



ST. JAMES'S PLACE PLC

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PRESS RELEASE

27 February 2020

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

RECORD FUNDS UNDER MANAGEMENT AND CONFIDENCE IN OUR BUSINESS UNDERPINS 5% INCREASE IN FINAL DIVIDEND

St. James's Place plc ("SJP"), the wealth management group, today issues its annual results for the year ended 31 December 2019:

Financial highlights

- EEV new business contribution £793.0 million (2018: £852.7 million)
- EEV operating profit £952.0 million (2018: £1,002.0 million)
- IFRS profit before shareholder tax £187.1 million (2018: £211.9 million)
- IFRS profit after tax £146.6 million (2018: £173.5 million)
- Underlying cash result £273.1 million (2018: £309.0 million)
- Underlying cash earnings per share of 51.4 pence (2018: 58.7 pence per share)

Dividend

- Final dividend up 5% to 31.22 pence per share (2018: 29.73 pence per share); full year dividend of 49.71 pence per share (2018: 48.22 pence per share), growth of 3%

Other highlights

- Gross inflows of £15.1 billion (2018: £15.7 billion)
- Net inflow of funds under management of £9.0 billion (2018: £10.3 billion)
- Funds under management of £117.0 billion (2018: £95.6 billion)
- We are now represented by 4,271 qualified advisers across the Partnership
- UK business successfully migrated to modern technology platform
- A+ rating in the latest United Nations Principles for Responsible Investment annual assessment.

Andrew Croft, Chief Executive Officer, commented:

"Last year was challenging for the UK wealth management sector with investor sentiment being impacted by uncertain macro-economic indicators, the US/China trade dispute, and the domestic political environment. Therefore, I am pleased to report a solid set of results. Positive net flows, together with the impact of positive investment returns, increased client funds under management to a record £117.0 billion, once again demonstrating the resilience of St. James's Place."

The fundamentals underlying the business remain strong and over time, increasing funds under management will generate increased returns. However, in the short term, our profit has been impacted by the more modest gross flows relative to the planned investment in the business for future growth.

Given the progression of funds under management and our confidence for the future, the Board proposes to increase the final dividend by 5% to 31.22 pence per share (2018: 29.73 pence per share) making for a full year dividend of 49.71 pence per share (2018: 48.22 pence per share), growth of 3%.

The Parliamentary majority following the December 2019 General Election provides for longer-term political stability, which has translated into improved investor sentiment. This has consequently resulted in an increase in activity across the business with new investments seeing a return to good growth in the early part of 2020. Uncertainties remain for the UK and there are market concerns as a result of coronavirus, but we are encouraged by this start to the year which, together with the strength and scale of our business today, gives us confidence that we are well placed to continue to grow."

The details of the announcement are attached.

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Analyst presentation at 10:15am for 10:30am at:

Bank of America Merrill Lynch Financial Centre,
2 King Edward Street,
London EC1A 1HQ

to be held in the King Edward Hall

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

(Live and On-demand):

[https://www.investis-live.com/st-jamess-place/5e2ab28952202e0d0075b0dd/obad \[investis-live.com\]](https://www.investis-live.com/st-jamess-place/5e2ab28952202e0d0075b0dd/obad)

There will also be a Dial-in:

United Kingdom (Local) : 020 3936 2999
All other locations : +44 20 3936 2999

Participant Access Code : 374262 - this must be entered in order for participants to gain access to the conference. Participants' requested details will be taken before being placed into the conference.

Replay information:

A recording will be available until Thursday 5th March 2020

UK: 020 3936 3001
USA: 1 845 709 8569
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CHIEF EXECUTIVE'S REPORT

Introduction

Last year was challenging for the UK wealth management sector with investor sentiment being impacted by the uncertain macro-economic indicators, the US/China trade dispute, and the domestic political environment. Therefore, I am pleased to report a solid set of results, once again demonstrating the resilience of the St. James's Place business.

Gross new inflows for the period, at £15.1 billion, were some 4% lower than 2018, while strong retention of client funds contributed to net inflows of £9.0 billion, equivalent to some 9% of opening funds under management. These positive net flows, together with the impact of positive investment markets, resulted in closing funds under management of a record £117.0 billion, up 22% since the beginning of the year.

Business performance and dividend

Over time, increasing funds under management will generate increased returns, but in the short term our profit has been impacted by the more modest gross flows relative to the planned higher cost of our investment in the business to underpin future growth. The Underlying cash result for the year at £273.1 million (2018: £309.0 million) was therefore lower than the same period last year.

The fundamentals underlying the business remain strong, so the Board remains confident in our prospects, supported by a growing Cash result that will benefit from the contribution of client investments attracted in previous years. Given the progression of funds under management and our confidence for the future, the Board proposes a final dividend of 31.22 pence per share (2018: 29.73 pence per share) making for a full year dividend of 49.71 pence per share (2018: 48.22 pence per share) growth of 3%. This will provide for a pay-out ratio of 97% against the Underlying cash result, higher than our stated medium-term aim of an 80% pay-out ratio.

The final dividend, subject to approval of shareholders at our AGM, will be paid on 22 May 2020 to shareholders on the register at the close of business on 17 April 2020. A Dividend Reinvestment Plan continues to be available for shareholders.

Clients

The continued success of St. James's Place is built on establishing and maintaining long lasting, highly personal relationships with our clients through the St. James's Place Partnership. Our aim is to put positive client outcomes at the heart of everything we do, with our advisers helping their clients to fulfil their ambitions and aspirations through sound financial planning advice, together with our distinctive investment management approach, backed by a FTSE100 company.

From the 39,000 responses we received from last year's Wealth Account Survey, 89% of those clients who responded tell us that they were either satisfied or very satisfied with their overall relationship with St. James's Place. Encouragingly, more than 93% said they would recommend St. James's Place to others, with 54% suggesting that they had already done so. Furthermore, when asked to describe our proposition in terms of value for money, 96% of the clients who responded, said "reasonable", "good" or "excellent". These results underpin the strong retention of client investments noted earlier.

We are naturally very pleased with these responses, but we are not complacent and have already responded to the feedback with further improvements to our service and proposition. In the past year we have broadened access to the Flagstone cash management service, which provides a simple and secure solution for clients wishing to hold cash savings, and added new propositions related to lifetime care plans to help clients ensure care fees can be met if a need were to arise in the future.

We now have more than 733,000 clients, an increase of some 51,000 during the year, and I would like to take this opportunity to thank all of these individuals for entrusting us with their long-term investments and financial planning needs.

Awards

I am pleased to report that St. James's Place has once again received numerous awards. Two highlights were being voted the Wealth Management Company of the Year in the 2019 City of London Awards and Best Wealth Manager in the 2019 Share Awards. Both awards are voted by members of the public and I would like to thank our clients who voted for us.

The St. James's Place Partnership

After another year of strong recruitment, the St. James's Place Partnership now numbers 4,271 growth of 8%. We continue to attract experienced high-quality advisers to the Partnership whilst at the same time 172 individuals graduated from our Academy and Next Generation Academy. We continue to invest in the Academies and there are currently 458 people in the programme who are not included in the Partnership numbers but who will graduate over the coming years.

This sustained growth in the Partnership provides us with confidence in our ability to both service existing clients well and attract new clients to St. James's Place. However, the increasing scale of the Partnership requires us to continue to invest in the supporting infrastructure. Consequently, during the year we opened a new office in Cardiff, and we consolidated the Academy, our previous City office, and a number of corporate functions into a new office in Lombard Street in the City. Both offices have very good environmental credentials.

We also continue to invest in the professional development of our advisers and take pride in the fact that last year one in four of all new qualified Chartered Financial Planners were St. James's Place advisers. We now have more than 900 advisers with Chartered status across the Partnership.

The Partnership is a key differentiator for St. James's Place and we will continue to ensure we provide support for our advisers so that they can, in turn, provide an excellent service to clients.

Investment markets

2019 saw a strong performance across major investment markets with a reversal of the falls experienced in the final quarter of 2018; the FTSE 100 was up some 12%, the S&P 500 up 29% and the MSCI World up 20% over the year as a whole. Against this backdrop our clients have benefited from very good returns with all our portfolios delivering strong growth.

In early June we took the decision to move the investment management of our segregated mandate from Woodford Investment Management (WIM) to a combination of RWC and Columbia Threadneedle. This was possible as the core tenet of our investment proposition is to appoint managers to specifically manage our own funds through a sub-advisory mandate, rather than by investing into third-party funds. Our segregated mandate with WIM limited the investments to liquid stocks and did not allow investments in unquoted stocks, and consequently our clients continued to have full access to their investments.

We also continue to make good progress on our Responsible Investing approach and build on our integration of Environmental, Social and Governance (ESG) factors into our fund managers' investment decision making. It is therefore pleasing that we were awarded an A+ rating in the latest United Nations Principles for Responsible Investment annual assessment. Further, we continue to influence positive change elsewhere with some 90% of our investment managers now signatories to the United Nations Principles for Responsible Investment (UNPRI), up from 70% this time last year.

We recognise that climate change poses a risk to our business and to client outcomes. Therefore, in 2019 we became a supporter of the Taskforce for Climate-related Disclosures (TCFD) and have committed to implementing the TCFD framework across our business.

Investment for growth

We continue our investment in our business in Asia and Rowan Dartington (RD) with good progress made during 2019.

Asia reported gross inflows for the year of £252 million, some 7% lower than the corresponding period in 2018 having been impacted by investor concerns over heightened market volatility, the US/China trade rhetoric and the demonstrations in Hong Kong. However, boosted by the recovery in stock markets, St. James's Place funds under management increased to £934 million, growth of 49% during the year. It has been a good year for growth in the SJP Asia Partnership with a net increase of 34 Partners and advisers taking the total to 167, a 26% increase since the start of the year. In addition, there is a strong pipeline of individuals who have applied to join our Asia business, boding well for future recruitment.

RD reported gross inflows of £514 million for the year, marginally lower than last year by 1%, whilst total funds under management increased by 24% to £2.81 billion. After a period of investment, the number of Investment Executives remained stable at 54 during the period and is expected to remain so in the short term as we continue to focus on increasing the quantum of funds managed by each executive.

Back-office infrastructure

2019 has been a significant period for our multi-year back-office infrastructure project as we successfully completed the smooth migration of all our core UK business to the new Bluedoor platform. We also completed all the remaining internal system changes required during the second half of the year and are now in the process of decommissioning the legacy system.

All our core UK business is now processed on a modern IT platform which provides us with the scalability to accommodate our growing business needs and greater operational resilience, as well as enabling us to offer an improved service to clients going forwards.

This was a significant milestone for the business and the whole project team, both internal and external, have done a terrific job on what has been a complex multi-year project with little disruption.

The St. James's Place Charitable Foundation and community engagement

Embedded in our culture is a desire to achieve a positive social impact with the Charitable Foundation being the beating heart. Our whole community is committed to supporting the Charitable Foundation from fund raising events with over 80% of Partners and employees giving monthly to the Charitable Foundation from their pay or earnings.

I am delighted to say that in 2019 we raised £12.1 million which includes the Company matching every pound raised. Since 1992, we have now raised £93.1 million, enabling the Charitable Foundation to distribute this amount to a wide variety of charitable causes. We are very proud that according to the Association of Charitable Foundations the St. James's Place Charitable Foundation is now the sixth largest Corporate Foundation measured by giving.

Alongside the Charitable Foundation, we also continue to enhance our corporate footprint in areas such as diversity, inclusion, volunteering, responsible investing, sustainability and the environment. An area of focus is on providing Financial Education in schools and in 2019 we worked face-to-face with 9,600 young people through over 300 volunteers giving around 1,800 hours. We have also recently extended the programme to provide Workplace Financial Education. Further details on the Charitable Foundation and our Community Engagement will be set out in our annual report and accounts.

New Non-executive Directors

I am delighted to welcome Rosemary Hilary, Dame Helena Morrissey, Emma Griffin and (from 1 June 2020) Lesley-Ann Nash to the Board as new Non-executive Directors. All bring extensive experience and a fresh insight, and I look forward to working with them.

