



# ST. JAMES'S PLACE PLC

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1 August 2018

## INTERIM STATEMENT FOR THE SIX MONTHS TO 30 JUNE 2018

### CONTINUED STRONG GROWTH IN NET INFLOWS AND FUNDS UNDER MANAGEMENT REFLECTED IN FINANCIAL RESULT AND INTERIM DIVIDEND INCREASE OF 20%

St. James's Place plc (SJP), the wealth management group, today issues its new business and financial results for the six months ended 30 June 2018.

#### New Investment and Funds under Management

- Gross inflow of funds of £7.9 billion (2017: £6.9 billion), up 15%.
- Continued strong retention of client funds – 96%.
- Net inflow of funds of £5.2 billion (2017: £4.3 billion), up 21%.
- Group funds under management of £96.6 billion (2017: £83.0 billion), up 16% over the twelve months.

#### Financial Highlights

- EEV new business profit £437.0 million (2017: £343.0 million), up 27%.
- EEV operating profit £489.6 million (2017: £397.3 million), up 23%.
- Underlying IFRS profit before shareholder tax £115.4 million (2017: £106.3 million), up 9%.
- IFRS profit before shareholder tax £82.5 million (2017: £79.6 million), up 4%.
- Underlying cash result (post-tax) £147.1 million (2017: £123.1 million), up 20%.
- Underlying cash basic earnings per share of 28.0 pence (2017: 23.5 pence per share), up 19%.
- Interim dividend of 18.49 pence per share (2017: 15.41 pence per share), up 20%.

#### Other Highlights

- Total number of advisers at 3,810, up 4%.
- Successful migration of pensions drawdown business onto Bluedoor.
- Launch of an international Discretionary Fund Management service in Hong Kong.
- New investment manager appointments to Alternative Assets and European equity mandates.
- Launch of a new Diversified Assets Fund.

**Andrew Croft, Chief Executive, commented:**

“Following last year’s exceptional growth, I am delighted to report continued strong growth across all key areas of our business. Gross inflows grew by 15% during the first half to £7.9 billion, net inflows of £5.2 billion were up 21% reflecting the continued and improving retention – a testament to the Partnership, whilst funds under management closed the half year at just under £97 billion, up 6% since the end of 2017 and 16% higher over the past year.

Naturally, this strong new business performance is reflected in the Group’s financial performance, with growth in all our financial KPIs for the half year. Of particular note was the strong growth in the Underlying cash result, up 20% to £147.1 million.

The first half of 2018 has also seen St. James’s Place make good progress on other counts. The number of advisers grew by 4% to 3,810 which bodes well for future growth. We have made significant progress on our back-office infrastructure project and continued to broaden our client offering with the addition of a Diversified Assets Fund managed by KKR.

Individuals face considerable challenges when planning for and managing their wealth, both before and after retirement as well as when considering the transfer of wealth to their next generation. Consequently, we continue to see a growing demand for highly personalised and trusted face-to-face financial advice and service. At the same time there are not enough qualified individuals to meet this growing demand and an advice gap exists. With the strength and depth of our technical resources and the Partnership, St. James’s Place is well placed to address these needs.

Furthermore, we, and very importantly our Partner businesses, continue to invest in our respective infrastructure and capacity ensuring we are well placed for future growth. We are also investing in our client service, our investment management approach, both our new Asian and DFM businesses and very importantly an increasing investment in our Academy. The Academy will play an important and growing role in developing our next generation of financial advisers thereby supporting Partner succession and aiding the retention of long-term client relationships as well as building intergenerational relationships.

The environment we are operating in, together with these investments, provides us with the confidence that we can continue to achieve our medium-term growth objectives.

Supporting the above, we have a strong balance sheet and the knowledge of a growing income from our existing business both of which underpin the growing return to shareholders as shown by the 20% increase in the interim dividend.”

The details of the announcement are attached.

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Analyst presentation at 10:45am for 11:00am at:

Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ  
(NB Please bring photo ID and allow extra time for security checks)

*Alternatively, if you are unable to attend but would like to watch a livestream of the presentation on the day, please click on the link below or via our website*

Live and On-demand:

<https://www.investis-live.com/st-jamess-place/5b325da9bb5c4c1000a26522/tmwh>

There will also be a Dial in:

Conference call dial in details:  
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Note: neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on this announcement (or any other website) is incorporated into, or forms part of, this announcement.

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**ST. JAMES'S PLACE WEALTH MANAGEMENT**  
**GROSS INFLOWS**  
**FOR THE SIX MONTHS TO 30 JUNE 2018**

	Unaudited 3 Months to 30 June		Unaudited 6 Months to 30 June	
	2018	2017	2018	2017
	£'Billion	£'Billion	£'Billion	£'Billion
<b>Gross inflows</b>				
Investment	0.61	0.66	1.21	1.24
Pension	2.19	1.75	4.36	3.22
Unit Trust, ISA & DFM	1.21	1.23	2.35	2.41
	<b>4.01</b>	<b>3.64</b>	<b>+10%</b>	<b>7.92</b>
				<b>6.87</b>
				<b>+15%</b>

## INTERIM MANAGEMENT STATEMENT

### CHIEF EXECUTIVE'S REPORT

Following an exceptional 2017, I am delighted to report continued strong growth across all key areas of our business.

The St. James's Place Partnership continued to attract significant numbers of new clients and investments, such that against the strong comparative of the prior year, total gross inflows grew by 15% during the first half to £7.9 billion. The Partnership also serves clients well, which is reflected in the continued high client retention and our being able to report 21% growth in net inflows of £5.2 billion. Funds under management closed the half year at just under £97 billion, up 6% since the end of 2017 and 16% higher over the past year.

#### Financial Performance & Dividend

Naturally, this strong new business performance is reflected in the Group's financial performance, with growth in all of our financial KPIs for the half year. Of particular note was the strong growth in the Underlying cash result, up 20% to £147.1 million.

Reflecting the first half Underlying cash result, the Board has increased the interim dividend by 20% to 18.49 pence per share. As previously stated, the Board intends to set the full year dividend with an aim of distributing around 80% of the full year Underlying cash result.

The interim dividend will be paid on 28 September to shareholders on the register at the close of business on 31 August 2018. A Dividend Reinvestment Plan (DRP) continues to be available for shareholders.

#### Clients

Through the Partnership, St. James's Place now has more than 650,000 clients, each with their own personal financial circumstances and therefore, unique demands and expectations of a trusted wealth manager.

In the first half of 2018, we continued to enhance both the depth and breadth of the services we make available to our clients, adding for example, new protection and medical insurers to our panel of approved third-party providers. We have also introduced a new foreign exchange and international payment services facility in association with TorFX and launched an international discretionary fund management service for clients in Hong Kong, with a view to replicating this offering in Singapore and Shanghai in due course. These are just a few examples of the ways in which we enrich the service we provide to clients, and we will continue to do more.

#### Investment Management

In the six months to the end of June, UK equities returned around 1.7%, with US equities stronger at 4.9%, but here they have benefited from the Pound's weakness in the second quarter, which contributed around half the return. This picture was repeated with global equities where the return for the year-to-date was 2.9%, almost all of this due to currency movement. The first half of 2018 has also seen varied returns across many other major equity and fixed income markets.

Against this backdrop, our range of investment portfolios have performed well during the six months with the majority of the portfolios having outperformed their ARC peer groups. Success, should however, be judged on longer term performance and here our portfolios have fared even better over 1, 3 and 5 years.

Selecting the best managers lies at the heart of our Investment Management Approach, and in January we announced plans for several manager changes, which have since come into effect. The Balanced Managed fund now has a new blended manager approach, comprising Ben Inker of GMO and Mark Baribeau of Jennison Associates. Wellington Management's Steve Gorman in Boston has been appointed as manager of the Alternative Assets fund, and Ken Hsia of Investec Asset Management has been appointed as manager of the Continental European fund and co-manager of the Greater European Progressive fund.

More recently we announced other developments in our Investment Management Approach: firstly, we have made a change to the management of the Ethical fund. Going forward the fund, renamed the 'Sustainable and Responsible Equity fund', will be managed by Kirsteen Morrison and David Winborne of Impax Asset Management; secondly, we announced the launch of a new Diversified Assets fund, that will be managed by KKR, based in New York, another exclusive strategy for St. James's Place clients, in this case providing them with access to private market assets which to date have typically only been available to institutional investors.

### **The St. James's Place Partnership**

Recruitment activity has been strong during the first half of 2018, with the total number of St. James's Place advisers now standing at 3,810, up 4% since the start of the year.

Our Academy goes from strength to strength, with 95 individuals graduating as advisers in the first half, more than double that of the first of half 2017, and around a third of our gross adviser recruitment in the year to-date. There are currently 329 individuals in the programme, the majority of whom will graduate in the future. Our more traditional recruitment channels also have good momentum as experienced financial advisers recognise the merits of joining the St. James's Place Partnership.

This growth provides us with confidence in our ability to service clients well and attract further investments to St. James's Place in the years ahead.

### **Board Changes**

We announced this morning that David Lamb has informed the Board of his intention to retire in early 2019. David joined the company in February 1992, a few weeks after we opened for business, and was appointed to the Board in 2007. On retirement David will have completed 27 years of service with the Company, and 12 as a main Board Director. He has made an enormous contribution to the success of St. James's Place spanning many areas of the business over the years, but David was particularly instrumental in the development and operation of our Investment Management Approach. Although we will miss David's contribution at the Board I am delighted to say that once he has retired, David has agreed to continue, on a part time basis, to Chair our Investment Committee.

I am also very pleased to announce that Robert Gardner will be joining St. James's Place in January 2019. Robert will take over from David on the Executive Committee and lead our investment proposition going forward, working closely with David during the handover period.

Robert is 39 years of age and is co-founder of Redington, one of the UK's most respected investment and pensions consultancy businesses. Having worked closely with us for a number of years, Robert comes not only with a wealth of business, pension and asset management experience, but also extensive knowledge of our business as well as knowing many of our Partners and employees. Robert is an important and significant new hire for St. James's Place. I am delighted he has agreed to join us and we look forward to working with him over the coming years.

## Investment for Growth

St. James's Place Asia has enjoyed a good first half of 2018, with gross new funds up 51%, which is ahead of plan, and net funds up 47%. Funds under management now exceed £550 million having increased by 32% during the six months. In addition, we have made enhancements to the proposition we are able to offer clients, with a highlight being the aforementioned introduction of an international discretionary fund management service in Hong Kong.

Rowan Dartington also continues to build scale, with funds under management having almost doubled to £2.31 billion since the business was acquired in 2016, and the number of investment executives having increased from 46 to 51 since the start of the year.

## Back-office Infrastructure

We have achieved another significant milestone in our multi-year programme to consolidate our UK back-office administration, having successfully migrated our pensions drawdown book of business onto Bluedoor during May. In addition, ten days ago we successfully piloted a small migration of our pre-retirement pensions clients onto the platform ahead of a significant migration later this year.

We now have some £40 billion of funds under management on the new system and are processing over 70% of new business through Bluedoor. Whilst we have now 'broken the back' of this complex project, we recognise there is still much work to do.

## Our Community

I would like to thank the entire St. James's Place community for these results, which are a testament to the ongoing hard work, dedication and commitment of all associated with our Company.

I would also like to particularly single out the various teams working on our back-office programme who have given up numerous weekends both leading up to and on the migrations this year.

## The St. James's Place Charitable Foundation

After what was a record year for fundraising in 2017, I am delighted that we have continued to raise significant funds for The St. James's Place Charitable Foundation, taking to £76 million the total raised since inception. Our collective commitment to The Foundation is an integral part of the Group's culture and we take great pride in the fact that more than 85% of Partner practices and employees donate to the Foundation via monthly covenant.

## Outlook

Individuals face considerable challenges when planning for and managing their wealth, both before and after retirement, as well as when considering the transfer of wealth to their next generation. Consequently, we continue to see a growing demand for highly personalised and trusted face-to-face financial advice and service. At the same time there are not enough qualified individuals to meet this growing demand and an advice gap exists. With the strength and depth of our technical resources and the Partnership, St. James's Place is well placed to address these needs.

Furthermore, we, and very importantly our Partner businesses, continue to invest in our respective infrastructure and capacity ensuring we are well placed for future growth. We are also investing in our client service, our investment management approach, both our new Asian and DFM businesses and, very importantly, an increasing investment in our Academy. The Academy will play an important and growing role in developing our next generation of financial advisers thereby supporting Partner succession and aiding the retention of long-term client relationships as well as building intergenerational relationships.

The environment we are operating in, together with these investments, provides us with the confidence that we can continue to achieve our medium-term growth objectives.

Supporting the above, we have a strong balance sheet and the knowledge of a growing income from our existing business, both of which underpin the growing return to shareholders as shown by the 20% increase in the interim dividend.

Andrew Croft  
Chief Executive  
31 July 2018

## INTERIM MANAGEMENT STATEMENT

### CHIEF FINANCIAL OFFICER'S REPORT

As already stated in the Chief Executive's Report, Gross and Net Inflows in the period grew by 15% and 21% respectively and at the end of the period funds under management totalled £96.6 billion, growth of 16% compared to 30 June 2017.

Our financial business model remains straightforward and unchanged. We attract and then retain funds under management on which we receive an annual management fee. The continued strong growth in funds under management is therefore a significant positive indicator, particularly in combination with surrender rates under 5%.

During the period, as in previous years, we have also continued to invest in the future of the business. This investment is reflected in our results and is expected to enable continued medium and long-term growth together with more efficient administration systems and processes.

#### Financial Results

Whilst our financial business model remains straightforward, the impact of having a significant life insurance company at the heart of the Group results in accounting complexity under IFRS. For this reason we continue, in our Financial Review on pages 12 to 42, to supplement IFRS information with EEV information as well as further detail on the way in which cash emerges within the business. The Financial Review shows strong results on every measure but there are a number of factors that merit emphasis:

1. Our contribution to the Financial Services Compensation Scheme for the six months to 30 June 2018 pre-tax was £15.4 million (six months to 30 June 2017: £19.8 million). This expense impacted post-tax results for the Group by £12.4 million in the period (six months to 30 June 2017: £16.0 million). The reduced charge follows a decision by the FSCS to align the compensation levy period with the FSCS's financial year, which means that as a one-off, there are only nine months of levy expense recognised in the six months to 30 June 2018. The underlying cost of the FSCS levy remains at prior year levels.
2. We continue to invest in growing the Partnership and the number of advisers within it. In particular we invested £4.2 million post-tax in our Academy and Next Generation Academy (six months to 30 June 2017: £3.3 million) and saw 95 qualified advisers graduate during the period.
3. Our Asia and DFM operations are medium to long-term investments and are developing well. During the period, investment in these areas of future growth amounted to £10.5 million post-tax (six months to 30 June 2017: £10.3 million).
4. Our back-office infrastructure initiative has been a multi-year project. In 2018 we increased the level of new business written on the Bluedoor system to over 70% and successfully migrated our Drawdown portfolio. By 30 June 2018, 39% of all funds under management were recorded on the new platform (30 June 2017: 28%, 31 December 2017: 31%). Costs in the period were £15.2 million post-tax (six months to 30 June 2017: £8.2 million).

*IFRS Result*

The **IFRS profit after tax** was £69.0 million (six months to 30 June 2017: £61.9 million). The results continue to be impacted by IFRS requirements to defer income and costs associated with new business and the significant excess of income over expense subject to this deferral continues to result in a net reduction to IFRS profit. Nonetheless, the IFRS profit after tax has increased as a result of the increase in funds under management which is the long-term driver of profit.

The **Underlying profit before shareholder tax** was £115.4 million (six months to 30 June 2017: £106.3 million). This measure excludes the impact of the deferral accounting explained above and is therefore more sensitive to new business. The result for 2018 is underpinned by increased funds under management but also reflects a 15% increase in gross inflows for the period.

*Cash Result (presented post-tax)*

The **Operating cash result** for the period was £164.3 million (six months to 30 June 2017: £139.0 million), growth of 18%. This result reflects the positive impact of continued growth in funds under management and also increased expenses incurred to both support and grow the business.

Operating cash is then used for investment in the Academy, our Asian operations, our new DFM offering and other strategic investments. The total post-tax investment during the period was £17.2 million (six months to 30 June 2017: £15.9 million) resulting in the **Underlying cash result** of £147.1 million (six months to 30 June 2017: £123.1 million), growth of 20%.

The **Cash result** was £128.7 million (six months to 30 June 2017: £111.3 million) represented by the Underlying cash result principally adjusted for back-office infrastructure costs.

It is important to note that the Cash, Operating cash and Underlying cash results should not be confused with the IFRS condensed consolidated statement of cash flows which is prepared in accordance with IAS 7 and disclosed on page 48.

*EEV Result*

The **EEV new business contribution** for the period was £437.0 million (six months to 30 June 2017: £343.0 million) growth of 27%. This reflects the increase in new business together with operational economies of scale achieved as fixed costs are spread across more business and the changes to persistency assumptions at the 2017 year end, not least the slightly different contractual terms associated with the Retirement Account.

The **EEV operating profit** for the period was £489.6 million (six months to 30 June 2017: £397.3 million), growth of 23%. This principally reflects the strong growth in EEV new business contribution above.

Flat stockmarket performance over the period resulted in a negative investment return variance of £(32.5) million contrasting with the strong positive variance of £214.1 million in the prior period.

Total **EEV profit before tax** for the period was therefore £463.1 million compared with £622.9 million for the prior period. The net asset value per share on an EEV basis at the end of the period was 1,115.0 pence (30 June 2017: 976.7 pence, 31 December 2017: 1,067.5 pence).

## Dividend

Given the continued strong performance of the business during the first half of 2018, the Board has recommended an interim dividend of 18.49 pence per share, which will consume £97.9 million. This represents a growth in the interim dividend of 20% compared to 2017 which is consistent with the growth in the Underlying cash result.

We intend to set the full year dividend with the aim of distributing around 80% of the Underlying cash result.

## Capital and Solvency

We continue to manage the balance sheet prudently to ensure the Group's solvency is maintained safely. This is important not only for the safeguarding of our clients' assets, but also to ensure we can maintain returns to shareholders.

We provide information on our Solvency II position on page 35. Our solvency ratio at 30 June 2018, prior to the payment of the proposed interim dividend, is 137% (30 June 2017: 144%, 31 December 2017: 139%) which demonstrates the financial strength of our low-risk business.

## Concluding Remarks

The business fundamentals and financials remain in very good shape. Our funds in gestation, coupled with strong persistency, provide for resilience and the Cash result is expected to continue to grow, even alongside the significant investment in future growth within our expense base. Our business is long-term in nature with emergence of shareholder value over time. The growth we have reported on all fronts therefore bodes well for the future.

Craig Gentle  
Chief Financial Officer  
31 July 2018

## **INTERIM MANAGEMENT STATEMENT**

### **FINANCIAL REVIEW**

#### **The Financial Model**

The Group's strategy is to attract and retain retail funds under management (FUM) on which we receive an annual management fee for as long as the clients remain invested. This is the principal source of income for the Group out of which we meet the overheads of the business, invest in growing the Partnership and invest in attracting new FUM.

The level of income is dependent on the level of client funds and the level of asset values. In addition, since 50 – 60% of our business does not generate net cash result 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. More information about our fees on funds under management can be found in Section 1 on page 16.

Group expenditure is carefully managed with clear targets set for growth in Establishment expenses in the year. Many other expenses increase with business levels and are met from margins in the products. The Group also invests in ensuring the quality of our proposition for clients and Partners, through investment in new client services and existing IT systems. Finally, we are also looking to the future, with investment in our back-office infrastructure programme and strategic initiatives, including the Academy, Asia and DFM. More information about our expenses can be found in Section 2 on page 18.

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 together with investment in future back-office and administrative capabilities.

Given the importance of FUM to profit generation by the business, we provide an analysis of the FUM make-up and development in Section 1. Section 2 covers Expenses, which is the other significant driver of profits, with Sections 3-5 reporting on the performance of the business on the IFRS, Cash and EEV result bases, and providing commentary on solvency and liquidity.

#### **Performance Measurement**

In line with statutory reporting requirements we report profits assessed on an International Financial Reporting Standards (IFRS) basis. However, given the long-term nature of the business and the high level of investment in new business generation each year, we believe the IFRS result does not provide an easy guide to the cash likely to emerge in future years, nor does it reflect the total economic value of the business. Therefore, consistent with last year, we complement IFRS reporting with additional disclosure on various alternative performance measures (APMs).

APMs are not defined by the relevant financial reporting framework (which for the Group is IFRS), but we use them to provide greater insight to the financial performance, financial position and cash flows of the Group and the way it is managed. A complete Glossary of Alternative Performance Measures is set out on pages 86 to 90, in which we define each APM and explain why it is used and, if applicable, how the measure can be reconciled to the IFRS condensed consolidated half year financial statements.

