shareholders' equity		906 1	762 5	678 3
Non-controlling interests		–	–	–
Total equity		906.1	762 5	678 3
		Pence	Pence	Pence
Net assets per share		175 9	150 4	137 5

* Restated to reflect the adoption of IFRS 10 See Note 1a

The financial statements on pages 102 to 155 were approved by the Board of Directors on 24 February 2014 and signed on its behalf by



D Bellamy
Chief Executive



A Croft
Chief Financial Officer

The notes and information on pages 106 to 155 form part of these accounts

Registered No 03183415

Consolidated Statement of Cash Flows

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Other Information

	Notes	Year Ended 31 December 2013	Year Ended 31 December 2012*
		£' Million	£' Million
Cash flows from operating activities			
Profit before tax for the year		461.2	251.8
Adjustments for			
Depreciation	13	1.6	2.3
Revaluation	13	0.1	0.4
Amortisation of acquired value of in-force business	12	3.2	3.2
Amortisation of computer software and customer list	12	2.5	0.6
Share based payment charge	31	7.8	5.4
Interest income		(22.5)	(22.9)
Interest paid		2.8	1.7
Changes in operating assets and liabilities			
Decrease/(increase) in deferred acquisition costs		82.8	(106.5)
Increase in investment property		(135.1)	(46.7)
Increase in investments		(9,382.2)	(6,125.6)
(Increase)/decrease in reinsurance assets		(25.6)	0.4
Increase in insurance and investment contract receivables		(3.4)	(2.0)
Increase in other receivables		(22.4)	(3.0)
Increase in insurance contract liabilities		42.4	30.0
Increase in provisions		0.5	6.1
Increase in financial liabilities (excluding borrowings)		6,605.0	4,929.6
Increase/(decrease) in insurance and investment contract payables		13.2	(5.0)
(Decrease)/increase in deferred income		(77.9)	79.6
Increase in other payables		3.6	42.6
Increase in net assets attributable to unit holders		3,241.9	1,639.1
Cash generated from operating activities		799.5	681.1
Interest received		22.5	22.9
Interest paid		(2.8)	(1.7)
Income taxes (paid)/received		(14.8)	18.0
Net cash from operating activities		804.4	720.3
Cash flows from investing activities			
Acquisition of property & equipment		(3.8)	(0.9)
Disposal/(acquisition) of intangible assets	12	0.5	(3.6)
Acquisition of subsidiaries and other business combinations, net of cash acquired		(9.1)	(2.4)
Net cash from investing activities		(12.4)	(6.9)
Cash flows from financing activities			
Proceeds from the issue of share capital		15.8	19.3
Consideration paid for own shares		(5.3)	(2.4)
Proceeds from exercise of options over shares held in trust		0.1	0.1
Proceeds from issue of non-redeemable preference shares		0.1	—
Acquisition of non-controlling interests		0.2	—
Additional borrowings		30.0	70.0
Repayment of borrowings		(2.0)	(43.1)
Dividends paid	11	(65.3)	(45.3)
Net cash from financing activities		(26.4)	(1.4)
Net increase in cash & cash equivalents		765.6	712.0
Cash & cash equivalents at 1 January		3,080.1	2,368.1
Effect of exchange rate fluctuations on cash held		—	—
Cash & cash equivalents at 31 December		3,845.7	3,080.1

* Restated to reflect the adoption of IFRS 10. See Note 1a

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

The notes and information on pages 106 to 155 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 new and amended standards, which the Group have early adopted as of 1 January 2013, have had a material impact on the Group's reported results

IAS 28 Revised – Investments in associates and joint ventures
IFRS 10 Consolidated Financial Statements
IFRS 12 Disclosure of Interests in Other Entities
Amendments to IFRS 10, 11 and 12 on Transition Guidance

The following new, revised and amended standards, which the Group have adopted as of 1 January 2013, have not had any material impact on the Group's reported results

IAS 1 Amendment – Presentation of Financial Statements
IAS 12 Amendment – Income Taxes
IFRS 7 Amendment – Financial Instruments Disclosure
IFRS 13 Fair Value Measurement
Annual Improvements to IFRSs 2009 – 2011 Cycle

As at 31 December 2013, the following standards and interpretation, which are relevant to the Group but have not been applied in the financial statements, were in issue but not yet effective

IAS 32 Amendment – Financial Instruments Presentation
IAS 36 Amendment – Impairment of Assets
IAS 39 Amendment – Financial Instruments Recognition and Measurement
IFRS 9 Financial Instruments – Classification and Measurement
IFRS 9 Amendment – Financial Instruments
IFRS 9 Amendment – Hedge Accounting
IFRIC Interpretation 21 – Levies
Annual Improvements to IFRSs 2010 – 2012 Cycle
Annual Improvements to IFRSs 2011 – 2013 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), to the extent that it is consistent with IFRS standards

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 derivative financial instruments, 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 judgements, 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 judgements 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.

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 30% of the units). Associates are all entities over which the group has significant influence but not control and are accounted for at fair value through the profit and loss. The Group uses the acquisition method of accounting to account for business combinations and expenses all acquisition costs as they incur. 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.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in the consolidated statement of comprehensive income.

The treatment of transactions with non-controlling interests depends on whether, as a result of the transaction, the Group alters control of the subsidiary. Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent entity. Where the Group loses control of the subsidiary, at the date when control is lost the amount of any non-controlling interest in that former subsidiary is derecognised and any investment retained in the former subsidiary is remeasured to its fair value, the gain or loss that is recognised in profit or loss on the partial disposal of the subsidiary includes the gain or loss on the remeasurement of the retained interest.

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.

Following the implementation of the Retail Distribution Review ('RDR') on 31 December 2012, explicit advice charges are payable to St James's Place distribution company by most clients who wish to receive advice with their investment in a St James's Place retail investment product. St James's Place facilitates the payment of these charges for the client, by arranging withdrawals from the client's policy, which are then recognised as income to St James's Place distribution company. A proportion of the charge is then paid to the St James's Place adviser ('Partner') who provides the advice (see (g)(i) Expenses).

(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, and only 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. Note, following the implementation of the Retail Distribution Review ('RDR') on 31 December 2012, the initial advice costs are no longer an acquisition cost linked to the contractual right to benefit from providing investment management services and so they are no longer deferred.

(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 reporting 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.

The accounting policy for reinsurance assets has been amended to reflect only amounts recoverable from reinsurers in respect of insurance contract liabilities. Amounts recoverable from reinsurers in respect of claims and amounts payable in respect of future reinsurance premiums are reported as part of insurance and investment contract receivables and payables, respectively. There is no impact on the Group's reported results from this change.

(e) Fee and commission income

Fee and commission income comprises

- (i) fees charged for services related to the management of investment contracts,
- (ii) advice charges paid by clients who wish to receive advice with their investment in a St James's Place or third party retail investment product, and
- (iii) commission, due in respect of products sold on behalf of third parties.

Investment contract management fees are generally recognised as revenue as the services are provided (see also accounting policy note c (ii)).

Advice charges and commission are recognised in full on acceptance and inception of the associated policy by the relevant 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) Partner remuneration**

Whilst the implementation of the Retail Distribution Review ('RDR') on 31 December 2012 has resulted in changes to Fee and Commission income received (see (e) Fee and Commission), there is no change to treatment of Partner Remuneration.

Partner remuneration comprises initial commission and initial advice fees ('IAF') (paid for initial advice, at policy outset and within an 'initial period'), renewal commission and renewal advice fees (payable on regular contributions) and fund fee commission or ongoing advice fee ('OAF') (based on funds under management and payable on the policy anniversary). Initial and renewal commission and advice fees 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 and ongoing advice fee are recognised on an accruals basis.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

1 ACCOUNTING POLICIES *continued*

Commission and advice fees 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 remuneration is recognised as an asset within other receivables. Should the contributions reduce or stop within the initial period, any unearned amount 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.

(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 substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the 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 reporting 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(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. Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders, with the balance being treated as tax in respect of policyholders.

(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 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 stated at cost less accumulated 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.

Computer software is recognised as an intangible asset during development with amortisation commencing when the software is operational. Amortisation is charged to the statement of comprehensive income to administration expenses on a straight-line basis over four years, being the estimated useful life of the intangible asset.

(iv) Customer list

During the year, customer list (renamed renewal income) was reclassified as a financial asset and disclosed within other receivables to better reflect the nature of the asset. See accounting policy o (Other receivables policy) for information relating to the treatment of other receivables.

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

(k) Property & equipment

Items of property & equipment are stated at cost less accumulated depreciation. 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. Land is shown at fair value, based on valuations by external independent valuers. The carrying value is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and any assets that may have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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 open 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 return from investment property is accounted for as described in accounting policy (f).

(m) Investments

The Group's investments are initially and subsequently recognised 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 the value within the bid-ask spread that is most representative of fair value. 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.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

1 ACCOUNTING POLICIES *continued*

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.

(n) *Derivative financial instruments*

The Group uses derivative financial instruments within some unit linked funds, with each contract initially and subsequently recognised at fair value, based on observable market prices. All changes in value are 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, except for renewal income which is held at fair value. 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, renewal income and loans are carried out at each reporting 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 reporting 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.

(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 30% 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. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(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 reporting 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 presentation 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 reporting 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 reporting date are disclosed as current within the notes to the accounts. Those expected to be recovered or settled more than twelve months after the reporting date are disclosed as non-current.

Liabilities which are expected and due to be settled no more than twelve months after the reporting 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 reporting date are disclosed as non-current.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

1(A) ADOPTION OF IFRS 10 – IMPACT OF CONSOLIDATION OF UNIT TRUSTS

This new standard establishes the principles to determine whether one entity controls another, where such control exists the controlling entity is required to consolidate the other entity in its financial statements. The Group has early adopted IFRS 10 with effect from 1 January 2013. Unit trusts are now therefore being accounted for as a subsidiary when the Group holds more than 30% of the units.

Comparative financial information has been restated following the early adoption of IFRS 10. The tables below show the effect on the statement of financial position, the statement of comprehensive income and the statement of cashflows. There was no impact on the earnings per share calculation.

Impact on Statement of Financial Position

Increase/(decrease)	31 December 2012 £' Million	1 January 2012 £' Million
Assets		
Investments		
– Equities	2,481.2	1,562.9
– Fixed income securities	37.1	53.2
– Investment in Collective Investment Schemes	(1,199.5)	(690.5)
– Derivative Financial Instruments	–	1.9
Other receivables	17.7	27.0
Cash and cash equivalents	83.1	38.8
Total assets	1,419.6	993.3
Liabilities		
Financial liabilities		
– Derivative financial instruments	(0.7)	–
Other payables	1.6	16.8
Net asset value attributable to unit holders	1,418.7	976.5
Total liabilities	1,419.6	993.3

Impact on Statement of Comprehensive Income

Increase/(decrease)	Year Ended 31 December 2012 £' Million
Other investment return	169.0
Net income	169.0
Net change in investment contract benefits	(169.0)
Profit before tax	–
Tax attributable to policyholders' returns	–
Profit for the period	–

Impact on Statement of Cash Flows

	Year Ended 31 December 2012
	£' Million
Changes in operating assets and liabilities	
Increase in investments	(391.3)
Increase in other receivables	9.3
Decrease in financial liabilities (excluding borrowings)	(0.7)
Increase in other payables	(15.2)
Increase in net assets attributable to unit holders	442.2
Cash generated from operations	44.3
Net cash generated from operating activities	44.3
Net increase in cash and cash equivalents	43.3
Cash & cash equivalents at 1 January	38.8
Cash & cash equivalents at 31 December	83.1

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
- Determining the value of deferred tax assets

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 2013 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 20.

Acquisition expenses

Certain management expenses vary with the level of new business and have been treated as acquisition costs. Each line of costs has been reviewed and its variability to new business volumes estimated on the basis of the level of costs that would be incurred if new business ceased.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

Amortisation and recoverability of Deferred Acquisition Costs ('DAC') and Deferred Income ('DIR')

Deferred acquisition costs 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 income is amortised on a straight line basis over the surrender penalty period as income is recognised from the policy.