Our community

The continued growth and resilience of the business does not occur by chance but rather the hard work and dedication of our Partners, their staff, our management teams and all our employees and administration support teams. In 2019 the Board has worked to make explicit the culture and values that underpin our success: details will be provided in our annual report and accounts. On behalf of the Board and shareholders I would like to once again thank the entire St. James's Place community for their continued hard work, dedication and commitment to all aspects of our business.

Outlook

Looking ahead, the fundamental financial planning requirements of individuals remain considerable whilst, at the same time, the availability of high-quality professional financial advice continues to be limited. The strength, depth and quality of the growing Partnership, together with the investments we are making in the business and our distinctive investment proposition, affords us real competitive advantage.

The Parliamentary majority following the December 2019 General Election provides for greater political stability, which has translated into improved investor sentiment. This has consequently resulted in an increase in activity across the business with new investments seeing a return to good growth in the early part of 2020. Uncertainties remain for the UK and there are market concerns as a result of coronavirus, but we are encouraged by this start to the year which, together with the strength and scale of our business today, gives us confidence that we are well placed to continue to grow.

Andrew Croft
Chief Executive
26 February 2020

CHIEF FINANCIAL OFFICER'S REPORT

As already stated in the Chief Executive's Report, 2019 was a challenging year but nevertheless one of resilient new business performance as the Partnership attracted gross inflows of £15.1 billion (2018: £15.7 billion) and net inflows of £9.0 billion (2018: £10.3 billion). The level of political uncertainty throughout most of the year particularly impacted the pace of discretionary investment flows as some clients took a more cautious approach to investing new funds. Discretionary investment aside, we saw continued net inflows throughout the year as clients sought to consolidate investments through St. James's Place and utilise the value of their tax allowances. As we have seen in similar periods historically, client retention remained strong as our advisers worked hard to provide reassurance and sound counsel in an uncertain environment.

Coupled with the impact of positive investment market returns, this new business performance resulted in funds under management closing at a record £117.0 billion (31 December 2018: £95.6 billion), up some 22% over the year and boding well for the development of our financial results in the years ahead.

Our financial business model remains straightforward. We attract and then retain funds under management (FUM) on which we receive advice and product charges. Ongoing product charges are the principal source of income for the Group, out of which we meet the overheads of the business and invest in growing the scale and capability of the Partnership, our client propositions, and our core Group infrastructure. Further information about our financial business model can be found on page 10.

Our financial results are presented in more detail on pages 10 to 27 of the Financial Review, but we provide below a summary of financial performance on a statutory IFRS basis, as well as our chosen alternative performance measures (APMs). We also summarise key developments from a balance sheet perspective and provide shareholders with an overview of capital, solvency and liquidity.

Financial results

IFRS

IFRS profit after tax was £146.6 million in 2019 (2018: £173.5 million), with the result lower year-on-year largely due to the challenging external environment which resulted in lower gross inflows of approximately 4% which in turn reduced income arising from new business.

To address the challenge of policyholder tax being included in the IFRS results we focus on IFRS profit before shareholder tax as our pre-tax measure. On this basis the result was £187.1 million in 2019 (2018: £211.9 million), reflecting the same underlying business drivers.

The IFRS results also include the impact of non-cash accounting adjustments such as equity-settled share-based payment expenses, deferred income and deferred expenses, so we continue to supplement our statutory reporting with the presentation of our financial performance using two APMs: the Cash result and the European Embedded Value (EEV) result. Taking each in turn:

Cash result

The Cash result, and the Underlying cash result contained within it, are based on IFRS but adjusted to exclude certain non-cash items, so therefore represent useful guides to the level of cash profit generated by the business. All items in the Cash result, and in the commentary below, are presented net of tax.

During the year, the **net income from funds under management** was £424.9 million (2018: £388.1 million), representing a margin of 0.63% (2018: 0.65%) on average 'mature' FUM, in line with prior guidance. It is only 'mature' FUM that contributes to this net income figure and this 'mature' stock of FUM at any given time substantially comprises all unit trust and ISA business, as well as life and pensions business written more than six years ago. The development of 'mature' FUM year-on-year is dependent on four principal factors:

- 1) new unit trust and ISA flows;
- 2) the amount of life and pensions FUM that moves from 'gestation' into 'mature' FUM;
- 3) the retention of FUM; and
- 4) investment returns on FUM.

Growth in 'gestation' FUM has been more rapid than growth in 'mature' FUM in recent years, mainly due to the strength of new pensions business following pensions freedom. While this therefore constrains growth in net income from funds under management today, it bodes well for the future as 'gestation' FUM matures and begins making a positive contribution. At 31 December 2019, the balance of 'gestation' FUM stood at £40.2 billion (31 December 2018: £33.5 billion). Once this current stock of gestation FUM has all matured, it will (assuming no market movements or withdrawals) contribute in excess of £350 million to **net income from funds under management** and hence to the Underlying cash result.

St. James's Place also generates a **margin arising from new business** where initial product charges exceed new business-related expenses. The 9% reduction in margin arising from new business in 2019 largely reflects the 4% decline in gross flows over the period, as well as the timing effect associated with an element of new business costs being linked to prior year production levels. This impact will unwind as new business volumes grow.

2019 was another year of considerable investment into the business as we sought to lay the foundations for long-term growth in the business. However, it was also a year where, given the nature of the external environment around us, we took an even more disciplined approach to expense management, deferring or delaying expenditure where possible and where long-term growth would not be compromised.

Establishment expenses in 2019 were £186.2 million (2018: £170.6 million), up 9% over the year and some £4 million below the guidance that we published last year. The 9% increase however reflects growth in the Partnership and client base during the year.

Our contribution to the FSCS levy also increased during the year to £22.3 million, up from £12.8 million in 2018, reflecting both an increased rate of levy and also a full 12 month charging period compared to 9 months in 2018.

Reflecting its critical role in providing a source of future organic growth in our adviser population, we made further investment into building our Academy in order to accommodate additional capacity with greater geographic reach. We have also further invested in developing our presence in Asia, as well as in discretionary fund management via Rowan Dartington both in the UK and overseas.

The **Underlying cash result**, which is a key metric that provides a good indicator of underlying performance and the impact of our investment programmes, was £273.1 million (2018: £309.0 million), some 12% lower.

Recognised below the Underlying cash result, our **back-office infrastructure** activity has been a critical multi-year project. In 2019 we successfully completed the smooth migration of all our core UK business to the new Bluedoor platform. Costs in 2019 were £38.8 million post-tax (2018: £35.8

million) reflecting the significant migration activity we undertook. We would anticipate up to £10 million of decommissioning expense in 2020 but then, as we have previously stated, this cost will cease.

The **Cash result** in 2019 was therefore £229.4 million (2018: £268.7 million).

EEV

The EEV performance disclosure provides a useful measure of the longer-term impact of results and developments during the year. It ascribes a value on the long-term economic benefit of attracting additional FUM, takes account of the ongoing costs of doing so, reflects long term benefits and costs of improved or deteriorating retention, and it takes account of current and projected market conditions. Although the EEV statement includes no valuation for the Group's ability to gather and maintain additional future FUM, it does serve as an indication of the value of the business written thus far.

The **EEV operating profit** is sensitive to new business written within the year and the 4% reduction in gross flows year-on-year is the main factor behind a reduced EEV operating profit of £952.0 million (2018: £1,002.0 million). Whilst new business levels were slightly lower in 2019, our retention experience remained very strong at 96%.

A significant positive in the 2019 EEV profit before tax is the positive **investment return variance** of £768.6 million. This positive return reflects improved market values across our funds under management, and follows the £460.9 million charge disclosed in last year's statement as markets weakened sharply in the final quarter of 2018.

Key financial position developments

The shareholder, or Solvency II Net Assets Balance Sheet, is one that is derived from the statutory IFRS statement of financial position and a reconciliation between the two can be found on page 19 of the Financial Review. There are several areas that are worthy of note.

Movements in business loans to Partners

Ensuring good client outcomes and experience is at the heart of what we strive to do. Providing business loans to Partners continues to play an important part in achieving this, with most loans supporting Partner business succession planning and execution. This principally involves providing capital support for growing Partner businesses to take on those businesses of retiring or contracting Partners.

Total business loans to Partners reported on the statement of financial position has been somewhat distorted by the execution of successful securitisation during the course of the past two years. To facilitate the securitisation, some lending that was provided directly to Partners from third-party lenders, and so was outside of the Group statement of financial position, was bought onto it. This inflated the size of the business loan to Partners balance.

Following this a portfolio of business loans to Partners were ring-fenced from the other assets of the Group and used as security in the issue of non-recourse securitisation loan notes. Since inception of the securitisation, additional lending to Partners has also been funded in this way. The following table demonstrates the split of business loans to Partners between those which are directly funded by the Group, and those which have been securitised and so are funded by the issue of securitisation loan notes.

	31 December 2019	31 December 2018
	£'Million	£'Million
Total business loans to Partners	476.5	394.5
<i>Split by funding type:</i>		
Business loans to Partners directly funded by the Group	316.0	295.5
Securitised business loans to Partners	160.5	99.0

The impairment experience on the overall portfolio of business loans to Partners remains very low and this reflects the financial strength of the borrowing businesses together with the Group's approach to credit decisions and the structural strength of the Group's security over the loans. Further information is set out in Note 12 to the Financial Statements.

Movements in borrowings

St. James's Place continues to pursue a strategy of diversifying and broadening its access to debt finance. We have done this successfully over time, including the creation and execution of the securitisation vehicle referred to above in the past two years. As highlighted above, for accounting purposes we are obliged to disclose on our statement of financial position the value of loan notes relating to the securitisation, which has had the effect of inflating the reported level of borrowings. However, these are secured only on the securitised portfolio of business loans to Partners, and hence are non-recourse to the Group's other assets.

	31 December 2019	31 December 2018
	£'Million	£'Million
Total borrowings	403.7	348.6
<i>Split by borrowing type:</i>		
Senior unsecured corporate borrowings	287.1	278.6
Senior tranche of non-recourse securitisation loan notes	116.6	70.0

After adjusting for this non-recourse debt, borrowings have increased broadly in line with the scale of the business over time and we remain comfortable not only with our level of borrowings, but also the headroom we have within our range of facilities.

Movement in operational readiness prepayment asset

The investment into our back-office infrastructure project has been a complex, multi-year programme. In addition to expensing our internal project costs through the IFRS statement of comprehensive income and Cash result as incurred, we have been capitalising Bluedoor development costs as a prepayment asset on the statement of financial position. The asset, which stood at £299.2 million at 31 December 2019 (31 December 2018: £236.4 million) has been amortising through the IFRS statement of comprehensive income and the Cash result since 2017 and will continue to do so over the remaining life of the contract, which at 31 December 2019 is nine years at the earliest. The movement schedule below demonstrates how the operational readiness prepayment has built up over the past two years.

	31 December 2019	31 December 2018
	£'Million	£'Million
Cost		
At 1 January	268.3	183.0
Additions during the year	91.8	85.3
At 31 December	360.1	268.3
Accumulated amortisation		
At 1 January	(31.9)	(12.4)
Amortisation during the year	(29.0)	(19.5)
At 31 December	(60.9)	(31.9)
Net book value	299.2	236.4

The amortisation expense is recognised within third-party administration expenses in the IFRS result, and within the net annual management fee and margin arising from new business lines of the Cash result. It is offset by the lower tariff charges on Bluedoor compared to the previous system. The amortisation charge will remain constant year-on-year following the final operational readiness spend planned for 2020, however the tariff saving benefits will grow as the business grows, benefiting both the IFRS and Cash results.

Solvency, capital and liquidity

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

Given the simplicity of our business model, our approach to managing solvency remains to hold assets to match client unit-linked liabilities plus a Management Solvency Buffer (MSB). At 31 December 2019 we held surplus assets over the MSB of £580.6 million (2018: £617.0 million). We also ensure that our approach meets with the requirements of the Solvency II regime where we have an approach, agreed with the Prudential Regulatory Authority (PRA) since 2017, for our largest insurance company, the UK Life company, that targets capital equal to 110% of the standard formula requirement. This is a prudent and sustainable policy given the risk profile of our business which is largely operational.