#### **Related Party Transactions**

The related party transactions during the six-month period to 30 June 2018 are set out in Note 15 to the condensed consolidated half year financial statements.

## SECTION 1: FUNDS UNDER MANAGEMENT

This section starts with analysis of the movement in the funds under management of the Group. This is followed by information about the income the Group earns from managing these funds, together with the profile of these earnings, and a geographical and segmental analysis of the funds under management.

### Movement in funds under management

During the first half of 2018 we have seen gross new funds of £7.92 billion (2017: £6.87 billion), growth of 15%, and a net inflow of funds under management of £5.21 billion (2017: £4.30 billion), growth of 21%. The investment return contributed £0.65 billion (2017: £3.70 billion) to funds under management during the period reflecting the stock market performance. Given the strong net inflow, and the modest market gains, funds under management increased to £96.61 billion (2017: £83.04 billion).

Analysis of the development of the funds under management is provided in the following tables:

Six Months Ended 30 June 2018	Investment	Pension	UT/ISA & DFM	Total
	£'Billion	£'Billion	£'Billion	£'Billion
Opening funds under management	28.31	36.15	26.29	90.75
Gross inflows	1.21	4.36	2.35	7.92
Net investment return	0.12	0.46	0.07	0.65
Regular income withdrawals and maturities	(0.25)	(0.59)	-	(0.84)
Surrenders and part surrenders	(0.50)	(0.54)	(0.83)	(1.87)
<b>Closing funds under management</b>	<b>28.89</b>	<b>39.84</b>	<b>27.88</b>	<b>96.61</b>
Net inflows	0.46	3.23	1.52	5.21
Implied surrender rate as a percentage of average funds under management	3.5%	2.8%	6.1%	4.0%

Included within “UT/ISA & DFM” are closing funds under management of £2.31 billion, gross inflows of £0.27 billion and outflows of £0.05 billion in relation to the Rowan Dartington Group funds under management.

<b>Six Months Ended 30 June 2017</b>	<b>Investment</b>	<b>Pension</b>	<b>UT/ISA &amp; DFM</b>	<b>Total</b>
	<b>£'Billion</b>	<b>£'Billion</b>	<b>£'Billion</b>	<b>£'Billion</b>
Opening funds under management	25.88	28.25	21.18	75.31
Gross inflows	1.24	3.22	2.41	6.87
Net investment return	1.08	1.50	1.12	3.70
Regular income withdrawals and maturities	(0.29)	(0.46)	-	(0.75)
Surrenders and part surrenders	(0.61)	(0.45)	(0.76)	(1.82)
Matching strategy disinvestment	(0.13)	(0.14)	-	(0.27)
<b>Closing funds under management</b>	<b>27.17</b>	<b>31.92</b>	<b>23.95</b>	<b>83.04</b>
Net inflows	0.34	2.31	1.65	4.30
Implied surrender rate as a percentage of average funds under management	4.6%	3.0%	6.7%	4.6%

Included within “UT/ISA & DFM” are closing funds under management of £1.83 billion, gross inflows of £0.23 billion and outflows of £0.05 billion in relation to the Rowan Dartington Group funds under management.

<b>Twelve Months Ended 31 December 2017</b>	<b>Investment</b>	<b>Pension</b>	<b>UT/ISA &amp; DFM</b>	<b>Total</b>
	<b>£'Billion</b>	<b>£'Billion</b>	<b>£'Billion</b>	<b>£'Billion</b>
Opening funds under management	25.88	28.25	21.18	75.31
Gross inflows	2.49	7.26	4.85	14.60
Net investment return	1.69	2.70	1.81	6.20
Regular income withdrawals and maturities	(0.56)	(0.96)	-	(1.52)
Surrenders and part surrenders	(1.06)	(0.96)	(1.55)	(3.57)
Matching strategy disinvestment	(0.13)	(0.14)	-	(0.27)
<b>Closing funds under management</b>	<b>28.31</b>	<b>36.15</b>	<b>26.29</b>	<b>90.75</b>
Net inflows	0.87	5.34	3.30	9.51
Implied surrender rate as a percentage of average funds under management	3.9%	3.0%	6.5%	4.3%

Included within “UT/ISA & DFM” are closing funds under management of £2.10 billion, gross inflows of £0.49 billion and outflows of £0.10 billion in relation to the Rowan Dartington Group funds under management.

## Geographical and investment type analysis of funds under management

The table below provides a geographical and segmental analysis of funds under management at the end of each period.

	30 June 2018		30 June 2017		31 December 2017	
	£'Billion	%	£'Billion	%	£'Billion	%
North American Equities	21.0	22%	18.2	22%	20.0	22%
UK Equities	20.4	21%	18.6	22%	19.3	21%
Fixed Interest	18.6	19%	14.5	17%	16.7	19%
European Equities	11.0	12%	9.7	12%	10.5	12%
Asia & Pacific Equities	8.9	9%	7.2	9%	8.5	9%
Cash	7.0	7%	6.5	8%	6.6	7%
Property	3.1	3%	2.7	3%	2.9	3%
Alternative Investments	2.9	3%	2.2	3%	2.6	3%
Other	3.7	4%	3.4	4%	3.6	4%
Total	96.6	100%	83.0	100%	90.7	100%

## Fees on Funds Under Management

As noted at the start of this Financial Review, our financial model is to attract and retain retail FUM on which we receive an annual management fee.

The average net annual management fee retained by the Group (net of investment advisory fees and Partner remuneration) is c.0.77% post-tax. However, due to our product structure, investment and pension business does not generate net cash result (after the initial margin) during the first six years. Consequently, the level of cash result reflected in these results is not fully representative of the expected earnings from the funds we are managing, and will increase as a result of the new business from six years ago becoming net cash result generative. This deferral of cash result generation means there is always six years' worth of business in the 'gestation' period.

The table below provides an estimated current value, for illustrative purposes, of the funds under management in the gestation period.

Year	30 June 2018	30 June 2017	31 December 2017
	Total £'Billion	Total £'Billion	Total £'Billion
2011	-	1.1	-
2012	1.5	2.9	2.9
2013	4.0	4.0	4.0
2014	4.4	4.3	4.5
2015	5.3	5.2	5.3
2016	6.2	6.1	6.3
2017	7.5	3.2	7.6
2018 Half year	4.2	-	-
<b>Total</b>	<b>33.1</b>	<b>26.8</b>	<b>30.6</b>

This £33.1 billion of funds under management in the gestation period represents approximately a third of the total funds under management. If all the business reached the end of the gestation period, it would then contribute some £254.9 million to the annual post-tax cash result, calculated using the Group's average net annual management fee of 0.77% (post-tax).

## **The business case for continued investment in growth in FUM**

The Group invests in order to:

- Continue building capacity and attract new funds;
- Enhance the Group's future capability to grow; and
- Develop administration systems and processes that will accommodate growth, contribute to future improvements in Partner and client experience and reduce the cost of processing.

### **Building capacity and attracting new funds**

The Group has continued to invest in expanding high quality adviser capacity, with total adviser numbers growing by 8% from 3,540 at 30 June 2017 to 3,810 at 30 June 2018. At the same time gross inflows increased by 15% compared to the six months ended 30 June 2017, which contributed to an overall net increase in funds under management of £13.6 billion (16% between 30 June 2017 and 30 June 2018).

This activity requires significant investment by the business, but the product design ensures coverage of the cost on a Cash result basis, albeit with uneven phasing over the year due to the timing of recognition of the FSCS levy. The emergence of this positive Cash result takes time to be reflected within IFRS profit as a result of the action of the DIR, and is only a proportion of the total future value embedded within the business.

On an EEV post-tax basis, the expected present value of this new business is £360.1 million (30 June 2017: £282.3 million, 31 December 2017: £642.0 million).

### **Investing in the Group's future capability to grow**

#### ***Academy***

Investment in our Academy and Next Generation Academy is in anticipation of medium and long-term pay-back. We have now categorised the associated costs as investment related for over 5 years on the basis that it would take a certain amount of time for individuals starting their training to be productive. In the six months to 30 June 2018, 95 individuals graduated from the Academy and Next Generation Academy, and there are 329 individuals currently in the programmes. By the end of 2018, we expect to have approaching 500 Academy and Next Generation Academy graduates active as advisers, and so, reflecting the fact that this is core to our operations, we will include the cost of our Academy within our new business Operating cash result at the end of this year.

#### ***Rowan Dartington***

Our DFM business now has £2.31 billion of funds under management, and is growing strongly (£2.10 billion at 31 December 2017). We continue to invest in operational, regulatory and IT infrastructure to provide the business with a robust platform for growth in the future, and we expect funds under management will grow at a similar rate over the next few years. We anticipate reclassifying DFM from investment to business as usual by 2020.

#### ***Asia***

Our investment in Hong Kong, Singapore and Shanghai is long-term in nature and we now have 122 advisers on board, and a fully licensed and operational Life Company in Hong Kong to complement our branch in Singapore. The business is growing strongly and will contribute a positive EEV in the next few years.

### **Investing in next generation administration systems and processes**

The most significant investment in this category is in a new back-office infrastructure which represents a multi-year programme to ensure our future systems and processes can support our overall business goals. We now administer our Unit Trust (UT) and ISA propositions using the Bluedoor platform and also most of our new pensions business through the Retirement Account. During the period we were pleased to migrate a further block of Drawdown business onto the platform, and plans are now far advanced for migration of the majority of our remaining pension book. We hope to have completed this process safely by year-end, at which stage over 80% of new business, and nearly two thirds of FUM will be administered on the new platform.

**SECTION 2: EXPENSES****Management Expenses**

The table below provides a breakdown of the management expenditure (before tax):

Note	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	£'Million	£'Million	£'Million
Establishment costs	1	103.2	92.4
Other performance related costs	2	69.3	56.9
Operational development costs	3	10.5	7.7
Strategic development costs	4	3.0	2.9
Academy costs	5	5.2	4.1
Asia costs	6	8.0	7.6
DFM costs	7	11.3	8.6
Back-office infrastructure development	8	18.8	10.1
Regulatory fees	9	4.1	3.9
FSCS levy	9	15.4	19.8
		<u>248.8</u>	<u>214.0</u>
			<u>450.0</u>

Notes

- Establishment costs are the running costs of the Group's infrastructure. Although these costs are relatively fixed in nature, they will inevitably increase with inflation and as the infrastructure expands to manage higher numbers of clients, growing numbers of advisers and increasing business volumes. Growth of establishment costs in 2018 continues to be in line with expectation.
- Other performance related costs, for both Partners and employees, vary with the level of new business and operating profit performance of the business.
- Operational development costs represent business as usual expenditure to support the business, such as the ongoing development of our investment proposition and our technology, including focus on cyber security. As the business grows we expect these costs to increase.
- As a growth business we are constantly looking to new opportunities and expect to incur a small level of ongoing expense associated with pursuing other strategic developments. We will continue to explore opportunities and undertake appropriate initiatives.
- The Academy is an important strategic investment for the future and we are continuing to grow our investment in this programme. Costs have increased in recent years as we have increased the number of students within the programme and launched more regional academies.

Our investment in the Academy is on track with expected total cost in 2018 of some £10 million.

- Our expansion into Asia through operations in Singapore, Hong Kong and Shanghai is intended to provide diversification of our growth model through exporting our successful wealth management proposition to new markets, starting with the UK expat market. Costs reflect both the ongoing operational costs, but also the development costs associated with growing these businesses to achieve sustainable scale.

As noted previously, we are continuing to invest, and we expect expenses in 2018 to increase by between £2 million and £3 million, but we still expect the level of investment reflected in the Cash result will be similar to 2017 as a result of offsetting increases in Asia income.

7. Our DFM operation, which became part of the SJP proposition in March 2016 following the Rowan Dartington acquisition, continues to grow quickly. Investment is required to support this growth, and expenses in 2018 are on track to be between £6 million and £7 million higher than 2017. The additional funds generated as a result of this investment result in higher income, but this can be subject to market variation, and the level of investment reflected in the Cash result at the end of the year may be slightly higher than in 2017.
8. Our back-office infrastructure programme is a multi-year initiative to upgrade our administration so it can support our future business goals. In 2018 we have successfully migrated our drawdown business on to the new Bluedoor platform, and good progress has been made towards migrating the majority of our pension business before the end of the year. With the final key migrations being planned, we expect heightened activity levels through the rest of 2018 and into 2019 in order to complete the project, and reflecting increasing levels of dual-running cost as more business is migrated.
9. The costs of operating in a regulated sector include fees charged by the regulators and our contribution to the Financial Services Compensation Scheme (FSCS). Our position as a market-leading provider of advice means we make a very substantial contribution to supporting the industry compensation scheme, the FSCS, thereby providing protection for clients of other businesses in the sector that fail. Over the last few years, the levy has been at an elevated level but we remain hopeful that it will return to a more normalised level in future.

For the 2018/19 funding year the FSCS shortened the compensation levy period from 12 months to nine months, which aligns the compensation levy period with the FSCS's financial year. As a result, the levy expense of £15.4 million recognised in the six months to 30 June 2018 reflects the levy for a nine month period, whereas the £19.8 million levy expense recognised in the six months to 30 June 2017 was in respect of a 12 month period. From the 2019/20 funding year onwards, the compensation levy period will again be 12 months.

The FSCS levy is met by our various regulated companies and is split £12.4 million (six months to 30 June 2017: £17.5 million, year to 31 December 2017: £18.9 million) via the Distribution business and £3.0 million (six months to 30 June 2017 and year to 31 December 2017: £2.3 million) via the Life and Unit Trust regulated business.

**Group Expenses**

The table below provides a reconciliation from the management expenses above to the total Group expenses included in the IFRS condensed consolidated statement of comprehensive income on page 45.

	Note	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
		£'Million	£'Million	£'Million
<b>Expenses per table on page 18</b>		248.8	214.0	450.0
Payments to Partners	1	374.9	346.1	709.0
Investment expenses	1	54.4	36.9	83.4
Third party administration	1	50.7	50.3	89.9
Acquired IFA operating costs		1.5	1.7	3.8
Amortisation of DAC and PVIF, net of additions		30.8	33.5	65.0
Share based payment expenses		19.7	14.0	32.7
Share based payment national insurance expense		1.2	1.9	3.4
Interest expense and bank charges		4.4	2.5	5.6
Donations to the St. James's Place Charitable Foundation	2	2.5	5.0	11.0
Other		8.4	8.6	13.8
		<u>548.5</u>	<u>500.5</u>	<u>1,017.6</u>
<b>Total expenses</b>		<u>797.3</u>	<u>714.5</u>	<u>1,467.6</u>

**Notes**

1. These costs are met from corresponding 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 Group.
2. Costs in 2017 reflect double matching of contributions in the period in recognition of the Group's 25<sup>th</sup> Anniversary.

### SECTION 3: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS reporting is a statutory requirement, and although the level of non-cash accounting adjustments are such that it does not reflect the pattern of cash emergence in the Group, its statutory importance means that there are two key measures used that are based upon it. These are:

- **Profit before shareholder tax**

This is a profit measure based on IFRS which removes the impact of policyholder tax.

- **Underlying profit**

This is profit before shareholder tax adjusted to remove the impact of accounting for DAC, DIR and PVIF.

Of these two measures, Underlying profit is considered to be the more helpful for assessing operating performance given its greater similarity with the way in which cash emerges within the Group. Further information on these IFRS-based alternative performance measures can be found on page 89.

#### IFRS profit before tax

The following table demonstrates the way in which profit before shareholder tax is presented in the IFRS condensed consolidated statement of comprehensive income on page 45:

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
<b>IFRS profit before tax</b>	93.4	194.4	342.1
Policyholder tax	(10.9)	(114.8)	(156.0)
<b>Profit before shareholder tax</b>	<u>82.5</u>	<u>79.6</u>	<u>186.1</u>

Policyholder tax is accounted for as part of the Group's own corporation tax arrangements. The amount to be accounted for is a reflection of investment return in the underlying funds. The significant reduction in policyholder tax in 2018 is matched by an equivalent reduction in policyholder fund tax deductions that are credited to fee and commission income within the IFRS condensed consolidated statement of comprehensive income, and hence IFRS profit before policyholder tax. Tax and fund deductions are offsetting and therefore do not contribute to the performance of the business and for this reason profit after policyholder tax (i.e. Profit before shareholder tax) is the measure used.

#### IFRS profit after tax

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
<b>Profit before shareholder tax</b>	82.5	79.6	186.1
Shareholder tax	(13.5)	(17.7)	(40.3)
<b>IFRS profit after tax</b>	<u>69.0</u>	<u>61.9</u>	<u>145.8</u>

Shareholder tax reflects the tax charge attributable to shareholders and is closely related to the performance of the business. Further analysis of shareholder tax can be found in Note 6 on page 63.

PART TWO

The following table demonstrates the way in which IFRS profit and Underlying profit reconcile to the Cash result presented in Section 4:

	Six Months Ended 30 June 2018		Six Months Ended 30 June 2017		Year Ended 31 December 2017	
	Before shareholder tax	After tax	Before shareholder tax	After tax	Before shareholder tax	After tax
	£'Million	£'Million	£'Million	£'Million	£'Million	£'Million
<b>IFRS profit</b>	82.5	69.0	79.6	61.9	186.1	145.8
Remove the impact of DAC/DIR/PVIF	32.9	26.8	26.7	21.5	59.0	48.1
<b>Underlying profit</b>	115.4	95.8	106.3	83.4	245.1	193.9
Non-cash settled share- based payments	19.4	19.4	13.0	13.0	30.5	30.5
Deferred tax impacts	-	12.1	-	11.6	-	15.0
Other	0.7	1.4	2.6	3.3	14.7	13.2
<b>Cash result</b>	<b>135.5</b>	<b>128.7</b>	<b>121.9</b>	<b>111.3</b>	<b>290.3</b>	<b>252.6</b>

	Six Months Ended 30 June 2018		Six Months Ended 30 June 2017		Year Ended 31 December 2017	
	30 June 2018	Pence	30 June 2017	Pence	31 December 2017	Pence
IFRS basic earnings per share		13.1		11.8		27.8
IFRS diluted earnings per share		12.9		11.6		27.4

The following table shows an analysis of Underlying profit before shareholder tax by activity:

	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	£'Million	£'Million	£'Million
Life business	131.2	118.8	257.8
Unit Trust and DFM business	57.7	57.1	113.2
Funds management business	188.9	175.9	371.0
 Distribution business	(20.5)	(27.1)	(31.9)
Back-office infrastructure development	(18.8)	(10.1)	(26.8)
Other	(34.2)	(32.4)	(67.2)
 <b>Underlying profit before shareholder tax</b>	<b>115.4</b>	<b>106.3</b>	<b>245.1</b>

#### ***Funds management business***

The Underlying profit for the period to 30 June 2018, which excludes DAC, DIR and PVIF movements for the period, was £188.9 million, which was 7% higher than the prior period (2017: £175.9 million). Increase in fee income from higher funds under management and gross inflows during the period has been offset by development costs and investment in the business.

#### ***Distribution business***

An analysis of the distribution result shown above is as follows:

	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	£'Million	£'Million	£'Million
Distribution gross profit	49.2	47.0	105.4
Administrative expenses	(43.5)	(44.3)	(93.2)
Investment in Partnership growth	(5.9)	(5.9)	(11.3)
FSCS levy	(12.4)	(17.5)	(18.9)
 <b>Distribution loss</b>	<b>(12.6)</b>	<b>(20.7)</b>	<b>(18.0)</b>
Asia distribution loss	(7.9)	(6.4)	(13.9)
 <b>Total distribution loss</b>	<b>(20.5)</b>	<b>(27.1)</b>	<b>(31.9)</b>

The result for the Distribution business reflects continued significant investment in future growth, investment in our new businesses in Asia, and the impact of the FSCS costs which continue to run at elevated rates. As noted on page 19, the FSCS costs have reduced in the six months to 30 June 2018 due to the FSCS shortening the compensation levy period for the 2018/19 funding year from 12 months to nine months, which aligns the compensation levy period with the FSCS's financial year.