Deferred acquisition costs and deferred 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 generating acquired in-force business 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 reporting 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

Determining the value of deferred tax assets

In line with IAS 12, the Group has recognised deferred tax assets for future tax benefits that will accrue. The asset value has taken into consideration the likelihood of appropriate future income or gains against which the tax asset can be utilised. In particular future investment income from the existing assets will be sufficient to utilise the unrelieved expenses and capital gains crystallising in the unit linked funds will utilise the capital losses. Tax assets in relation to deferred income will be utilised as the underlying income is recognised.

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.

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 2013	Year Ended 31 December 2012*
	£' Million	£' Million
Life business	532.9	488.7
Unit Trust business	230.0	148.5
Distribution business	102.3	106.1
Other business	—	—
Total APE	865.2	743.3
Restatement to reconcile to IFRS basis		
Life business		
Exclude investment business APE	(530.5)	(486.0)
Difference between insurance business APE and premium receivable	58.8	63.4
Less insurance premium income ceded to reinsurers	(54.3)	(26.9)
Fee income (management fees)	460.7	498.2
Net movement on deferred income	70.8	(43.5)
Investment income (primarily in unit linked funds)	4,886.3	3,016.5
Unit Trust business		
Exclude unit trust APE	(230.0)	(148.5)
Fee income (dealing profit and management fees)	150.9	166.3
Net movement on deferred income	7.1	(36.1)
Investment income	0.3	0.3
Distribution business		
Exclude distribution APE	(102.3)	(106.1)
Fee and commission income receivable	319.2	58.0
Other investment income	0.2	0.8
Other business		
Income receivable	4.6	0.2
Investment income on third party holdings in consolidated unit trusts	939.2	555.3
Other investment income	5.1	3.8
Other operating income	2.5	1.2
Total adjustments	5,988.6	3,516.9
Net income – IFRS	6,853.8	4,260.2

* Restated to reflect the adoption of IFRS 10. See Note 1a.

All segment income is generated by external customers and there are no segment income transactions between operating segments as measured by APE.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

3 SEGMENT REPORTING *continued*

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 166 to 176. A reconciliation of EEV operating profit to IFRS profit before tax is shown below.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	365.7	293.9
Unit Trust business	130.8	82.6
Distribution business	(6.1)	5.3
Other business	(27.7)	(15.9)
EEV operating profit	462.7	365.9
Investment return variance	344.2	190.4
Economic assumption changes	10.6	(3.7)
EEV profit before tax	817.5	552.6
Adjustments to IFRS basis		
Deduct: amortisation of acquired value of in-force	(3.2)	(3.2)
Movement in life value of in-force (net of tax)	(360.1)	(273.4)
Movement in unit trust value of in-force (net of tax)	(122.8)	(77.7)
Tax of movement in value of in-force	(140.7)	(63.7)
Profit before shareholder tax	190.7	134.6
Tax attributable to policyholder returns	270.5	117.2
IFRS profit before tax	461.2	251.8

Cash result

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	143.8	59.4
Unit Trust business	44.8	33.6
Distribution business	(4.7)	4.0
Other business	(15.1)	(5.3)
Cash result after tax	168.8	91.7
IFRS adjustments (after tax)		
Share option expense	(7.8)	(5.4)
Deferred acquisition costs ('DAC')	(62.9)	82.4
Deferred income ('DIR')	67.9	(63.8)
Acquired value of in-force ('PVIF')	(2.6)	(2.5)
Sterling reserves	0.4	5.6
IFRS tax adjustments	26.5	(0.9)
IFRS profit after tax	190.3	107.1
Shareholder tax	0.4	27.5
Profit before shareholder tax	190.7	134.6
Policyholder tax	270.5	117.2
IFRS profit before tax	461.2	251.8

IFRS segment result

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business		
– shareholder	170.6	111.7
– policyholder tax gross up	270.5	117.2
Unit Trust business	53.9	33.5
Distribution business	(6.1)	5.3
Other business	(27.7)	(15.9)
IFRS profit before tax	461.2	251.8

Included within the EEV, IFRS profit before tax and post-tax cash result are the following

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Shareholder interest income	7.3	5.6
Depreciation	1.6	2.3

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 2013	31 December 2012*
	£' Million	£' Million
Life business	34,100.0	27,300.0
Unit Trust business	10,200.0	7,500.0
Total FUM	44,300.0	34,800.0
Exclude third party holdings in non-consolidated unit trusts	(1,665.6)	(2,089.5)
Add balance sheet liabilities in unit linked funds	545.6	499.8
Adjustments for other balance sheet assets excluded from FUM		
DAC	888.8	971.6
PVIF	40.0	43.2
Computer software	8.7	11.7
Goodwill	–	3.0
Property & equipment	5.8	3.6
Deferred tax assets	181.8	190.9
Fixed income securities	67.7	84.3
Collective investment schemes	523.0	322.4
Reinsurance assets	64.2	38.6
Insurance and investment contract receivables	49.9	46.5
Income tax assets	–	85.2
Other receivables	229.9	193.1
Other receivables eliminated on consolidation	(151.9)	(199.1)
Cash & cash equivalents	197.1	182.5
Other adjustments	54.3	(4.2)
Total adjustments	1,039.3	383.6
Total assets	45,339.3	35,183.6

* Restated to reflect the adoption of IFRS 10. See Note 1a

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

4 FEE AND COMMISSION INCOME

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Unit Trust management fees	131.8	106.4
Unit Trust dealing profit	19.1	59.9
Advice charges	250.8	—
Third party fee and commission income	73.0	58.2
Life company management fees	460.7	498.2
Movement in deferred income	77.9	(79.6)
Total fee and commission income	1,013.3	643.1

5. INVESTMENT RETURN

	Year Ended 31 December 2013	Year Ended 31 December 2012*
	£' Million	£' Million
Dividend income	455.6	419.7
Interest income	22.5	22.9
Rental income	41.8	39.6
Unit linked funds cross holding investment income	358.1	262.9
Net realised gains	454.1	179.9
Net unrealised gains	3,559.8	2,096.4
Income attributable to third party holdings in unit trusts	939.2	555.3
Total investment return	5,831.1	3,576.7

* Restated to reflect the adoption of IFRS 10. See Note 1a

6. EXPENSES

The following items are included within the expenses disclosed in the statement of comprehensive income

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Employee costs (see Note 7)	88.6	67.9
Depreciation	1.6	2.3
Revaluations	0.1	0.4
Amortisation of acquired value of in-force business	3.2	3.2
Amortisation of DAC	117.1	97.7
Amortisation of computer software	2.5	0.3
Deferral of DAC	(34.3)	(204.2)
Partner remuneration	407.1	307.0
Payment under operating leases	10.1	9.9
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	0.6	0.5
— Audit-related assurance services	0.1	0.1
— Non-audit related services	—	—

7 EMPLOYEE COSTS

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Wages and salaries*	66.9	52.5
Social security costs	8.9	6.0
Other pension costs in relation to defined contribution schemes	5.0	4.4
Cost of share awards and options	7.8	5.0
Total employee costs	88.6	67.9
Average number of persons employed by the Group during the year	985	854

* During the year the wages and salaries disclosure has been expanded to include employee benefits in kind of £6.4 million (2012 – £6.5 million) with the comparative figure having been represented to reflect this change

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 70 to 92

8 INCOME TAXES

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
UK corporation tax		
– Current year charge	29.0	31.0
– Adjustment in respect of prior year	2.5	(1.3)
Overseas taxes		
– Current year charge	6.8	7.6
– Adjustment in respect of prior year	–	(0.3)
	38.3	37.0
Deferred tax on unrealised capital gains and losses in unit linked funds	278.1	94.5
Deferred tax on unrelieved expenses	2.2	7.9
Deferred tax on pensions business losses	6.4	–
Deferred tax on Group Company capital losses	(27.9)	–
Deferred tax charge on other items		
– Current year charge	(14.2)	15.2
– Adjustment in respect of prior year	–	(1.7)
Effect on deferred tax of change in tax rate	(12.0)	(8.2)
	232.6	107.7
Total tax charge for the period	270.9	144.7
Attributable to		
– policyholders	270.5	117.2
– shareholders	0.4	27.5
	270.9	144.7

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

8 INCOME TAXES *continued*

Deferred tax	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Balance at 1 January	78.1	(29.6)
Charge through the consolidated statement of comprehensive income	232.6	107.7
Arising on acquisitions during the year	4.1	—
Balance at 31 December	314.8	78.1

The deferred tax components to which movements above relate to are disclosed in Note 14 Deferred Tax Assets and Note 25 Deferred Tax Liabilities

Included within the deferred tax current year charge is a credit of £1.7 million (2012 £0.1 million credit) relating to share based payments. Details of share based payments are disclosed in Note 31 Share-based Payments

The change in the corporation tax rate from 23% to 21% effective from 1 April 2014 and from 21% to 20% effective from 1 April 2015 have been incorporated into the deferred tax balances and is quantified in the reconciliation of the tax charge below and on page 123

Reconciliation of tax charge	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Profit before tax	461.2	251.8
Tax at 23.25% (2012 24.5%)	107.2	61.7
Effects of		
Overseas withholding tax in unit linked funds	—	6.1
Overseas rates of tax	(2.4)	(1.4)
Deferred tax in respect of unit linked funds	—	47.9
Shareholder deduction for policyholder tax	207.6	38.2
Policyholder tax rate differential	—	2.1
Group company capital losses	(27.9)	—
Share options	(2.7)	—
Disallowable expenses	1.4	—
Adjustment in respect of prior year	0.8	(2.6)
Change in tax rate	(12.0)	(8.2)
Other adjustments	(1.1)	0.9
Total tax charge for the year	270.9	144.7

The policyholder tax rate differential relates to the effect of the difference between the shareholder tax rate of 23.25% (2012 24.5%) and the policyholder tax rate of 20%

Reconciliation of tax charge	Year Ended 31 December 2013		Year Ended 31 December 2012	
	£' Million		£' Million	
Profit before tax	461.2		251.8	
Tax attributable to policyholders' returns*	(270.5)		(117.2)	
Profit before tax attributable to shareholders' returns	190.7		134.6	
Shareholder tax charge at corporate tax rate of 23.25% (2012 24.5%)	44.3	23.25%	33.0	24.5%
Adjustments				
<i>Tax regime differences</i>				
Difference due to Life Insurance tax regime ('Deferred Income Reserve')	—		2.1	
Difference due to overseas subsidiaries	(2.4)		(1.4)	
	(2.4)	(1.3%)	0.7	0.5%
<i>Market related</i>				
Difference due to Life Insurance tax regime ('UCG')	—		4.0	
	—	—	4.0	3.0%
<i>Other</i>				
Creation of deferred tax asset on Group Company capital losses	(27.9)		—	
Adjustment in respect of prior year	0.8		(2.6)	
Share options	(2.7)		—	
Disallowable expenses	1.4		—	
Other	(1.1)		0.6	
	(29.5)	(15.5%)	(2.0)	(1.5%)
Change in tax rate	(12.0)	(6.3%)	(8.2)	(6.1%)
Shareholder tax charge	0.4	0.2%	27.5	20.4%
Policyholder tax charge	270.5		117.2	
Total tax charge for the year	270.9		144.7	

* Profit before tax attributable to policyholder returns is equal to the policyholder tax charge

9 BUSINESS COMBINATIONS

During the year the Group acquired the following subsidiaries in line with the Group's strategic objective of growing the Partnership

Subsidiary undertaking	Principal activity	% Shareholding	Date of acquisition
Dellkirk Ltd	Holding Company	100	22 January 2013
BFS Financial Services Limited***	IFA*	100	22 January 2013
EW Smith & Co Independent Financial Advisers Limited***	IFA*	100	22 January 2013
LP Holdco Limited	Holding Company	43.3**	24 January 2013
Lansdown Place Group Holdings Limited***	Holding Company	92.4	24 January 2013
LP Wealth Management Limited***	IFA*		24 January 2013
Lansdown Place Financial Management Ltd***	IFA*	100	24 January 2013
LP Auto Enrolment Solutions Limited***	Auto Enrolment	100	24 January 2013
Chapman Hunter Group Limited	Holding Company	100	1 March 2013
Chapman Associates Limited***	IFA*	100	1 March 2013

* Independent Financial Adviser

** In all cases the percentage shareholding is equal to voting rights except for LP Holdco Limited where 43.3% equity share capital is held but 60% of the voting interests of the company are held

*** Pre-existing subsidiary of the acquired holding company

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

9 BUSINESS COMBINATIONS *continued*

The acquisitions contributed £4.7 million to revenue and a £0.4 million profit before income tax for the year between the acquisition dates and the statement of financial position date. Due to the acquisitions preparing financial statements up to the date of purchase it is not practicable for the Group to calculate the revenue and profit or loss of the combined entities for the current reporting period as though the acquisition date for all business combinations had been as of the beginning of the annual reporting period.