At 31 December 2018 the solvency ratio for our Life businesses was 117%, which included the positive effect of the equity dampener depressing the market risk capital component. Management chose not to release this volatile additional amount of free assets, which course of action has been justified through its unwind over the year. At 31 December 2019 the equity dampener was (0.1%) (31 December 2018: (6.3)), hence the solvency ratio for our Life business was 112%. Taking into account entities in the rest of the Group, the Group solvency ratio at 31 December 2019 was 132% (2018: 143%), with the 2018 Group result also reflecting the positive equity dampener effect noted above. It is worth noting that continuing growth of the UK life company within the Group will gradually dilute the Group solvency ratio. However, because we manage capital requirements of regulated entities on a solo basis, there will be no change in the underlying solvency risk of the Group.

Given the importance we place on investing to underpin the future growth and sustainability of our business, it is necessary that we manage and balance Group resources accordingly. Historically these were boosted by the exceptional release of excess solvency capital from our UK Life company as a result of the adoption of Solvency II during 2016, which also provided an opportunity to remove market risk in the business by better matching assets and liabilities. More recently the development of our corporate debt facilities, as well as the securitisation and those facilities put in place to provide finance from third parties direct to Partners, signal good progress in maintaining a sustainable path for investment into the business whilst facilitating future Partner lending activity in support of positive client service and outcomes.

As noted above, there has been steady but modest growth in lending to Partners in recent years, but by contrast considerable cash resource has been deployed in our back-office infrastructure project. This programme will shortly be coming to end, and whilst the successful completion of the Bluedoor migration in no way marks an end to our investment in technology given our ambition to continually enhance the way in which we enhance our Partner and client propositions, it does mark the end of a planned but significant demand on cash resources that were held at the outset.

The Group has £1,429.8 million of liquid assets (31 December 2018: £1,550.9 million) largely comprising investments in AAA-rated money market funds and cash balances, as demonstrated in the table below. This represents a considerable stock of liquidity and excludes the additional headroom that we have in our borrowing facilities.

	31 December 2019	31 December 2018
	£'Million	£'Million
Fixed interest securities	5.2	5.4
Investment in Collective Investment Schemes (<i>AAA-rated money market funds</i>)	1,131.8	1,297.0
Cash and cash equivalents	292.8	248.5
Total liquid assets	1,429.8	1,550.9

Dividend and concluding remarks

As noted above, 2019 was not an easy year, with domestic political uncertainty compounded by global economic uncertainty. We were not immune and our Cash Result for the year tells a story of lower discretionary flows providing less funding for investment in future growth. However, our business remains in great shape and, post the UK election, 2020 is feeling different. Activity levels are currently higher and we are seeing a pick-up in investor confidence which is driving higher activity levels in our business. This more positive outlook, coupled with the material flow of cash to come from our stock of gestation FUM over the medium term, has given the Board the confidence to recommend a 5% increase in the final dividend to 31.22 pence per share (2018: 29.73 pence per share), giving a full year dividend of 49.71 pence per share (2018: 48.22 pence per share), growth of 3%. This will provide for a pay-out ratio of 97% against the Underlying cash result, which is higher than our stated medium term aim of an 80% pay-out ratio.

Craig Gentle

Chief Financial Officer

26 February 2020

Summary financial information

	Page reference	Year ended 31 December 2019	Year ended 31 December 2018
FUM-based metrics			
Gross inflows (£'Billion)	11	15.1	15.7
Net inflows (£'Billion)	11	9.0	10.3
Total FUM (£'Billion)	11	117.0	95.6
Total FUM in gestation (£'Billion)	12	40.2	33.5
IFRS-based metrics			
IFRS profit after tax (£'Million)	13	146.6	173.5
IFRS profit before shareholder tax (£'Million)	13	187.1	211.9
Underlying profit before shareholder tax (£'Million)	14	218.9	278.6
IFRS basic earnings per share (EPS) (Pence)		27.6	33.0
IFRS diluted EPS (Pence)		27.5	32.4
IFRS net asset value per share (Pence)		177.1	192.5
Dividend per share (Pence)		49.71	48.22
Cash result-based metrics			
Operating cash result (£'Million)	16	310.7	342.8
Underlying cash result (£'Million)	16	273.1	309.0
Cash result (£'Million)	16	229.4	268.7
Underlying cash result basic EPS (Pence)		51.4	58.7
Underlying cash result diluted EPS (Pence)		51.1	57.8
EEV-based metrics			
EEV operating profit before tax (£'Million)	22	952.0	1,002.0
EEV operating profit after tax basic EPS (Pence)		148.8	158.0
EEV operating profit after tax diluted EPS (Pence)		148.0	155.4
EEV net asset value per share (Pence)		1,320.1	1,109.0
Solvency-based metrics			
Solvency II net assets (£'Million)	26	1,056.8	1,108.0
Management solvency buffer (£'Million)	26	476.2	491.0
Solvency II free assets (£'Million)	26	999.0	1,060.1
Solvency ratio (Percentage)	26	132%	143%

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

FINANCIAL REVIEW

THIS FINANCIAL REVIEW PROVIDES ANALYSIS OF THE GROUP'S FINANCIAL POSITION AND PERFORMANCE.

The Review is split into the following sections:

Section 1: Funds under Management (FUM)

- 1.1 FUM analysis
- 1.2 Gestation

As set out in our financial business model below, FUM is a key driver of ongoing profitability on all measures, and so information on growth in FUM is provided in Section 1.

Find out more on pages 11 and 12.

Section 2: Performance measurement

- 2.1 International Financial Reporting Standards (IFRS)
- 2.2 Cash result
- 2.3 European Embedded Value (EEV)

Section 2 analyses the performance of the business using three different bases: IFRS, the Cash result, and EEV.

Find out more on pages 13 to 25.

Section 3: Solvency

Section 3 addresses Solvency, which is an important area given the multiple regulated activities carried out within the Group.

Find out more on pages 26 and 27.

Our financial business model

Our financial business model is straightforward. We generate revenue by attracting clients through the value of our proposition, who trust us with their investments and then stay with us. This grows our funds under management (FUM), on which we receive:

- advice charges for the provision of valuable, face-to-face advice; and
- product charges for our manufactured investment, pension and ISA/unit trust products.

Further information on our charges can be found on our website at www.sjp.co.uk/charges. A breakdown of our fee and commission income, our primary source of revenue under International Financial Reporting Standards (IFRS), is set out in Note 5 on page 44.

Most of the initial and ongoing advice charges received are offset by corresponding remuneration for Partners, and so an increase in these revenue streams will correspond with an increase in the associated expense and vice versa. This means that advice charges are not a major driver of the Group's profitability.

Neither are initial product charges, which are levied when a client first invests into one of our products. Under IFRS initial product charges are spread over the expected life of the investment through deferred income (DIR – see page 14 for further detail), and the contribution to the IFRS result from spreading these historic charges can be seen in Note 5 as amortisation of DIR. Initial product charges contribute immediately to our Cash result through margin arising on new business.

The primary source of the Group's profit is the income we receive from annual product management charges on FUM. As a result, growth in FUM is a strong positive indicator of future growth in profits. However, most of our investment and pension products are structured so that annual product management charges are not taken for the first six years after the business is written, so the ongoing benefit of these gross inflows into FUM for a given year will not be seen until six years later. This means that the Group always has six years' worth of FUM in the 'gestation' period. FUM subject to annual product management charges is known 'mature' FUM. More information about our fees on FUM can be found in Section 1 of this Financial Review.

Our income is used to meet overheads, the ongoing product expenses and to invest in the business. Overhead expenditure is carefully managed with clear targets set for growth in the core costs of running the Group's infrastructure, which are known as 'establishment expenses'. Other ongoing expenses, including payments to Partners, increase with business levels and are aligned with product charges. The Group is investing to support long-term growth through St. James's Place Asia, Rowan Dartington, our back-office infrastructure programme, and other strategic initiatives.

Section 1: Funds Under Management

1.1 FUM analysis

Our financial business model is to attract and retain FUM on which we receive an annual management fee. As a result, the level of income we receive is ultimately dependent on the value of our FUM, and so its growth is a clear driver of future growth in profits. The key drivers for FUM are:

- our ability to attract new funds in the form of gross inflows;
- our ability to retain FUM by keeping unplanned withdrawals at a low level; and
- net investment returns.

The following table shows how FUM evolved during 2019 and 2018:

	2019				2018
	Investment £'Billion	Pension £'Billion	UT/ISA & DFM £'Billion	Total £'Billion	Total £'Billion
Opening FUM	27.62	40.72	27.21	95.55	90.75
Gross inflows	2.28	8.66	4.16	15.10	15.70
Net investment return	2.96	5.99	3.50	12.45	(5.48)
Regular income withdrawals and maturities	(0.56)	(1.31)	(0.02)	(1.89)	(1.63)
Surrenders and part surrenders	(1.08)	(1.22)	(1.92)	(4.22)	(3.79)
Closing FUM	31.22	52.84	32.93	116.99	95.55
Net inflows	0.64	6.13	2.22	8.99	10.28
Implied surrender rate as a percentage of average FUM	3.7%	2.6%	6.5%	4.0%	4.1%

Rowan Dartington Group and SJP Asia FUM was £3.74 billion at 31 December 2019 (31 December 2018: £2.90 billion), gross inflows were £0.77 billion for the year (2018: £0.79 billion) and outflows were £0.19 billion (2018: £0.12 billion).

The following table shows the significant in net inflows over the past six years, which combined with strong retention has resulted in consistent growth in FUM. FUM has more than doubled over a five-year period:

Year	FUM as at 1 January	Net inflows	Investment return	Other movements ¹	FUM as at 31 December
	£'Billion	£'Billion	£'Billion	£'Billion	£'Billion
2019	95.6	9.0	12.4	–	117.0
2018	90.7	10.3	(5.4)	–	95.6
2017	75.3	9.5	6.2	(0.3)	90.7
2016	58.6	6.8	8.7	1.2	75.3
2015	52.0	5.8	0.8	–	58.6
2014	44.3	5.1	2.6	–	52.0

¹ Other movements in 2017 related to the matching strategy disinvestment, and in 2016 related to the acquisition of the Rowan Dartington Group.

The table below provides a geographical and investment type analysis of FUM at 31 December:

	31 December 2019		31 December 2018 ¹	
	£'Billion	% of total	£'Billion	% of total
North American Equities	25.1	21%	19.9	21%
Fixed Income Securities	20.9	18%	16.9	18%
UK Equities	20.2	17%	17.6	18%
European Equities	13.8	12%	10.0	10%
Asia and Pacific Equities	13.6	12%	10.1	11%
Alternative Investments	9.5	8%	7.5	8%
Cash	7.5	6%	6.7	7%
Property	2.9	3%	3.0	3%
Other	3.5	3%	3.9	4%
Total	117.0	100%	95.6	100%

¹ The geographical and investment type analysis of FUM for 31 December 2018 has been restated to better reflect the nature of the underlying investment holdings.

1.2 Gestation

As explained in our financial business model on page 10, due to our product structure, at any given time there is a significant amount of FUM that has not yet started to contribute to the Cash result.

When we attract new FUM there is a margin arising on new business that emerges at the point of investment, which is a surplus of income over and above the initial costs incurred at the outset. Within our Cash result presentation, this is recognised as it arises, but it is deferred under IFRS.

Once the margin arising on new business has been recognised the pattern of future emergence of cash from annual product management charges differs by product. Broadly, annual product management charges from unit trust and ISA business begin contributing positively to the Cash result from day one, whilst investment and pensions business enter a six-year gestation period during which no net income from FUM is included in the Cash result. Once this business has reached its six-year maturity point, it starts contributing positively to the Cash result, and will continue to do so in each year that it remains with the Group.