***Other***

Items categorised within other are as follows:

	Six Months Ended <u>30 June 2018</u> £'Million	Six Months Ended <u>30 June 2017</u> £'Million	Year Ended <u>31 December 2017</u> £'Million
Academy	(5.2)	(4.1)	(8.2)
Other development expenditure	(3.8)	(4.5)	(6.1)
Donations to the St. James's Place Charitable Foundation	(2.5)	(5.0)	(11.0)
Non-cash settled share based payments	(19.4)	(13.0)	(30.5)
Other share based payment costs including NI	(1.5)	(2.9)	(5.6)
Other	(1.8)	(2.9)	(5.8)
<b>Total</b>	<b>(34.2)</b>	<b>(32.4)</b>	<b>(67.2)</b>

**DAC, DIR and PVIF**

The following table sets out the impact of IFRS accounting for DAC, DIR and PVIF:

	Six Months Ended 30 June 2018		Six Months Ended 30 June 2017		Year Ended 31 December 2017	
	Before shareholder tax	After tax	Before shareholder tax	After tax	Before shareholder tax	After tax
	£'Million	£'Million	£'Million	£'Million	£'Million	£'Million
Amortisation of DAC	(48.3)	(39.4)	(49.3)	(41.7)	(98.7)	(80.4)
Amortisation of DIR	73.5	60.0	72.4	60.3	150.4	122.7
Amortisation of PVIF	(1.6)	(1.3)	(1.6)	(1.3)	(3.2)	(2.6)
DAC on new business for the period	19.1	15.8	17.4	15.0	36.9	30.3
DIR on new business for the period	(75.6)	(61.9)	(65.6)	(53.8)	(144.4)	(118.1)
 Movement in the period	 (32.9)	 (26.8)	 (26.7)	 (21.5)	 (59.0)	 (48.1)

**Income and expense deferral**

The effect of our IFRS accounting policies is that substantially all income deferred is amortised over a 6 year period and substantially all expense deferred is amortised over a 14 year period.

One of the impacts of RDR in 2013 was that under IFRS, from that point on, fewer expenses would qualify for deferral. This has resulted in a period of transition where the continued amortisation of expenses previously deferred will significantly outweigh new expenses deferred. Although this position will eventually reverse, it results in a net negative impact on IFRS profits until the reversal takes place.

**Impact of the continued growth in new business**

Continued growth in new business has the effect of increasing the amount of income deferred in each accounting period and the corresponding DIR amortisation over the following 6 years.

With growth in new business comes an increase in costs required to be deferred. These are then amortised over 14 years but as can be seen above, the amount of expense that qualifies for deferral is significantly exceeded by the amount of income required to be deferred. This will result in a continued net deferral of emergence of IFRS profits and the net amortisation impact will grow in line with the long-term business growth rate.

**Analysis of IFRS Assets and Net Assets per Share**

The table below provides a summarised breakdown of the IFRS position at the reporting dates:

	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	£'Million	£'Million	£'Million
Purchased value of in-force <sup>(1)</sup>	21.2	23.7	22.4
Deferred acquisition costs <sup>(1)</sup>	516.4	561.9	539.0
Deferred income <sup>(1)</sup>	(613.6)	(602.6)	(608.4)
Other IFRS net assets	16.3	6.3	10.0
Solvency II net assets	1,057.0	1,046.9	1,095.1
 Total IFRS net assets	 997.3	 1,036.2	 1,058.1

(1) Net of deferred tax

	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	Pence	Pence	Pence
Net asset value per share	188.4	196.0	200.0

**SECTION 4: CASH RESULT DERIVED FROM IFRS AND SOLVENCY II NET ASSETS BALANCE SHEETS**

This section sets out the Cash result for the period and the way in which the Solvency II net assets balance sheet, from which it is derived, is prepared using the IFRS balance sheet as a source. Further analysis on the Cash result basis is presented in the Supplementary Information on pages 92 to 100.

**Solvency II Net Assets Balance Sheet**

The Group's condensed consolidated IFRS balance sheet is largely dominated by a number of material balances that reflect policyholder interests in unit linked liabilities together with the underlying assets that are held to match them.

To determine the Solvency II net assets balance sheet, policyholder interests in unit-linked assets and liabilities, plus a number of other items including intangible assets and certain 'accounting' balances such as DIR, DAC and associated deferred tax, are removed. Given the relevance of the resulting Solvency II net assets balance sheet to shareholders, we believe it is helpful to show how it is calculated and how the Cash result has contributed to its year on year movement.

30 June 2018	Solvency II Net Assets Balance Sheet					
	IFRS Balance Sheet	Adjustment 1	Adjustment 2	Solvency II Net Assets Balance Sheet	30 June 2017	31 December 2017
					£'Million	£'Million
<b>Assets</b>						
Goodwill	15.6	-	(15.6)	-	-	-
Deferred acquisition costs	593.8	-	(593.8)	-	-	-
Acquired value of in-force business	25.6	-	(25.6)	-	-	-
Computer software	1.9	-	(1.9)	-	-	-
Property and equipment	26.4	-		26.4	24.5	26.4
Investment property	1,757.2	(1,757.2)	-	-	-	-
Equities	58,802.9	(58,802.9)	-	-	-	-
Fixed income securities	19,295.2	(19,248.9)	-	46.3	47.2	46.1
Investment in Collective Investment Schemes	5,235.8	(4,200.3)	-	1,035.5	1,075.4	1,416.8
Derivative financial instruments	245.6	(245.6)	-	-	-	-
Reinsurance assets	80.7	-	(80.7)	-	-	-
Cash & cash equivalents	7,937.1	(7,637.8)	-	299.3	472.7	274.7
Other receivables	1,798.6	(681.5)	(1.2)	1,115.9	927.2	1,122.4
Deferred tax assets	169.0	-	(37.2)	131.8	147.2	144.1
<b>Total assets</b>	<b>95,985.4</b>	<b>(92,574.2)</b>	<b>(756.0)</b>	<b>2,655.2</b>	<b>2,694.2</b>	<b>3,030.5</b>
<b>Liabilities</b>						
Insurance contract liabilities	540.0	(456.4)	(83.6)	-	-	-
Borrowings	168.5	-	-	168.5	181.0	279.9
Investment contract benefits	68,150.1	(68,150.1)	-	-	-	-
Derivative financial instruments	476.2	(476.2)	-	-	-	-
NAV attributable to unit holders	22,922.0	(22,922.0)	-	-	-	-
Other provisions	21.6	-	-	21.6	19.9	20.0
Other payables	1,503.1	(569.5)	-	933.6	891.5	1,079.7
Income tax liabilities	123.5	-	-	123.5	148.0	125.3
Deferred tax liabilities	432.7	-	(81.8)	350.9	406.8	430.4
Deferred income	650.3	-	(650.3)	-	-	-
Preference shares	0.1	-	-	0.1	0.1	0.1
<b>Total liabilities</b>	<b>94,988.1</b>	<b>(92,574.2)</b>	<b>(815.7)</b>	<b>1,598.2</b>	<b>1,647.3</b>	<b>1,935.4</b>
<b>Net assets</b>	<b>997.3</b>	<b>-</b>	<b>59.7</b>	<b>1,057.0</b>	<b>1,046.9</b>	<b>1,095.1</b>

## Adjustments:

1. Nets out the policyholder interest in unit-linked assets and liabilities.
2. Adjustments to the IFRS condensed consolidated statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

**Movement in Solvency II Net Assets**

The following table sets out the period on period movement in Solvency II net assets. As well as highlighting the Cash result, it also shows other movements such as dividend payments and non-cash movements such as deferred tax.

	Six Months Ended <b>30 June 2018</b>	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	£'Million	£'Million	£'Million
<b>Opening Solvency II Net Assets</b>	1,095.1	1,070.0	1,070.0
Dividend paid in period	(145.0)	(108.8)	(190.0)
Issue of share capital and exercise of options	1.8	2.6	7.5
Consideration paid for own shares	(6.0)	(8.1)	(11.3)
Change in deferred tax	(12.1)	(11.6)	(15.0)
Change in tax discounting	(5.2)	(7.3)	(16.2)
Change in goodwill, intangibles and other non-cash movements	(0.3)	(1.2)	(2.5)
Cash result	<u>128.7</u>	<u>111.3</u>	<u>252.6</u>
<b>Closing Solvency II Net Assets</b>	<u>1,057.0</u>	<u>1,046.9</u>	<u>1,095.1</u>

## Cash result

Although the Cash result should not be confused with the IAS 7 condensed consolidated statement of cash flows, we believe that it provides a helpful alternative view of the way in which cash is generated and emerges within the Group.

The Cash result is derived from the movement in the IFRS Balance Sheet and the Solvency II Net Assets balance sheet within it as shown on page 27.

The following table shows an analysis of the Cash result using the following measures:

- **Operating cash result**

This measure represents the regular emergence of cash from day-to-day business operations.

- **Underlying cash result**

This measure is the Operating cash result adjusted for the expense of a number of strategic investments which are being incurred and expensed in year but which are expected to create long-term benefit.

- **Cash result**

This measure is the Underlying cash result adjusted for certain one-off items together with the short-term costs associated with the back-office infrastructure project.

### Six Months Ended 30 June 2018

	Note	In-Force £'Million	New Business £'Million	Total £'Million
<b>Operational</b>				
Net annual management fee	1	316.4	16.1	332.5
Reduction in fees in gestation period	1	(144.4)	-	(144.4)
Net income from funds under management	1	172.0	16.1	188.1
Margin arising from new business	2	-	70.0	70.0
Establishment expenses	3	(8.2)	(73.9)	(82.1)
Operational development expenses	3	-	(8.5)	(8.5)
Regulatory fees	3	(0.3)	(3.1)	(3.4)
FSCS levy	3	(1.2)	(11.2)	(12.4)
Shareholder interest	4	6.7	-	6.7
Tax relief from capital losses	5	12.7	-	12.7
Miscellaneous	6	(6.8)	-	(6.8)
<b>Operating cash result</b>		<b>174.9</b>	<b>(10.6)</b>	<b>164.3</b>
<b>Investment</b>				
Academy <sup>(1)</sup>	7	-	(4.2)	(4.2)
Asia	7	-	(6.0)	(6.0)
DFM	7	-	(4.5)	(4.5)
Strategic development costs	7	-	(2.5)	(2.5)
<b>Underlying cash result</b>		<b>174.9</b>	<b>(27.8)</b>	<b>147.1</b>
Back-office infrastructure development	7			(15.2)
Variance	8			(3.2)
<b>Cash result</b>				<b>128.7</b>

<sup>(1)</sup> Academy costs will be included in the Operating cash result for reporting at 31 December 2018.

## Six Months Ended 30 June 2017

	Note	In-Force £'Million	New Business £'Million	Total £'Million
<b>Operational</b>				
Net annual management fee	1	284.8	13.0	297.8
Reduction in fees in gestation period	1	(130.0)	-	(130.0)
Net income from funds under management	1	154.8	13.0	167.8
Margin arising from new business	2	-	59.4	59.4
Establishment expenses	3	(7.3)	(66.3)	(73.6)
Operational development expenses	3	-	(6.2)	(6.2)
Regulatory fees	3	(0.3)	(2.9)	(3.2)
FSCS levy	3	(1.6)	(14.4)	(16.0)
Shareholder interest	4	5.7	-	5.7
Tax relief from capital losses	5	9.3	-	9.3
Miscellaneous	6	(4.2)	-	(4.2)
<b>Operating cash result</b>		<b>156.4</b>	<b>(17.4)</b>	<b>139.0</b>
<b>Investment</b>				
Academy	7	-	(3.3)	(3.3)
Asia	7	-	(7.5)	(7.5)
DFM	7	-	(2.8)	(2.8)
Strategic development costs	7	-	(2.3)	(2.3)
<b>Underlying cash result</b>		<b>156.4</b>	<b>(33.3)</b>	<b>123.1</b>
Back-office infrastructure development	7			(8.2)
Variance	8			(3.6)
<b>Cash result</b>				<b>111.3</b>

## Year Ended 31 December 2017

	Note	In-Force £'Million	New Business £'Million	Total £'Million
<b>Operational</b>				
Net annual management fee	1	569.6	53.6	623.2
Reduction in fees in gestation period	1	(266.1)	-	(266.1)
Net income from funds under management	1	303.5	53.6	357.1
Margin arising from new business	2	-	129.4	129.4
Establishment expenses	3	(15.0)	(135.4)	(150.4)
Operational development expenses	3	-	(15.6)	(15.6)
Regulatory fees	3	(0.7)	(6.1)	(6.8)
FSCS levy	3	(1.7)	(15.4)	(17.1)
Shareholder interest	4	9.9	-	9.9
Tax relief from capital losses	5	12.1	-	12.1
Miscellaneous	6	(3.4)	-	(3.4)
<b>Operating cash result</b>		<b>304.7</b>	<b>10.5</b>	<b>315.2</b>
<b>Investment</b>				
Academy	7	-	(6.6)	(6.6)
Asia	7	-	(15.1)	(15.1)
DFM	7	-	(6.9)	(6.9)
Strategic development costs	7	-	(5.4)	(5.4)
<b>Underlying cash result</b>		<b>304.7</b>	<b>(23.5)</b>	<b>281.2</b>
Back-office infrastructure development	7			(21.7)
Variance	8			(6.9)
<b>Cash result</b>				<b>252.6</b>

	Six Months Ended 30 June 2018 Pence	Six Months Ended 30 June 2017 Pence	Year Ended 31 December 2017 Pence
Underlying cash basic earnings per share	28.0	23.5	53.6
Underlying cash diluted earnings per share	27.6	23.2	52.7
Cash basic earnings per share	24.5	21.2	48.2
Cash diluted earnings per share	24.1	20.9	47.4

**Notes**

All numbers are expressed after tax at the prevailing tax rate for each year.

1. The net annual management fee 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 receives an average net annual management fee rate of 0.77% (post-tax) of funds under management (2017: 0.77% (post-tax)).

As noted on page 16 however, our investment and pension business product structure means that these products do not contribute to net Cash result (after initial margin) during the first six years, which we call the ‘gestation period’. This effect is reflected through the reduction in fees in gestation period line. The deduction represents the offsetting of management fee income through the gestation period.

2. Margin arising from new business: This is the cash impact of new business in the year, reflecting growth in new business, production related expenses and mix of new business.
3. Expenses: These reflect the expenses of running the Group and more detail is provided in the table on page 18. In line with the rest of this table they are presented after allowance for tax.
4. Shareholder interest: This is the assumed income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.
5. Tax relief from capital losses: In recent years, a deferred tax asset has been established for historic capital losses which are now regarded as being capable of utilisation over the medium term.

Utilisation during the period of £12.7 million tax value (six months to 30 June 2017: £9.3 million, year to 31 December 2017: £12.1 million) was ahead of our expected level of £5 million to £6 million benefit for a six month period.

6. Miscellaneous: This represents the cash flow of the business not covered in any of the other categories, including tax timing differences, which arise due to the complexity of the UK Life company tax basis.
7. Strategic investments, including back-office infrastructure: These reflect significant investments in developing our business for the future. Further analysis of the expenses associated with these initiatives is presented in Section 2 on page 18, but all are expected to result in either additional funds (Academy, Asia and DFM) or future expense savings (back-office infrastructure). Advice and product margins generated in Asia and all fees generated by DFM are reflected in the relevant line.
8. Variance: This reflects principally short-term timing variances.

## Liquidity

Included in the Solvency II net assets balance sheet are holdings in fixed interest securities, collective investment schemes and other cash and cash equivalents. It is our policy to always hold such assets in high credit quality liquid assets. An analysis of liquid asset holdings is provided below:

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
Fixed interest securities: government bonds	46.3	47.2	46.1
Collective investment schemes: money market funds	1,035.5	1,075.4	1,416.8
Cash and cash equivalents	299.3	472.7	274.7
 Total liquid asset holdings	 1,381.1	 1,595.3	 1,737.6

The Group's holdings in money market funds and cash and cash equivalent are spread across a number of different AAA rated unitised money market funds and approved banking counterparties. Diversification ensures that the Group's appetite for credit and liquidity risk is appropriately managed.

In the normal course of business, the Group is expected to generate regular, positive cash flow from annual management income exceeding expenses. As noted previously, future growth in cash flow is driven by new business, but in the short-term growth will reflect the transition as new business from six years ago becomes cash generative.

The key calls on liquidity are payments of Group dividends and investment to support the business. As noted previously, our expected dividend policy is based on a pay-out ratio to Underlying cash of 80%. We believe this will enable us to continue to invest in the business to support our growth aspirations.

## Solvency

St. James's Place has a business model and risk appetite that results in underlying assets being held that fully match with client investments. Our clients can access their investments 'on-demand' and because the encashment value is matched, movements in equity markets, currency markets, interest rates, mortality, morbidity and longevity have very little impact on our ability to meet liabilities. We also have a prudent approach to investing shareholder funds and surplus assets in cash, AAA rated money market funds and highly rated government securities. The overall effect of the business model and risk appetite is a resilient solvency position capable of enabling liabilities to be met even through adverse market conditions.

Our Life businesses are subject to the Solvency II capital regime which applied for the first time in 2016. Given the relative simplicity of our business compared to many, if not most other organisations that fall within the scope of Solvency II, we have continued to manage the solvency of the business on the basis of holding assets to match client unit-linked liabilities plus a Management Solvency Buffer (MSB). This has ensured that, not only can we meet client liabilities at all times (beyond the Solvency II requirement of 1 in 200 years), but we also have a prudent level of protection against other risks to the business. At the same time, we have ensured that the resulting capital held meets the requirements of the Solvency II regime, to which we are ultimately accountable, and indeed our forward capital management approach for our largest insurance company, the UK Life company, is that we will hold capital at least equal to 110% of the Solvency II standard formula requirement. Given the risk profile of the business we consider this to be a prudent and sustainable policy, and so the MSB is currently maintained at £355.0 million (£355.0 million at 31 December 2017).

We will also continue to hold capital within the Group in respect of the other regulated (but non-insurance) companies, based on holding excess capital significantly above the regulatory requirement.

The Group's overall Solvency II net assets position, MSB and management solvency ratios are as follows:

**30 June 2018**

	Life	Other Regulated	Other <sup>(1)</sup>	Total	30 June 2017 Total	31 December 2017 Total
	£'Million	£'Million	£'Million	£'Million	£'Million	£'Million
Solvency II net assets	447.8	196.4	412.8	1,057.0	1,046.9	1,095.1
Management Solvency Buffer (MSB)	355.0	135.4		490.4	543.3	461.9
Management solvency ratio	126%	145%				

(1) Before payment of the Group interim dividend.

Solvency II net assets reflect the assets of the Group in excess of those matching the client's (unit linked) liabilities. It includes a £131.8 million (30 June 2017: £147.2 million, 31 December 2017: £144.1 million) deferred tax asset which is not immediately fungible, although we expect it will be utilised over the next ten years. The actual rate of utilisation will depend on business growth and external factors, particularly investment market conditions.

## Solvency II Balance Sheet

Whilst we focus on Solvency II net assets and the MSB to manage solvency, we provide additional information about the Solvency II free asset position for information. The presentation starts from the same Solvency II net assets, but includes recognition of an asset in respect of the expected Value of In-Force cash flows (VIF) and a Risk Margin (RM) reflecting the potential cost to secure the transfer of the business to a third party. The Solvency II net assets, VIF and RM comprise the ‘Own Funds’, which is assessed against a Solvency Capital Requirement (SCR), reflecting the capital required to protect against a range of “1 in 200” stresses. The SCR is calculated on the Standard Formula approach. No allowance has been made for Transitional Provisions in the calculation of Technical Provisions or SCR.

An analysis of the Solvency II position for our Group, split by regulated and non-regulated entities at the period end is presented in the table below:

30 June 2018	Life £'Million	Other Regulated £'Million	Other <sup>(1)</sup> £'Million	Total £'Million	30 June 2017 Total £'Million	31 December 2017 Total £'Million
					£'Million	£'Million
Solvency II net assets	447.8	196.4	412.8	1,057.0	1,046.9	1,095.1
Value of in-force (VIF)	3,449.6			3,449.6	2,996.6	3,244.3
Risk Margin	(1,000.1)			(1,000.1)	(855.2)	(946.1)
<b>Own Funds (A)</b>	<b>2,897.3</b>	<b>196.4</b>	<b>412.8</b>	<b>3,506.5</b>	<b>3,188.3</b>	<b>3,393.3</b>
Solvency capital requirement (B)	(2,482.7)	(82.4)		(2,565.1)	(2,220.4)	(2,449.2)
<b>Solvency II free assets</b>	<b>414.6</b>	<b>114.0</b>	<b>412.8</b>	<b>941.4</b>	<b>967.9</b>	<b>944.1</b>
Solvency ratio (A/B)	117%	238%		137%	144%	139%

(1) Before payment of the Group interim dividend.

The solvency ratio after payment of the proposed Group interim dividend is 133% at 30 June 2018 (30 June 2017: 140%, 31 December 2017: 133%).

It is worth noting that the Group solvency ratio significantly exceeds the Life business solvency ratio, principally as a result of the Other net assets. We expect the Life business and its capital requirement will grow with the success of the business, but the current level of working capital in Other net assets will continue to be sufficient to manage our business. Therefore, whilst maintaining the same strong level of security in our business, the reported Group solvency ratio will reduce naturally over time, but always exceeding the solo ratio for our Life insurance business.

## SECTION 5: EUROPEAN EMBEDDED VALUE (EEV)

Wealth management 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 and Cash results by providing additional disclosure on an EEV basis, which brings into account the net present value of the expected future cash flows. We believe that a measure of total economic value of the Group's operating performance is useful to investors.