The net assets, fair value adjustments and consideration for these acquisitions are summarised below (all values shown as at their acquisition dates)

	Book value	Fair value adjustments	Fair value
	£' Million	£' Million	£' Million
Financial assets	4.7	10.3	15.0
Cash and cash equivalents	1.3	—	1.3
Financial liabilities	(6.8)	—	(6.8)
Total	(0.8)	10.3	9.5
Consideration			
Cash consideration			7.7
Deferred consideration			1.3
Contingent consideration			0.5
Total consideration			9.5

The non-controlling interest is calculated using the equity method

	At acquisition
	£' Million
Fair value of non-controlling interest	0.2

The contingent consideration was payable if certain performance targets were met, being based on the individual Partner performances. As at the financial position date all the deferred and contingent consideration has been paid or agreed to be paid in full with no changes to the initially recognised amount.

10 EARNINGS PER SHARE

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence	Pence
Basic earnings per share	37.4	21.5
Diluted earnings per share	36.7	21.2

The earnings per share ('EPS') calculations are based on the following figures

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Earnings		
Profit after tax (<i>for both basic and diluted EPS</i>)	190.3	107.1
Weighted average number of shares		
Weighted average number of ordinary shares in issue (<i>for basic EPS</i>)	509.4	497.7
Adjustments for outstanding share options	9.2	8.5
Weighted average number of ordinary shares (<i>for diluted EPS</i>)	518.6	506.2

11 DIVIDENDS

The following dividends have been paid by the Group

	Year Ended 31 December 2013	Year Ended 31 December 2012	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence per Share	Pence per Share	£' Million	£' Million
Final dividend in respect of previous financial year	6 39	4 80	32 6	23 9
Interim dividend in respect of current financial year	6 38	4 25	32.7	21 4
Total dividends	12 77	9 05	65 3	45 3

The Directors have recommended a final dividend of 9 58 pence per share (2012 6 39 pence). This amounts to £49 4 million (2012 £32 6 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 16 May 2014 to those shareholders on the register as at 11 April 2014.

12 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 & other specific software develop- ments	Customer list	Total
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Cost								
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
At 1 January 2013	106.7	1,122 2	289 0	1,517 9	73 4	12 3	3 3	1,606 9
Additions	0 5	23.8	10 0	34 3	–	–	–	34.3
Disposals	–	–	–	–	–	(0.5)	–	(0 5)
Reclassification	–	–	–	–	–	–	(3 3)	(3 3)
At 31 December 2013	107.2	1,146 0	299 0	1,552 2	73.4	11 8	–	1,637 4
Accumulated amortisation								
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
At 1 January 2013	92.2	367.9	86 2	546 3	30.2	0.6	0 3	577 4
Charge for the year	13 5	82.2	21 4	117 1	3 2	2 5	–	122 8
Reclassification	–	–	–	–	–	–	(0 3)	(0 3)
At 31 December 2013	105 7	450 1	107 6	663 4	33 4	3 1	–	699 9
Carrying value								
At 1 January 2012	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
At 31 December 2013	1 5	695 9	191 4	888 8	40.0	8 7	–	937 5
Current								87 9
Non-current								849 6
								937.5
Outstanding amortisation period								
At 31 December 2012	6 years	14 years	14 years		13 years	4 years	4 years	
At 31 December 2013	6 years	14 years	14 years		12 years	4 years		

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

12. INTANGIBLE ASSETS *continued*

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, is charged within other operating expenses with the amortisation of computer software and customer list charged within administration expenses. Amortisation profiles are reassessed annually.

13. PROPERTY & EQUIPMENT

	Fixtures, Fittings, Computers & Office Equipment	Land	Total
	£' Million	£' Million	£' Million
Cost			
At 1 January 2012	32.3	1.4	33.7
Additions	0.6	0.3	0.9
Revaluation	—	(0.4)	(0.4)
At 31 December 2012	32.9	1.3	34.2
At 1 January 2013	32.9	1.3	34.2
Additions	3.7	0.2	3.9
Revaluation	—	(0.1)	(0.1)
At 31 December 2013	36.6	1.4	38.0
Accumulated depreciation			
At 1 January 2012	28.3	—	28.3
Charge for the year	2.3	—	2.3
At 31 December 2012	30.6	—	30.6
At 1 January 2013	30.6	—	30.6
Charge for the year	1.6	—	1.6
At 31 December 2013	32.2	—	32.2
Net book value			
At 1 January 2012	4.0	1.4	5.4
At 31 December 2012	2.3	1.3	3.6
At 31 December 2013	4.4	1.4	5.8
Current			1.7
Non-current			4.1
			5.8

14 DEFERRED TAX ASSETS

	31 December 2013	31 December 2012
	£' Million	£' Million
Life business – unrelieved expenses	73.7	75.9
Life business – net capital losses in unit linked funds	–	3.7
Life business – pension business	–	6.4
Life business – deferred income	23.7	40.2
Unit Trust business – deferred income	48.2	57.1
Capital losses on liquidations	27.9	–
Other	8.3	7.6
Total deferred tax assets	181.8	190.9
Current	36.8	42.5
Non-current	145.0	148.4
	181.8	190.9

Appropriate investment income, gains or profits are expected to arise against which the tax assets can be utilised. In particular, future investment income from the existing assets will be sufficient to utilise the unrelieved expenses and capital gains crystallising the unit linked funds will utilise the capital losses. Tax assets in relation to deferred income will be utilised as the underlying income is recognised.

At the reporting date there were unrecognised deferred tax assets of £nil (2012: £0.2 million).

15 INVESTMENT PROPERTY

	31 December 2013	31 December 2012
	£' Million	£' Million
Balance at 1 January	597.6	550.9
Additions	194.1	128.9
Disposals	(67.3)	(55.8)
Changes in fair value	8.3	(26.4)
Balance at 31 December	732.7	597.6

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 2013	Year Ended 31 December 2012
	£' Million	£' Million
Rental income	41.8	39.6
Direct operating expenses	5.1	5.4

At the year end contractual obligations to purchase, construct or develop investment property amounted to £0.1 million (2012: £0.1 million) and to dispose of investment property amounted to £nil million (2012: £20.0 million).

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

16. 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 2013	31 December 2012*
	£ Million	£ Million
Assets		
Investment property	732.7	597.6
Investments		
– Equities	29,614.8	21,472.8
– Fixed income securities	5,897.9	5,032.6
– Investment in Collective Investment Schemes	2,718.3	2,587.1
– Currency forwards	97.7	57.7
– Interest rate swaps	8.6	1.6
– Contracts for differences	29.4	20.0
– Other derivatives	7.2	6.8
Other receivables	324.1	333.3
Other receivables eliminated on consolidation	151.9	199.1
Cash & cash equivalents	3,648.6	2,897.6
Total assets	43,231.2	33,206.2
Liabilities		
Financial liabilities		
– Currency forwards	49.4	34.2
– Interest rate swaps	11.8	1.5
– Contracts for differences	24.8	15.9
– Other derivatives	1.8	1.3
Other payables	241.6	299.0
Other payables eliminated on consolidation	216.2	147.9
Total liabilities	545.6	499.8
Net assets held to cover linked liabilities and third party holdings in unit trusts	42,685.6	32,706.4

* Restated to reflect the adoption of IFRS 10. See Note 1a

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

	31 December 2013	31 December 2012*
	£ Million	£ Million
Investment contracts	33,717.5	27,147.4
Net asset value attributable to unit holders	8,535.4	5,293.5
Insurance contract liabilities	395.0	336.5
Consolidation adjustments	37.7	(71.0)
Net liabilities held to cover linked liabilities and third party holdings in unit trusts	42,685.6	32,706.4

* Restated to reflect the adoption of IFRS 10. See Note 1a

17. OTHER RECEIVABLES

	31 December 2013	31 December 2012*
	£ Million	£ Million
St James's Place Partnership loans	144.2	139.9
Prepayments	25.0	15.0
Advanced Partner remuneration	22.2	21.2
Unit linked funds and UTMI (including outstanding security sales)	324.1	333.3
Unit Trust dealing receivables	4.0	3.3
Renewal income	16.6	—
Miscellaneous	17.9	13.4
Total other receivables	554.0	526.1
Current	432.2	403.5
Non-current	121.8	122.6
	554.0	526.1

* Restated to reflect the adoption of IFRS 10 See Note 1a

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. The St James's Place Partnership loans are shown net of a £3.8 million provision (2012 £6.7 million). During the year £0.8 million of the provision was utilised (2012 £0.5 million addition) and £2.1 million (2012 £0.5 million) was written off to the consolidated statement of comprehensive income.

Movement in renewal income

	31 December 2013
	£ Million
At 1 January 2013	—
Reclassification	3.0
Additions	16.7
Revaluation	(3.1)
Total renewal income	16.6

The key assumptions used for the assessment of the fair value of the renewal income as follows

	31 December 2013
Lapse rate*	15.0%
Discount rate	6.2%

* Future income streams are projected making use of persistency assumptions derived from the Company's own experience or, where insufficient data exists, from external industry experience. These assumptions are reviewed on an annual basis.

These assumptions have been used for the analysis of each business combination classified within renewal income.

18 CASH & CASH EQUIVALENTS

	31 December 2013	31 December 2012*
	£ Million	£ Million
Cash at bank	195.5	182.5
Cash held by third parties	1.6	—
Cash & cash equivalents held outside unit linked and unit trust funds	197.1	182.5
Balances held within unit linked and unit trust funds	3,648.6	2,897.6
Total cash & cash equivalents	3,845.7	3,080.1

* Restated to reflect the adoption of IFRS 10 See Note 1a

All cash & cash equivalents are considered current.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

19 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. During the year the Group fully reinsured the remaining UK insurance risk.
Epidemic/disaster	An unusually large number of claims arising from a single incident or event	Protection is provided through reinsurance. During the year the Group fully reinsured the remaining UK insurance risk.
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 2013.