The following table shows an analysis of FUM, after initial charges, split between mature FUM that is contributing net income to the Cash result and FUM in gestation which is not yet contributing, as at the year-end for the past five years:

Position as at:	Mature FUM contributing to the Cash result	Gestation FUM that will contribute to the Cash result in the future		Total FUM
		£'Billion	£'Billion	
31 December 2019	76.8	40.2	117.0	
31 December 2018	62.1	33.5	95.6	
31 December 2017	60.1	30.6	90.7	
31 December 2016	50.2	25.1	75.3	
31 December 2015	39.4	19.2	58.6	

The proportion of new business that moves into gestation has increased over the past five years as follows:

	Proportion of gross inflows into gestation	
		%
2019		60.1
2018		59.4
2017		56.5
2016		53.8
2015		53.5

The increasing proportion of gross inflows moving into gestation FUM is attributable to the strength of pensions inflows in recent years, in part reflecting the positive impact to our business from pensions freedom. The long-term nature of this type of investment results in a long post-gestation period of Cash result emergence.

The following table gives an indication, for illustrative purposes, of the way in which the reduction in fees in the gestation period element of the Cash result could unwind, and so how the gestation balance of £40.2 billion at 31 December 2019 may start to contribute to the Cash result over the next six years and beyond. For simplicity it assumes that FUM values remain unchanged, that there are no surrenders, and that business is written at the start of the year. Actual emergence in the Cash result will reflect the varying business mix of the relevant cohort and business experience:

	Gestation FUM future contribution to the Cash result	
		£'Million
2020		36.1
2021		81.3
2022		134.5
2023		202.1
2024		282.2
2025 onwards		356.3

Section 2: Performance measurement

In line with statutory reporting requirements we report profits assessed on an IFRS basis. The presence of a significant life insurance company within the Group means that, although we are a wealth management Group in substance with a simple business model, we apply IFRS accounting requirements for insurance companies. These requirements lead to financial statements which are more complex than those of a typical wealth manager and so our IFRS results may not provide the clearest presentation for users who are trying to understand our wealth management business. Key examples of this include the following:

Our IFRS statement of comprehensive income includes policyholder tax balances which we are required to recognise as part of our corporation tax arrangements. This means that our Group IFRS profit before tax includes amounts charged to clients to meet policyholder tax expenses, which are unrelated to the underlying performance of our business; and

Our policy is to fully match our liabilities to clients, and so policyholder liabilities increase or decrease to match increases or decreases experienced on the assets held to cover them. This means that shareholders are not exposed to any gains or losses on the £113.5 billion of policyholder assets and liabilities recognised on our IFRS statement of financial position, which represented over 96% of our IFRS total assets and liabilities at 31 December 2019.

To address this, we developed APMs with the objective of stripping out the policyholder element to present solely shareholder impacting balances, as well as removing items such as deferred acquisition costs and deferred income to reflect Solvency II recognition requirements and to better match the way in which cash emerges from the business. We therefore present our financial performance and position under three different bases, using a range of APMs to supplement our IFRS reporting. The three different bases, which are consistent with those presented last year, are:

- International Financial Reporting Standards (IFRS);
- Cash result; and
- European Embedded Value (EEV).

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 64 to 66, in which we define each APM used in our Financial Review, explain why it is used and, if applicable, explain how the measure can be reconciled to the IFRS financial statements.

2.1 International Financial Reporting Standards (IFRS)

IFRS profit after tax was £146.6 million in 2019 (2018: £173.5 million), with the result lower year-on-year principally due to two factors: first, a more challenging new business environment resulted in a lower margin arising from new business; second, a planned increase in investment expense as we continued to put in place the foundations to underpin future growth in the business. Together, these resulted in a degree of operational deleverage.

To address the challenge of policyholder tax being included in the IFRS results we focus on the following two APMs, based on IFRS, as our pre-tax metrics:

- Profit before shareholder tax; and
- Underlying profit.

Further information on these IFRS-based measures is set out below, on pages 13 to 14.

PROFIT BEFORE SHAREHOLDER TAX

This is a profit measure based on IFRS which removes the impact of policyholder tax. The policyholder tax expense or credit is matched by an equivalent deduction or credit from the relevant funds, which is recorded within fee and commission income in the IFRS statement of comprehensive income. Policyholder tax does not therefore impact the Group's overall profit after tax. As a result, profit before shareholder tax, but after policyholder tax, is a useful metric.

The following table demonstrates the way in which profit before shareholder tax is presented in the IFRS consolidated statement of comprehensive income on page 35:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
IFRS profit/(loss) before tax	708.9	(84.6)
Policyholder tax	(521.8)	296.5
IFRS profit before shareholder tax	187.1	211.9
Shareholder tax	(40.5)	(38.4)
IFRS profit after tax	146.6	173.5

Profit before shareholder tax has decreased by 12% year-on-year. As with the reduction in profit after tax, this reflects the more challenging new business environment and an increase in expenses.

Shareholder tax reflects the tax charge attributable to shareholders and is closely related to the performance of the business. However, it can vary year-on-year due to several factors: further detail is set out in Note 7 Income and deferred taxes.

UNDERLYING PROFIT

This is profit before shareholder tax (as calculated above) adjusted to remove the impact of accounting for deferred acquisition costs (DAC), deferred income (DIR) and the purchased value of in-force business (PVIF).

IFRS requires certain up-front expenses incurred and income received to be deferred. The deferred amounts are initially recognised on the statement of financial position as a DAC asset and DIR liability, which are subsequently amortised to the statement of comprehensive income over a future period. Substantially all of the Group's deferred expenses are amortised over a 14-year period, and substantially all deferred income is amortised over a six-year period.

The impact of accounting for DAC, DIR and PVIF in the IFRS result is that there is a significant accounting timing difference between the emergence of accounting profits and actual cash-flows. For this reason, underlying profit is considered to be a helpful metric. The following table demonstrates the way in which IFRS profit reconciles to Underlying profit:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
IFRS profit before shareholder tax	187.1	211.9
Remove the impact of movements in DAC/DIR/PVIF	31.8	66.7
Underlying profit before shareholder tax	218.9	278.6

The impact of movements in DAC, DIR and PVIF on IFRS profit before shareholder tax is further analysed as follows. Due to policyholder tax on DIR, the amortisation of DIR during the year and DIR on new business for the year set out below cannot be agreed to the figures provided in Note 8, which is presented before both policyholder and shareholder tax:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Amortisation of DAC	(96.6)	(98.2)
DAC on new business for the year	28.1	33.7
Net impact of DAC	(68.5)	(64.5)
Amortisation of DIR	179.6	149.9
DIR on new business for the year	(139.7)	(148.9)
Net impact of DIR	39.9	1.0
Amortisation of PVIF	(3.2)	(3.2)
Movement in year	(31.8)	(66.7)

Net impact of DAC

The scale of the £68.5 million negative overall impact of DAC on the IFRS result (2018: negative £64.5 million) is largely due to changes arising from the 2013 Retail Distribution Review (RDR). After this change, the level of expenses that qualified for deferral reduced significantly, but the large balance accrued previously is still being amortised. As deferred expenses are amortised over a 14-year period there is a significant transition period, which could last for another five to six years, over which the amortisation of pre-RDR expenses previously deferred will significantly outweigh new post-RDR expenses deferred despite significant business growth, resulting in a net negative impact on IFRS profits.

Net impact of DIR

Income deferred during 2019 is 6% lower than income deferred during 2018, driven by the reduction in new business year-on-year. Conversely, income released from the deferred income liability has increased, primarily as a result of the increase in new business in prior year compared to 2017. Together, these effects mean that DIR has had a positive £39.9 million impact on the IFRS result in 2019 (2018: positive £1.0 million).

2.2 Cash result

The Cash result is used by the Board to assess and monitor the level of cash profit (net of tax) generated by the business. It is based on IFRS with adjustments made to exclude policyholder balances and certain non-cash items, such as DAC, DIR, deferred tax and non-cash-settled share option costs. Further details, including the full definition of the Cash result, can be found in the Glossary of Alternative Performance Measures on pages 64 to 66. Although the Cash result should not be confused with the IAS 7 consolidated statement of cash-flows, it provides a helpful supplementary view of the way in which cash is generated and emerges within the Group.

The Cash result reconciles to Underlying profit, as presented in Section 2.1, as follows:

	Year ended 31 December 2019		Year ended 31 December 2018	
	Before shareholder tax	After tax	Before shareholder tax	After tax
	£'Million	£'Million	£'Million	£'Million
Underlying profit	218.9	172.8	278.6	227.9
Non-cash-settled share-based payments	28.7	28.7	33.4	33.4
Impact of deferred tax	-	10.4	-	31.8
Other	22.8	17.5	(24.8)	(24.4)
Cash result	270.4	229.4	287.2	268.7

The decrease in **non-cash-settled share-based payments** reflects the reduction in expense for adviser share schemes.

The most significant **impact of deferred tax** in 2019 and 2018 relates to the utilisation of capital losses in the Cash result. This has already been recognised under IFRS, and hence Underlying profit, through the establishment of deferred tax assets. More information can be found in Note 7 on pages 46 to 48.

Other represents both the change in tax charge discounting and the difference between IFRS 16 lease expense and lease payments made. The former represents a timing difference between the tax liability due to HMRC and tax deductions charged to clients. The size of the difference will increase as markets grow and decrease as markets fall. This timing difference is adjusted out of the Cash result, which therefore does not reflect the negative effect arising in the IFRS result as a consequence of market increases during the year (2018: positive effect as a consequence of market falls).

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

- **Operating cash result**

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

- **Underlying cash result**

This measure includes the cost of a number of strategic investments which are being incurred and expensed in the year, but which are expected to create long-term value.

- **Cash result**

This measure includes the short-term costs associated with the back-office infrastructure project together with other items of a one-off nature.

CONSOLIDATED CASH RESULT (PRESENTED POST-TAX)

	Note	Year ended 31 December 2019		Year ended 31 December 2018	
		In-force	New business	Total	Total
			£'Million	£'Million	£'Million
Operational					
Net annual management fee	1	718.0	63.2	781.2	694.6
Reduction in fees in gestation period	1	(356.3)	-	(356.3)	(306.5)
Net income from FUM	1	361.7	63.2	424.9	388.1
Margin arising from new business	2	-	127.5	127.5	140.8
Establishment expenses	3	(18.6)	(167.6)	(186.2)	(170.6)
Operational development expenses	3	-	(22.3)	(22.3)	(20.1)
Regulatory fees and FSCS levy	3	(3.1)	(28.1)	(31.2)	(20.9)
Academy	3	-	(10.9)	(10.9)	(8.4)
Shareholder interest ¹	5	12.9	-	12.9	7.4
Tax relief from capital losses	6	10.3	-	10.3	29.7
Miscellaneous ¹	7	(14.3)	-	(14.3)	(3.2)
Operating cash result		348.9	(38.2)	310.7	342.8
Asia	8	-	(19.9)	(19.9)	(16.7)
DFM	8	-	(9.8)	(9.8)	(10.1)
Strategic development costs	3	-	(7.9)	(7.9)	(7.0)
Underlying cash result		348.9	(75.8)	273.1	309.0
Back-office infrastructure development costs	3			(38.8)	(35.8)
Variance	9			(4.9)	(4.5)
Cash result				229.4	268.7

¹ Funding-related expenses, including interest on borrowings and securitisation costs, of £6.7 million in the year to 31 December 2018 have been reclassified from Miscellaneous to Shareholder interest to better reflect the nature of the expense.

Notes to the Cash result
1. Net income from FUM

The **net annual management fee** is the net manufacturing margin that the Group retains from FUM after payment of the associated costs, for example, investment advisory fees and Partner remuneration. Each product has standard fees, but they vary between products. Overall post-tax margin on FUM reflects business mix but also the different tax treatment, particularly Life tax on onshore investment business.

As noted on page 10 however, our investment and pension business product structure means that these products do not generate net Cash result (after the margin arising from new business) during the first six years, (the gestation period). This is reflected in the **reduction in fees in gestation period** line. Further information is provided on page 12.