As in previous reporting, our EEV continues to be calculated on a basis determined in accordance with the EEV principles originally issued in May 2004 by the Chief Financial Officers Forum (CFO Forum) and supplemented in both October 2005 and, following the introduction of Solvency II, in April 2016. Many of the principles and practices underlying EEV are similar to the requirements of Solvency II, and we have aligned our EEV methods and assumptions to Solvency II as closely as possible.

The table below and accompanying notes summarise the profit before tax of the combined business:

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
Life business	381.8	298.6	647.2
Unit Trust and DFM business	181.3	168.3	397.2
Funds management business	563.1	466.9	1,044.4
 Distribution business	(20.5)	(27.1)	(31.9)
Back-office infrastructure development	(18.8)	(10.1)	(26.8)
Other	(34.2)	(32.4)	(67.2)
 <b>EEV operating profit</b>	<b>489.6</b>	<b>397.3</b>	<b>918.5</b>
 Investment return variance	(32.5)	214.1	340.8
Economic assumption changes	6.0	11.5	29.8
 <b>EEV profit before tax</b>	<b>463.1</b>	<b>622.9</b>	<b>1,289.1</b>
 Tax	(79.0)	(110.0)	(229.2)
 <b>EEV profit after tax</b>	<b>384.1</b>	<b>512.9</b>	<b>1,059.9</b>

	Six Months Ended 30 June 2018 Pence	Six Months Ended 30 June 2017 Pence	Year Ended 31 December 2017 Pence
 EEV operating profit basic earnings per share	<b>77.2</b>	<b>62.4</b>	<b>143.9</b>
 EEV operating profit diluted earnings per share	<b>76.1</b>	<b>61.5</b>	<b>141.5</b>

## EEV Operating Profit

### *Funds management business*

The funds management business operating profit has increased to £563.1 million at 30 June 2018 (six months ended 30 June 2017: £466.9 million, year ended 31 December 2017: £1,044.4 million) and a full analysis of the result is shown below:

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
New business contribution	437.0	343.0	779.8
Profit from existing business			
- unwind of the discount rate	124.0	102.8	209.5
- experience variance	(0.4)	17.8	3.8
- operating assumption change	-	-	44.0
Investment income	2.5	3.3	7.3
<b>Fund management business EEV operating profit</b>	<b>563.1</b>	<b>466.9</b>	<b>1,044.4</b>

The **new business contribution** for the six months at £437.0 million (30 June 2017: £343.0 million) was some 27% higher than the prior year, reflecting new business growth, operational economies of scale arising from the new Bluedoor administration tariff, and the positive effect of assumptions changes implemented at year-end 2017. Further detail on the new business margin is provided on page 39.

The **unwind of the discount rate** for the six months was £124.0 million (30 June 2017: £102.8 million), reflecting the higher opening value of in-force business. The risk discount rate was unchanged at 4.5% (2017: 4.5%).

The **experience variance** in the six month period was a small negative of £0.4 million (30 June 2017: positive £17.8 million), with the impact of positive retention reducing due to changes in assumptions at year end being offset by continuing investment in development of the business.

In line with our usual approach, no change was made to **operating assumptions** in the first half of the year (30 June 2017: £nil).

The **investment income** for the six months was marginally lower at £2.5 million (30 June 2017: £3.3 million).

### *Distribution business, Back-office infrastructure development and Other*

The results for these items have already been commented on: within the Expenses section on page 19 for back-office infrastructure costs, and in the IFRS section on pages 23 and 24 for Distribution and Other.

## 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 can result in a large positive or negative variance.

The average investment return on our funds during the period was some 0.5% lower than the assumed investment return during the period, resulting in a negative investment return variance of £32.5 million (30 June 2017: £214.1 million positive).

## Economic Assumption Changes

There was a small positive variance of £6.0 million arising from a small increase in gilt yields over the period (30 June 2017: £11.5 million positive).

## EEV Profit before Tax

The total EEV profit before tax for the six months at £463.1 million was lower than the 30 June 2017 figure of £622.9 million, principally due to the change in the investment return variance which exceeded the impact of the growth in new business.

## Tax

The tax charge at £79.0 million (30 June 2017: £110.0 million) reflects the underlying result.

All future changes in corporation tax have been incorporated in the EEV calculation in previous reporting periods.

## EEV Profit after Tax

The EEV profit after tax was £384.1 million (30 June 2017: £512.9 million) reflecting the movement in EEV profit before tax.

## New Business Margin

The largest single element of the EEV operating profit (analysed in the previous section) is the new business contribution. The level of new business contribution generally moves in line with new business levels. 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 the gross inflows, and is expressed as a percentage.

The table below presents the margin before tax from our manufactured business:

	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
<b>Life business</b>			
<u>Investment</u>			
New business contribution (£'Million)	65.9	64.6	130.2
Gross inflows (£'Billion)	1.21	1.24	2.49
Margin (%)	5.5	5.2	5.2
<u>Pension</u>			
New business contribution (£'Million)	225.3	138.8	363.5
Gross inflows (£'Billion)	4.36	3.22	7.26
Margin (%)	5.2	4.3	5.0
<b>Unit Trust and DFM business</b>			
New business contribution (£'Million)	145.8	139.6	286.1
Gross inflows (£'Billion)	2.35	2.41	4.85
Margin (%)	6.2	5.8	5.9
<b>Total business</b>			
New business contribution (£'Million)	437.0	343.0	779.8
Gross inflows (£'Billion)	7.92	6.87	14.60
Margin (%)	5.5	5.0	5.3
Post-tax margin (%)	4.6	4.1	4.4

The overall margin for the period was higher at 5.5% (30 June 2017: 5.0%) reflecting increases in margin across all categories of business. Compared to the prior period there were two particular drivers of the increases, which were both noted at year-end 2017:

- Firstly, changes in retention assumptions to reflect positive experience for both insurance bond business and unit trust/ISA business resulted in projection of additional future profits. Small improvements to pensions business also had a positive effect, as did recognition within the valuation of our new Retirement Account of the potential value of both the pre-retirement and post-retirement phases of this investment product.
- Secondly, the margin was positively impacted by economies of scale as higher levels of business combined with the new administration tariff. This new tariff better reflects the actual fixed and variable nature of the administration expenses, and so, as the fixed proportion of the expenses are spread over a higher volume of business, the value of the new business will grow.

## Economic assumptions

The principal economic assumptions used within the cash flows are set out below:

	Six Months Ended <b>30 June 2018</b>	Six Months Ended 30 June 2017	Year Ended 31 December <b>2017</b>
	%	%	%
Risk free rate	1.5	1.4	1.4
Inflation rate	3.2	3.2	3.2
Risk discount rate (net of tax)	4.6	4.5	4.5
Future investment returns:			
- Gilts	1.5	1.4	1.4
- Equities	4.5	4.4	4.4
- Unit-linked funds	3.8	3.7	3.7
Expense inflation	3.6	3.6	3.6

The risk-free rate is set by reference to the yield on ten-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 ten-year index-linked gilts. This rate is increased to reflect higher increases in earnings related expenses.

## 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 various EEV calculated 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.

	Note	Change in new business contribution		Change in European Embedded Value
		Pre-tax £'Million	Post-tax £'Million	Post-tax £'Million
<b>Value at 30 June 2018</b>		437.0	360.1	5,902.0
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(11.3)	(9.4)	(77.7)
10% increase in withdrawal rates	2	(30.0)	(24.7)	(311.4)
10% reduction in market value of equity assets	3	-	-	(596.4)
10% increase in expenses	4	(6.6)	(5.5)	(115.3)
100bp increase in assumed inflation	5	(12.3)	(10.2)	(98.8)

### Notes

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.
2. The 10% increase is applied to the lapse rate. For instance, if the lapse rate is 8% then a 10% sensitivity increase would reflect a change to 8.8%.
3. For the purposes of this 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%.
4. For the purposes of this sensitivity only non-fixed elements of the expenses are increased by 10%.
5. This reflects a 100bp increase in the assumed RPI underlying the expense inflation calculation.

	Change in new business contribution		Change in European Embedded Value
	Pre-tax £'Million	Post-tax £'Million	Post-tax £'Million
100bp reduction in risk discount rate	50.1	41.2	452.9

Although not directly relevant under a market-consistent valuation, this sensitivity shows the level of adjustment which would be required to reflect differing investor views of risk.

**Analysis of the EEV result and Net Assets per Share**

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

	<b>30 June 2018</b> £'Million	<b>30 June 2017</b> £'Million	<b>31 December 2017</b> £'Million
Value of in-force			
- Life	3,378.5	2,915.1	3,182.3
- Unit Trust and DFM	1,466.5	1,200.7	1,370.3
Solvency II net assets	1,057.0	1,046.9	1,095.1
<b>Total embedded value</b>	<b>5,902.0</b>	<b>5,162.7</b>	<b>5,647.7</b>
	<b>30 June 2018</b> Pence	<b>30 June 2017</b> Pence	<b>31 December 2017</b> Pence
Net asset value per share	1,115.0	976.7	1,067.5

## PRINCIPAL RISKS AND UNCERTAINTIES

The Risk and Risk Management section on pages 49 to 51 of the 2017 Annual Report and Accounts provides a comprehensive review of the principal risks and uncertainties facing the business, and the Group's approach to managing these risks and uncertainties. We are comfortable that there has been no change in the nature of the principal risks and uncertainties facing the Group since the 2017 Annual Report and Accounts, although macroeconomic factors, such as the future relationship between the UK and the EU, continue to create a backdrop of uncertainty for business in general. This could result in changes impacting the financial markets or changes to corporate or personal taxation.

A summary of those principal risks and uncertainties which could impact the Group for the remainder of the current financial year have been provided in the table below.

### Non-financial risks

<b>Risk</b>	<b>Description</b>
<b>Systemic advice failure</b>	Clients rely on their SJP advisers for the provision of initial and ongoing advice. Failures in the quality of advice or documentation of advice could lead to redress costs, reputational damage and regulatory intervention.
<b>Outsourcing failure</b>	The Group's business model involves the outsourcing of administration and custodial services to third parties and the Group is in the process of consolidating the UK back-office administration onto a single client-centric platform. Poor service from, lack of commitment from, or failure of, one of these third parties could lead to disruption of services to clients, delays in the transformation programme, reputational damage and profit impacts.
<b>Cyber risk</b>	Cyber risk, which could include loss of data, system control or system availability, continues to be one of the top risks facing individuals and organisations. A successful cyber attack could result in disruption or distress for clients, advisers, and employees, as well as resulting in reputational damage and regulatory censure.
<b>Investment performance fails to meet client expectations</b>	Our approach to investment management may fail to deliver expected returns to clients of the Group or the range of products and services offered may become inappropriate for client needs.
<b>Adviser proposition, recruitment and retention</b>	Group products are distributed, and ongoing advice is provided, exclusively through the SJP Partnership. Inadequacies in the adviser proposition, range of products, technology or services offered to the Partnership may result in inefficiencies and frustration, with consequent loss of advisers and client impact, or inability to recruit sufficient, high quality new advisers or field management.
<b>Regulatory, legislative and tax environment</b>	The nature of the Group is such that it falls under the influence of regulators and legislators in multiple jurisdictions. Transformative regulatory, or indeed political changes, could impact adversely on our current business model.  The Group could face a fine or regulatory censure from failure to comply with current and/or future regulations, with increased supervisory intrusion, disruption to business and potential for changes to the business model.
<b>Competition and charge pressure</b>	The competitive environment in which we operate continues to evolve with the need for dependable wealth management advice increasing whilst regulation and technology change the nature and accessibility of available information. Competitor activity in the adviser based wealth management market may result in a reduction in new business volumes, reduced retention of existing business with the resulting impact to ongoing advice fees, pressure on margins for both new and existing business, and the potential loss of advisers and key employees.
<b>Funding availability</b>	Pressure on funding availability may limit the Group's ability to provide business loans to Partners and make strategic investments.
<b>Investor relations</b>	Failure to communicate effectively with new and existing shareholders may lead to falls in the share price and reputational damage.

Risk	Description
<b>Accumulation of reputational issues</b>	The success of the Group is closely linked to the strength of the St. James's Place brand. An accumulation of reputational issues, for example advice failures, fraud, service issues or low client investment returns, has the potential to damage the brand, leading to reduced retention and lower levels of new business.
<b>People and culture</b>	People and the distinctive culture of the Group play an important part in its success. Poorly managed expansion, succession, culture and resourcing may lead to loss of valued individuals, increased risk of errors, and failure to deliver on the business plan.

### Financial risks

Risk	Description
<b>Market Risk – Loss of Annual Management Charge (AMC) income</b>	A reduction in funds under management owing to market shocks, poor market performance or currency and exchange rate movements would reduce future AMC income, and hence future profits.
<b>Insurance risk</b>	A reduction in funds under management owing to poor retention would reduce future AMC income. This may arise from factors such as changes in the economic climate, poor investment performance, competitor activity, or reputational damage to the Group.  Adverse mortality or disability experience, in particular higher death claims following an incident or widespread illness, or longer-term increases in mortality rates, would reduce future profits.
<b>Expense risk</b>	Increased expenses, in particular higher than expected administration costs, would reduce future profits.
<b>Interest rate and credit risks</b>	Changes in interest rates or the failure of a counterparty may reduce the value of fixed interest assets held by the shareholder. Key counterparties include reassurers, banks, money market funds, issuers of fixed interest securities, Partners to whom loans have been granted and other debtors.
<b>Liquidity risk</b>	Liquidity issues may arise from client requests to switch or withdraw money from unit linked funds and through events that may require immediate recourse to shareholder funds.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
Insurance premium income		22.1	23.7	49.9
Less premiums ceded to reinsurers		(13.6)	(14.2)	(29.6)
<b>Net insurance premium income</b>		<b>8.5</b>	<b>9.5</b>	<b>20.3</b>
Fee and commission income	4	876.0	896.8	1,779.8
Investment return	5	1,149.0	4,325.4	7,282.5
<b>Net income</b>		<b>2,033.5</b>	<b>5,231.7</b>	<b>9,082.6</b>
Policy claims and benefits				
- Gross amount		(24.0)	(29.9)	(61.1)
- Reinsurers' share		8.3	13.3	23.3
<b>Net policyholder claims and benefits incurred</b>		<b>(15.7)</b>	<b>(16.6)</b>	<b>(37.8)</b>
Change in insurance contract liabilities				
- Gross amount		4.6	(20.3)	(26.5)
- Reinsurers' share		(2.1)	0.2	2.3
<b>Net change in insurance contract liabilities</b>		<b>2.5</b>	<b>(20.1)</b>	<b>(24.2)</b>
<b>Movement in investment contract benefits</b>		<b>(1,129.6)</b>	<b>(4,286.1)</b>	<b>(7,210.9)</b>
Expenses		<b>(797.3)</b>	<b>(714.5)</b>	<b>(1,467.6)</b>
<b>Profit before tax</b>	3	<b>93.4</b>	<b>194.4</b>	<b>342.1</b>
Tax attributable to policyholders' returns	6	(10.9)	(114.8)	(156.0)
<b>Profit before tax attributable to shareholders' returns</b>		<b>82.5</b>	<b>79.6</b>	<b>186.1</b>
Total tax expense		(24.4)	(132.5)	(196.3)
Less: tax attributable to policyholders' returns	6	10.9	114.8	156.0
Tax attributable to shareholders' returns	6	(13.5)	(17.7)	(40.3)
<b>Profit and total comprehensive income for the period</b>	3	<b>69.0</b>	<b>61.9</b>	<b>145.8</b>
Profit/(loss) attributable to non-controlling interests		-	-	(0.1)
Profit attributable to equity shareholders		69.0	61.9	145.9
<b>Profit and total comprehensive income for the period</b>	3	<b>69.0</b>	<b>61.9</b>	<b>145.8</b>
Basic earnings per share	14	Pence	Pence	Pence
Diluted earnings per share	14	13.1	11.8	27.8
		12.9	11.6	27.4

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Attributable to equity shareholders						Non-controlling Interests £'Million	Total Equity £'Million
	Share Capital £'Million	Share Premium £'Million	Shares in Trust Reserve £'Million	Retained Earnings £'Million	Misc. Reserves £'Million	Total £'Million		
	79.1	164.5	(20.9)	851.2	2.5	1,076.4	(0.8)	1,075.6
At 1 January 2017								
Profit and total comprehensive income for the period				61.9		61.9		61.9
Dividends	14			(108.8)		(108.8)		(108.8)
Issue of share capital								
Exercise of options	0.2	2.4				2.6		2.6
Consideration paid for own shares			(8.1)			(8.1)		(8.1)
Shares sold during the period			4.3	(4.3)		-		-
Miscellaneous reserves on acquisition								
Retained earnings credit in respect of share option charges				13.0		13.0		13.0
At 30 June 2017	79.3	166.9	(24.7)	813.0	2.5	1,037.0	(0.8)	1,036.2
At 1 January 2018	79.4	171.7	(26.7)	832.1	2.5	1,059.0	(0.9)	1,058.1
Profit and total comprehensive income for the period				69.0		69.0		69.0
Dividends	14			(145.0)		(145.0)		(145.0)
Issue of share capital								
Exercise of options		1.8				1.8		1.8
Consideration paid for own shares			(6.0)			(6.0)		(6.0)
Shares sold during the period			8.4	(8.4)		-		-
Retained earnings credit in respect of share option charges				19.4		19.4		19.4
At 30 June 2018	79.4	173.5	(24.3)	767.1	2.5	998.2	(0.9)	997.3

Miscellaneous reserves represent other non-distributable reserves.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2018 £'Million	30 June 2017 £'Million	31 December 2017 £'Million
<b>Assets</b>				
Goodwill	7	15.6	15.6	15.6
Deferred acquisition costs	7	593.8	652.9	623.0
Intangible assets	7			
- Purchased value of in-force business		25.6	28.8	27.2
- Computer software		1.9	2.6	2.4
Property and equipment		26.4	24.5	26.4
Deferred tax assets	6	169.0	187.0	182.7
Reinsurance assets		80.7	80.7	82.8
Other receivables	9	1,798.6	1,903.8	1,620.0
Investments	8			
- Investment property		1,757.2	1,522.3	1,630.9
- Equities		58,802.9	50,717.4	55,086.9
- Fixed income securities		19,295.2	14,816.0 <sup>(1)</sup>	17,180.7
- Investment in Collective Investment Schemes		5,235.8	5,358.6	5,903.4
- Derivative financial instruments		245.6	241.8 <sup>(1)</sup>	343.4
Cash and cash equivalents		7,937.1	7,384.1	7,280.6
<b>Total assets</b>	3	<b>95,985.4</b>	<b>82,936.1</b>	<b>90,006.0</b>
<b>Liabilities</b>				
Borrowings	12	168.5	181.0	279.9
Deferred tax liabilities	6	432.7	576.2	546.8
Insurance contract liabilities		540.0	538.4	544.6
Deferred income	7	650.3	641.4	646.3
Other provisions	11	21.6	19.9	20.0
Other payables	10	1,503.1	1,621.0	1,231.2
Investment contract benefits		68,150.1	58,627.4	64,014.3
Derivative financial instruments	8	476.2	179.0	190.3
Net asset value attributable to unit holders	8	22,922.0	19,367.5	21,349.1
Income tax liabilities		123.5	148.0	125.3
Preference shares		0.1	0.1	0.1
<b>Total liabilities</b>		<b>94,988.1</b>	<b>81,899.9</b>	<b>88,947.9</b>
<b>Net assets</b>		<b>997.3</b>	<b>1,036.2</b>	<b>1,058.1</b>
<b>Shareholders' equity</b>				
Share capital	14	79.4	79.3	79.4
Share premium		173.5	166.9	171.7
Shares in trust reserve		(24.3)	(24.7)	(26.7)
Miscellaneous reserves		2.5	2.5	2.5
Retained earnings		767.1	813.0	832.1
Equity attributable to owners of the parent		<b>998.2</b>	<b>1,037.0</b>	<b>1,059.0</b>
Non-controlling interests		(0.9)	(0.8)	(0.9)
<b>Total equity</b>		<b>997.3</b>	<b>1,036.2</b>	<b>1,058.1</b>
<b>Net assets per share</b>		Pence 188.4	Pence 196.0	Pence 200.0

(1) Fixed income securities and derivative financial assets have been represented in the 30 June 2017 comparative to reclassify collateralised mortgage obligations. See Note 8 Investments for further information.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
<b>Cash flows from operating activities</b>			
Profit before tax for the period	93.4	194.4	342.1
Adjustments for:			
Amortisation of purchased value of in-force business	1.6	1.6	3.2
Amortisation of computer software	0.6	0.5	0.9
Depreciation	3.1	2.6	5.2
Share-based payment charge	19.7	14.0	32.7
Interest income	(15.0)	(11.4)	(23.7)
Interest expense	2.7	2.2	4.9
Increase in provisions	1.6	2.8	2.9
Exchange rate (gains)/losses	(0.1)	2.3	1.1
<b>Changes in operating assets and liabilities</b>			
Decrease in deferred acquisition costs	29.2	31.9	61.8
Increase in investment property	(126.3)	(59.9)	(168.5)
Increase in other investments	(5,065.1)	(7,495.7)	(14,876.2)
Decrease/(increase) in reinsurance assets	2.1	(0.2)	(2.3)
Increase in other receivables	(178.6)	(420.0)	(146.0)
(Decrease)/increase in insurance contract liabilities	(4.6)	20.2	26.4
Increase in financial liabilities (excluding borrowings)	4,421.7	5,217.9	10,615.8
Increase/(decrease) in deferred income	4.0	(6.2)	(1.3)
Increase in other payables	269.4	428.5	48.8
Increase in net assets attributable to unit holders	1,572.9	2,335.5	4,317.1
<b>Cash generated from operating activities</b>	<b>1,032.3</b>	<b>261.0</b>	<b>244.9</b>
Interest received	15.0	11.4	23.7
Interest paid	(2.7)	(2.2)	(4.9)
Income taxes paid	(124.2)	(72.9)	(181.3)
<b>Net cash generated from operating activities</b>	<b>920.4</b>	<b>197.3</b>	<b>82.4</b>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	(3.1)	(5.5)	(8.6)
Acquisition of intangible assets	(0.1)	-	(0.3)
Acquisition of subsidiaries and other business combinations, net of cash acquired	-	(4.9)	(5.0)
<b>Net cash used in investing activities</b>	<b>(3.2)</b>	<b>(10.4)</b>	<b>(13.9)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital	1.8	2.6	3.3
Consideration paid for own shares	(6.0)	(8.1)	(11.3)
Additional borrowings	-	-	100.0
Repayment of borrowings	(111.4)	(100.4)	(101.0)
Dividends paid	(145.0)	(108.8)	(190.0)
<b>Net cash used in financing activities</b>	<b>(260.6)</b>	<b>(214.7)</b>	<b>(199.0)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>656.6</b>	<b>(27.8)</b>	<b>(130.5)</b>
Cash and cash equivalents at beginning of period	<b>7,280.6</b>	<b>7,413.1</b>	<b>7,413.1</b>
Exchange losses on cash and cash equivalents	(0.1)	(1.2)	(2.0)
<b>Cash and cash equivalents at end of period</b>	<b>7,937.1</b>	<b>7,384.1</b>	<b>7,280.6</b>

**NOTES TO THE FINANCIAL STATEMENTS****1. BASIS OF PREPARATION**

This condensed set of consolidated half year financial statements for the six months ended 30 June 2018, which comprise the half year financial statements of St. James's Place plc (the "Company") and its subsidiaries (together referred to as the "Group"), has been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting', an International Financial Reporting Standard ("IFRS") as adopted by the European Union. The condensed consolidated half year financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRSs as adopted by the European Union.