20. INSURANCE CONTRACT LIABILITIES

	2013 £' Million	2012 £' Million
Balance at 1 January	424.0	394.0
Movement in unit linked liabilities	58.5	28.7
Movement in non-unit linked liabilities		
– New business	(0.3)	(0.3)
– Existing business	6.3	3.6
– Other assumption changes	(10.3)	0.8
– Experience variance	(11.8)	(2.8)
Total movement in non-unit linked liabilities	(16.1)	1.3
Balance at 31 December	466.4	424.0
Unit linked	395.0	336.5
Non-unit linked	71.4	87.5
	466.4	424.0
Current	100.7	89.5
Non-current	365.7	334.5
	466.4	424.0

Unit linked liabilities move as a function of net cash flows into policyholder funds and underlying investment performance of those funds

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 2013 and the specific gilts backing the liabilities. The specific rates used are between 2.5% and 3.3% depending on the tax regime (1.3% and 2.5% at 31 December 2012)														
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 2013. Sample annual rates per £ for a male non-smoker are <table><tr><th rowspan="2">Age</th><th colspan="2">Rate</th></tr><tr><th>2013</th><th>2012</th></tr><tr><td>25</td><td>0.000760</td><td>0.000760</td></tr><tr><td>35</td><td>0.001334</td><td>0.001334</td></tr><tr><td>45</td><td>0.003189</td><td>0.003189</td></tr></table>	Age	Rate		2013	2012	25	0.000760	0.000760	35	0.001334	0.001334	45	0.003189	0.003189
Age	Rate														
	2013	2012													
25	0.000760	0.000760													
35	0.001334	0.001334													
45	0.003189	0.003189													
Morbidity – Permanent Health Insurance	Morbidity is based on Company experience. There has been no change during 2013. Sample annual rates per £ income benefit payable for a male non-smoker are <table><tr><th rowspan="2">Age</th><th colspan="2">Rate</th></tr><tr><th>2013</th><th>2012</th></tr><tr><td>25</td><td>0.00548</td><td>0.00548</td></tr><tr><td>35</td><td>0.01447</td><td>0.01447</td></tr><tr><td>45</td><td>0.03138</td><td>0.03138</td></tr></table>	Age	Rate		2013	2012	25	0.00548	0.00548	35	0.01447	0.01447	45	0.03138	0.03138
Age	Rate														
	2013	2012													
25	0.00548	0.00548													
35	0.01447	0.01447													
45	0.03138	0.03138													
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 <table><tr><th rowspan="2">Product</th><th colspan="2">Annual Cost</th></tr><tr><th>2013</th><th>2012</th></tr><tr><td>Protection business</td><td>£35.69</td><td>£34.30</td></tr></table>	Product	Annual Cost		2013	2012	Protection business	£35.69	£34.30						
Product	Annual Cost														
	2013	2012													
Protection business	£35.69	£34.30													
Persistency	Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2013. Sample annual lapse rates are <table><tr><th rowspan="2">2012 & 2013</th><th colspan="3">Lapses</th></tr><tr><th>Year 1</th><th>Year 5</th><th>Year 10</th></tr><tr><td>Protection business</td><td>7%</td><td>9%</td><td>8%</td></tr></table>	2012 & 2013	Lapses			Year 1	Year 5	Year 10	Protection business	7%	9%	8%			
2012 & 2013	Lapses														
	Year 1	Year 5	Year 10												
Protection business	7%	9%	8%												

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

20 INSURANCE CONTRACT LIABILITIES *continued*

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 2013 £' Million	Change in profit before tax 2012 £' Million	Change in net assets 2013 £' Million	Change in net assets 2012 £' Million
	%				
Withdrawal rates	-10%	(1.1)	(4.7)	(1.0)	(3.8)
Expense assumptions	-10%	1.2	1.3	1.0	1.1
Mortality/morbidity	-5%	0.0	(2.9)	0.0	(2.3)

A change in interest rates will have no material impact on insurance profit or net assets.

21 REINSURANCE ASSETS

	31 December 2013 £' Million	31 December 2012 £' Million
Reinsurers' share of insurance contract liabilities		
– Long term insurance contract liability	60.5	35.7
– Claims outstanding	3.7	2.9
Reinsurance assets	64.2	38.6
Current	16.1	10.2
Non-current	48.1	28.4
	64.2	38.6

During the year the Group fully reinsured its remaining UK protection book of business.

A reconciliation of the movement in the net reinsurance balance is set out below.

	2013 £' Million	2012 £' Million
Reinsurance assets at 1 January	38.6	39.0
Reinsurance component of net change in claims provision	0.8	(0.3)
Reinsurance component of change in insurance liabilities	24.8	(0.1)
Reinsurance assets at 31 December	64.2	38.6

The overall impact of reinsurance on the profit for the year was a net charge of £8.2 million (2012: charge of £6.3 million).

22. OTHER PROVISIONS AND CONTINGENT LIABILITIES

	Endowments	Office restructuring	Other provisions	Total
	£' Million	£' Million	£' Million	£' Million
At 1 January 2013	0.5	1.0	7.7	9.2
Utilised/released during the year	(0.1)	(1.0)	—	(1.1)
Additional provisions	—	—	1.6	1.6
At 31 December 2013	0.4	—	9.3	9.7
Current	—	—	6.0	6.0
Non-current	0.4	—	3.3	3.7
	0.4	—	9.3	9.7

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 represented the expected amounts payable under a number of non-cancellable operating leases for office space that the Group did not occupy. The provision was based on estimates of the rental payable until the approximate dates on which the Group expected either to have sublet the affected space or to have reached break clauses within the relevant lease agreements.

The other provisions represent a reserve in respect of self-insured liabilities.

As more fully set out in the summary of principal risks and uncertainties on pages 36 and 37, 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.

23. INVESTMENT CONTRACT BENEFITS

	2013	2012*
	£' Million	£' Million
Balance at 1 January	27,147.4	22,227.3
Deposits	4,612.3	4,225.5
Withdrawals	(2,091.7)	(1,667.1)
Investment contract benefits (principally representing investment expense/income)	5,449.4	3,415.2
Less investment contract benefits attributable to fund deductions	(460.7)	(498.2)
Less investment contract benefits attributable to third party holdings in unit trusts	(939.2)	(555.3)
Balance at 31 December	33,717.5	27,147.4
Current	2,528.8	2,036.1
Non-current	31,188.7	25,111.3
	33,717.5	27,147.4

* Restated to reflect the adoption of IFRS 10. See Note 1a.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

24. BORROWINGS

	31 December 2013	31 December 2012
	£' Million	£' Million
Bank loan	98.7	70.7
Current	4.7	0.7
Non-current	94.0	70.0
	98.7	70.7

During the year new loans of £10.0 million with Barclays Bank plc (variable interest rate, repayable over five years), £10.0 million with Santander UK plc (variable interest rate, repayable over three years) and £10.0 million with Metro Bank plc (variable interest rate, repayable over 10 years) were agreed, in addition to the £45.0 million loan from Barclays Bank plc and a £25.0 million loan from Royal Bank of Scotland plc agreed in the prior 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 (2012: £750,000) from Bank of Scotland which is secured on property disclosed in Note 13 to the accounts.

The Group also guarantees £103.6 million (2012: £89.6 million) of direct loans from Bank of Scotland and £1.2 million (2012: £nil) of direct loans from Metro Bank plc to members of the St James's Place Partnership drawn under total facilities of £125.0 million (2012: £125.0 million) and £20.0 million (2012: £nil) respectively. In the event of default of any individual Partner loan the Group 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.

25. DEFERRED TAX LIABILITIES

	31 December 2013	31 December 2012
	£' Million	£' Million
On deferred acquisition costs	168.0	214.5
On acquired value of in-force business	8.0	9.9
In respect of unit linked funds	314.1	40.7
Other	6.5	3.9
Total deferred tax liabilities	496.6	269.0
Current	61.7	29.1
Non-current	434.9	239.9
	496.6	269.0

26. DEFERRED INCOME

	31 December 2013	31 December 2012
	£' Million	£' Million
Life business	297.3	368.2
Unit Trust business	241.3	248.3
Total deferred income	538.6	616.5
Current	119.6	127.6
Non-current	419.0	488.9
	538.6	616.5

27. OTHER PAYABLES

	31 December 2013	31 December 2012*
	£' Million	£' Million
Accruals	74.2	58.4
Unit Trust dealing payable	46.8	46.9
Unit linked funds and UTMI (including outstanding security purchases)	241.6	299.1
Miscellaneous	76.8	31.4
Total other payables	439.4	435.8

* Restated to reflect the adoption of IFRS 10. See Note 1a.

All other payable balances are considered current.

The fair value of financial liabilities in other payables is not materially different from amortised cost.

28. 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.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

28. FINANCIAL RISK *continued*

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.

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 2013, despite the challenging economic environment and volatility, and fund surrender rates have remained low at c 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 2013	Financial assets at fair value through profit and loss ⁽¹⁾	Available for sale	Loans and receivables	Financial liabilities at fair value through profit and loss ⁽¹⁾	Financial liabilities measured at amortised cost	Total
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Financial Assets and Investment Properties						
Investment properties	732.7					732.7
Equities	29,614.8					29,614.8
Fixed income securities	5,965.7					5,965.7
Investment in Collective Investment Schemes	3,244.3					3,244.3
Derivative financial instruments	142.9					142.9
Other receivables ⁽²⁾						
– St James's Place Partnership loans			144.2			144.2
– Renewal income		16.6	–			16.6
– Other			346.0			346.0
Total other receivables		16.6	490.2			506.8
Cash & cash equivalents	3,648.6		197.1			3,845.7
Total financial assets and investment properties	43,349.0	16.6	687.3			44,052.9
Financial Liabilities						
Investment contract benefits				33,717.5		33,717.5
Borrowings					98.7	98.7
Derivative financial instruments				87.8		87.8
Other payables					439.4	439.4
Net asset value attributable to unit holders				8,535.4		8,535.4
Total financial liabilities				42,340.7	538.1	42,878.8

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

28 FINANCIAL RISK *continued*

31 December 2012*	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	Total
	£' Million	£' Million	£' Million	£' Million	£' Million
Financial Assets					
Equities	21,472.8				21,472.8
Fixed income securities	5,117.0				5,117.0
Investment in Collective Investment Schemes	2,909.6				2,909.6
Derivative financial instruments	86.1				86.1
Other receivables ⁽²⁾					
– St James's Place Partnership loans		139.9			139.9
– Other		350.0			350.0
Total other receivables		489.9			489.9
Cash & cash equivalents	2,897.6	182.5			3,080.1
Total financial assets	32,483.1	672.4			33,155.5
Financial Liabilities					
Investment contract benefits			27,147.4		27,147.4
Borrowings				70.7	70.7
Derivative financial instruments			52.9		52.9
Other payables				435.8	435.8
Net asset value attributable to unit holders			5,293.5		5,293.5
Total financial liabilities			32,493.8	506.5	33,000.3

* Restated to reflect the adoption of IFRS 10. See Note 1a.

(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 2013 would be £38.9 million lower than the investment contract benefits stated above.

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 2013	Financial assets at fair value through profit and loss ⁽¹⁾	Available for sale	Loans and receivables	Financial liabilities at fair value through profit and loss ⁽¹⁾	Financial liabilities measured at amortised cost	Total
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Financial Assets and Investment Properties						
Investment properties						
Unit linked assets	5,825.6					5,825.6
Fixed income securities	(2.0)					(2.0)
Investment in Collective Investment Schemes	2.0					2.0
Other receivables						
– St James's Place Partnership loans			7.5			7.5
– Renewal income		(3.1)				(3.1)
Total other receivables		(3.1)	7.5			4.4
Cash & cash equivalents ⁽²⁾			0.9			0.9
Total financial assets and investment properties	5,825.6	(3.1)	8.4			5,830.9
Financial Liabilities⁽³⁾						
Investment contract benefits				4,049.5		4,049.5
Borrowings					–	–
Net asset value attributable to unit holders				939.2		939.2
Total financial liabilities				4,988.7		4,988.7
Year Ended 31 December 2012*						
	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	Total
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
Financial Assets						
Unit linked assets	3,570.5					3,570.5
Fixed income securities	0.7					0.7
Investment in Collective Investment Schemes	1.5					1.5
Other receivables						
– St James's Place Partnership loans			3.3			3.3
Total other receivables			3.3			3.3
Cash & cash equivalents ⁽²⁾			0.7			0.7
Total financial assets	3,572.7	4.0				3,576.7
Financial Liabilities⁽³⁾						
Investment contract benefits				2,361.7		2,361.7
Borrowings				555.3	–	555.3
Net asset value attributable to unit holders				2,917.0		2,917.0
Total financial liabilities				2,917.0		2,917.0

* Restated to reflect the adoption of IFRS 10. See Note 1a

(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

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

28. FINANCIAL RISK *continued*

Fair value estimation

Financial assets and liabilities, which are held at fair value in the financial statements, 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 2013	Level 1	Level 2	Level 3	Total balance
	£' Million	£' Million	£' Million	£' Million
Financial Assets and Investment Properties				
Investment property			732.7	732.7
Equities	29,614.8			29,614.8
Fixed income securities		5,965.7		5,965.7
Investment in Collective Investment Schemes	3,243.0		1.3	3,244.3
Derivative financial instruments		142.9		142.9
Other receivables			16.6	16.6
Cash & cash equivalents	3,648.6			3,648.6
Total financial assets and investment properties	36,506.4	6,108.6	750.6	43,365.6
Financial Liabilities				
Investment contract benefits		33,717.5		33,717.5
Derivative financial instruments		87.8		87.8
Net asset value attributable to unit holders	8,535.4			8,535.4
Total financial liabilities	8,535.4	33,805.3	--	42,340.7
31 December 2012*	Level 1	Level 2	Level 3	Total balance
	£' Million	£' Million	£' Million	£' Million
Financial Assets				
Equities	21,472.8			21,472.8
Fixed income securities		5,117.0		5,117.0
Investment in Collective Investment Schemes	2,908.0		1.6	2,909.6
Derivative financial instruments		86.1		86.1
Cash & cash equivalents	2,897.6			2,897.6
Total financial assets	27,278.4	5,203.1	1.6	32,483.1
Financial Liabilities				
Investment contract benefits		27,147.4		27,147.4
Derivative financial instruments		52.9		52.9
Net asset value attributable to unit holders	5,293.5			5,293.5
Total financial liabilities	5,293.5	27,200.3	--	32,493.8

* Restated to reflect the adoption of IFRS 10. See Note 1a

The fair value of financial instruments traded in active markets is based on quoted bid prices at the reporting 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.