Net income from FUM reflects Cash result income from FUM that has reached maturity and, consistent with our 2019 half-year reporting, this line is the focus of our explanatory analysis. As with net annual management fees, the average rate can vary between time periods with business mix and tax. For 2019, our net income is 0.63% (post-tax) of FUM (2018: 0.65%). In 2020, we expect this margin on FUM to remain in the range of 0.63% - 0.65%.

Net income from Asia and DFM FUM is not included in this line, instead this is included in the net Cash result presented separately for Asia and DFM.

2. Margin arising from new business

This is the net positive Cash result impact of new business in the year, reflecting gross inflows and production related expenses. The driver for this income line is gross inflows and the result is expected to move broadly in line with the pattern of gross inflows attracted, subject to the timing effect associated with an element of new business costs being linked to prior year production levels.

3. Overhead expenses and development expenses

Expenses are treated in two different ways in the Cash result depending on their type:

- i. Overhead expenses, such as **establishment expenses**, and development expenses which relates to the Group's core business such as **back-office infrastructure costs**, are presented in separate lines on the face of the Cash result.
- ii. Expenses which vary with business volumes, such as payments to Partners and third-party administration expenses, and expenses which relate to investment in specific areas of the business such as DFM are netted from the relevant income lines rather than presented separately.

The table below provides a breakdown of the Group's overhead and development expenses as presented in separate lines in the Cash result:

	Year ended 31 December 2019			Year ended 31 December 2018		
	Before tax	Tax rate	After tax	Before tax	Tax rate	After tax
	£'Million	%	£'Million	£'Million	%	£'Million
Overhead expenses						
Establishment expenses	229.9	19.0	186.2	210.6	19.0	170.6
Regulatory fees and FSCS levy	38.5	19.0	31.2	25.7	19.0	20.9
Academy	13.4	19.0	10.9	10.4	19.0	8.4
Total overhead expenses	281.8		228.3	246.7		199.9
Development expenses						
Operational development costs	27.5	19.0	22.3	24.8	19.0	20.1
Strategic development costs	9.8	19.0	7.9	8.8	19.0	7.0
Back-office infrastructure costs	47.9	19.0	38.8	44.1	19.0	35.8
Total development expenses	85.2		69.0	77.7		62.9
Total expenses presented separately on the face of the Cash result	367.0		297.3	324.4		262.8

Overhead expenses

Overhead expenses represent the cost of running the Group.

Establishment costs have increased by 9% year-on-year as additional expenses are incurred to support the growth in the Partnership.

The costs of operating in a regulated sector include **regulatory fees** and the **Financial Services Compensation Scheme (FSCS) levy**. On a post-tax basis, these are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
FSCS levy	22.3	12.8
Regulatory fees	8.9	8.1
FSCS levy and regulatory fees	31.2	20.9

Our position as a market-leading provider of advice means we make a very substantial contribution to supporting 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, which was further exacerbated this year by the supplementary levy announced in December 2019. Whilst we remain hopeful that it will return to a more normalised level in future, we are expecting an increase of at least 15% in 2020 based on the indicative levy information announced for the 2020/21 funding year.

For the 2019/20 funding year the FSCS levy covers a 12-month period, compared to nine months for the 2018/19 funding year. As a result, the post-tax levy expense of £22.3 million recognised in the year to 31 December 2019 reflects the levy for a 12-month period, whereas the £12.8 million post-tax levy expense recognised in the year to 31 December 2018 was in respect of a nine-month period.

Academy expenses represent the cost of running our Academy and Next Generation Academy. They have increased in 2019 as a result of expansion of the programme both geographically and in terms of the number of individuals recruited into the programme.

Development expenses

Operational development costs have increased in 2019 due to further investment, particularly in our investment management approach, technology infrastructure and cyber security.

Strategic development costs continue to increase as result of investment in the business, particularly from the creation of regional hubs to better support our Partner practices and from our acquisition projects.

Costs associated with our Bluedoor **back-office infrastructure** programme have increased in 2019 due to increased levels of activity leading up to the final successful migration of business, and to complete internal system changes to facilitate the decommissioning of the legacy system. We expect to spend up to £10 million in 2020 completing the final decommissioning work, after which point this cost will cease.

4. Reconciliation to IFRS expenses

In order to reconcile the overhead and development expenses presented on separate lines in the Cash result to the total IFRS expenses set out in the statement of comprehensive income on page 35, the expenses which vary with business volumes and those which relate to investment in specific areas of the business, both of which are included in the Cash result but are netted against the relevant income lines and so cannot be seen explicitly, and certain IFRS expenses which by definition are not included in the Cash result need to be added in:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Total expenses presented separately on the face of the Cash result before tax	367.0	324.4
<i>Expenses which vary with business volumes</i>		
Other performance related costs	120.4	137.2
Payments to Partners	814.7	781.9
Investment expenses	89.8	106.1
Third-party administration	110.6	100.4
Other	48.2	44.6
<i>Expenses relating to investment in specific areas of the business</i>		
Asia expenses	23.4	21.3
DFM expenses	26.7	24.5
Total expenses included in the Cash result	1,600.8	1,540.4
<i>Expenses which are not included in the Cash result</i>		
Amortisation of DAC and PVIF, net of additions	71.7	67.7
Non-cash-settled share-based payments expenses	28.7	33.4
Other	6.6	-
Total IFRS Group expenses before tax	1,707.8	1,641.5

Expenses which vary with business volumes

Other performance related costs, for both Partners and employees, vary with the level of new business and the operating profit performance of the business. **Payments to Partners**, **investment expenses** and **third-party administration** costs are met through charges to clients, and so any variation in them from changes in the volumes of new business or the level of the stock markets does not impact Group profitability.

Each of these items are recognised within the net annual management fee or margin arising from new business lines of the Cash result, depending on the nature of the expense.

Other expenses include interest expense and bank charges, operating costs of acquired independent financial advisers (IFAs) and donations to the St. James's Place Charitable Foundation. They are recognised across various lines in the Cash result, including shareholder interest and miscellaneous.

Expenses relating to investment in specific areas of the business

Asia expenses and **DFM expenses** have both increased during the year as investment is required to support their growth. Such investment will continue going forwards.

Asia and DFM expenses are presented net of the income they generate in the Asia and DFM lines of the Cash result.

Expenses which are not included in the Cash result

DAC amortisation, net of additions, PVIF amortisation and non-cash-settled share-based payment expenses are the primary expenses which are recognised under IFRS but are excluded from the Cash result.

5. Shareholder interest

This is the income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group. It is presented net of funding-related expenses, including interest paid on borrowings and securitisation costs.

6. Tax relief from capital losses

In recent years, a deferred tax asset has been established in IFRS for historic capital losses which are regarded as being capable of utilisation over the medium term. The tax asset is ignored for Cash result purposes as it is not fungible, but instead the cash benefit realised when losses are utilised is shown in the tax relief from capital losses line. Utilisation during the year of £10.3 million tax value (2018: £29.7 million) was in line with previous guidance that gave the expected rate of utilisation as c.£10 - £12 million per year. Going forwards we expect the rate of utilisation to slow to c.£8 - £10 million per year due to the extension of the existing loss restriction rules to cover capital losses, which is expected to have effect from 1 April 2020.

7. Miscellaneous

This category represents the cash flow of the business not covered in any of the other categories. It includes ongoing administration expenses and associated policy charges, utilisation of the deferred tax asset in respect of prior years' unrelieved expenses (due to structural timing differences in the life company tax computation) and movements in the fair value of renewal income assets.

8. Asia and DFM

These lines represent the net income from Asia and DFM FUM, including the Asia and DFM expenses set out in note 4 above. Both of these business areas continue to grow: combined, Asia and DFM FUM has increased 29% year-on-year, from £2.90 billion at 31 December 2018 to £3.74 billion at 31 December 2019. Significant investment is required to support this growth hence their contribution to the Cash result is currently a net expense. However, as set out in our financial business model on page 10, growth in FUM is a strong positive indicator of future profits.

9. Variance

This reflects a number of small non-recurring items incurred during the year.

SOLVENCY II NET ASSETS BALANCE SHEET

The Cash result is derived from the IFRS consolidated statement of financial position in a two-stage process:

Stage 1: Solvency II Net Assets Balance Sheet

Firstly, the IFRS consolidated statement of financial position is adjusted for a number of material balances that reflect policyholder interests in unit-linked liabilities together with the underlying assets that are held to match them. Secondly, it is adjusted for a number of non-cash 'accounting' balances such as DIR, DAC and associated deferred tax. The result of these adjustments is the Solvency II Net Assets Balance Sheet and the following table shows the way in which it has been calculated for 2019.

	31 December 2019	Note	IFRS Balance Sheet	Adjustment 1	Adjustment 2	Solvency II Net Assets Balance Sheet	Solvency II Net Assets Balance Sheet: 2018
			£'Million	£'Million	£'Million	£'Million	£'Million
Assets							
Goodwill			15.6	–	(15.6)	–	–
Deferred acquisition costs			490.0	–	(490.0)	–	–
Purchased value of in-force business			20.8	–	(20.8)	–	–
Computer software			8.9	–	(8.9)	–	–
Property and equipment	1		166.3	–	–	166.3	28.5
Deferred tax assets	2		131.1	–	(32.6)	98.5	111.6
Reinsurance assets			88.6	–	(88.6)	–	–
Other receivables	3		2,127.1	(733.1)	(2.1)	1,391.9	890.1
Income tax assets			–	–	–	–	9.7
Investment property			1,750.9	(1,750.9)	–	–	–
Equities			72,694.2	(72,694.2)	–	–	–
Fixed income securities	4		26,275.6	(26,270.4)	–	5.2	5.4
Investment in Collective Investment Schemes	4		5,166.4	(4,034.6)	–	1,131.8	1,297.0
Derivative financial instruments			1,342.9	(1,342.9)	–	–	–
Cash and cash equivalents	4		7,013.6	(6,720.8)	–	292.8	248.5
Total assets			117,292.0	(113,546.9)	(658.6)	3,086.5	2,590.8
Liabilities							
Borrowings	5		403.7	–	–	403.7	348.6
Deferred tax liabilities	2		493.7	–	(57.5)	436.2	154.5
Insurance contract liabilities			556.6	(464.2)	(92.4)	–	–
Deferred income			614.7	–	(614.7)	–	–
Other provisions			40.6	–	–	40.6	22.7
Other payables	1, 3		1,782.7	(745.4)	(3.6)	1,033.7	956.9
Investment contract benefits			83,558.5	(83,558.5)	–	–	–
Derivative financial instruments			948.8	(948.8)	–	–	–
Net asset value attributable to unit holders			27,830.0	(27,830.0)	–	–	–
Income tax liabilities	6		115.4	–	–	115.4	–
Preference shares			0.1	–	–	0.1	0.1
Total liabilities			116,344.8	(113,546.9)	(768.2)	2,029.7	1,482.8
Net assets			947.2	–	109.6	1,056.8	1,108.0

Adjustment 1 strips out the policyholder interest in unit-linked assets and liabilities, to present solely shareholder impacting balances. For further information refer to Note 11 Investments, investment property and cash and cash equivalents to the IFRS financial statements.

Adjustment 2 removes items such as DAC, DIR, PVIF and their associated deferred tax balances from the IFRS statement of financial position to bring it in line with Solvency II recognition requirements.

Notes to the Solvency II Net Assets Balance Sheet

1. Property and equipment, and other payables

On 1 January 2019, the Group adopted IFRS 16 Leases. This new accounting standard fundamentally changes the accounting for lessees, that is an entity which leases an asset from its owner, as it requires the recognition of almost all leases on the statement of financial position. The right to use the leased item is recognised as an asset, and the obligation to pay lease rentals is recognised as a liability.