**Going Concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Interim Statement on pages 5 to 11. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 12 to 42.

As shown on page 35 of the Financial Review, the Group's capital position is strong and well in excess of regulatory requirements. The long-term nature of the business results in considerable positive cash flows, arising from existing business. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

Having assessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****2. SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of Compliance**

These condensed consolidated half year financial statements were prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU and interpretations issued by the IFRS Interpretations Committee.

In preparing these condensed consolidated half year financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2017.

The new and amended IFRS standards effective for periods beginning on 1 January 2018 are as follows. Each has been adopted by the Group in the six months ended 30 June 2018 except where they have not been endorsed by the EU as at the period end date. The adopted standards have had no material impact on the condensed consolidated financial statements except for the classification changes required by IFRS 9, which are described in more detail on the following pages.

IFRS 9 Financial Instruments (and associated amendments to various other standards)

IFRS 4 Amendment – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 15 Revenue from Contracts with Customers (including subsequent IFRS 15 clarification and associated amendments to various other standards)

IFRS 2 Amendment – Classification and Measurement of Share-based Payment Transactions

IAS 40 Amendment – Transfers of Investment Property

Annual Improvements 2014 -2016 Cycle

IFRIC 22 Foreign Currency Transactions and Advance Consideration (not endorsed at 30 June 2018)

The adoption of IFRS 15 had no impact on the Group, as the way that the Group's revenue from contracts with customers was recognised under the previous accounting standard, IAS 18, satisfies the requirements of IFRS 15 with no changes required.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (b) Adoption of New Accounting Standards

As required by the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority, this condensed set of consolidated financial statements has been prepared applying the accounting policies and standards that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2017, except for the policies which were amended following the adoption of IFRS 9 on 1 January 2018. The impact of IFRS 9 on the condensed consolidated financial statements, and the associated changes to accounting policies, are as follows:

(i) *Impact of IFRS 9 Financial Instruments*

IFRS 9 incorporates:

- new classification and measurements requirements for financial assets and liabilities;
- the introduction of an expected credit loss impairment model;
- new hedge accounting requirements; and
- enhanced disclosures in the financial statements.

The Group adopted IFRS 9 on 1 January 2018. As a result:

- certain financial assets were reclassified in the statement of financial position; and
- the provisioning methodology for financial assets not held at fair value through profit and loss changed from an incurred loss to an expected loss basis.

The Group does not use hedge accounting and so this element of the new standard does not apply. Further detail on each of the changes relevant to the Group is provided below.

Financial asset reclassifications

The financial asset reclassifications were as follows:

	Previous classification	IFRS 9 classification
Renewal income assets	Available for sale	Fair value through profit and loss
Other receivables	Loans and receivables	Amortised cost
Shareholder cash and cash equivalents	Loan and receivables	Amortised cost

Renewal income assets, which represent the present value of future cash flows associated with books of business acquired by the Group, are classified as fair value through profit and loss under IFRS 9. This is because the contractual cash flows associated with the assets are fees rather than payments of principal and interest. When contractual cash flows are not solely payments of principal and interest, IFRS 9 requires the assets to be classified as fair value through profit and loss.

The accounting policies for financial assets and financial liabilities have been amended to reflect the classification requirements of IFRS 9. However, upon transition to IFRS 9 there was no material change to the underlying accounting treatment.

Expected loss impairment model

Moving from an incurred loss to an expected loss impairment model impacts the impairment provision held against the business loans to Partners, which are recognised within Other receivables in the statement of financial position. The expected loss model for these loans has been built based on the levels of loss experienced in the portfolio, with due consideration given to forward looking information. Upon transition to IFRS 9, the provision determined under the expected credit loss model was materially consistent with the provision recognised under the previous accounting standard and as such, no adjustment was made to the opening balance sheet.

Thus, transition to IFRS 9 had no material impact on the statement of financial position or the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****2. SIGNIFICANT ACCOUNTING POLICIES (continued)*****(ii) Accounting Policies Amended on Adoption of IFRS 9*****Basis of Consolidation (extract)**

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 IFRS 9 in the consolidated statement of comprehensive income.

**Equities, Fixed Income Securities and Investment in Collective Investment Schemes (replaces the Investments policy)**

These financial assets 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 vast majority of these financial assets are quoted, and so the fair value is based on the value within the bid-ask spread that is most representative of fair value. If the market for a financial asset 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.

Subsequent measurement of these financial assets at fair value through profit or loss is required by IFRS 9 for debt instruments for which the objectives of the Group's business model are not met by either holding the instrument to collect contractual cash flows or selling the instruments, or where the contractual terms of the instrument do not give rise to cash flows which are solely payments of principal and interest. Where both the 'business model' and 'solely payments of principal and interest' tests are met, management have made an irrevocable decision to designate the debt instruments at fair value through profit and loss as doing so aligns the measurement of the financial assets with the measurement of their associated unit linked liabilities.

Management have not made the irrevocable election to present changes in the fair value of equity instruments in other comprehensive income, and so all equity instruments are also designated at fair value through profit and loss.

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

**Other Receivables (extract)**

Other receivables are initially recognised at fair value and subsequently held at amortised cost less impairment losses, except for renewal income assets which are classified as fair value through profit and loss and are initially, and subsequently, recognised at fair value.

**Cash and Cash Equivalents**

Cash and 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 and cash equivalents held within unit linked and unit trust funds are classified at fair value through profit and loss, as management have made an irrevocable decision to designate them as such in order to align the measurement of these financial assets with the measurement of their associated unit linked liabilities. Therefore, these cash and cash equivalents are initially and subsequently recognised at fair value through profit and loss, with gains and losses recognised within investment return in the statement of comprehensive income.

All other cash and cash equivalents are classified as amortised cost. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Investment Contract Benefits

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 benefits are recognised when units are first allocated to the policyholder; they are de-recognised 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 matching investment portfolio, that underpins the unit-linked liabilities, is recognised at fair value through profit and loss.

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 termed the net asset value attributable to unit holders and are presented in the statement of financial position. They are classified as fair value through profit and loss, hence are initially and subsequently measured at fair value. The decision by the Group to designate the net asset value attributable to unit holds as fair value through profit and loss reflects the fact that the underlying investment portfolios are recognised at fair value through profit and loss.

Income attributable to the third-party interests is accounted for within investment return, offset by a corresponding change in investment contract benefits.

Impairment of Financial Assets

Financial assets held at amortised cost are impaired using an expected credit loss model. The model splits financial assets into those which are performing, underperforming and non-performing based on changes in credit quality since initial recognition. At initial recognition financial assets are considered to be performing. They become underperforming where there has been a significant increase in credit risk since initial recognition, and non-performing when there is objective evidence of impairment. 12 months of expected credit losses are recognised in the statement of comprehensive income and netted against the financial asset in the statement of financial position for all performing financial assets, with lifetime expected credit losses recognised for underperforming and non-performing financial assets.

Expected credit losses are based on the historic levels of loss experienced for the relevant financial assets, with due consideration given to forward looking information.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) New and Amended Accounting Standards Not Yet Effective**

As at 30 June 2018, the following new and amended standards, which are relevant to the Group but have not been applied in the financial statements, were in issue but are not yet effective:

IAS 28 Amendment – Long-term Interests in Associates and Joint Ventures

IFRS 10 and IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

IFRS 16 Leases

IFRS 17 Insurance Contracts

IFRIC 23 Uncertainty over Income Tax Treatments

Annual Improvements 2015-2017 Cycle

The Group is currently assessing the impact that the adoption of the above standards, amendments and clarifications will have on the Group's results reported within the financial statements. Further detail regarding the standards that are expected to have the most significant impact on the financial statements is given below.

**IFRS 16 Leases**

IFRS 16 was issued in January 2016 and is mandatory for financial years commencing on or after 1 January 2019. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed for lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are for short-term or low-value leases. The accounting for lessors will not significantly change.

The standard will affect the accounting for the Group's operating leases. On adoption of the standard, the right-of-use asset and liability for future payments are expected to be material to the statement of financial position, and there is expected to be a negative impact on the statement of comprehensive income initially which will reverse over time. The negative impact arises as the lease liability is accounted for using the effective interest method, which means that the interest expense on the lease liability reduces year on year, whereas under the current lease accounting standard the operating lease rentals are constant throughout the lease term. As the Group has a number of significant leases which are in the early stages of their lease term, the lease expense upon transition to IFRS 16 will be higher than under the current leases standard.

The Group is well progressed in assessing the quantum of the adjustments that will be required upon transition to IFRS 16, and is implementing new processes and controls to account for leases under the new standard.

**IFRS 17 Insurance Contracts**

IFRS 17 incorporates revised principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The Group closed to new insurance business, as defined under accounting standards, in 2009. At 30 June 2018, the Group has £83.6 million of non-unit linked insurance contract liabilities, which are substantially reinsured, and £456.4 million of unit linked insurance contract liabilities. As a result, the Group's net exposure on this business is not material.

The vast majority of the business written by the Life companies within the Group is defined as investment rather than insurance business under accounting standards. Investment business is outside the scope of IFRS 17.

Management are currently assessing the impacts of adopting the new standard, which is mandatory for financial years commencing on or after 1 January 2021, subject to EU endorsement.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****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 each segment and assess its performance.

The Group's only reportable segment under IFRS 8 is a "wealth management" business – which is a vertically-integrated business providing support to our clients through the provision of financial advice and assistance through our Partner network, and financial solutions including (but not limited to) wealth management products manufactured in the Group, such as insurance bonds, pensions, unit trust and ISA investments, and a DFM service.

Separate geographical segmental information is not presented since the Group does not segment its business geographically. Most of its customers are based in the United Kingdom, as is management of the assets. In particular, the operation based in south-east Asia is not yet sufficiently material for separate consideration.

**Segment Revenue**

Revenue received from fee and commission income is set out in Note 4 which sets out the different types of revenue received from our wealth management business.

**Segment Profit**

Two separate measures of profit are monitored on a monthly basis by the Board. These are the post-tax Underlying cash result and pre-tax European Embedded Value ("EEV").

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. SEGMENT REPORTING (continued)

*Underlying cash result*

The measure of cash profit monitored on a monthly basis by the Board is the post-tax Underlying cash result. This reflects emergence of cash available for paying a dividend during the year. Underlying cash is based on the cashflows within the IFRS results, but with no allowance for intangibles, principally DAC, DIR, PVIF, goodwill and deferred tax, or short-term costs associated with the back-office infrastructure project. As the cost associated with share options is reflected in changes in shareholder equity, they are also not included in the Underlying cash result.

More detail is provided on pages 29 to 32 of the Financial Review.

The Cash result should not be confused with the IFRS condensed consolidated statement of cash flows which is prepared in accordance with IAS 7.

	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	£'Million	£'Million	£'Million
<b>Underlying cash result after tax</b>	<b>147.1</b>	123.1	281.2
Non-cash settled share based payments	(19.4)	(13.0)	(30.5)
Deferred tax impacts	(12.1)	(11.6)	(15.0)
Back-office infrastructure	(15.2)	(8.2)	(21.7)
Impact in the period of DAC/DIR/PVIF	(26.8)	(21.5)	(48.1)
Other	(4.6)	(6.9)	(20.1)
<b>IFRS profit after tax</b>	<b>69.0</b>	61.9	145.8
Shareholder tax	13.5	17.7	40.3
<b>Profit before tax attributable to shareholders' returns</b>	<b>82.5</b>	79.6	186.1
Tax attributable to policyholder returns	10.9	114.8	156.0
<b>IFRS profit before tax</b>	<b>93.4</b>	194.4	342.1

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. SEGMENT REPORTING (continued)

*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 Financial Review section of this announcement.

	Six Months Ended 30 June 2018	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	£'Million	£'Million	£'Million
<b>EEV operating profit before tax</b>	<b>489.6</b>	397.3	918.5
Investment return variance	(32.5)	214.1	340.8
Economic assumption changes	6.0	11.5	29.8
<b>EEV profit before tax</b>	<b>463.1</b>	<b>622.9</b>	<b>1,289.1</b>
<b>Adjustments to IFRS basis</b>			
Deduct: amortisation of purchased value of in-force	(1.6)	(1.6)	(3.2)
Movement of balance sheet life value of in-force (net of tax)	(217.5)	(293.9)	(586.2)
Movement of balance sheet unit trust and DFM value of in-force (net of tax)	(96.2)	(155.8)	(325.4)
Tax of movement in value of in-force	(65.3)	(92.0)	(188.2)
<b>Profit before tax attributable to shareholders' returns</b>	<b>82.5</b>	<b>79.6</b>	<b>186.1</b>
Tax attributable to policyholder returns	10.9	114.8	156.0
<b>IFRS profit before tax</b>	<b>93.4</b>	<b>194.4</b>	<b>342.1</b>

The movement in life, unit trust and DFM value of in-force is the difference between the opening and closing undiscounted value of the profits that will emerge from the in-force book over time, adjusting for DAC and DIR impacts which are already included under IFRS.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. SEGMENT REPORTING (continued)

## Segment Assets

*Funds under management (“FUM”)*

FUM, as reported in Section 1 of the Financial Review on page 13 is the measure of segment assets which is monitored on a monthly basis by the Board.

	30 June 2018 £'Million	30 June 2017 £'Million	31 December 2017 £'Million
Investment	28,890.0	27,170.0	28,310.0
Pension	39,840.0	31,920.0	36,150.0
UT/ISA and DFM	27,880.0	23,950.0	26,290.0
<b>Total FUM</b>	<b>96,610.0</b>	83,040.0	90,750.0
Exclude client and third party holdings in non-consolidated unit trusts and DFM	(5,011.1)	(4,591.3)	(4,882.5)
Other	975.3	909.3	296.7
<b>Gross assets held to cover unit liabilities</b>	<b>92,574.2</b>	79,358.0	86,164.2
IFRS intangible assets (see page 27 adjustment 2) including goodwill, DAC, PVIF, reinsurance and deferred tax	756.0	883.9	811.3
Shareholder gross assets (see page 27)	2,655.2	2,694.2	3,030.5
<b>Total assets</b>	<b>95,985.4</b>	82,936.1	90,006.0

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 4. FEE AND COMMISSION INCOME

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
Advice charges (post-RDR)	359.4	315.8	656.5
Third party fee and commission income	51.8	55.4	114.3
Wealth management fees	333.0	306.4	638.3
Investment management fees	44.7	27.2	62.4
Fund tax deductions	10.9	116.5	156.2
Discretionary fund management fees	6.5	4.1	9.4
 Fee and commission income before DIR amortisation	 <b>806.3</b>	 825.4	 1,637.1
Amortisation of DIR	69.7	71.4	142.7
 <b>Total fee and commission income</b>	 <b>876.0</b>	 <b>896.8</b>	 <b>1,779.8</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 5. INVESTMENT RETURN

	Six Months Ended <b>30 June 2018</b>	Six Months Ended 30 June 2017	Year Ended 31 December 2017
	£'Million	£'Million	£' Million
<b>Investment return on net assets held to cover unit liabilities:</b>			
Rental income			
Rental income	44.1	40.2	82.3
Gain on revaluation of investment properties	11.1	30.7	79.2
Net investment return on financial instruments classified as fair value through profit and loss	935.2	3,323.8	5,545.1
	<b>990.4</b>	<b>3,394.7</b>	<b>5,706.6</b>
<i>Attributable to unit linked insurance contract liabilities</i>			
<i>Attributable to unit linked insurance contract liabilities</i>	8.9	28.3	43.5
<i>Attributable to unit linked investment contract benefits</i>	981.5	3,366.4	5,663.1
	<b>990.4</b>	<b>3,394.7</b>	<b>5,706.6</b>
Income attributable to third party holdings in unit trusts	148.2	919.7	1,547.8
	<b>1,138.6</b>	<b>4,314.4</b>	<b>7,254.4</b>
<b>Investment return on shareholder assets:</b>			
Net investment return on financial instruments classified as fair value through profit and loss	7.8	8.1 <sup>(1)</sup>	21.3
Net investment return on financial instruments classified as fair value through profit and loss	(2.4)	(1.0) <sup>(1)</sup>	(1.8)
Interest income on financial instruments classified as amortised cost	5.0	3.9	8.6
	<b>10.4</b>	<b>11.0</b>	<b>28.1</b>
<b>Total investment return</b>	<b>1,149.0</b>	<b>4,325.4</b>	<b>7,282.5</b>

(1) The net investment return on renewal income assets has been represented in the 30 June 2017 comparative to show the £1.0 million net loss separately in the net investment return on financial instruments classified as fair value through profit and loss line.

Included in the net investment return on financial instruments classified as fair value through profit and loss within investment return on net assets held to cover unit liabilities is dividend income of £409.1 million (six months ended 30 June 2017: £378.0 million, year ended 31 December 2017: £825.6 million).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 6. INCOME AND DEFERRED TAXES

## Tax for the period

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
<b>Current tax</b>			
UK corporation tax			
- Current year charge	122.4	159.7	245.7
- Adjustment in respect of prior year	(0.8)	(2.8)	(3.1)
Overseas taxes			
- Current year charge	3.2	4.2	6.8
- Adjustment in respect of prior year	-	-	0.1
	124.8	161.1	249.5
<b>Deferred tax</b>			
Unrealised capital (losses)/gains in unit linked funds	(106.8)	(34.0)	(55.6)
<i>Unrelieved expenses</i>			
- Additional expenses recognised in the period	(5.7)	(5.6)	(12.7)
- Utilisation in the period	7.5	8.4	17.2
<i>Capital losses</i>			
- Utilisation in the period	12.7	9.3	12.1
- Adjustment in respect of prior year	-	0.9	0.9
DAC, DIR and PVIF	(5.7)	(6.2)	(12.7)
Other items	(0.8)	(1.4)	(3.5)
Overseas taxes on losses	(0.5)	-	(0.1)
Adjustments in respect of prior periods	(1.1)	-	1.2
	(100.4)	(28.6)	(53.2)
<b>Total tax charge for the period</b>	<b>24.4</b>	<b>132.5</b>	<b>196.3</b>
<b>Attributable to:</b>			
- policyholders	10.9	114.8	156.0
- shareholders	13.5	17.7	40.3
	<b>24.4</b>	<b>132.5</b>	<b>196.3</b>

The prior period adjustment in current tax above includes nil in respect of policyholder tax (six months to 30 June 2017: credit of £4.1 million, year to 31 December 2017: credit of £3.8 million) and a credit of £0.8 million in respect of shareholder tax (six months to 30 June 2017: charge of £1.3 million, year to 31 December 2017: charge of £0.8 million).