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') and investment properties as detailed below.

Specific valuation techniques used to value Level 2 financial assets and liabilities include:

- The use of observable prices for identical current arm's length transactions.

Specific valuation techniques used to value Level 3 financial assets and liabilities include:

- The use of observable prices for recent arm's length transactions.
- Other techniques, such as discounted cash flow and historic lapse rates, are used to determine fair value for the remaining financial instruments.

There were no transfers between Level 1 and Level 2 during the year.

Transfers into and out of level 3 portfolios

Transfers out of level 3 portfolios arise when inputs that could have a significant impact on the instrument's valuation become market observable, conversely, transfers into the portfolios arise when consistent sources of data cease to be available.

Transfers in of certain equities and investments in Collective Investment Schemes ('CIS') occur when asset valuations can no longer be obtained from an observable market price i.e. become illiquid, in liquidation, suspended etc. The converse is true if an observable market price becomes available.

During 2013 IFRS 13 was adopted resulting in investment properties now being included within the Level 3 portfolio. As this IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied the investment property opening balance has been presented within transfers into Level 3.

The following table presents the changes in Level 3 financial assets at fair value through the profit and loss:

	2013	2012
	£' Million	£' Million
Opening balance	1.6	0.9
Transfer into Level 3	597.8	0.7
Additions during the year	213.8	–
Disposed during the year	(67.7)	–
Gains recognised in the income statement	5.1	–
Closing balance	750.6	1.6
Total gains for the year included in the statement of comprehensive income for assets held at the end of the reporting period	4.8	0.3

Additions include £194.1 million of investment properties and £19.7 million of renewal income. Gains recognised in the statement of comprehensive income are included within investment return for certain equities and investments in Collective Investment Schemes and investment property, and within administration expenses for the renewal income.

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

28. FINANCIAL RISK *continued*

Sensitivity of Level 3 valuations

The valuation of certain equities and investments in Collective Investment Schemes ('CIS') are based on the latest observable price available. Whilst such valuations are sensitive to estimates, it is believed that changing the price applied to a reasonably possible alternative would not change the fair value significantly.

The valuation of renewal income is based on discounted cash flows and historic lapse rates. The effect of applying reasonably possible alternative assumptions of a movement of 100bps on the discount rate and a 10% movement in the lapse rate would result in an unfavourable change in valuation of £1.6 million and a favourable change in valuation of £1.9 million, respectively.

The investment property valuation has been prepared using the 'market approach' valuation technique – using prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, as such it is again believed that changing the price applied to a reasonably possible alternative would not change the fair value significantly. Moreover, any change in the value of investment property is matched by the associated movement in the policyholder liability and therefore would not impact on the shareholder net assets.

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 2013	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		67.7				5,898.0	5,965.7
Investment in Collective Investment Schemes ⁽²⁾	522.3				3.7	2,718.3	3,244.3
Cash & cash equivalents		4.3	182.5	0.7	9.6	3,648.6	3,845.7
Amounts due from reinsurers							
– Claims outstanding		3.7					3.7
– Reinsurers share of long term insurance contract liabilities		60.5					60.5
Total amount due from reinsurers		64.2					64.2
Other receivables					38.5	324.1	362.6
Total	522.3	136.2	182.5	0.7	51.8	12,589.0	13,482.5

(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 unused money market funds held for the longer term.

The table below sets out the comparative credit risk analysis as at 31 December 2012

31 December 2012*	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	84.3					5,032.7	5,117.0
Investment in Collective Investment Schemes	321.6				0.8	2,587.2	2,909.6
Cash & cash equivalents		22.6	158.9	1.0		2,897.6	3,080.1
Amounts due from reinsurers							
– Claims outstanding		2.9					2.9
– Reinsurers share of long term insurance contract liabilities		35.7					35.7
Total amount due from reinsurers		38.6					38.6
Other receivables					16.7	333.3	350.0
Total	405.9	61.2	158.9	1.0	17.5	10,850.8	11,495.3

* Restated to reflect the adoption of IFRS 10. See Note 1a

Financial assets that are either past due or impaired

Loans to St James's Place Partnership of £144.2 million (2012 £139.9 million) are net of an impairment provision of £3.8 million (2012 £6.7 million) (see Note 17). The movement in the impairment loss recognised within administration expenses in the statement of comprehensive income was a credit of £0.2 million (2012 £0.7 million charge). 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*

28 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 2013

31 December 2013	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					29,614.8	29,614.8
Fixed income securities	16.8	12.0	38.9	67.7	5,898.0	5,965.7
Investment in Collective Investment Schemes	522.3			522.3	2,722.0	3,244.3
Derivative financial instruments					142.9	142.9
Other receivables						
– St James's Place Partnership loans	41.2	85.0	18.0	144.2	–	144.2
– Renewal income	16.6			16.6	–	16.6
– Other	21.9			21.9	324.1	346.0
Total other receivables	79.7	85.0	18.0	182.7	324.1	506.8
Cash & cash equivalents	197.1			197.1	3,648.6	3,845.7
Total financial assets	815.9	97.0	56.9	969.8	42,350.4	43,320.2
Financial Liabilities						
Investment contract benefits					33,717.5	33,717.5
Borrowings	4.7	89.0	5.0	98.7	–	98.7
Derivative financial instruments					87.8	87.8
Other payables	197.8			197.8	241.6	439.4
Total financial liabilities	202.5	89.0	5.0	296.5	34,046.9	34,343.4

* 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 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				–	21,472.8	21,472.8
Fixed income securities	12.1	12.2	60.0	84.3	5,032.7	5,117.0
Investment in Collective Investment Schemes	322.4			322.4	2,587.2	2,909.6
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	333.0	350.0
Total other receivables	51.2	82.9	22.8	156.9	333.0	489.9
Cash & cash equivalents	182.5			182.5	2,897.6	3,080.1
Total financial assets	568.2	95.1	82.8	746.1	32,409.4	33,155.5
Financial Liabilities						
Investment contract benefits				–	27,147.4	27,147.4
Borrowings		70.7		70.7		70.7
Derivative financial instruments				–	52.9	52.9
Other payables	149.1			149.1	286.7	435.8
Total financial liabilities	149.1	70.7		219.8	27,487.0	27,706.8

* Restated to reflect the adoption of IFRS 10. See Note 1a

** 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 there 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 reporting 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*

29 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	PRA & FCA 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	FCA UCITS Management Company
St James's Place Wealth Management plc	FCA Personal Investment Firm
St James's Place Reassurance (2009) Limited	FCA Reassurance Company
St James's Place Trust Company Jersey Limited	Jersey Financial Services Commission
St James's Place Wealth Management (PCIS) Limited	FCA Securities and Futures
BFS Financial Services Limited	FCA Personal Investment Firm
E W Smith & Co Independent Financial Advisers Limited	FCA Personal Investment Firm
Lansdown Place Financial Management Ltd	FCA Personal Investment Firm

The PRA 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 reporting date.

Capital composition

The principal forms of capital are included in the following balances on the consolidated statement of financial position

	31 December 2013	31 December 2012
	£ Million	£ Million
Share capital	77.3	76.0
Share premium	142.2	127.7
Treasury shares reserve	(10.2)	(8.9)
Miscellaneous reserves	2.3	2.3
Retained earnings	694.5	565.4
	906.1	762.5

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 30. The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period.

30 SHARE CAPITAL

	Number of Ordinary Shares	Share Capital £' Million
At 1 January 2012	493,422,751	74.0
– Exercise of options	13,408,396	2.0
At 31 December 2012	506,831,147	76.0
– Exercise of options	8,384,836	1.3
At 31 December 2013	515,215,983	77.3

The total authorised number of ordinary shares is 605 million (2012 605 million), with a par value of 15 pence per share (2012 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,338,458 (2012 3,052,273) shares held in the Treasury Shares Reserve with a nominal value of £0.5 million (2012 £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 31.

31 SHARE-BASED PAYMENTS

During the year ended 31 December 2013 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.
- Share incentive plan ('SIP') – this is an HMRC approved scheme which is available to all employees where individuals may invest up to an annual limit of £1,500 of pre-tax salary in SJP shares, to which the Company will add a further 10%. If the shares are held for five years then they may be sold free of income tax or CGT.
- 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 73. 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 (15p). 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 2013 amount to 14.3 million shares (2012 21.0 million). Of these, 5.3 million (2012 10.7 million) are under option to Partners of the St James's Place Partnership, 7.5 million (2012 8.7 million) are under option to executives and senior management (including 2.6 million (2012 3.2 million) under option to Directors as disclosed in the Remuneration Report on pages 87 to 89) and 1.5 million (2012 1.6 million) are under option through the SAYE scheme. These are exercisable on a range of future dates.

Notes to the Consolidated Accounts

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31 SHARE-BASED PAYMENTS *continued*

The table below summarises the share-based payment awards made in 2012 and 2013

	SAYE	Share Incentive Plan	Executive Deferred Bonus	Executive Performance Share Plan
Awards in 2012.				
Date of grant	23 March & 26 Sept	26 March	26 March	Various
Number granted	1,621,267	4,528	747,571	1,590,512
Awards in 2013:				
Date of grant	25 March	26 March	21 March	21 March
Number granted	249,691	4,998	435,177	1,335,003
Contractual life	3.5 years	3 years	3 years	3.5 years
Vesting conditions	3 year saving period	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	Share Incentive Plan	Executive Deferred Bonus	Executive Performance Share Plan
Valuation model	Black Scholes	Black Scholes	Black Scholes	Monte Carlo
Awards in 2012				
Fair value (pence)	102.1/110.6 ⁽²⁾	364.7	364.7	212.3/364.7 ⁽⁴⁾
Share price (pence)	362.0/369.9	364.7	364.7	341.5 to 371.0 ⁽⁵⁾
Exercise price (pence)	296.0/275.0	0.00	0.00	0.00
Expected volatility (% pa) ⁽¹⁾	34/32	N/A	N/A	34
Expected dividends (% pa)	2.2/2.4	N/A	N/A ⁽³⁾	N/A
Risk-free interest rate (% pa)	0.7/0.3	N/A	N/A	N/A
Volatility of competitors (% pa)	N/A	N/A	N/A	17 to 69
Correlation with competitors (%)	N/A	N/A	N/A	20
Awards in 2013:				
Fair value (pence)	142.0	507.0	510.0	331.5/510.0 ⁽⁴⁾
Share price (pence)	505.5	507.0	364.7	510.0 ⁽⁵⁾
Exercise price (pence)	389.0	0.00	0.00	0.00
Expected volatility (% pa) ⁽¹⁾	30	N/A	N/A	30
Expected dividends (% pa)	2.1	N/A	N/A ⁽³⁾	N/A
Risk-free interest rate (% pa)	0.4	N/A	N/A	N/A
Volatility of competitors (% pa)	N/A	N/A	N/A	18 to 107
Correlation with competitors (%)	N/A	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 2012 and 2013, 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 two separate occasions during 2013 (2012: 5)
- (6) There were no awards made in 2012 or 2013 for the executive share option schemes or the sales management share option schemes