As a result, the property and equipment line has increased significantly year-on-year: At 31 December 2019 it includes £126.6 million of leased assets (31 December 2018: Nil). Lease liabilities of £118.6 million are recognised within the other payables line (31 December 2018: Nil). The initial recognition of lease liabilities is a driver behind the increase in other payables on the Solvency II Net Assets Balance Sheet, which increased from £956.9 million at 31 December 2018 to £1,033.7 million at 31 December 2019.

Further information on the adoption of IFRS 16 can be found in Note 1 Accounting policies to the IFRS financial statements. Additionally, Notes 9, 10 and 13 provide further detail on property and equipment, leases and other payables respectively.

2. Deferred tax assets and liabilities

Analysis of deferred tax assets and liabilities, including how they have moved year-on-year, is set out in Note 7 Income and deferred taxes. The most significant movement in the year is the increase in deferred tax liability associated with impact of stock markets on investments and the resulting increase in policyholder tax liability.

3. Other receivables and other payables

Detailed breakdowns of other receivables and other payables can be found in Note 12 Other receivables and Note 13 Other payables of the IFRS financial statements.

Other receivables on the Solvency II Net Assets Balance Sheet have increased from £890.1 million at 31 December 2018 to £1,391.9 million at 31 December 2019, principally reflecting movement in fund tax deductions. This increase is associated with, and largely offsets, the increase in Deferred Tax liability above.

4. Liquidity

Cash generated by the business is held in highly rated government securities, AAA-rated money market funds, and bank accounts. Although these are all highly liquid, only the latter is classified as cash and cash equivalents on the Solvency II Net Assets Balance Sheet. The total liquid assets held are:

	31 December 2019	31 December 2018
	£'Million	£'Million
Fixed interest securities	5.2	5.4
Investment in Collective Investment Schemes (<i>AAA-rated money market funds</i>)	1,131.8	1,297.0
Cash and cash equivalents	292.8	248.5
Total liquid assets	1,429.8	1,550.9

The Group's primary source of net cash generation is product charges. In line with profit generation, as most of our investment and pension business enters a gestation period, there is no cash generated (apart from initial charges) for the first six years of an investment. This means that the amount of cash generated will increase year-on-year as FUM in the gestation period becomes mature and is subject to annual product management charges. Unit trust and ISA business does not enter the gestation period, and so generates cash immediately from the point of investment.

Cash is used to invest in the business and to pay the Group dividend. Our dividend policy is set such that appropriate cash is retained in the business to support the investment needed to meet our future growth aspirations.

Our most significant investment in the business in recent years has been the development of Bluedoor, which has had a substantial impact on our liquid assets, and borrowings positions. Since the inception of the project in 2014 we have capitalised £360.1 million of development spend on Bluedoor in our operational readiness prepayment asset. This is in addition to £183.9 million of internal project costs that we have expensed as incurred. The total cash outflow on the project is £543.7 million.

5. Borrowings

The Group has two different types of borrowings: senior unsecured corporate borrowings, which are used to manage working capital and to fund investment in the business; and a senior tranche of non-recourse securitisation loan notes, which is secured on a legally segregated portfolio of the Group's business loans to Partners. Holders of the senior tranche of non-recourse securitisation loan notes have no recourse to the assets held by any other entity within the Group:

	31 December 2019	31 December 2018
	£'Million	£'Million
Corporate borrowings: bank loans	173.3	164.8
Corporate borrowings: loan notes	113.8	113.8
Total senior unsecured corporate borrowings	287.1	278.6
Senior tranche of non-recourse securitisation loan notes	116.6	70.0
Total borrowings	403.7	348.6

After adjusting for this non-recourse debt, borrowings have increased broadly in line with the scale of the business over time, and we remain comfortable not only with our level of borrowings but also the headroom we have within our range of facilities. Further information is provided in Note 14 Borrowings and financial commitments of the IFRS financial statements.

6. Income tax liabilities

The Group has an income tax liability of £115.4 million at 31 December 2019 compared to an income tax asset of £9.7 million at 31 December 2018. This is due to a current tax charge of £227.9 million and tax paid of £102.8 million during the year. Further detail on the current tax charge and tax paid is provided in Note 7 Income and deferred taxes.

Stage 2: Movement in Solvency II Net Assets Balance Sheet

After the Solvency II Net Assets Balance Sheet has been determined, the second stage in the derivation of the Cash result identifies a number of movements in that balance sheet which do not represent cash flows for inclusion within the Cash result. The following table explains how the overall Cash result reconciles into the total movement:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Opening Solvency II net assets	1,108.0	1,095.1
Dividend paid	(256.0)	(242.7)
Issue of share capital and exercise of options	8.7	2.8
Consideration paid for own shares	(0.1)	(6.0)
Proceeds from exercise of shares held in trust	0.2	-
Change in deferred tax	(10.4)	(31.8)
Change in tax discounting	(10.0)	23.4
Change in goodwill, intangibles and other non-cash movements	(13.0)	(1.5)
Cash result	229.4	268.7
Closing Solvency II net assets	1,056.8	1,108.0

2.3 European Embedded Value (EEV)

Wealth management differs from most other businesses, in that the expected shareholder income from client investment activity emerges over a long period in the future. We therefore supplement 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 the 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. In the prior year, we had made a number of small changes to our EEV methods and assumptions to align them as closely as possible to Solvency II. These changes were reflected in the Economic assumption changes line.

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

		Year ended 31 December 2019	Year ended 31 December 2018
	Note	£'Million	£'Million
Funds management business	1	1,121.2	1,151.6
Distribution business	2	(55.6)	(38.9)
Back-office infrastructure development		(47.9)	(44.1)
Other		(65.7)	(66.6)
EEV operating profit		952.0	1,002.0
Investment return variance	3	768.6	(460.9)
Economic assumption changes		(27.0)	(15.1)
EEV profit before tax		1,693.6	526.0
Tax		(286.8)	(89.7)
EEV profit after tax		1,406.8	436.3

A reconciliation between EEV operating profit before tax and IFRS profit before tax is provided in Note 4.

Notes to the EEV result

1. Funds management business EEV operating profit

The funds management business operating profit has decreased to £1,121.2 million (2018: £1,151.6 million) and a full analysis of the result is shown below:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
New business contribution	793.0	852.7
Profit from existing business		
– unwind of the discount rate	248.5	242.3
– experience variance	82.1	24.5
– operating assumption change	(9.9)	25.9
Investment income	7.5	6.2
Funds management EEV operating profit	1,121.2	1,151.6

The **new business contribution** for the year at £793.0 million (2018: £852.7 million) was 7% lower than the prior year, reflecting both the decrease in new business volumes and operational deleverage during the year as fixed expenses and overheads have not reduced in line with volumes.

The **unwind of the discount rate** for the year increased to £248.5 million (2018: £242.3 million), reflecting the higher opening value of in-force business. The **experience variance** during the year was £82.1 million (2018: £24.5 million), reflecting positive retention experience. The impact of **operating assumption changes** in the year was a negative £9.9 million, reflecting revisions to the expense basis and the treatment of partial withdrawals on offshore bond business. The significant benefit of £25.9 million in 2018 reflected a reduction in the allowance for dual running costs associated with the Bluedoor migrations following improved understanding of the expected migration dates.

2. Distribution business

The distribution loss includes the positive gross margin arising from advice income less payments to advisers offset by the costs of investment in growing the Partnership, building the distribution capabilities in Asia and a charge of £18.9 million for the FSCS levy (2018: £11.3 million).

3. 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 FUM, a small difference can result in a large positive or negative variance.

The typical investment return on our funds during the year was positive 15% after charges, compared to the assumed investment return of positive 2%. This resulted in a positive investment return variance of £768.6 million (2018: negative £460.9 million).

4. Economic assumption changes

The negative variance of £27.0 million arising in the year (2018: negative £15.1 million) reflects the negative effect from a reduction in real yields over the year.

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 (the '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:

	Year ended 31 December 2019	Year ended 31 December 2018
Investment		
New business contribution (£'Million)	123.0	129.0
Gross inflows (£'Billion)	2.28	2.41
Margin (%)	5.4	5.4
Pension		
New business contribution (£'Million)	434.0	454.2
Gross inflows (£'Billion)	8.66	8.76
Margin (%)	5.0	5.2
Unit Trust and DFM		
New business contribution (£'Million)	236.0	269.5
Gross inflows (£'Billion)	4.16	4.53
Margin (%)	5.7	6.0
Total business		
New business contribution (£'Million)	793.0	852.7
Gross inflows (£'Billion)	15.10	15.70
Margin (%)	5.3	5.4
Post-tax margin (%)	4.4	4.5

The overall margin for the year was lower at 5.3% (2018: 5.4%) reflecting a decrease in new business volumes and an increase in establishment expenses during the year.

ECONOMIC ASSUMPTIONS

The principal economic assumptions used within the cash flows at 31 December are set out below:

	Year ended 31 December 2019	Year ended 31 December 2018
	%	%
Risk-free rate	0.9	1.4
Inflation rate	3.3	3.4
Risk discount rate (net of tax)	4.0	4.5
Future investment returns:		
– Gilts	0.9	1.4
– Equities	3.9	4.4
– Unit-linked funds	3.2	3.7
Expense inflation	3.7	3.8

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 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.

	Change in new business contribution		Change in European Embedded Value
	Pre-tax	Post-tax	Post-tax
	Note	£'Million	£'Million
Value at 31 December 2019		793.0	658.8
100bp reduction in risk-free rates, with corresponding change in fixed interest asset values	1	(26.7)	(22.3)
10% increase in withdrawal rates	2	(55.0)	(45.7)
10% reduction in market value of equity assets	3	-	-
10% increase in expenses	4	(22.0)	(18.3)
100bp increase in assumed inflation	5	(29.5)	(24.6)

Notes to the EEV sensitivities

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 withdrawal rate. For instance, if the withdrawal rate is 8% then a 10% 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	Post-tax	Post-tax
		£'Million	£'Million
100bp reduction in risk discount rate		96.0	79.7

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

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

	31 December 2019	31 December 2018
	£'Million	£'Million
Value of in-force business	6,003.0	4,763.5
Solvency II net assets	1,056.8	1,108.0
Total embedded value	7,059.8	5,871.5
	Pence	Pence
Net asset value per share	1,320.1	1,109.0

The EEV result above reflects the specific terms and conditions of our products. Our pension business is split between two portfolios. Our current product, the Retirement Account, was launched in 2016 and incorporates both pre-retirement and post-retirement phases of this investment in the same product. Earlier business was written in our separate Retirement Plan and Drawdown Plan products, targeted at the each of the two phases separately, and therefore has a slightly shorter term and lower new business margin.

Our experience is that much of our Retirement Plan business converts into Drawdown business at retirement, but, in line with the EEV guidelines, we are required to defer recognition of the additional value from the Drawdown Plan until it is crystallised. If instead we were to assess the future value of Retirement Plan business (beyond the immediate contract boundary) in a more holistic fashion, in line with Retirement Account business, this would result in an increase of approximately £385 million to our embedded value (31 December 2018: approximately £350 million).

In November 2019, the UK Prime Minister pledged to postpone the reduction in the corporation tax rate to 17%. This change has yet to be substantively enacted and therefore is not reflected in the total embedded value presented above. The impact, were the change to be substantively enacted, would be a reduction our embedded value of approximately £98 million.

Section 3: Solvency

St. James's Place has a business model and risk appetite that results in underlying assets being held that fully match with our obligations to clients. 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 a '1 in 200 years' event), 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 with the requirements of the Solvency II regime, to which we are ultimately accountable.

For the year ended 31 December 2019 we reviewed the level of our MSB and concluded that it was appropriate to decrease the MSB for the Life businesses from £355 million to £320 million. The decrease primarily reflects the reduction in risk in our UK Life business as we come towards the end of the back-office infrastructure programme. All of this business is administered on Bluedoor following the final successful migrations during the year.