Included within the deferred tax on “other items” is a credit of £3.2 million (six months to 30 June 2017: charge of £0.6 million, year to 31 December 2017: charge of £2.0 million) relating to share-based payments.

In arriving at the profit before tax attributable to shareholders’ return, 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 on the profits attributable to shareholders. This is calculated by applying the appropriate effective corporate tax rates to the shareholder profits. The remainder of the tax charge represents tax on policyholders’ investment returns. This calculation method is consistent with the legislation relating to the calculation of tax on shareholder profits.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 6. INCOME AND DEFERRED TAXES (CONTINUED)

## Tax paid in the year

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
Current tax charge for the period	124.8	161.1	249.5
Payments to be made in future years in respect of current year	(122.5)	(148.5)	(125.3)
Payments made in current year in respect of prior years	124.7	72.1	71.3
Other	(0.4)	0.8	1.1
<b>Tax paid</b>	<b>126.6</b>	<b>85.5</b>	<b>196.6</b>
Tax paid can be analysed as:			
- Taxes paid in UK	124.2	81.7	188.9
- Taxes paid in overseas jurisdictions	(0.1)	0.6	2.7
- Withholding taxes suffered on investment income received	2.5	3.2	5.0
<b>Tax paid</b>	<b>126.6</b>	<b>85.5</b>	<b>196.6</b>

## Movement in net deferred tax balance

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
Deferred tax asset	182.7	199.9	199.9
Deferred tax liability	(546.8)	(614.8)	(614.8)
Net deferred tax balance at period open	(364.1)	(414.9)	(414.9)
Credit through the consolidated statement of comprehensive income	100.4	28.6	53.2
Arising on acquisitions during the period	-	(2.9)	(2.4)
Deferred tax asset	169.0	187.0	182.7
Deferred tax liability	(432.7)	(576.2)	(546.8)
<b>Balance at period close</b>	<b>(263.7)</b>	<b>(389.2)</b>	<b>(364.1)</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 6. INCOME AND DEFERRED TAXES (CONTINUED)

## Reconciliation of tax charge to expected tax

	Six Months Ended 30 June 2018	£'Million	Six Months Ended 30 June 2017	£'Million	Year Ended 31 December 2017	£'Million
Profit before tax	93.4		194.4		342.1	
Tax attributable to policyholders' returns <sup>(1)</sup>	(10.9)		(114.8)		(156.0)	
<b>Profit before tax attributable to shareholders' returns</b>	<b>82.5</b>		<b>79.6</b>		<b>186.1</b>	
Shareholder tax charge at corporate tax rate of 19.00% (2017: 19.25%)	15.7	19.0%	15.3	19.3%	35.8	19.3%
<b>Adjustments:</b>						
<u>Tax regime differences</u>						
Lower rate of corporation tax in overseas subsidiaries	(0.2)	(0.2%)	(0.4)	(0.5%)	(0.3)	(0.2%)
<b>Expected shareholder tax</b>	<b>15.5</b>	18.8%	<b>14.9</b>	18.7%	<b>35.5</b>	19.1%
<u>Other</u>						
Non-taxable income	(0.2)		(0.6)		(1.2)	
Adjustment in respect of prior period	-		1.9		1.6	
Differences in accounting and tax bases in relation to employee share schemes	(2.6)		(0.4)		(0.7)	
Disallowable expenses	-		0.9		2.0	
Tax losses not recognised or past losses now recognised	0.8		1.5		3.1	
Other	-		(0.5)		-	
	<b>(2.0)</b>	(2.4%)	<b>2.8</b>	3.5%	<b>4.8</b>	2.6%
<b>Shareholder tax charge</b>	<b>13.5</b>	16.4%	<b>17.7</b>	22.2%	<b>40.3</b>	21.7%
<b>Policyholder tax charge</b>	<b>10.9</b>		<b>114.8</b>		<b>156.0</b>	
<b>Total tax charge for the period</b>	<b>24.4</b>		<b>132.5</b>		<b>196.3</b>	

(1) Tax attributable to policyholder returns is equal to the policyholder tax charge, and reflects fund tax deductions offset by policyholder tax effects on intangibles.

Tax calculated on profit before tax at 19.00% (2017: 19.25%) would amount to £17.7 million (six months to 30 June 2017: £37.4 million, year to 31 December 2017: £65.9 million). The difference of £6.7 million (six months to 30 June 2017: £94.2 million, year to 31 December 2017: £130.4 million) between this number and the total tax of £24.4 million (six months to 30 June 2017: £132.5 million, year to 31 December 2017: £196.3 million) is made up of the reconciling items above which total £2.2 million (six months to 30 June 2017: £2.4 million, year to 31 December 2017: £4.5 million) and the effect of the apportionment methodology on tax applicable to policyholder returns of £8.9 million (six months to 30 June 2017: £91.8 million, year to 31 December 2017: £126.0 million).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 6. INCOME AND DEFERRED TAXES (CONTINUED)

## Deferred Tax Assets

	Expected utilisation Years	30 June 2018 £'Million	30 June 2017 £'Million	31 December 2017 £'Million
Unrelieved expenses (life insurance business)	6	44.7	48.1	46.4
Deferred income (DIR)	13	36.7	38.8	37.9
Capital losses (available for future relief)	8	73.8	88.8	86.0
Employee share scheme costs	3	8.5	6.1	7.5
Future capital allowances	6	4.4	4.6	3.7
Other		0.9	0.6	1.2
<b>Total deferred tax assets</b>		<b>169.0</b>	<b>187.0</b>	<b>182.7</b>

Appropriate investment income, gains or profits are expected to arise against which the tax assets can be utilised. Whilst the actual rates of utilisation will depend on business growth and external factors, particularly investment market conditions, they have been tested for sensitivity to experience and are resilient to a range of reasonably foreseeable scenarios.

At the reporting date there were unrecognised deferred tax assets of £6.3 million (30 June 2017: £3.8 million, 31 December 2017: £5.9 million) in respect of losses in companies where appropriate profits are not considered probable in the forecast period. These losses primarily relate to our Asia based businesses and can be carried forward indefinitely.

## Deferred Tax Liabilities

	Expected utilisation Years	30 June 2018 £'Million	30 June 2017 £'Million	31 December 2017 £'Million
Unrealised capital gains on life insurance (BLAGAB) assets	6	339.2	467.1	445.5
backing unit liabilities				
Deferred acquisition costs (DAC)	13	77.4	91.0	84.0
Purchased value of in-force business (PVIF)	10	4.4	5.1	4.8
Renewal income assets	20	9.8	11.3	10.6
Other		1.9	1.7	1.9
<b>Total deferred tax liabilities</b>		<b>432.7</b>	<b>576.2</b>	<b>546.8</b>

## Future Tax Changes

Future tax rate changes, including the reduction in the corporation tax rate to 17% effective from 1 April 2020 which was enacted in the Finance Act 2016, were incorporated into the deferred tax balances in 2016.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 7. GOODWILL, INTANGIBLE ASSETS, DEFERRED ACQUISITION COSTS AND DEFERRED INCOME

	Goodwill £'Million	Purchased value of in-force business £'Million	Computer software & other specific software developments £'Million	DAC £'Million	DIR £'Million
<b>Cost</b>					
At 1 January 2017	13.8	73.4	15.7	1,649.8	(1,528.0)
Additions	1.8	-	0.1	17.5	(65.2)
At 30 June 2017	15.6	73.4	15.8	1,667.3	(1,593.2)
Additions	-	-	0.2	19.4	(76.2)
<b>At 31 December 2017</b>	<b>15.6</b>	<b>73.4</b>	<b>16.0</b>	<b>1,686.7</b>	<b>(1,669.4)</b>
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>19.1</b>	<b>(73.7)</b>
<b>At 30 June 2018</b>	<b>15.6</b>	<b>73.4</b>	<b>16.1</b>	<b>1,705.8</b>	<b>(1,743.1)</b>
<b>Accumulated amortisation</b>					
At 1 January 2017	-	43.0	12.7	965.0	(880.4)
Charge for the period	-	1.6	0.5	49.4	(71.4)
At 30 June 2017	-	44.6	13.2	1,014.4	(951.8)
Charge for the period	-	1.6	0.4	49.3	(71.3)
<b>At 31 December 2017</b>	<b>-</b>	<b>46.2</b>	<b>13.6</b>	<b>1,063.7</b>	<b>(1,023.1)</b>
<b>Charge for the period</b>	<b>-</b>	<b>1.6</b>	<b>0.6</b>	<b>48.3</b>	<b>(69.7)</b>
<b>At 30 June 2018</b>	<b>-</b>	<b>47.8</b>	<b>14.2</b>	<b>1,112.0</b>	<b>(1,092.8)</b>
<b>Carrying value</b>					
At 30 June 2017	<b>15.6</b>	<b>28.8</b>	<b>2.6</b>	<b>652.9</b>	<b>(641.4)</b>
At 31 December 2017	<b>15.6</b>	<b>27.2</b>	<b>2.4</b>	<b>623.0</b>	<b>(646.3)</b>
<b>At 30 June 2018</b>	<b>15.6</b>	<b>25.6</b>	<b>1.9</b>	<b>593.8</b>	<b>(650.3)</b>
<b>Outstanding amortisation period</b>					
At 30 June 2017	n/a	8.5 years	3 years	14 years	6-14 years
At 31 December 2017	n/a	8 years	4 years	14 years	6-14 years
<b>At 30 June 2018</b>	<b>n/a</b>	<b>7.5 years</b>	<b>4 years</b>	<b>14 years</b>	<b>6-14 years</b>

**Purchased value of in-force business/DAC/Computer software**

Amortisation is charged to expenses in the condensed consolidated statement of comprehensive income. Amortisation profiles are reassessed annually.

**DIR**

Amortisation is credited within fee and commission income in the condensed consolidated statement of comprehensive income. Amortisation profiles are reassessed annually.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**8. INVESTMENTS****Net assets held to cover unit liabilities**

Included within the statement of financial position are the following assets and liabilities comprising the net assets held to cover unit liabilities.

	30 June 2018	30 June 2017	31 December 2017
	£'Million	£'Million	£'Million
<b>Assets</b>			
Investment property	1,757.2	1,522.3	1,630.9
Equities	58,802.9	50,717.4	55,086.9
Fixed income securities	19,248.9	14,768.8 <sup>(1)</sup>	17,134.6
Investment in Collective Investment Schemes	4,200.3	4,283.2	4,486.6
Cash and cash equivalents	7,637.8	6,911.4	7,005.9
Other receivables	681.5	913.1	475.9
Derivative financial instruments			
- <i>Currency forwards</i>	58.0	124.4	143.8
- <i>Interest rate swaps</i>	82.3	30.6	49.0
- <i>Index options</i>	63.0	22.0	70.9
- <i>Contract for differences</i>	12.3	6.0	9.2
- <i>Equity rate swaps</i>	3.6	17.7	5.4
- <i>Foreign currency options</i>	12.1	19.3	19.1
- <i>Total return swaps</i>	4.0	19.7	41.0
- <i>Other derivatives</i>	10.3	2.1	5.0
Total derivative financial assets	245.6	241.8 <sup>(1)</sup>	343.4
<b>Total assets</b>	<b>92,574.2</b>	<b>79,358.0</b>	<b>86,164.2</b>
<b>Liabilities</b>			
Other payables	569.5	728.3	151.5
Derivative financial instruments			
- <i>Currency forwards</i>	313.0	95.3	75.1
- <i>Interest rate swaps</i>	39.1	30.9	38.8
- <i>Index options</i>	55.8	1.8	24.0
- <i>Contract for differences</i>	11.6	7.4	6.8
- <i>Equity rate swaps</i>	9.0	22.2	4.4
- <i>Foreign currency options</i>	1.3	14.0	22.9
- <i>Total return swaps</i>	24.9	1.0	3.1
- <i>Credit default swaps</i>	17.2	6.4	14.2
- <i>Other derivatives</i>	4.3	-	1.0
Total derivative financial liabilities	476.2	179.0	190.3
<b>Total liabilities</b>	<b>1,045.7</b>	<b>907.3</b>	<b>341.8</b>
<b>Net assets held to cover linked liabilities</b>	<b>91,528.5</b>	<b>78,450.7</b>	<b>85,822.4</b>
Investment contract benefits	68,150.1	58,627.4	64,014.3
Net asset value attributable to unit holders	22,922.0	19,367.5	21,349.1
Unit linked insurance contract liabilities	456.4	455.8	459.0
<b>Net unit linked liabilities</b>	<b>91,528.5</b>	<b>78,450.7</b>	<b>85,822.4</b>

(1) Collateralised mortgage obligations (CMOs) are mortgage backed securities. Investment in CMOs was £637.3 million at 30 June 2017, which were recognised as derivative financial assets in the 2017 Half Year Report. CMOs have been reclassified to fixed income securities in the current year to better represent the nature of the investments.

Net assets held to cover linked liabilities, and third-party holdings in unit trusts, are considered to have a maturity of up to one year since the corresponding unit liabilities are repayable and transferable on demand.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 9. OTHER RECEIVABLES

	30 June 2018 £'Million	30 June 2017 £'Million	31 December 2017 £'Million
Receivables in relation to unit liabilities	1,030.1	1,180.7	885.1
Other receivables in relation to insurance and unit trust business	118.6	150.3	124.0
Operational readiness prepayment	201.2	143.3	170.6
Advanced payments to Partners	42.3	35.7	39.5
Other prepayments	55.9	38.8	58.2
Business loans to Partners	276.1	249.8	263.9
Renewal income assets	69.5	71.9	71.6
Miscellaneous	4.9	33.3	7.1
<b>Total other receivables</b>	<b>1,798.6</b>	<b>1,903.8</b>	<b>1,620.0</b>

All items within other receivables meet the definition of financial assets with the exception of prepayments and advanced payments to Partners.

Receivables in relation to unit liabilities primarily relate to outstanding market trade settlements (sales) in the life unit linked funds and the consolidated unit trusts. Other receivables in relation to insurance and unit trust business primarily relate to outstanding policy-related settlement timings. Both of these categories of receivables are short-term, typically settled within three days.

The operational readiness prepayment relates to the new administration platform being developed by our key outsourced back-office administration provider. Management has assessed the recoverability of this prepayment against the expected cost saving benefit of lower future tariff costs arising from the new platform. It is believed that any reasonably possible change in the assumptions applied within this assessment, such as levels of future business, the anticipated future service tariffs and the discount rate, would have no impact on the carrying value of the asset.

Business loans to Partners are interest bearing (linked to Bank of England base rate plus a margin), repayable on demand and secured against the future income streams of the Partner. The balance of lending is shown net of a £2.7 million provision for impairment (30 June 2017: £4.4 million, 31 December 2017: £4.5 million).

The fair value of financial assets held at amortised cost within other receivables is not materially different from amortised cost.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****10. OTHER PAYABLES**

	<b>30 June 2018</b> £'Million	<b>30 June 2017</b> £'Million	<b>31 December 2017</b> £'Million
Payables in relation to unit liabilities	710.7	818.0	420.4
Other payables in relation to insurance and unit trust business	424.4	446.8	412.2
Accruals	149.0	153.7	152.3
Accruals to Partners	87.1	77.4	87.6
Miscellaneous	131.9	125.1	158.7
<b>Total other payables</b>	<b><u>1,503.1</u></b>	<b><u>1,621.0</u></b>	<b><u>1,231.2</u></b>

Payables in relation to unit liabilities primarily relate to outstanding market trade settlements (purchases) in the life unit linked funds and the consolidated unit trusts. Other payables in relation to insurance and unit trust business primarily relate to outstanding policy-related settlement timings. Both of these categories of payables are short-term, typically settled within three days.

Included within miscellaneous is a Contract Payment of £88.9 million (30 June 2017: £71.1 million, 31 December 2017: £92.5 million) which is non-interest bearing and repayable on a straight-line basis over the life of a twelve-year service agreement. The repayment period commenced on 1 January 2017.

The fair value of financial instruments held at amortised cost within other payables is not materially different from amortised cost.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 11. OTHER PROVISIONS AND CONTINGENT LIABILITIES

	Total provisions £'Million
At 1 January 2017	17.1
Additional provisions	9.8
Utilised during the period	(7.0)
Release of provision	-
At 30 June 2017	<u>19.9</u>
Additional provisions	10.7
Utilised during the period	(9.2)
Release of provision	(1.4)
<b>At 31 December 2017</b>	<b><u>20.0</u></b>
<b>Additional provisions</b>	<b>10.5</b>
<b>Utilised during the period</b>	<b>(7.8)</b>
<b>Release of provision</b>	<b>(1.1)</b>
<b>At 30 June 2018</b>	<b><u>21.6</u></b>

Total provisions relate to the cost of redress for complaints and clawback of indemnity commission. The provision for the cost of redress for complaints is based on estimates of the total number of complaints expected to be upheld, the estimated cost of redress and the expected timing of settlement. The clawback provision is based on estimates of the indemnity commission that may be repaid.

As more fully set out in the summary of principal risks and uncertainties on pages 43 to 44, the Group could in the course of its business be subject to legal proceedings and/or regulatory activity. Should such an event arise, the Board would consider their best estimate of the amount required to settle the obligation and, where appropriate and material, establish a provision. While there can be no assurances that circumstances will not change, based upon information currently available to them, the Directors do not believe there is any possible activity or event that could have a material adverse effect on the Group's financial position.

During the normal course of business, the Group may from time to time provide guarantees to Partners, clients or other third parties. However, based upon the information currently available to them, the Directors do not believe there are any guarantees which would have a material adverse effect on the Group's financial position, and so the fair value of any guarantees has been assessed as £nil (2017: £nil).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. BORROWINGS

	30 June 2018	30 June 2017	31 December 2017
	£'Million	£'Million	£'Million
Bank borrowings	54.5	131.0	165.8
Loan notes	114.0	50.0	114.1
<b>Total borrowings</b>	<b>168.5</b>	<b>181.0</b>	<b>279.9</b>

Borrowings are a liability arising from financing activities. The primary borrowings in the Group are:

- A £340 million revolving credit facility, which includes a £90 million extension agreed in July 2017 to the original £250 million facility entered into with a group of UK banks in 2015. The facility is repayable over five years to 2022 with a variable interest rate. At 30 June 2018 the undrawn credit available under this facility was £290 million (30 June 2017: £125 million, 31 December 2017: £179 million); and
- A US Dollar \$160 million private shelf facility, also entered into in 2015. The Group authorised the issue of £50 million of loan notes during 2015, and a further issue of £64 million of loans notes during 2017 in relation to this facility. Both note issues were denominated in Sterling, eliminating any Group currency risk. The notes are repayable over ten years, ending in 2025 and 2027 respectively, with variable interest rates.

The Group also guarantees business loans provided by third parties to Partners. In the event of default of any individual Partner loan, the Group guarantees to repay the full amount of the loan, with the exception of Metro Bank plc, where 50% of the loan is guaranteed. These loans are secured against the future income streams of the Partner. The value of the loans guaranteed, and the guaranteed amount of the total facility, are as follows:

	Loans Drawn			Facility		
	30 June 2018	30 June 2017	31 December 2017	30 June 2018	30 June 2017	31 December 2017
	£'Million	£'Million	£'Million	£'Million	£'Million	£'Million
Bank of Scotland	73.2	50.1	65.4	80.0	80.0	80.0
Metro Bank plc	57.3	38.6	46.7	61.0	61.0	61.0
Santander plc	64.7	49.8	55.0	75.0	50.0	75.0
<b>Total loans</b>	<b>195.2</b>	<b>138.5</b>	<b>167.1</b>	<b>216.0</b>	<b>191.0</b>	<b>216.0</b>

The fair value of the outstanding borrowings and guarantees is not materially different from amortised cost.

Interest expense on borrowings is recognised within expenses in the consolidated statement of comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. FAIR VALUE MEASUREMENT

**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 from 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); and
- 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 shareholder assets measured at fair value. There are no shareholder liabilities measured at fair value:

**Shareholder assets**

	30 June 2018			
	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	Total balance £'Million
<b>Financial assets:</b>				
Fixed income securities	46.3			46.3
Investment in Collective Investment Schemes <sup>(1)</sup>	1,035.5			1,035.5
Renewal income assets			69.5	69.5
<b>Total financial assets</b>	<b>1,081.8</b>	<b>-</b>	<b>69.5</b>	<b>1,151.3</b>

  

	30 June 2017			
	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	Total balance £'Million
<b>Financial assets:</b>				
Fixed income securities	47.2 <sup>(2)</sup>			47.2
Investment in Collective Investment Schemes <sup>(1)</sup>	1,075.4			1,075.4
Renewal income assets			71.9	71.9
<b>Total financial assets</b>	<b>1,122.6</b>	<b>-</b>	<b>71.9</b>	<b>1,194.5</b>

  

	31 December 2017			
	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	Total balance £'Million
<b>Financial assets:</b>				
Fixed income securities	46.1			46.1
Investment in Collective Investment Schemes <sup>(1)</sup>	1,416.8			1,416.8
Renewal income assets			71.6	71.6
<b>Total financial assets</b>	<b>1,462.9</b>	<b>-</b>	<b>71.6</b>	<b>1,534.5</b>

(1) All assets included as shareholder investment in collective investment schemes are holdings of high quality, highly liquid unitised money market funds, containing assets which are cash and cash equivalents.