	Year Ended 31 December 2013	Year Ended 31 December 2013	Year Ended 31 December 2012	Year Ended 31 December 2012
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
SAYE:				
Outstanding at start of year	1,572,172	£2.63	1,987,287	£1.70
Granted	249,691	£3.89	1,621,267	£2.86
Forfeited	(98,824)	£2.83	(594,764)	£2.88
Exercised	(235,702)	£2.04	(1,441,618)	£1.50
Outstanding at end of year	1,487,337	£2.92	1,572,172	£2.63
Exercisable at end of year	5,862	£3.07	5,468	£2.25
Executive Share Options:				
Outstanding at start of year	524,348	£2.01	987,443	£1.84
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	(388,904)	£1.94	(463,095)	£1.66
Outstanding at end of year	135,444	£2.22	524,348	£2.01
Exercisable at end of year	135,444	£2.22	524,348	£2.01
Partner Share Options				
Outstanding at start of year	10,411,138	£2.77	17,892,050	£2.45
Granted	—	—	—	—
Forfeited	—	—	(24,667)	£1.37
Exercised	(5,238,467)	£2.72	(7,456,245)	£2.02
Outstanding at end of year	5,172,671	£2.81	10,411,138	£2.77
Exercisable at end of year	5,162,046	£2.81	10,398,388	£2.77

The average share price of the options that were exercised during the year was 572.8 pence (2012: 357.5 pence)

The SAYE plan options outstanding at 31 December 2013 had exercise prices of 242 pence (228,112 options), 296 pence (281,319 options), 275 pence (737,739 options), 389 pence (240,167) and a weighted average remaining contractual life of 1.6 years

The options outstanding under the executive share option schemes at 31 December 2013 had exercise prices ranging from 170.5 pence to 254 pence and a weighted average remaining contractual life of 0.9 years

The options outstanding under the Partner share option schemes at 31 December 2013 had exercise prices ranging from 162 pence to 465 pence and a weighted average remaining contractual life of 2.0 years

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

31. SHARE-BASED PAYMENTS *continued*

Share Incentive Plan (nil cost option – no proceeds on exercise)

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Number of options	Number of options
Outstanding at start of year	15,658	12,043
Granted	4,998	4,528
Forfeited	(581)	(670)
Exercised	(464)	(243)
Outstanding at end of year	19,611	15,658
Exercisable at end of year	–	–

Executive Performance Share Plan (nil cost option – no proceeds on exercise)

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Number of options	Number of options
Outstanding at start of year	5,270,375	5,851,489
Granted	1,335,003	1,590,512
Forfeited	(369,221)	(407,200)
Exercised	(1,067,559)	(1,764,426)
Outstanding at end of year	5,168,598	5,270,375
Exercisable at end of year	516,514	40,494

Partner Performance Share Plan (15 pence nominal share value option – 15 pence per share on exercise)

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Number of options	Number of options
Outstanding at start of year	307,500	2,617,500
Granted	–	–
Forfeited	–	(223,854)
Exercised	(176,500)	(2,086,146)
Outstanding at end of year	131,000	307,500
Exercisable at end of year	–	–

Executive Deferred Bonus (no proceeds on exercise)

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Number of shares	Number of shares
Outstanding at start of year	2,923,687	2,690,807
Granted	435,177	747,571
Forfeited	(19,598)	(53,957)
Exercised	(1,128,384)	(460,734)
Outstanding at end of year	2,210,882	2,923,687
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% (2012: 20%) correlated and that the comparator index has volatilities ranging between 18% p.a. to 107% p.a. (2012: 17% p.a. to 69% p.a.)

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 2013 therefore include an allowance for the actual performance of the Company's share price relative to the index over the period between 1 January 2013 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 2013	Year Ended 31 December 2012
	£' Million	£' Million
Share-based payment expense	7.8	5.4

32. FINANCIAL COMMITMENTS

At 31 December 2013 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 2013 to 2028

	31 December 2013	31 December 2012
	£' Million	£' Million
Within one year	0.5	1.9
Between two and five years	3.4	2.3
In more than five years	6.7	6.6
Total financial commitments	10.6	10.8

As at 31 December 2013, there was £0.2 million (2012: £1.0 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*

33 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

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 £0.4 million (2012 £0.8 million) was receivable from the sale of banking services for St James's Place Bank (a division of Halifax plc)
- Fees of £2.0 million (2012 £1.1 million) was receivable from the sale of pensions offered by Scottish Widows
- Commission of £1.0 million (2012 £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 £0.7 million (2012 £0.5 million) was receivable from Bank of Scotland Annuity Service
- Commission of £36,380 (2012 £37,000) was receivable from Bank of Scotland in respect of corporate banking income in 2013
- During the year, deposits were placed with Bank of Scotland and Lloyds TSB on normal commercial terms. At 31 December 2013 these deposits amounted to £63.7 million (2012 £54.7 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 £103.6 million (2012 £89.6 million)
- Amounts lent by the Bank of Scotland to the Group totalled £0.8 million (2012 £0.8 million)
- Tax fees of £26,886 (2012 £27,000) in respect of annual tax compliance and ad-hoc tax advice were charged by LBG plc to certain unit trusts
- Fees of £41,564 (2012 £26,250) were payable to LBG in respect of the services of non-executive St James's Place Board Directors

During the year, Lloyds Banking Group made three separate placements of their holding in St James's Place plc

On 11 March 2013, Lloyds Banking Group plc placed 20% of its holding in St James's Place plc ('SJP') on the market through an accelerated book build reducing its holding from 57% to 37%. As part of this transaction, fees of £5.2 million were paid by SJP to a third party which ordinarily would have been paid by the vendor. In the Board's view this payment was in the interest of SJP and its shareholders

On 29 May 2013, Lloyds Banking Group plc placed 15% of its holding in St James's Place plc ('SJP') on the market reducing its holding from 37% to 21%

On 10 December 2013, Lloyds Banking Group plc placed its remaining 21% holding in St James's Place plc ('SJP') on the market reducing its holding from 21% to nil

As at the 31 December 2013 Lloyds Banking Group plc remained a related party by virtue of their Non-executive Directorships on the St James's Place plc Board. As of 1 January 2014, due to the resignations of these Non-executive Directors, Lloyds Banking Group plc were no longer a related party

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 £16.1 million (2012 £21.9 million income) and the total value of transactions with those non-consolidated unit trusts was £32.1 million (2012 £86.3 million). Net management fees receivable from these unit trusts amounted to £19.4 million (2012 £30.1 million). The value of the investment into the non-consolidated unit trusts at 31 December 2013 was £92.2 million (2012 £203.4 million)

* 2012 comparatives restated to reflect the adoption of IFRS 10. See Note 1a

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 82. 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 2013 was £2.8 million (2012: £1.4 million).

Commission and advice fees of £865,019 (2012: £814,687) 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 2013 was £105,440 (2012: £230,191).

At the start of the year, a St James's Place Partner, connected to Mr Andrew Croft, held 55,000 options under the Partner share option scheme, exercisable between 26 July 2005 and 27 July 2006 (expiry dates between 25 July 2015 and 26 July 2016) at exercise prices ranging between £2.36 and £3.28, and 18,333 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 40,000 options under the Partner share option scheme were exercised (2012: 31,000) at £2.36 and £3.28 leaving a balance at 31 December 2013 of 15,000 options under the Partner share option scheme. In addition, 5,000 vested award shares were exercised under the Partner performance share plan at £0.15 leaving a balance at 31 December 2013 of 13,333 vested award shares under the Partners performance share plan. The 40,000 options and 5,000 award shares were exercised on two separate occasions: 20,000 at £2.36 and 20,000 at £3.28 on 2 April 2013 when the share price was £5.105 and 5,000 at £0.15 on 15 August 2013 when the share price was £6.175, realising a gain of £121,525.

34 INTERESTS IN UNCONSOLIDATED ENTITIES

Unconsolidated Structured Entities

The Group operates investment vehicles, such as unit trusts, primarily to match unitholder liabilities. The investment vehicles are primarily financed by investments from unit holders. Note 1 sets out the judgements inherent in determining when the Group controls, and therefore consolidates, the relevant investment vehicles.

The majority of the risk from a change in the value of the Group's investment in unconsolidated unit trusts is matched by a change in policyholder liabilities. However, the maximum exposure to loss is equal to the carrying value of the investment with the balance being included within investments in Collective Investment Schemes. At 31 December 2013, the total net asset value of unconsolidated unit trusts in which the Group held a beneficial interest was £1,789.3 million.

The following unit trusts are not consolidated within the Group accounts however the Group does act as the manager of these unit trusts.

Name of entity	% of ownership interest		Nature of relationship	Measurement method	Net asset value as at 31 December	
	2013	2012			2013	2012
					£' Million	£' Million
St James's Place Property Unit Trust	0.00	0.00	Manager of unit trust	N/A	393.4	266.4
				Fair value through profit and loss		
St James's Place UK High Income Unit Trust	6.61	5.07	Manager of unit trust		1,395.9	1,097.8
					1,789.3	1,364.2

Notes to the Consolidated Accounts

under International Financial Reporting Standards *continued*

34 INTERESTS IN UNCONSOLIDATED ENTITIES *continued*

Associates

The following unit trusts are not consolidated within the Group accounts however they do meet the criteria of an associate

Name of entity	% of ownership interest		Nature of relationship	Measurement method	Net asset value as at 31 December	
	2013	2012			2013	2012
					£' Million	£' Million
				Fair value through profit and loss		
St James's Place UK High Income Unit Trust	6.61	5.07	Manager of unit trust		1,395.9	1,097.8
					1,395.9	1,097.8

35 PRINCIPAL SUBSIDIARIES

Investment Holding Companies

St James's Place Investments plc*

Life Assurance

St James's Place Wealth Management Group plc*

Unit Trust Management

St James's Place UK plc

Distribution

St James's Place International plc (*incorporated in Ireland*)

Management Services

St James's Place Unit Trust Group Limited

IFA Acquisitions

St James's Place Wealth Management plc

Internal Reassurance

St James's Place Management Services Limited

St James's Place Acquisition Services Limited

St James's Place Reassurance (2009) Limited

* Directly held by St James's Place plc

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 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

The following 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 2013 of

Anglia Financial Limited (03835743)
 BFS Financial Services Limited (4609753)
 Chapman Hunter Group Limited (6034452)
 Chapman Associates Limited (3047530)
 Dellkirk Limited (5487108)
 Entellus Limited (01611224)
 EW Smith & Co Independent Financial Advisors Limited (4088394)
 Lopsystem Limited (01503794)
 M H S (Holdings) Limited (00559995)
 St James's Place 1990 Limited (02513402)
 St James's Place Acquisition Services Limited (7730835)
 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 Properties Limited (01075927)
 SJPC 2000 plc (SCO13363)
 SJPC Group Limited (01873546)
 SJPC 7 Limited (02102279)

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 Continental European Unit Trust
 St James's Place Corporate Bond Unit Trust
 St James's Place Equity Income 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 Emerging Markets Unit Trust
 St James's Place Global Equity Income Unit Trust
 St James's Place Global Equity Unit Trust
 St James's Place Global Unit Trust
 St James's Place Greater European Progressive 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 International Equity Unit Trust
 St James's Place Investment Grade Corporate Bond Unit Trust
 St James's Place Managed Growth Unit Trust
 St James's Place Money Market 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 and General Progressive Unit Trust
 St James's Place UK and International Unit Trust
 St James's Place UK Absolute Return 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

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Independent Auditors' Report

to the members of St. James's Place plc

REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

Our opinion

In our opinion the Parent Company financial statements, defined below

- give a true and fair view of the state of the Parent Company's affairs as at 31 December 2013 and of its cash flows for the year then ended,
- 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

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The Parent Company financial statements, which are prepared by St James's Place plc, comprise

- the Balance Sheet of the Parent Company as at 31 December 2013, and
- the notes to the Parent Company financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) ('ISAs (UK & Ireland)'). 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 to identify material inconsistencies with the audited Parent Company financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements, and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit, or
- 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

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited Parent Company financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Parent Company acquired in the course of performing our audit, or
- is otherwise misleading

We have no exceptions to report arising from this responsibility

Independent Auditors' Report *continued*

to the members of St. James's Place plc

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 97, 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 ISAs (UK & 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

OTHER MATTER

We have reported separately on the Consolidated financial statements of St James's Place plc for the year ended 31 December 2013

Craig Gentle (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
24 February 2014

Notes

- 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
- 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

Strategic Report

Governance

Financial Statements

Other Information

	Notes	31 December 2013 £ Million	31 December 2012 £ Million
Fixed assets			
Investment in subsidiaries	2	390.7	382.8
Current assets			
Amounts owed by Group undertakings		54.6	14.9
Other debtors		—	0.1
Current liabilities			
Corporation tax liabilities		0.2	—
Net current assets		54.4	15.0
Total assets less current liabilities		445.1	397.8
Capital and reserves			
Called up share capital	3	77.3	76.0
Share premium account	4	142.2	127.7
Share option reserve	4	81.2	73.4
Other reserves	4	0.1	0.1
Profit and loss account	4	144.3	120.6
Total shareholders' funds		445.1	397.8

The financial statements on pages 159 to 163 were approved by the Board of Directors on 24 February 2014 and signed on its behalf by



D Bellamy
Chief Executive



A Croft
Chief Financial Officer

The notes and information on pages 160 to 163 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 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 initially recognised at fair value and subsequently held at amortised cost less impairment losses.