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

	Life ¹	Other regulated	Other ²	Total	2018 Total
	£'Million	£'Million	£'Million	£'Million	£'Million
31 December 2019					
Solvency II net assets	337.7	235.8	483.3	1,056.8	1,108.0
MSB	320.0	156.2	-	476.2	491.0
Management solvency ratio	106%	151%	-	-	-

1 After payment of year-end intra-group dividend.

2 Before payment of the Group final dividend.

Solvency II net assets reflect the assets of the Group in excess of those matching clients' unit linked liabilities. It includes a £98.5 million (2018: £111.6 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 are assessed against our regulatory 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 the SCR.

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

	Life ¹	Other regulated	Other ²	Total	2018 Total
	£'Million	£'Million	£'Million	£'Million	£'Million
31 December 2019					
Solvency II net assets	337.7	235.8	483.3	1,056.8	1,108.0
Value of in-force (VIF)	4,303.5	-	-	4,303.5	3,388.8
Risk margin	(1,213.3)	-	-	(1,213.3)	(989.4)
Own funds (A)	3,427.9	235.8	483.3	4,147.0	3,507.4
Solvency capital requirement (B)	(3,059.4)	(88.6)	-	(3,148.0)	(2,447.3)
Solvency II free assets	368.5	147.2	483.3	999.0	1,060.1
Solvency ratio (A/B)	112%	266%	-	132%	143%

1 After payment of year-end intra-group dividend.

2 Before payment of the Group final dividend.

The solvency ratio after payment of the proposed Group final dividend is 126% at the year end (2018: 137%).

In 2018 the solvency ratio reflected the positive effect of the equity dampener depressing the market risk capital component. Management chose not to release this volatile additional amount of free assets, which course of action has been justified through its unwind over the year. At 31 December 2019 the equity dampener is (0.1%) (31 December 2018: (6.3%)). We continue to target a solvency ratio of 110% for SJPUK, our largest insurance subsidiary, as agreed with our regulator the PRA. As the business grows, the weighting of the balance sheet towards SJPUK will result in a gradual dilution of the group solvency ratio, but this will not reflect any change in risk appetite, nor risk inherent in the business.

Solvency II sensitivities

The table below shows the estimated impact on the Solvency II free assets, the SCR and the solvency ratio from changes in various assumptions underlying the Solvency II calculations. In each case, only the indicated item is varied relative to the restated values.

The solvency ratio is not very sensitive to changes in experience or assumptions, and, due to the approach to matching unit-linked liabilities with appropriate assets, can move counter-intuitively depending on circumstances, as demonstrated by the sensitivity analysis presented below:

	Note	Solvency II free assets £'Million	Solvency II capital requirement £'Million		Solvency ratio %
Value at 31 December 2019		999.0	3,148.0	132%	
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	897.6	3,148.3	129%	
10% increase in withdrawal rates	2	1,039.3	2,961.4	135%	
10% reduction in market value of equity assets	3	902.5	2,835.0	132%	
10% increase in expenses	4	949.5	3,142.2	130%	
100bp increase in assumed inflation	5	913.4	3,150.4	129%	

Notes to the Solvency II sensitivities

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% 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 all expenses are increased by 10%.
5. This reflects a 100bp increase in the assumed RPI underlying the expense inflation calculation.

RISK AND RISK MANAGEMENT

OVERVIEW AND CULTURE

Effective risk management is critical to the success of the St. James's Place Group. We are exposed to a wide variety of inherent risks due to the business activities and the industry in which we operate. We choose carefully the risks we accept and those to limit or avoid through the design and operation of our client and Partner proposition, including the way in which it is delivered and administered.

In addition, the Group is also exposed to a number of current and emerging external factors and trends (including political risks such as Brexit, macro-economic factors, cyber crime and climate change) some of which may impact on our short- and/or longer-term profitability. Under the leadership, direction and oversight of our Board, these risks are carefully understood and managed to achieve our client and business objectives.

We do not, and cannot, seek to eliminate risk entirely, rather we seek to understand our risks fully and manage them appropriately. The emphasis is on applying effective risk management strategies, so that all material risks are identified and managed within the agreed risk appetite. Risk management is embedded within our culture and is therefore a core aspect of decision-making.

Risk management forms a key part of the business planning process, including decisions on strategic developments to our client and Partner propositions, investments and dividend payments.

OUR RISK AND CONTROLS MANAGEMENT FRAMEWORK

The internal control environment is built upon a strong control culture and organisational delegation of responsibility. The "first line" business is responsible and accountable for risk management. This is then combined with oversight from the "second line" risk, controls and compliance functions and assurance from the "third line" internal audit to form a 'three lines of defense' model.

The risk management and control framework is the combined processes by which the Group identifies, assesses, measures, manages and monitors the risks that may impact on the successful delivery of its strategic objectives. Based upon our risk appetite, the risks identified are either accepted or appropriate actions taken to mitigate them.

The Board, through the Risk Committee, takes an active role in overseeing the Risk Management Framework, for which it is responsible. As part of this the Board robustly assesses its principal and emerging risks, which are considered in regular reporting and summarised annually in the Own Risk and Solvency Assessment: further information on this is provided below.

On behalf of the Board, the Audit Committee takes responsibility for assessing the effectiveness of the Group's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls. It does this via an annual review of risk and control self-assessments and a programme of control effectiveness reviews, the results of which are reviewed quarterly.

OUR RISK APPETITE

The Board carefully sets its appetite for taking risk against strategic objectives. These choices are set out in detail in our Risk Appetite Statement, which is reviewed at least annually by the risk committees of the Board (the 'Risk Committee') and Executive Board ('Group Risk Executive Committee') and ultimately approved by the Board. The Risk Appetite Statement also provides clarity over ownership, enabling us to identify the key individuals within the Group who have responsibility for managing these risks.

The Risk Appetite Statement includes a risk appetite scale. This scale has several risk acceptance levels, ranging from no appetite for taking risks at all, through to acceptance of risk. The level of risk we are willing to accommodate will vary dependant on individual risk scenarios. The decisions the Board takes when setting appetite will be based on understanding the likelihood and impact of a risk materialising.

Risk appetite can and will change over time, sometimes rapidly as economic and business environment conditions change, and therefore the statement is an evolving document. A comprehensive suite of Key Risk Indicators (KRIs) is reported regularly to enable the Risk Committee, on behalf of the Board, to monitor that the Group remains within its accepted appetite.

OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

We are classified as an insurance group and are subject to Solvency II insurance regulation. A key part of this regulation requires a consistent approach to risk management across the Group, supported by the production of an annual ORSA, which considers both the individual insurance entities and the Group.

The ORSA process follows an annual cycle, which links the business activity and strategic objectives with comprehensive risk assessments that the business faces, and ensures the Group is resilient to stresses in the short term and over a five-year period.

The Solvency Capital Requirement for insurers allow for at least a "1 in 200-year" risk event over a one-year time horizon. In addition, a broad range of severe stresses and scenarios are used to help provide insight into the ability to maintain the regulatory capital in these conditions. Our results show that with appropriate management action it would be possible to maintain regulatory capital across the Group under all scenarios modelled for the business planning horizon. The outcomes of these activities assist us when considering the calculations and allocation of risk capital to all major risks in the Group, and the adequacy of capital positions. This process ensures our continued confidence that the regulated entities remain strongly capitalised.

The ORSA uses a five-year projection period for the medium term. Due to the gestation period across some of our pension and investment product range, we do not earn annual management fees in the first six years and so considering a five year period gives a prudent view of the Group's viability as we consider revenues generated on existing business only. The ORSA is particularly useful in assessing viability as it has a similar purpose and requires a comprehensive assessment of risk management and risk capital requirements of the business. Consideration is given to factors or events that impact on our funds under management, investment growth, retention of clients and ability to attract new clients, in addition to the effects of a market downturn. Combinations of these factors are used to form scenarios which are tested, providing for more extreme combinations of events. Therefore, assumptions are robustly analysed to predict both the immediate impact of an event along with the impact over the longer term (in the wake of the event). In addition to these more extreme 'combination' scenarios, assessments are also completed based on more current/topical or emerging risk exposures affecting the Group or financial services more generally.

The ORSA aids decision making by bringing together the following processes:

- strategic planning;
- risk appetite consideration;
- risk identification and management; and
- capital planning and management.

The ORSA continues to evolve and further strengthen risk management processes throughout the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

The types of principal risks and uncertainties have not changed significantly over the past year. The strategic areas on which these risks impact, and the high-level controls and processes through which we aim to mitigate them, are set out in the tables on the following pages. Reputational damage and impacts to shareholders and other stakeholders are a likely consequence of any of our principal risks materialising.

Over the past year, the continued uncertainties around Brexit and international trade have impacted investor sentiment. Whilst some of the UK political uncertainties have recently reduced, global economic factors, such as the impact on trade of the Coronavirus, continue to impact on markets and investor behaviour. While we have very little direct exposure to market risk because of our matching policy (where we hold assets which match our liability to clients), we do have indirect exposure because of the impact these uncertainties have on new business and funds under management. Stress and scenario testing has been performed which demonstrates that the businesses is resilient to extreme but plausible scenarios. We continually monitor the changing environment, to ensure our analysis and scenario testing remains current. Although scenarios of political change (Brexit, general elections and trade wars) can drive changes in risk, the potential impacts on our business would manifest in ways with which we are familiar, notably market risk, persistency risk, changes in new business levels and operational risks. We cover these risks more specifically in the table in the following pages.

	Risk Description	Key Risks	Example Controls
Administration Service	We fail to deliver good quality administration services to clients and the Partnership.	<ul style="list-style-type: none"> • Clients and the Partnership receive poor policy administration • Failure of key administration system change projects • Administrative complexity 	<ul style="list-style-type: none"> • Management of administrations centres to ensure key service standards are met • Continuous development of technology • Effective planning of large-scale change projects • Ongoing activity to reduce administrative complexity
Brand and Competition	Challenge from competitors and the impact of reputational damage.	<ul style="list-style-type: none"> • Increased competitive pressure from traditional and disruptive (non-traditional) competitors • Cost and charges pressure • Negative media coverage 	<ul style="list-style-type: none"> • Clear demonstration of value delivered to clients through advice, service and products • Investment in improving positive brand recognition • Ongoing development of client and Partner propositions • Pro-active engagement with external agencies including media, industry groups and regulators
Client Proposition	Our product proposition fails to meet the needs, objectives and expectations of our clients. This includes poor relative investment performance and poor product design.	<ul style="list-style-type: none"> • Issues with manufactured products • Investments provide poor returns relative to their benchmarks and/or do not deliver expected client outcomes • Range of solutions does not align with the product and service requirements of our current and potential future clients • Failure to meet client expectations of a sustainable business, not least in respect of responsible investing 	<ul style="list-style-type: none"> • Regular monitoring of manufactured products' performance • Monitoring of investment performance and selection of the most appropriate funds from a risk/net return perspective • Continuous development of the range of services offered to clients • Engagement with investment managers around principles of responsible investment
Conduct	We fail to provide quality, suitable advice or service to clients.	<ul style="list-style-type: none"> • Partners deliver poor quality or unsuitable advice • Failure to evidence the provision of quality service and advice 	<ul style="list-style-type: none"> • Licensing programme ensuring appropriate standard of advice and service from advisers • Technical support helplines for advisers • Timely and clear responses to client complaints • Robust oversight process of the advice provided to clients delivered by Business Assurance, Compliance Assurance, Field Risk and Advice Guidance teams