(2) Government bonds have been reclassified from Level 2 to Level 1 in the fair value hierarchy to reflect the fact that they are valued using an observable market price.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 13. FAIR VALUE MEASUREMENT (continued)

The fair value of financial instruments traded in active markets is based on quoted bid prices at the reporting date. These instruments are included in Level 1.

Level 2 financial assets are valued using observable prices for identical current arm's length transactions.

The Renewal income assets are classified as Level 3 and are valued using a discounted cash flow technique. 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 £7.1 million (30 June 2017: £5.6 million, 31 December 2017: £5.8 million) and a favourable change in valuation of £6.5 million (30 June 2017: £5.0 million, 31 December 2017: £6.1 million), respectively.

There were no transfers between Level 1 and Level 2 during the year, other than in respect of the representation of government bonds noted above, nor into or out of Level 3.

#### Movement in Level 3 portfolios

Renewal income assets	30 June 2018	30 June 2017	31 December 2017
	£'Million	£'Million	£'Million
Opening balance	71.6	58.9	58.9
Additions during the period	1.0	14.0	14.5
Disposals during the period	(0.7)	-	-
Losses recognised in the statement of comprehensive income	(2.4)	(1.0)	(1.8)
<b>Closing balance</b>	<b>69.5</b>	<b>71.9</b>	<b>71.6</b>
Unrealised losses	(2.4)	(1.0)	(1.8)
<b>Losses recognised in the statement of comprehensive income</b>	<b>(2.4)</b>	<b>(1.0)</b>	<b>(1.8)</b>

Losses on renewal income assets are recognised within investment return in the condensed consolidated statement of comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. FAIR VALUE MEASUREMENT (continued)

Unit liabilities and associated assets

30 June 2018	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	Total balance £'Million
<b>Financial assets and investment properties</b>				
Investment property			1,757.2	1,757.2
Equities	58,802.9			58,802.9
Fixed income securities	4,782.7	14,466.2		19,248.9
Investment in Collective Investment Schemes	4,198.8		1.5	4,200.3
Derivative financial instruments		245.6		245.6
Cash & cash equivalents	7,637.8			7,637.8
<b>Total financial assets and investment properties</b>	<b>75,422.2</b>	<b>14,711.8</b>	<b>1,758.7</b>	<b>91,892.7</b>

Financial liabilities	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	Total balance £'Million
Investment contract benefits		68,150.1		68,150.1
Derivative financial instruments		476.2		476.2
Net asset value attributable to unit holders	22,922.0			22,922.0
<b>Total financial liabilities</b>	<b>22,922.0</b>	<b>68,626.3</b>	<b>-</b>	<b>91,548.3</b>

30 June 2017	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	Total balance £'Million
<b>Financial assets and investment properties</b>				
Investment property			1,522.3	1,522.3
Equities	50,717.4			50,717.4
Fixed income securities	3,849.4 <sup>(1)</sup>	10,919.4 <sup>(2)</sup>		14,768.8
Investment in Collective Investment Schemes	4,281.6		1.6	4,283.2
Derivative financial instruments		241.8 <sup>(2)</sup>		241.8
Cash & cash equivalents	6,911.4			6,911.4
<b>Total financial assets and investment properties</b>	<b>65,759.8</b>	<b>11,161.2</b>	<b>1,523.9</b>	<b>78,444.9</b>
<b>Financial liabilities</b>				
Investment contract benefits		58,627.4		58,627.4
Derivative financial instruments		179.0		179.0
Net asset value attributable to unit holders	19,367.5			19,367.5
<b>Total financial liabilities</b>	<b>19,367.5</b>	<b>58,806.4</b>	<b>-</b>	<b>78,173.9</b>

(1) £3,849.4 million of government bonds held at 30 June 2017 have been reclassified from Level 2 to Level 1 in the fair value hierarchy to reflect the fact that they are valued using an observable market price.

(2) Collateralised mortgage obligations (CMOs) are mortgage backed securities. At 30 June 2017, CMOs totalling £637.3 million were recognised as derivative financial assets. They have been reclassified to fixed income securities in the current period to better represent the nature of the investments.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. FAIR VALUE MEASUREMENT (continued)

31 December 2017	Level 1 £'Million	Level 2 £'Million	Level 3 £'Million	Total balance £'Million
<b>Financial assets and investment properties</b>				
Investment property			1,630.9	1,630.9
Equities	55,086.9			55,086.9
Fixed income securities	4,666.0	12,468.6		17,134.6
Investment in Collective Investment Schemes	4,483.7		2.9	4,486.6
Derivative financial instruments		343.4		343.4
Cash & cash equivalents	7,005.9			7,005.9
<b>Total financial assets and investment properties</b>	<b>71,242.5</b>	<b>12,812.0</b>	<b>1,633.8</b>	<b>85,688.3</b>
<b>Financial liabilities</b>				
Investment contract benefits		64,014.3		64,014.3
Derivative financial instruments		190.3		190.3
Net asset value attributable to unit holders	21,349.1			21,349.1
<b>Total financial liabilities</b>	<b>21,349.1</b>	<b>64,204.6</b>	<b>-</b>	<b>85,553.7</b>

In respect of the derivative financial liabilities, £340.2 million of collateral has been posted at 30 June 2018, comprising cash and treasury bills (30 June 2017: £164.3 million, 31 December 2017: £116.0 million), in accordance with the terms and conditions of the derivative contracts.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 13. FAIR VALUE MEASUREMENT (continued)

The fair value of financial instruments traded in active markets is based on quoted bid prices at the reporting date. These instruments are included in Level 1.

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 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, specifically:
  - The fair value of unit linked liabilities is assessed 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.
  - The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit.

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

- The use of unobservable inputs, such as expected rental values and equivalent yields;
- 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 13. FAIR VALUE MEASUREMENT (continued)

#### 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 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.

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

#### Six Months Ended 30 June 2018

	Investment property £'Million	CIS £'Million
Opening balance	1,630.9	2.9
Transfer out of Level 3	-	(0.2)
Additions during the period	129.1	-
Disposals during the period	(13.9)	(1.1)
Gains/(losses) recognised in the income statement	11.1	(0.1)
<b>Closing balance</b>	<b>1,757.2</b>	<b>1.5</b>
Realised gains	0.9	-
Unrealised gains/(losses)	10.2	(0.1)
<b>Gains/(losses) recognised in the income statement</b>	<b>11.1</b>	<b>(0.1)</b>

#### Six Months Ended 30 June 2017

	Investment property £'Million	CIS £'Million
Opening balance	1,462.4	1.4
Transfer into Level 3	-	0.3
Additions during the year	35.4	-
Disposals during the year	(6.2)	-
Gains/(losses) recognised in the income statement	30.7	(0.1)
<b>Closing balance</b>	<b>1,522.3</b>	<b>1.6</b>
Realised losses	(1.2)	-
Unrealised gains/(losses)	31.9	(0.1)
<b>Gains/(losses) recognised in the income statement</b>	<b>30.7</b>	<b>(0.1)</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)****13. FAIR VALUE MEASUREMENT (continued)**

Year Ended 31 December 2017

	Investment property £'Million	CIS £'Million
Opening balance	1,462.4	1.4
Transfer into Level 3	-	1.6
Additions during the year	95.5	-
Disposals during the year	(6.2)	(0.1)
Gains recognised in the income statement	79.2	-
 Closing balance	 1,630.9	 2.9
 Realised losses	 (1.1)	 -
Unrealised gains	80.3	-
Gains recognised in the income statement	79.2	-

Gains/(losses) on investment property and investments in collective investment schemes are recognised within investment return in the condensed consolidated statement of comprehensive income.

**Level 3 valuations**

The principal assets classified as Level 3 are investment properties amounting to £1,757.2 million (30 June 2017: £1,522.3 million, 31 December 2017: £1,630.9 million). Investment property is initially measured at cost including related acquisition costs and subsequently valued monthly by professional external valuers at their respective fair values at each reporting date. The fair values derived are based on anticipated market values for the properties in accordance with the guidance issued by The Royal Institution of Chartered Surveyors, being the estimated amount that would be received from a sale of the assets in an orderly transaction between market participants. The valuation of investment property is inherently subjective as it requires among other factors, assumptions to be made regarding the ability of existing tenants to meet their rental obligations over the entire life of their leases, the estimation of the expected rental income into the future, an assessment of a property's ability to remain as an attractive technical configuration to existing and prospective tenants in a changing market and a judgement to be reached on the attractiveness of a building, its location and the surrounding environment.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. FAIR VALUE MEASUREMENT (continued)

	Investment property classification			
	Office	Industrial	Retail & leisure	All
<b>30 June 2018</b>				
<b>Gross ERV (per sq ft)<sup>(1)</sup></b>				
Range	£14.66 - £99.97	£3.50 - £15.75	£4.50 - £427.84	£3.50 - £427.84
Weighted average	£31.97	£7.71	£15.93	£14.39
<b>True equivalent yield</b>				
Range	3.9% - 8.6%	4.1% - 6.8%	4.6% - 13.5%	3.9% - 13.5%
Weighted average	5.3%	5.0%	5.9%	5.4%
30 June 2017				
<b>Gross ERV (per sq ft)<sup>(1)</sup></b>				
Range	£14.66 - £96.50	£3.50 - £15.75	£4.50 - £427.84	£3.50 - £427.84
Weighted average	£32.20	£7.11	£15.41	£14.10
<b>True equivalent yield</b>				
Range	3.9% - 8.6%	4.9% - 7.1%	4.6% - 13.7%	3.9% - 13.7%
Weighted average	5.4%	5.8%	6.0%	5.7%
31 December 2017				
<b>Gross ERV (per sq ft)<sup>(1)</sup></b>				
Range	£14.66 - £96.50	£3.50 - £15.75	£4.50 - £427.84	£3.50 - £427.84
Weighted average	£32.02	£7.28	£15.51	£14.12
<b>True equivalent yield</b>				
Range	3.9% - 8.4%	4.2% - 6.7%	4.6% - 13.8%	3.9% - 13.8%
Weighted average	5.3%	5.3%	6.0%	5.6%

(1) Equivalent rental value (per square foot)

#### Sensitivity of Level 3 valuations

The valuation of certain equities and investments in 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.

Investment property is initially measured at cost including related acquisition costs and subsequently valued monthly by professional external valuers at their respective fair values at each reporting date. The fair values derived are based on anticipated market values for the properties in accordance with the guidance issued by The Royal Institution of Chartered Surveyors, being the estimated amount that would be received from a sale of the assets in an orderly transaction between market participants. The following table sets out the effect of applying reasonably possible alternative assumptions, being a 5% movement in estimated rental value and a 25 bps movement in the relative yield, to the valuation of the investment properties. 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. FAIR VALUE MEASUREMENT (continued)

	Investment property significant unobservable inputs	Effect of reasonable possible alternative assumptions		Unfavourable changes £'Million
		Carrying Value £'Million	Favourable changes £'Million	
30 June 2018	Expected rental value / Relative yield	1,757.2	1,924.8	1,608.2
30 June 2017	Expected rental value / Relative yield	1,522.3	1,663.2	1,398.4
31 December 2017	Expected rental value / Relative yield	1,630.9	1,782.1	1,496.1

**NOTES TO THE FINANCIAL STATEMENTS (continued)****14. SHARE CAPITAL, EARNINGS PER SHARE AND DIVIDENDS****Share Capital**

	<u>Number of Ordinary Shares</u>	<u>Called up Share Capital £'Million</u>
At 1 January 2017	527,482,348	79.1
- Exercise of options	<u>1,130,252</u>	<u>0.2</u>
At 30 June 2017	528,612,600	79.3
- Issue of share capital	372,325	0.1
- Exercise of options	<u>92,971</u>	<u>-</u>
At 31 December 2017	529,077,896	79.4
- Exercise of options	232,439	-
<b>At 30 June 2018</b>	<b><u>529,310,335</u></b>	<b><u>79.4</u></b>

The total authorised number of ordinary shares is 605 million (30 June 2017 and 31 December 2017: 605 million), with a par value of 15 pence per share (30 June 2017 and 31 December 2017: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,631,313 (30 June 2017: 4,409,329, 31 December 2017: 4,210,906) shares held in the Shares in Trust Reserve with a nominal value of £0.5 million (30 June 2017: £0.7 million, 31 December 2017: £0.6 million). The shares are held by the SJPC Employee Share Trust and the St. James's Place 2010 SIP Trust to satisfy certain share based payment schemes. The trustees of the SJPC Employee Share Trust retain the right to dividends on the shares held by the Trust but have chosen to waive their entitlement to the dividends on 899,853 shares at 30 June 2018 (30 June 2017: 1,772,760 shares, 31 December 2017: 1,755,831 shares). No dividends have been waived on shares held in the St. James's Place 2010 SIP Trust in 2018 or 2017.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14. SHARE CAPITAL, EARNINGS PER SHARE AND DIVIDENDS (continued)

## Earnings per Share

	Six Months Ended 30 June 2018 £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
<b>Earnings</b>			
Profit after tax attributable to equity shareholders ( <i>for both basic and diluted EPS</i> )	69.0	61.9	145.9
<b>Weighted average number of shares</b>			
Weighted average number of ordinary shares in issue ( <i>for basic EPS</i> )	525.8	523.9	524.3
Adjustments for outstanding share options	7.6	7.6	8.8
Weighted average number of ordinary shares ( <i>for diluted EPS</i> )	533.4	531.5	533.1
<b>Earnings per share (EPS)</b>			
Basic earnings per share	13.1	11.8	27.8
Diluted earnings per share	12.9	11.6	27.4

**NOTES TO THE FINANCIAL STATEMENTS (continued)****14. SHARE CAPITAL, EARNINGS PER SHARE AND DIVIDENDS (continued)****Dividends**

The following dividends have been paid by the Group:

	Six Months Ended <u>30 June 2018</u> £'Million	Six Months Ended 30 June 2017 £'Million	Year Ended 31 December 2017 £'Million
2016 final dividend – 20.67 pence per ordinary share	-	108.8	108.8
2017 interim dividend – 15.41 pence per ordinary share	-	-	81.2
2017 final dividend – 27.45 pence per ordinary share	145.0	-	-
<b>Total dividends paid</b>	<b>145.0</b>	<b>108.8</b>	<b>190.0</b>

The Directors have resolved to pay an interim dividend of 18.49 pence per share (30 June 2017: 15.41 pence). This amounts to £97.9 million (30 June 2017: £81.2 million) and will be paid on 28 September 2018 to shareholders on the register at 31 August 2018.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****15. RELATED PARTY TRANSACTIONS**

For the half year to 30 June 2018 the nature of the related party transactions are similar to those for the year ended 31 December 2017.

**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 £4.9 million (30 June 2017: £14.2 million and 31 December 2017: £10.9 million) and the total value of transactions with those non-consolidated unit trusts was £16.6 million (30 June 2017: £17.0 million and 31 December 2017: £38.0 million). Net management fees receivable from these unit trusts amounted to £6.3 million (30 June 2017: £8.1 million and 31 December 2017: £15.4 million). The value of the investment into the non-consolidated unit trusts at 30 June 2018 was £178.9 million (30 June 2017: £210.1 million and 31 December 2017: £195.5 million).

**NOTES TO THE FINANCIAL STATEMENTS (continued)****16. STATUTORY ACCOUNTS**

The financial information shown in this publication is unaudited and does not constitute statutory accounts. The comparative figures for the financial year ended 31 December 2017 are not the Company's statutory accounts for the financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies.

The report of the auditors was unqualified and did not include a reference to any matter to which the auditors drew attention to, by way of emphasis without qualifying their report, and did not contain a statement under section 498 of the Companies Act 2006.

**17. APPROVAL OF HALF YEAR REPORT**

These condensed consolidated half year financial statements were approved by the Board of Directors on 31 July 2018.

**18. NATIONAL STORAGE MECHANISM**

A copy of the Half Year Report will be submitted shortly to the National Storage Mechanism ('NSM') and will be available for inspection at the NSM, which is situated at: [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM).

# **Independent review report to St. James's Place Plc**

## **Report on the condensed consolidated half year financial statements**

### **OUR CONCLUSION**

We have reviewed St. James's Place plc's condensed consolidated half year financial statements (the "interim financial statements") in the half year report of St. James's Place plc for the six-month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### **WHAT WE HAVE REVIEWED**

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 June 2018;
- the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half year report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### **Responsibilities for the interim financial statements and the review**

#### **OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS**

The half year report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

### **WHAT A REVIEW OF INTERIM FINANCIAL STATEMENTS INVOLVES**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

## GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

Within the Half Year Report and Accounts various alternative performance measures (APMs) are disclosed. An APM is a measure of financial performance, financial position or cash flows which is not defined by the relevant financial reporting framework, which for the Group is International Financial Reporting Standards (IFRS) as adopted by the European Union. APMs are used to provide greater insight into the performance of the Group and the way it is managed by the Directors. The table below defines each APM, explains why it is used and, if applicable, where the APM has been reconciled to IFRS:

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Solvency II net assets	<p>Based on IFRS Net Assets, but with the following adjustments:</p> <ol style="list-style-type: none"> <li>1. Reflection of the recognition requirements of the Solvency II regulations for assets and liabilities. In particular this removes deferred acquisition costs (DAC), deferred income (DIR), purchased value of in-force (PVIF) and their associated deferred tax balances, other intangibles and some other small items which are treated as inadmissible from a regulatory perspective; and</li> <li>2. Adjustment to remove the matching client assets and the liabilities as these do not represent shareholder assets.</li> </ol> <p>No adjustment is made to deferred tax, except for that arising on DAC, DIR and PVIF, as this is treated as an allowable asset in the Solvency II regulation.</p>	<p>Our ability to satisfy our liabilities to clients, and consequently our solvency, is central to our business. By removing the liabilities which are fully matched by assets, this presentation allows the reader to focus on the business operation. It also provides a simpler comparison with other wealth management companies.</p>	Refer to page 27.
Cash result, operating cash result and underlying cash result	<p>The Cash result is defined as the movement between the opening and closing Solvency II net assets adjusted for the following items:</p> <ol style="list-style-type: none"> <li>1. The movement in deferred tax is removed to reflect just the cash realisation from the deferred tax position;</li> <li>2. The movements in goodwill and other intangibles are included; and</li> <li>3. Other changes in equity, such as dividends paid in the year and share option costs, are excluded.</li> </ol>	<p>IFRS income statement methodology recognises non-cash items such as deferred tax and share options. By contrast, dividends can only be paid to shareholders from appropriately fungible assets. The Board therefore uses the cash results to monitor the level of cash generated by the business.</p> <p>While the Cash result gives an absolute measure of the cash generated in the year, the Underlying and Operating cash results are particularly useful for monitoring the expected</p>	Refer to page 22 and also see Note 3 – Segment Profit

	<p>The Operating cash result reflects the regular emergence of cash from the business operations.</p> <p>The Underlying cash results additionally reflects the cash impact of the strategic investments we are making.</p> <p>Finally, the Cash result reflects all other cash items, including those whose emergence is volatile, varying over time and often influenced by markets, together with the short-term costs associated with the back-office infrastructure project.</p> <p>Neither the cash result nor the underlying cash result should be confused with the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7.</p>	<p>long-term rate of cash emergence, which supports dividends and sustainable dividend growth.</p>	
Underlying cash basic and diluted earnings per share (EPS)	<p>These EPS measures are calculated as Underlying cash divided by the number of shares used in the calculation of IFRS basic and diluted EPS.</p>	<p>As Underlying cash is the best reflection of the cash generated by the business, Underlying cash EPS measures allow analysis of the shareholder cash generated by the business by share.</p>	Not applicable.
Total embedded value	<p>A discounted cashflow valuation methodology, assessing the long-term economic value of the business.</p> <p>Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II.</p>	<p>Life business and wealth management business differ 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 and cash results by providing additional disclosure on an Embedded Value basis, which brings into account the net present value of expected future cash flows, as we believe that a measure of total economic value of the Group is useful to investors.</p>	Not applicable.
EEV profit	<p>Derived as the movement in the Total EEV during the year.</p>	<p>Both the IFRS and Cash results reflect only the cashflows in the year. However our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.</p>	See Note 3 – Segment Profit

EEV operating profit	<p>A discounted cashflow valuation methodology, assessing the long-term economic value of the business.</p> <p>Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II.</p> <p>The EEV operating profit reflects the total EEV result with an adjustment to strip out the impact of stock market and other economic effects during the year.</p>	<p>Both the IFRS and cash results reflect only the cashflows in the year. However, our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.</p> <p>Within the EEV, many of the future cash flows derive from fund charges, which change with movements in stock markets. Since the impact of these changes is typically unrelated to the performance of the business, we believe that the EEV operating profit (reflecting the EEV profit, adjusted to reflect only the expected investment performance and no change in economic basis) provides the most useful measure of embedded value performance in the year.</p>	See Note 3 – Segment Profit
EEV operating profit basic and diluted earnings per share (EPS)	These EPS measures are calculated as EEV operating profit after tax divided by the number of shares used in the calculation of IFRS basic and diluted EPS.	As EEV operating profit is the best reflection of the EEV generated by the business, EEV operating profit EPS measures allow analysis of the long-term value generated by the business by share.	Not applicable.
Net asset value per share (EEV)	EEV net asset value per share is calculated as the EEV net assets divided by the year end number of ordinary shares.	Total embedded value provides a measure of total economic value of the Group, and assessing the NAV per share allows analysis of the overall value of the group by share.	Not applicable.
Policyholder and Shareholder tax	<p>Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders on the profits attributable to the shareholders. This is calculated by applying the appropriate effective corporate tax rates to the shareholder profits.</p> <p>The remainder of the tax charge represents tax on policyholder's investment returns.</p>	The UK tax regime facilitates the collection of tax from life insurance policyholders by making an equivalent charge within the corporate tax of the Company. The total tax charge for the insurance companies therefore comprises both this element and an element more closely related to normal corporation tax.	Disclosed as separate line items in the condensed consolidated statement of comprehensive income on page 45.