(e) Amounts owed to Group undertakings

Amounts owed to Group undertakings initially are recognised at fair value and subsequently held at amortised cost.

(f) Impairment losses

The carrying amounts of the assets are reviewed at each reporting 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

	2013	2012
	£' Million	£' Million
Cost at 1 January		
Investment in Group undertakings	311.4	311.4
Share options granted by Company	73.4	68.0
	384.8	379.4
Additions in the year		
Investment in Group undertakings	—	—
Share options granted by Company	7.8	5.4
	7.8	5.4
Cost at 31 December		
Investment in Group undertakings	311.4	311.4
Share options granted by Company	81.2	73.4
	392.6	384.8
Impairment in value		
Investment in Group undertakings	(1.9)	(2.0)
Net book value at 31 December	390.7	382.8

The Directors' believe that the carrying value of the investments is supported by their underlying net assets

Principal Subsidiary Undertakings at 31 December 2013

Investment Holding	St James's Place Investments plc
Companies	St James's Place Wealth Management Group plc
Life Assurance	St James's Place UK plc
	St James's Place International plc (<i>incorporated in Ireland</i>)
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
IFA Acquisitions	St James's Place Acquisition 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 2012	493,422,751	74.0
– Exercise of options	13,408,396	2.0
At 31 December 2012	506,831,147	76.0
– Exercise of options	8,384,836	1.3
At 31 December 2013	515,215,983	77.3

The total authorised number of ordinary shares is 605 million (2012 605 million), with a par value of 15 pence per share (2012 15 pence per share). All issued shares are fully paid.

8,384,836 shares were issued in the year at a nominal value of £1.3 million, for which the Company received consideration of £15.8 million.

4. RESERVES

	Share Premium Account £' Million	Profit and Loss Account £' Million	Share Option Reserve £' Million	Other Reserves £' Million	Total £' Million
At 1 January 2012	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
Profit for the financial year		89.0			89.0
Dividends		(65.3)			(65.3)
Issue of share capital					
Exercise of options	14.5				14.5
Cost of share options expensed in subsidiary			7.8		7.8
At 31 December 2013	142.2	144.3	81.2	0.1	367.8

5 AUDITORS' REMUNERATION

The total audit fee in respect of the Group is set out in Note 6 on page 120 of the consolidated financial statements. The audit fee charged to the Company for the year ended 31 December 2013 is £1,000 (2012 £1,000).

6 DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2013 Pence per share	Year Ended 31 December 2012 Pence per share	Year Ended 31 December 2013 £' Million	Year Ended 31 December 2012 £' Million
Final dividend in respect of previous financial year	6.39	4.80	32.6	23.9
Interim dividend in respect of current financial year	6.38	4.25	32.7	21.4
Total	12.77	9.05	65.3	45.3

The Directors have recommended a final dividend of 9.58 pence per share (2012 6.39 pence). This amounts to £49.4 million (2012 £32.6 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 16 May 2014 to those shareholders on the register as at 11 April 2014.

7. RELATED PARTY TRANSACTIONS AND BALANCES

At the year end the following related party balances existed

	31 December 2013	31 December 2012
	£' Milhon	£' Milhon
<i>Investments in Group companies</i>		
St James's Place Partnership Limited	42.0	42.0
St James's Place Wealth Management Group plc	168.9	161.0
St James's Place Investments plc	179.8	179.8
<i>Intra group debtors</i>		
St James's Place Investments plc	54.6	14.9

During the year, the Company received £89.0 million (2012 £63.4 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 2013 of

Anglia Financial Limited (03835743)
 BFS Financial Services Limited (4609753)
 Chapman Hunter Group Limited (6034452)
 Chapman Associates Limited (3047530)
 Dellkirk Limited (5487108)
 Entellus Limited (01611224)
 EW Smith & Co Independent Financial Advisors Limited (4088394)
 Lopsystem Limited (01503794)
 MHS (Holdings) Limited (00559995)
 St James's Place 1990 Limited (02513402)
 St James's Place Acquisition Services Limited (7730835)
 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 Properties Limited (01075927)
 SJPC 2000 plc (SC013363)
 SJPC Group Limited (01873546)
 SJPC 7 Limited (02102279)

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 82.

9. COMPANY INFORMATION

In the opinion of the Directors there is not considered to be any ultimate controlling party.

Copies of the consolidated accounts of St James's Place plc may be obtained from the Company Secretary, St James's Place plc, St James's Place House, James's Place House, 1 Tetbury Road, Cirencester, Gloucestershire, GL7 1FP.

Supplementary Information

on European Embedded Value Basis

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Independent Auditors' Report

to the Directors of St. James's Place plc ('the Company')

REPORT ON THE SUPPLEMENTARY INFORMATION – EUROPEAN EMBEDDED VALUE BASIS

Our opinion

In our opinion, the supplementary information, defined below, for the year ended 31 December 2013 has been properly prepared, in all material respects, in accordance with the EEV basis set out in Note I – Basis of Preparation to the supplementary information

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The supplementary information – European Embedded Value ('EEV') basis (the 'supplementary information'), which is prepared by St James's Place plc (the 'Company'), comprises

- the consolidated statement of financial position – European Embedded Value Basis as at 31 December 2013,
- the consolidated statement of income – European Embedded Value Basis for the year then ended,
- the consolidated statement of changes in equity – European Embedded Value Basis for the year then ended, and
- the notes to the European Embedded Value Basis, which include the EEV basis and methodology set out in Notes I and II and other explanatory information

The financial reporting framework that has been applied in their preparation is the EEV basis set out in Note I – Basis of Preparation to the supplementary information

What an audit of supplementary information involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

RESPONSIBILITIES FOR THE SUPPLEMENTARY INFORMATION AND THE AUDIT

Our responsibilities and those of the directors

The directors are responsible for the preparation of the supplementary information in accordance with the EEV basis set out in Note I – Basis of Preparation to the supplementary information

Our responsibility is to audit and express an opinion on the supplementary information in accordance with applicable law and ISAs (UK & 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 22 July 2013 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

PricewaterhouseCoopers LLP

Chartered Accountants

Bristol

24 February 2014

Notes

- 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
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements 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

	Note	Year Ended 31 December 2013	Year Ended 31 December 2012
		£' Million	£' Million
Life business		365.7	293.9
Unit Trust business		130.8	82.6
Distribution business		(6.1)	5.3
Other		(27.7)	(15.9)
EEV operating profit		462.7	365.9
Investment return variances		344.2	190.4
Economic assumption changes		10.6	(3.7)
EEV profit before tax		817.5	552.6
Tax			
Life business		(127.5)	(89.5)
Unit Trust business		(42.3)	(28.9)
Distribution business		1.4	(1.3)
Other		6.5	5.2
Corporation tax rate change		18.9	21.6
		(143.0)	(92.9)
EEV profit after tax		674.5	459.7
EEV profit attributable to non-controlling interests		—	—
EEV profit attributable to equity share holders		674.5	459.7
EEV profit on ordinary activities after tax		674.5	459.7
		Pence	Pence
Basic earnings per share	VI	132.4	92.4
Diluted earnings per share	VI	130.1	90.8
Operating profit basic earnings per share	VI	72.9	58.5
Operating profit diluted earnings per share	VI	71.6	57.5

The notes and information on pages 169 to 176 form part of this supplementary information

Consolidated Statement of Changes in Equity

European Embedded Value Basis

Strategic Report

Governance

Financial Statements

Other Information

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Opening shareholders' equity on an EEV basis	2,336.3	1,899.5
EEV profit after tax for the year	674.5	459.7
Issue of share capital	15.8	19.3
Retained earnings credit in respect of share option charges	7.8	5.4
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust	0.1	0.1
Dividends paid	(65.3)	(45.3)
Consideration paid for own shares	(5.3)	(2.4)
Non-controlling interests arising on purchase of subsidiaries during the year	0.2	—
Closing shareholders' equity on an EEV basis	2,964.1	2,336.3

The notes and information on pages 169 to 176 form part of this supplementary information

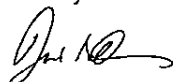
Consolidated Statement of Financial Position

European Embedded Value Basis

	31 December 2013	31 December 2012*
	£' Million	£' Million
Assets		
Intangible assets		
Deferred acquisition costs	888 8	971 6
Value of long-term business in-force		
– long-term insurance	1,583 7	1,223 6
– unit trusts	506 3	383 5
Computer software	8 7	11 7
Customer list	–	3 0
	2,987 5	2,593 4
Property & equipment	5 8	3 6
Deferred tax assets	181 8	190 9
Investment property	732 7	597 6
Investments	38,967 7	29,585 5
Reinsurance assets	64.2	38 6
Insurance and investment contract receivables	49 9	46 5
Income tax assets	–	85 2
Other receivables	554.0	526 1
Cash & cash equivalents	3,845 7	3,080 1
Total assets	47,389 3	36,747 5
Liabilities		
Insurance contract liabilities	466 4	424 0
Other provisions	9 7	9 2
Financial liabilities	33,904 0	27,271 0
Deferred tax liabilities	488.6	259 1
Insurance and investment contract payables	38.1	24 9
Deferred income	538 6	616 5
Income tax liabilities	4 9	77 2
Other payables	439 4	435 8
Net asset value attributable to unit holders	8,535 4	5,293 5
Preference shares	0 1	–
Total liabilities	44,425 2	34,411 2
Net assets	2,964.1	2,336 3
Shareholders' equity		
Share capital	77 3	76 0
Share premium	142 2	127 7
Treasury share reserve	(10 2)	(8 9)
Miscellaneous reserves	2 3	2 3
Retained earnings	2,752 5	2,139 2
Total shareholders' equity on an EEV basis	2,964.1	2,336 3
	Pence	Pence
Net assets per share	575 3	461 0

* Restated to reflect the adoption of IFRS 10. See IFRS Note 1a.

The supplementary information on pages 166 to 176 was approved by the Board of Directors on 24 February 2014 and signed on its behalf by



D Bellamy
Chief Executive



A Croft
Chief Financial Officer

The notes and information on pages 169 to 176 form part of this supplementary information

Notes to the European Embedded Value Basis

I. BASIS OF PREPARATION

The supplementary information on pages 166 to 176 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% (2012: 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.

Notes to the European Embedded Value Basis

continued

II. METHODOLOGY *continued*

(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 2013	Year Ended 31 December 2012
Risk free rate	3.1%	1.8%
Inflation rate	3.2%	2.5%
Risk discount rate (net of tax)	6.2%	4.9%
Future investment returns		
– Gilts	3.1%	1.8%
– Equities	6.1%	4.8%
– Unit linked funds		
– Capital growth	2.5%	1.2%
– Dividend income	2.9%	2.9%
– Total	5.4%	4.1%
Expense inflation	4.0%	3.4%

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 reinsurers.

(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 20.3% (2012: 21.3%) for UK life and pensions business, 12.5% (2012: 12.5%) for Irish life and pensions business and 20.5% (2012: 21.7%) 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 the changes in tax rate enacted in the year.