	This calculation method is consistent with the legislation relating to the calculation of the tax on shareholder's profits.	Life insurance business impacted by this tax typically includes policy charges which align with the tax liability, to mitigate the impact on the corporate. As a result when policyholder tax increases, the charges also increase. Given these offsetting items can be large, and typically don't perform in line with the business, it is beneficial to be able to identify the two elements separately. We therefore refer to that part of the overall tax charge, which is deemed attributable to policyholders, as policyholder tax, and the rest as shareholder tax.	
Profit before shareholder tax	A profit measure which reflects the IFRS result adjusted for policyholder tax, but before deduction of shareholder tax. Within the consolidated statement of comprehensive income the full title of this measure is "Profit before tax attributable to shareholders' returns".	The IFRS methodology requires that the tax recognised in the financial statements 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, we believe it is also useful to separately identify the profit before shareholder tax, which reflects the IFRS profit before tax, adjusted only for tax paid on behalf of policyholders.	Disclosed as a separate line item in the condensed consolidated statement of comprehensive income on page 45.
Underlying profit	A profit measure which reflects the IFRS result adjusted to remove the DAC, DIR and PVIF adjustments.	The IFRS methodology promotes recognition of profits in line with the provision of services and so, for long-term business, some of the initial cash flows are spread over the life of the contract through the use of intangible assets and liabilities (DAC and DIR). Due to the retail distribution review (RDR) regulation change in 2013, there was a step change in the progression of these items in our accounts, which resulted in significant accounting presentation changes despite the fundamentals of our vertically-integrated business remaining unchanged. We therefore	Refer to page 22.

		believe it is useful to consider the IFRS result having removed the impact of movements in these intangibles as it better reflects the underlying performance of the business.	
Net asset value per share (IFRS)	IFRS net asset value per share is calculated as the IFRS net assets divided by the year end number of ordinary shares.	Total IFRS net assets provides a measure of value of the Group, and assessing the NAV per share allows analysis of the overall value of the Group by share.	Not applicable.

## **RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF YEAR FINANCIAL REPORT**

The Directors confirm that this consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

The Directors of St. James's Place plc are listed in the St. James's Place plc Annual Report for 31 December 2017. A list of current Directors is maintained on the St. James's Place plc website: [www.sjp.co.uk](http://www.sjp.co.uk)

The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board:

**Andrew Croft**  
Chief Executive  
31 July 2018

**Craig Gentle**  
Chief Financial Officer  
31 July 2018

**SUPPLEMENTARY INFORMATION:  
CONSOLIDATED FINANCIAL STATEMENTS  
ON A CASH RESULT BASIS (UNAUDITED)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
ON A CASH RESULT BASIS (UNAUDITED)**

Note	Six Months Ended 30 June 2018		Six Months Ended 30 June 2017	Year Ended 31 December 2017
		£'Million	£'Million	£'Million
Fee and commission income		883.2	893.6	1,788.5
Investment return	5	10.4	11.0	28.1
<b>Net income</b>		<b>893.6</b>	<b>904.6</b>	<b>1,816.6</b>
<b>Expenses</b>		<b>(747.2)</b>	<b>(667.1)</b>	<b>(1,370.1)</b>
<b>Profit before tax</b>		<b>146.4</b>	<b>237.5</b>	<b>446.5</b>
Tax attributable to policyholders' returns		(10.9)	(115.6)	(156.2)
Tax attributable to shareholders' returns		(6.8)	(10.6)	(37.7)
<b>Total cash result profit for the period</b>		<b>128.7</b>	<b>111.3</b>	<b>252.6</b>
<b>Cash result basic earnings per share</b>	III	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>
<b>Cash result diluted earnings per share</b>	III	<b>24.5</b>	<b>21.2</b>	<b>48.2</b>
			<b>24.1</b>	<b>20.9</b>
				<b>47.4</b>

The note references above cross refer to the notes to the condensed consolidated financial statements under IFRS on pages 49 to 84, except where denoted in roman numerals.

**CONSOLIDATED STATEMENT OF CHANGED IN EQUITY  
ON A CASH RESULT BASIS (UNAUDITED)**

Note	Equity attributable owners of the parent							Non-controlling Interests £'M	Total Equity £'M
	Share Capital £'M	Share Premium £'M	Shares in Trust Reserve £'M	Retained Earnings £'M	Misc Reserves £'M	Total £'M			
At 1 January 2017	79.1	164.5	(20.9)	845.6	2.5	1,070.8	(0.8)	1,070.0	
Cash result for the period				111.3		111.3		111.3	
Dividends	14			(108.8)		(108.8)		(108.8)	
Issue of share capital	14	-				-		-	
Exercise of options	14	0.2	2.4			2.6		2.6	
Consideration paid For own shares				(8.1)		(8.1)		(8.1)	
Shares sold during the period			4.3	(4.3)		-		-	
Change in deferred tax				(11.6)		(11.6)		(11.6)	
Change in goodwill and intangibles				(1.4)		(1.4)		(1.4)	
Other non-cash movements				(7.1)		(7.1)		(7.1)	
At 30 June 2017	<u>79.3</u>	<u>166.9</u>	<u>(24.7)</u>	<u>823.7</u>	<u>2.5</u>	<u>1,047.7</u>	<u>(0.8)</u>	<u>1,046.9</u>	
At 1 January 2018	79.4	171.7	(26.7)	869.1	2.5	1,096.0	(0.9)	1,095.1	
Cash result for the period				128.7		128.7		128.7	
Dividends	14			(145.0)		(145.0)		(145.0)	
Issue of share capital	14	-							
Exercise of options	14		1.8			1.8		1.8	
Consideration paid for own shares				(6.0)		(6.0)		(6.0)	
Shares sold during the period			8.4	(8.4)		-		-	
Change in deferred tax				(12.1)		(12.1)		(12.1)	
Change in tax discounting				(5.2)		(5.2)		(5.2)	
Change in goodwill and intangibles				0.5		0.5		0.5	
Other non-cash movements				(0.8)		(0.8)		(0.8)	
At 30 June 2018	<u>79.4</u>	<u>173.5</u>	<u>(24.3)</u>	<u>826.8</u>	<u>2.5</u>	<u>1,057.9</u>	<u>(0.9)</u>	<u>1,057.0</u>	

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
ON A CASH RESULT BASIS (UNAUDITED)**

	Note	30 June 2018 £'Million	30 June 2017 £'Million	31 December 2017 £'Million
<b>Assets</b>				
Property & equipment		26.4	24.5	26.4
Fixed income securities	13	46.3	47.2	46.1
Investment in Collective Investment Schemes	13	1,035.5	1,075.4	1,416.8
Cash & cash equivalents		299.3	472.7	274.7
Other receivables		1,115.9	927.2	1,122.4
Deferred tax assets		131.8	147.2	144.1
<b>Total assets</b>		<b>2,655.2</b>	<b>2,694.2</b>	<b>3,030.5</b>
<b>Liabilities</b>				
Borrowings	12	168.5	181.0	279.9
Other provisions	11	21.6	19.9	20.0
Other payables		933.6	891.5	1,079.7
Income tax liabilities		123.5	148.0	125.3
Deferred tax liabilities		350.9	406.8	430.4
Preference shares		0.1	0.1	0.1
<b>Total liabilities</b>		<b>1,598.2</b>	<b>1,647.3</b>	<b>1,935.4</b>
<b>Net assets</b>		<b>1,057.0</b>	<b>1,046.9</b>	<b>1,095.1</b>
<b>Shareholders' equity</b>				
Share capital	14	79.4	79.3	79.4
Share premium		173.5	166.9	171.7
Shares in trust reserve		(24.3)	(24.7)	(26.7)
Miscellaneous reserves		2.5	2.5	2.5
Retained earnings		826.8	823.7	869.1
<b>Shareholders' equity</b>		<b>1,057.9</b>	<b>1,047.7</b>	<b>1,096.0</b>
Non-controlling interests		(0.9)	(0.8)	(0.9)
<b>Total shareholders' equity on a cash result basis</b>		<b>1,057.0</b>	<b>1,046.9</b>	<b>1,095.1</b>
		Pence	Pence	Pence
<b>Net assets per share</b>		<b>199.7</b>	<b>198.1</b>	<b>207.0</b>

The note references above cross refer to the notes to the condensed consolidated financial statements under IFRS on pages 49 to 84, except where denoted in roman numerals.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
ON A CASH RESULT BASIS (UNAUDITED)**

**I. BASIS OF PREPARATION**

The consolidated financial statements on a cash result basis have been prepared by adjusting the financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU (“adopted IFRSs”) and interpretations issued by the IFRS Interpretations Committee (“IFRS IC”) for items which do not reflect the cash emerging from the business. The adjustments are as follows:

1. Unit liabilities and net assets held to cover unit liabilities, as set out in Note 8, are policyholder balances which are removed in the statement of financial position on a cash result basis. No adjustment for payments in or out is required in the statement of comprehensive income as this business is subject to deposit accounting, which means that policyholder deposits and withdrawals are recognised in the statement of financial position under IFRS, with only marginal cash flows attributable to shareholders recognised in the statement of comprehensive income. However, adjustment is required for the investment return and the movement in investment contract liabilities, which are offsetting and are both zero-ised.
2. Deferred acquisition costs, the purchased value of in-force business and deferred income assets and liabilities are removed from the statement of financial position on a cash result basis, and the amortisation of these balances is removed in the statement of comprehensive income on a cash result basis. The assets, liabilities and amortisation are set out in Note 7.
3. Share based payment expense is removed from the statement of comprehensive income on a cash result basis, and the equity and liability balances for equity-settled and cash-settled share based payment schemes respectively are removed from the statement of financial position on a cash result basis.
4. Non-unit linked insurance contract liabilities and reinsurance assets are removed in the statement of financial position on a cash result basis. The movement in these balances is removed from the statement of comprehensive income on a cash result basis.
5. Goodwill, computer software intangible assets and some other assets and liabilities which are inadmissible under the Solvency II regime are removed from the statement of financial position on a cash result basis, however the movement in these figures are included in the statement of comprehensive income on a cash result basis.
6. Deferred tax assets and liabilities are adjusted in the statement of financial position on a cash result basis to reflect the adjustments noted above and other discounting differences between tax charges and IFRS accounting. However, the impact of movements in deferred tax assets and liabilities are not included in the statement of comprehensive income on a cash result basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
ON A CASH RESULT BASIS (UNAUDITED) (CONTINUED)**

**II. RECONCILIATION OF THE IFRS BALANCE SHEET TO THE CASH BALANCE SHEET**

The Solvency II (or Cash) balance sheet is based on the IFRS condensed consolidated statement of financial position (on page 47), with adjustments made to accounting assets and liabilities to reflect the Solvency II regulations and the provision for insurance liabilities set equal to the associated unit liabilities. The following table sets out the full reconciliation.

30 June 2018	IFRS	Adjustment 1 £'Million	Adjustment 2 £'Million	Solvency II Net Assets Balance Sheet
	Balance Sheet £'Million			£'Million
<b>Assets</b>				
Goodwill	15.6		(15.6)	-
Deferred acquisition costs	593.8		(593.8)	-
Acquired value of in-force business	25.6		(25.6)	-
Computer software	1.9		(1.9)	-
Property and equipment	26.4			26.4
Investment property	1,757.2	(1,757.2)	-	-
Equities	58,802.9	(58,802.9)	-	-
Fixed income securities	19,295.2	(19,248.9)	-	46.3
Investment in Collective Investment Schemes	5,235.8	(4,200.3)	-	1,035.5
Derivative financial instruments	245.6	(245.6)	-	-
Reinsurance assets	80.7		(80.7)	-
Cash & cash equivalents	7,937.1	(7,637.8)		299.3
Other receivables	1,798.6	(681.5)	(1.2)	1,115.9
Deferred tax assets	169.0		(37.2)	131.8
<b>Total assets</b>	<b>95,985.4</b>	<b>(92,574.2)</b>	<b>(756.0)</b>	<b>2,655.2</b>
<b>Liabilities</b>				
Insurance contract liabilities	540.0	(456.4)	(83.6)	-
Borrowings	168.5	-	-	168.5
Investment contract benefits	68,150.1	(68,150.1)	-	-
Derivative financial instruments	476.2	(476.2)	-	-
NAV attributable to unit holders	22,922.0	(22,922.0)	-	-
Other provisions	21.6	-	-	21.6
Other payables	1,503.1	(569.5)	-	933.6
Income tax liabilities	123.5	-	-	123.5
Deferred tax liabilities	432.7	-	(81.8)	350.9
Deferred income	650.3	-	(650.3)	-
Preference shares	0.1	-	-	0.1
<b>Total liabilities</b>	<b>94,988.1</b>	<b>(92,574.2)</b>	<b>(815.7)</b>	<b>1,598.2</b>
<b>Net assets</b>	<b>997.3</b>	<b>-</b>	<b>59.7</b>	<b>1,057.0</b>

Adjustments:

1. Nets out the policyholder interest in unit-linked assets and liabilities.
2. Adjustments to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
ON A CASH RESULT BASIS (UNAUDITED) (CONTINUED)**

**II. RECONCILIATION OF THE IFRS BALANCE SHEET TO THE CASH BALANCE SHEET  
(CONTINUED)**

30 June 2017	IFRS			Solvency II Net
	Balance Sheet	Adjustment 1	Adjustment 2	Assets Balance Sheet
	£'Million	£'Million	£'Million	£'Million
<b>Assets</b>				
Goodwill	15.6	-	(15.6)	-
Deferred acquisition costs	652.9	-	(652.9)	-
Purchased value of in force business	28.8	-	(28.8)	-
Developments	2.6	-	(2.6)	-
Property and equipment	24.5	-	-	24.5
Investment property	1,522.3	(1,522.3)	-	-
Equities	50,717.4	(50,717.4)	-	-
Fixed income securities	14,816.0	(14,768.8)	-	47.2
Investment in Collective Investment Schemes	5,358.6	(4,283.2)	-	1,075.4
Derivative financial instruments	241.8	(241.8)	-	-
Reinsurance assets	80.7	-	(80.7)	-
Cash and cash equivalents	7,384.1	(6,911.4)	-	472.7
Other receivables	1,903.8	(913.1)	(63.5)	927.2
Deferred tax assets	187.0	-	(39.8)	147.2
<b>Total assets</b>	<b>82,936.1</b>	<b>(79,358.0)</b>	<b>(883.9)</b>	<b>2,694.2</b>
<b>Liabilities</b>				
Insurance contract liabilities	538.4	(455.8)	(82.6)	-
Borrowings	181.0	-	-	181.0
Investment contract benefits	58,627.4	(58,627.4)	-	-
Derivative financial instruments	179.0	(179.0)	-	-
Net asset value attributable to unit holders	19,367.5	(19,367.5)	-	-
Other provisions	19.9	-	-	19.9
Other payables	1,621.0	(728.3)	(1.2)	891.5
Income tax liabilities	148.0	-	-	148.0
Deferred tax liabilities	576.2	-	(169.4)	406.8
Deferred income	641.4	-	(641.4)	-
Preference shares	0.1	-	-	0.1
<b>Total liabilities</b>	<b>81,899.9</b>	<b>(79,358.0)</b>	<b>(894.6)</b>	<b>1,647.3</b>
<b>Net Assets</b>	<b>1,036.2</b>	<b>-</b>	<b>10.7</b>	<b>1,046.9</b>

Adjustments:

1. Nets out the policyholder interest in unit-linked assets and liabilities.
2. Adjustments to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
ON A CASH RESULT BASIS (UNAUDITED) (CONTINUED)**

**II. RECONCILIATION OF THE IFRS BALANCE SHEET TO THE CASH BALANCE SHEET  
(CONTINUED)**

31 December 2017	IFRS Balance Sheet	Adjustment 1	Adjustment 2	Solvency II Net Assets Balance Sheet
	£'Million	£'Million	£'Million	£'Million
<b>Assets</b>				
Goodwill	15.6	-	(15.6)	-
Deferred acquisition costs	623.0	-	(623.0)	-
Purchased value of in force business	27.2	-	(27.2)	-
Developments	2.4	-	(2.4)	-
Property and equipment	26.4	-	-	26.4
Investment property	1,630.9	(1,630.9)	-	-
Equities	55,086.9	(55,086.9)	-	-
Fixed income securities	17,180.7	(17,134.6)	-	46.1
Investment in Collective Investment Schemes	5,903.4	(4,486.6)	-	1,416.8
Derivative financial instruments	343.4	(343.4)	-	-
Reinsurance assets	82.8	-	(82.8)	-
Cash and cash equivalents	7,280.6	(7,005.9)	-	274.7
Other receivables	1,620.0	(475.9)	(21.7)	1,122.4
Deferred tax assets	182.7	-	(38.6)	144.1
<b>Total assets</b>	<b>90,006.0</b>	<b>(86,164.2)</b>	<b>(811.3)</b>	<b>3,030.5</b>
<b>Liabilities</b>				
Insurance contract liabilities	544.6	(459.0)	(85.6)	-
Borrowings	279.9	-	-	279.9
Investment contract benefits	64,014.3	(64,014.3)	-	-
Derivative financial instruments	190.3	(190.3)	-	-
Net asset value attributable to unit holders	21,349.1	(21,349.1)	-	-
Other provisions	20.0	-	-	20.0
Other payables	1,231.2	(151.5)	-	1,079.7
Income tax liabilities	125.3	-	-	125.3
Deferred tax liabilities	546.8	-	(116.4)	430.4
Deferred income	646.3	-	(646.3)	-
Preference shares	0.1	-	-	0.1
<b>Total liabilities</b>	<b>88,947.9</b>	<b>(86,164.2)</b>	<b>(848.3)</b>	<b>1,935.4</b>
<b>Net Assets</b>	<b>1,058.1</b>	<b>-</b>	<b>37.0</b>	<b>1,095.1</b>

Adjustments:

1. Nets out the policyholder interest in unit-linked assets and liabilities.
2. Adjustments to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
ON A CASH RESULT BASIS (UNAUDITED) (CONTINUED)**

**III. EARNINGS PER SHARE**

	<b>Six Months Ended 30 June 2018</b>	<b>Six Months Ended 30 June 2017</b>	<b>Year Ended 31 December 2017</b>
	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>
<b>Earnings</b>			
Cash result after tax attributable to equity shareholders ( <i>for both basic and diluted EPS</i> )	128.7	111.3	252.7
<b>Weighted average number of shares</b>	<b>Million</b>	<b>Million</b>	<b>Million</b>
Weighted average number of ordinary shares in issue ( <i>for basic EPS</i> )	525.8	523.9	524.3
Adjustments for outstanding share options	7.6	7.6	8.8
Weighted average number of ordinary shares ( <i>for diluted EPS</i> )	533.4	531.5	533.1
<b>Earnings per share (EPS)</b>	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>
Basic earnings per share	24.5	21.2	48.2
Diluted earnings per share	24.1	20.9	47.4

The Directors have resolved to pay an interim dividend of 18.49 pence per share (30 June 2017: 15.41 pence). This amounts to £97.9 million (30 June 2017: £81.2 million) and will be paid on 28 September 2018 to shareholders on the register at 31 August 2018.