IV COMPONENTS OF EEV PROFIT**(a) Life business**

	Note	Year Ended 31 December 2013	Year Ended 31 December 2012
		£' Million	£' Million
New business contribution	1	213.6	208.9
Profit from existing business			
Unwind of discount rate		89.4	76.9
Experience variances		53.9	6.9
Operating assumption changes		4.6	(1.7)
Investment income		4.2	2.9
EEV operating profit		365.7	293.9
Investment return variances		271.8	139.5
Economic assumption changes		7.7	(3.5)
EEV profit before tax		645.2	429.9
Tax		(127.5)	(89.5)
Corporation tax rate change		15.2	14.7
EEV profit after tax		532.9	355.1

Note 1: New business contribution after tax is £171.4 million (2012: £165.2 million)

Notes to the European Embedded Value Basis

continued

IV COMPONENTS OF EEV PROFIT *continued*

(b) Unit Trust business

	Note	Year Ended 31 December 2013 £' Million	Year Ended 31 December 2012 £' Million
New business contribution	1	113.6	67.9
Profit from existing business			
Unwind of discount rate		22.7	19.1
Experience variances		(6.5)	(2.3)
Operating assumption changes		—	(2.6)
Investment income		1.0	0.5
EEV operating profit		130.8	82.6
Investment return variances		72.4	50.9
Economic assumption changes		2.9	(0.2)
EEV profit before tax		206.1	133.3
Tax		(42.3)	(28.9)
Corporation tax rate change		3.7	6.9
EEV profit after tax		167.5	111.3

Note 1 New business contribution after tax is £90.3 million (2012 £53.1 million)

(c) Combined Life and Unit Trust business

	Note	Year Ended 31 December 2013 £' Million	Year Ended 31 December 2012 £' Million
New business contribution	1	327.2	276.8
Profit from existing business			
Unwind of discount rate		112.1	96.0
Experience variances		47.4	4.6
Operating assumption changes		4.6	(4.3)
Investment income		5.2	3.4
EEV operating profit		496.5	376.5
Investment return variances		344.2	190.4
Economic assumption changes		10.6	(3.7)
EEV profit before tax		851.3	563.2
Tax		(169.8)	(118.4)
Corporation tax rate change		18.9	21.6
EEV profit after tax		700.4	466.4

Note 1 New business contribution after tax is £261.7 million (2012 £218.3 million)

(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 2013 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	(45.8)	307.6	261.8
Profit from existing business	191.4	(191.4)	—
Unwind of discount rate	—	89.6	89.6
Experience variances	41.3	(11.3)	30.0
Operating assumption changes	(5.0)	9.0	4.0
Investment return	4.2	—	4.2
Investment return variances	18.4	257.1	275.5
Economic assumption changes	3.9	4.8	8.7
Miscellaneous	(18.2)	—	(18.2)
Corporation tax rate change	—	18.9	18.9
EEV profit after tax	190.2	484.3	674.5

The comparative figures for 2012 are as follows:

	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

Notes to the European Embedded Value Basis

continued

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 2013		327.2	261.7	2,964.1
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(3.4)	(2.8)	(6.0)
10% reduction in withdrawal rates	2	29.2	23.4	155.7
10% reduction in expenses		5.8	4.6	29.5
10% reduction in market value of equity assets	3	—	—	(276.8)
5% reduction in mortality and morbidity	4	—	—	—
100bp increase in equity expected returns	5	—	—	—
100bp increase in assumed inflation	6	(5.0)	(4.0)	(20.8)

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 reinsurers 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	41.2	33.0	205.2

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.

VI. EARNINGS PER SHARE

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence	Pence
Basic earnings per share	132.4	92.4
Diluted earnings per share	130.1	90.8
Operating profit basic earnings per share	72.9	58.5
Operating profit diluted earnings per share	71.6	57.5

The earnings per share calculations are based on the following figures

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Earnings		
Profit after tax (<i>for both basic and diluted EPS</i>)	674.5	459.7
Operating profit after tax (<i>for both basic and diluted EPS</i>)	371.5	291.0
	Million	Million
Weighted average number of shares		
Weighted average number of ordinary shares in issue (<i>for basic EPS</i>)	509.4	497.7
Adjustments for outstanding share options	9.2	8.5
Weighted average number of ordinary shares (<i>for diluted EPS</i>)	518.6	506.2

VII. RECONCILIATION OF IFRS AND EEV PROFIT BEFORE TAX AND NET ASSETS

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
IFRS profit before tax	461.2	251.8
Tax attributable to policyholder returns	(270.5)	(117.2)
Profit before shareholder tax	190.7	134.6
Add back amortisation of acquired value in-force business	3.2	3.2
Movement in life value of in-force (net of tax)	360.1	273.4
Movement in unit trust value of in-force (net of tax)	122.8	77.7
Tax gross up of movement in value in-force	140.7	63.7
EEV profit before tax	817.5	552.6
	31 December 2013	31 December 2012
	£' Million	£' Million
IFRS net assets	906.1	762.5
Less acquired value of in-force	(40.0)	(43.2)
Add deferred tax on acquired value of in-force	8.0	9.9
Add life value of in-force	1,583.7	1,223.6
Add unit trust value of in-force	506.3	383.5
EEV net assets	2,964.1	2,336.3

Notes to the European Embedded Value Basis

continued

VIII. RECONCILIATION OF LIFE COMPANY FREE ASSETS TO CONSOLIDATED GROUP EQUITY AND ANALYSIS OF MOVEMENT IN FREE ASSETS

	31 December 2013	31 December 2012
	£' Million	£' Million
Life company estimated free assets	234.9	155.7
Estimated required life company solvency capital	49.3	43.8
Other subsidiaries, consolidation and IFRS adjustments	621.9	563.0
IFRS net assets	906.1	762.5

	31 December 2013	31 December 2012
	£' Million	£' Million
Life company estimated free assets at 1 January	155.7	122.3
Investment in new business	(28.7)	(64.4)
Profit from existing business	157.0	120.8
Dividends paid	(47.0)	(25.0)
Investment return	3.4	2.4
Movement in required solvency capital	(5.5)	(0.4)
Life company estimated free assets at 31 December	234.9	155.7

Other Information

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Shareholder Information

ANALYSIS OF NUMBER OF SHAREHOLDERS

Analysis by Number of Shares	Holders	%	Shares held	%
1 – 999	2,385	43.46	914,629	0.18
1,000 – 9,999	2,274	41.44	6,876,041	1.33
10,000 – 99,999	523	9.52	16,292,127	3.16
100,000 and above	306	5.58	491,133,186	95.33
	5,488	100.00	515,215,983	100.00

2014 FINANCIAL CALENDAR

Ex-dividend date for final dividend	Wednesday, 9 April 2014
Record date for final dividend	Friday, 11 April 2014
Announcement of first quarter new business	Tuesday, 29 April 2014
Annual General Meeting	Wednesday, 14 May 2014
Payment date for final dividend	Friday, 16 May 2014
Announcement of Interim Results and second quarter new business	Tuesday, 29 July 2014
Ex-dividend date for interim dividend	Wednesday, 27 August 2014
Record date for interim dividend	Friday, 29 August 2014
Payment date for interim dividend	Wednesday, 24 September 2014
Announcement of third quarter new business	Thursday, 30 October 2014

The above dates are subject to change and further information on the 2014 financial calendar can be found on the Company's website, www.sjp.co.uk

DIVIDEND REINVESTMENT PLAN

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 179.

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

How to Contact Us and Advisers

HOW TO CONTACT US

Registered Office
St James's Place House
1 Tetbury Road
Cirencester
GL7 1FP

Tel 01285 640302
Fax 01285 640436
www.sjp.co.uk

Chairman
Sarah Bates
email c/o hugh.gladman@sjp.co.uk

Chief Executive
David Bellamy
email david.bellamy@sjp.co.uk

Chief Financial Officer
Andrew Croft
email andrew.croft@sjp.co.uk

Company Secretary
Hugh Gladman
email hugh.gladman@sjp.co.uk

Customer Service
Will Alterman
Tel 01285 878352
Fax 01285 878111
email will.alterman@sjp.co.uk

Analyst Enquiries
Andrew Croft
Tel 01285 878079
Fax 01285 657208
email andrew.croft@sjp.co.uk

Media Enquiries
Bell Pottinger
Tel 020 7861 3917
email SJP@Bell-Pottinger.com

ADVISERS

Bankers
Bank of Scotland
150 Fountainbridge
Edinburgh
EH3 9PE

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

The Royal Bank of Scotland
135 Bishopsgate
London
EC2M 3UR

Brokers
JPMorgan Cazenove Limited
25 Bank Street
London
E14 5JP

Bank of America Merrill Lynch
2 King Edward Street
London
EC1A 1HQ

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

Registrars & Transfer Office
Computershare Investor Services PLC
The Pavilions
Bristol
BS99 6ZZ
email web.queries@computershare.co.uk
Tel 0870 702 0197
www.computershare.com

St. James's Place Partnership Locations

Aberdeen
3 Queens Gate
Aberdeen
AB15 5YL

Mark Wyllie
Tel 0122 420 2400

Belfast
St James's Place House
14 Cromac Place
Belfast
BT7 2JB

Gerry Quinn
Tel 028 9072 6500

Bristol
Beech House
Brotherswood Court
Great Park Road
Bradley Stoke
Bristol
BS32 4QW

George Hills
Tel 01454 618700

City
St James's Place House
3 Moorgate Place
London
EC2R 6EA

Simon Coll
Tel 020 7638 2400

Edinburgh
Melville House
18 – 22 Melville Street
Edinburgh
EH3 7NS

Steve Herkes
Tel 0131 459 9200

Elstree
St James's Place House
5 Oaks Court
Warwick Road
Borehamwood
Herts
WD6 1GS

Mark Newman
Tel 020 8207 4000

Glasgow
Minerva House
131 – 133 Minerva Street
Glasgow
G3 8LE

John Noble
Tel 0141 304 1700

Hamilton Place
11 Hamilton Place
Mayfair
London
W1J 7DR

Nick Brett
Tel 020 7495 1771

Kingsway
3rd Floor
York House
23 Kingsway
London
WC2B 6UJ

Nigel Preston
Tel 020 7744 1600

Leeds
2nd Floor
Chancellor Court
The Calls
Leeds
LS2 7EH

Richard Balmforth
Tel 0113 244 4054

Liverpool
5th Floor
Martins Building
Water Street
Liverpool
L2 3SX

John Ronan
Tel 0151 224 8700

Manchester
7th Floor
Sunlight House
Little Quay Street
Manchester
M3 3JZ

Frank Gorrie
Tel 0161 834 9480

Newbury
Montague Court
London Road
Newbury
Berks
RG14 1JL

Chris Faerber
Tel 01635 582424

Newcastle
One Trinity Gardens
Broad Chare
Newcastle upon Tyne
NE1 2HF

Philip Pringle
Tel 0191 260 5373

Nottingham
St James's Place House
Castle Quay
Castle Boulevard
Nottingham
NG7 1FW

Richard Thompson
Tel 0115 924 2899

Piccadilly
117 Piccadilly
London
W1J 7JU

Damian Bradbury
Tel 020 7399 6889

Solent
St James's Place House
1480 Parkway
Solent Business Park
Whitley
Fareham
Hants
PO15 7AF

Jason Flood
Tel 01489 881400

Solihull
St James's Place House
Central Boulevard
Blythe Valley Business Park
Shurley
Solihull
B90 8AR

Sean McKillop
Tel 0121 733 6733

Westerham
1st Floor
The Crown
London Road
Westerham
Kent
TN16 1DJ

Nick Froggatt
Tel 01959 561 606

Witham
Roslyn House
16 Newland Street
Witham
Essex
CM8 2AQ

Paolo Payne
Tel 01376 501947



ST. JAMES'S PLACE
WEALTH MANAGEMENT

ST JAMES'S PLACE PLC
ST JAMES'S PLACE HOUSE
1 TETBURY ROAD CIRENCESTER
GLOUCESTERSHIRE GL7 1FP
T. 0800 01 38 137

www.sjp.co.uk