Risk Description		Key Risks	Example Controls
Financial	We fail to effectively manage the business finances.	<ul style="list-style-type: none"> Failure to meet client liabilities Investment/market risk Credit risk Liquidity risk Insurance risk Expense risk 	<ul style="list-style-type: none"> Policyholder liabilities are fully matched Excess assets generally invested in high-quality, high-liquidity cash and cash equivalents Lending to the Partnership is secured on their future income streams Reinsurance of insurance risks Ongoing monitoring of all risk exposures and experiences Acceptance of market and persistency risk impact on profit Monitoring and management of individual entities' solvency to minimise Group interdependency
Outsourcing	The third-party outsourcers' activities impacts our performance and risk management.	<ul style="list-style-type: none"> Operational failures by material outsourcers Failure of critical service, significant areas include: <ul style="list-style-type: none"> Investment administration Investment management Custody Policy administration Cloud services 	<ul style="list-style-type: none"> Oversight regime in place to identify prudent steps to reduce risk of operational failures by material third-party providers Ongoing monitoring Due diligence of key suppliers
Partner Proposition	Our proposition solution fails to meet the needs, objectives and expectations of our current and potential future Partners.	<ul style="list-style-type: none"> Failure to attract new members of the Partnership Failure to retain advisers/Partners Failure to increase adviser productivity Available technology falls short of client and Partner expectations and fails to support growth objectives The Academy does not adequately support adviser growth 	<ul style="list-style-type: none"> Focus on providing a market-leading adviser proposition Adequately skilled and resourced population of supporting field managers Reliable systems and administration support Expanding the Academy capacity and supporting recruits through the Academy and beyond Market-leading support to Partners businesses
People	We are unable to attract, retain and organise the right people to run the business.	<ul style="list-style-type: none"> Loss of key personnel Poor employee morale Lack of inclusion and diversity in our business Our culture of supporting social value is eroded 	<ul style="list-style-type: none"> Measures to maintain a stable population of employees, including competitive total reward packages Monitoring of employee engagement and satisfaction Corporate incentives to encourage social value engagement, including matching of employee charitable giving to Foundation Whistle-blowing hotline
Regulatory	We fail to meet current, changing or new regulatory and legislative expectations.	<ul style="list-style-type: none"> Failure to comply with changing regulation Inadequate internal controls Failure to respond to regulatory driven changes to the industry in which we operate Solvency risk 	<ul style="list-style-type: none"> Compliance functions provide expert guidance and carry out extensive assurance work Strict controls are maintained in highly regulated areas Maintenance of appropriate solvency capital buffers, and continuous monitoring of solvency experience Fostering of positive regulatory relationships
Security & Resilience	We fail to adequately secure our physical assets, systems and/or sensitive information, or to deliver critical business services to our clients.	<ul style="list-style-type: none"> Internal or external fraud Core system failure Corporate, Partnership, or third-party information security and cyber risks Disruption in key business services to our clients 	<ul style="list-style-type: none"> Business continuity planning for SJP and its key suppliers Identification, communication, and response planning for the event of cyber crime Data leakage detection technology and incident reporting systems Internal awareness programmes Identification and assessment of critical business services

EMERGING RISKS

Emerging risks are identified through conversations and workshops with stakeholders throughout the business, attending industry events, reviewing academic papers, watching emerging risk webinars and other horizon scanning by Group Risk.

The purpose of monitoring and reporting emerging risks is to give assurance that we are prioritising our response to emerging risks appropriately in our strategy, which is the primary risk management tool for longer-term strategic risks. Examples of emerging risks which have been considered during the year include:

- risks that may result from changes in the political environment that could impact our business, including changes in regulation and legislation, and also investment market volatility or disruption;
- risks from digital disruption from competitors or shifts in consumer trends away from face-to-face advice;
- failing to capitalise on our significant investment in administration systems;
- risks relating to an ageing population of our clients and failure to appeal to future generations of clients; and
- risks relating to climate change.

VIABILITY STATEMENT

HOW WE ASSESS OUR VIABILITY

The business considers five-year financial forecasts when developing the strategy. These incorporate our budget for the next financial year and four further years of forecasts based on reasonable central assumptions around development of business drivers.

At the core of assessing our viability we seek to understand how different principal risks could materialise. We consider risks which might present either in isolation or in combination and which could result in acute shocks to the business or long-term underperformance against forecasted business drivers. We consider the five-year time horizon sufficiently long to assess potential impacts and ensure that the business could remain viable whilst enacting any management actions to restore the business' prospects.

When considering how the principal risks previously described might impact the business, we consider our ability to deal with particular events and changes to the following key financial drivers:

- Reduction in client retention
- Reduction in new business relative to forecasts
- Market stresses
- Increases in expenses
- Direct losses through operational risk events

We carry out stress and scenario testing on these key financial drivers, alongside operational risk assessments. To provide comfort over viability over the next five years, the scenarios and assessments look at events which would be extreme, whilst still remaining plausible. This work demonstrates that, although there would be impacts on profitability, the Group is resilient and could continue to meet regulatory capital requirements over five years should even the more extreme risks materialise.

As well as robust scenario testing the Directors have given consideration to assessments of the current risk environment, including how risks are managed through controls relative to the risk appetite, and emerging risks.

EXAMPLE SCENARIO

A wide variety of stresses and scenarios are applied to test all material drivers in a variety of ways to provide understanding of any dynamic impacts. As an example of a type of scenario which is considered, we assessed the direct financial implications of dealing with a major cyber-attack. We also modelled the impact of a large reduction in new business levels alongside a large mass lapse. We looked at the immediate impacts and the impact over five years, where we further assumed there was no subsequent growth in new business levels and no market growth.

RESILIENCE OVER DIFFERENT TIME HORIZONS

The table below provides an indication of which risk are relevant over different timeframes and why the Group is considered to be resilient over these timeframes.

Over the next year	Over the next five years	Beyond 2024
<p>Risks</p> <p>The key risks to business resilience in the short term are likely to be operational in nature, such as data loss or system failure. The share price could reflect risks that crystallise over the year but have a delayed or gradual impact on business performance. Liquidity risks would also be relevant for this time window. These risks are also relevant for the longer time periods.</p> <p>Resilience</p> <p>The Group generates relatively steady cash profits on existing funds under management and new business. This has allowed the Group to grow dividends and invest in growing the business. This is expected to remain the case over the next year and the Group maintains access to the finance necessary for its business plan. If severe risks materialised over the year and resulted in significant costs, the Group would have options to deal with the financial implications. Whilst other options would be explored first, curtailing investment or reducing dividends would be obvious ways to protect the financial strength of the business.</p> <p>Operational resilience is also important and risks which might cause severe business disruption are carefully managed. The success of the back-office system migration is an example of this.</p> <p>There are not considered to be any material uncertainties over the ability of the Group to survive over the 1-year time horizon.</p>	<p>Risks</p> <p>Investor sentiment, market impacts and changes to regulation after the Brexit related transition period continue to provide uncertainty.</p> <p>Aside from Brexit, risk relating to changes to advice regulation would likely impact the business in the next five years, or beyond. The importance of technology in the client proposition is only likely to become more important and risks may materialise from non-traditional competitors seeking to disrupt the UK financial advice market.</p> <p>Risks which have a more gradual effect, such as talent retention and acquisition, are also relatively more important over a longer time horizon.</p> <p>Resilience</p> <p>Counteracting the medium-term risks, there is more time to respond and take actions to manage the Group's prospects. As already referenced stress and scenario testing takes place which provides comfort over the Group's ability to weather storms over a 5-year time horizon and adapt accordingly. The Group's strategy is designed to navigate the threats and keep our proposition current for existing and potential clients. As the largest wealth manager in the UK the Group is well resourced to effectively respond to regulatory change and deal with increased regulatory complexity.</p>	<p>Risks</p> <p>Most of the shorter-term risks will remain relevant, however, over the longer-term client expectations around digital services are likely to become more important. The impact of artificial intelligence and machine learning in both the investment management and advice side will become more prevalent.</p> <p>Risks from climate change are starting to have an impact on investor sentiment and drive political change and this is only likely to increase. Beyond 2024 climate change is likely to be a far more significant factor for all our clients.</p> <p>Resilience</p> <p>Whilst the importance of technology in the advice space will grow, we believe that overall our target market will continue to value human interaction in discussing sensitive financial matters. We recognise however that the advice proposition will develop, and our advisers will need to be technology enabled. With increased use of integrated technology, we will be able to automate processes and allow our advisers to focus on the high-value advice and service aspects.</p> <p>We have been developing our responsible investing proposition for some years and welcome the focus in this area as the right thing to do and as an opportunity to maximise client benefit through our active investment management approach.</p>

CONCLUSION

In accordance with UK Corporate Governance Code (Provision 31), the Directors have assessed the Group's current financial position and prospects over the next five-year period and have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due. The Directors believe that the risk planning, management processes and culture, allow for a robust and effective risk management environment.

In addition to the assessment of longer-term viability and resilience set out above, the Board have assessed the Group's going concern status. Further information will be provided in the Directors' Report in our annual report and accounts.

CHAIR'S REPORT

Introduction

Despite external challenges, St. James's Place continued to grow in 2019. This is testament to the trust put in us by existing and new clients, the professionalism of the Partnership and the strength of the St. James's Place proposition, which, in turn, underpins the enduring success and resilience of the business.

Our role is to plan, grow and protect the financial future of clients, and we do so by developing long-term relationships, working hand in hand with our clients, to advise them on their long-term financial strategies. We are operating in an environment where the value of trusted face-to-face advice has never been more important.

The industry

The asset and fund management sector, including St. James's Place, came under significant scrutiny last year, with the failure of Woodford Investment Management (WIM). St. James's Place funds managed by WIM were held as segregated mandates and our distinctive Investment Management Approach (IMA) prevented WIM from investing any St. James's Place client funds in unquoted stocks. We quickly moved funds away from WIM and preserved full client access. Whilst this was a tangible demonstration of the value of our IMA, the Board has, nevertheless, fully considered the wider implications of this episode and identified areas in which we could strengthen it further.

The industry remains under scrutiny on the levels of fees, charges and value delivered to clients. The St. James's Place proposition is fundamentally different to that of an online funds platform, and it is unfortunate that much of the public commentary on fees and charges has been overly simplistic. Independent third-party analysis demonstrates that, for our target market, St. James's Place charges are competitive, and our wealth account survey demonstrates that clients support this view. However, the Board recognises the need to further improve the transparency and client understanding of fees and to ensure that we continue to deliver value for clients. This will remain a focus.

Clients

For many clients 2019 proved a very positive one in terms of investment returns, buoyed by strong, but at times volatile, investment performance across major investment markets globally. We are naturally pleased that all of our investment portfolios delivered strong growth, supporting positive client outcomes.

The Board continues to support the evolution of our proposition so that we improve our ability to serve client needs. One example of this in 2019 is the work we undertook to enhance our approach to identifying, servicing and supporting vulnerable clients. Another is the development of propositions around long-term care, again signifying our desire to make sure we can support clients as their needs change and develop.

Investment for the future

We continue to invest in the future growth of the business including the St. James's Place Academy, through which we train new advisers for the Partnership, as well as our Rowan Dartington and Asian operations.

The pace of technological change in our industry is relentless, and the Board believes it is important to continue to invest in this area to meet client and adviser expectations and to improve our operating excellence. In October we completed the successful migration of all our core UK business to the new Bluedoor platform which will provide a solid operating system for future growth.

Purpose and culture

The Board spent considerable time in 2019 reflecting on purpose, culture and values. The founding principles of the business recognised the importance of wider social purpose: "doing the right thing" and "giving something back". Our desired culture is best exemplified by the St. James's Place Charitable Foundation which is a core part of our business model. More than eight out of ten of our Partners and employees make regular donations to the Charitable Foundation, and many actively participate in fund raising and other charitable activities.

There are many other ways in which St. James's Place makes an active contribution to society: we directly benefit the financial well-being of 733,000 clients and their families; we help 4,271 advisers thrive in providing high-quality advice across 2,564 separate Partner businesses; we are stewards, on behalf of our clients, of £117.0 billion of assets; we employ 2,634 people; we are the largest provider of financial advice in the UK and seek to be a good regulatory citizen; the Company and the Partnership are an active part of many local communities; and, we are a significant tax payer. During the last year, the Board took account of all of these stakeholders in its decision making and will continue to do so in future (the S.172(1) Statement in our annual report and accounts will provide examples of this).

It was clearly disappointing when some aspects of our culture were subject to criticism last year, particularly in relation to the way in which the Partnership is rewarded. Recognising achievement and bringing advisers together to provide development and networking opportunities remains an important part of how we operate, and indeed it is an essential way of strengthening culture in what is a geographically widely dispersed Partnership. Whilst we do not believe that the criticism we received is reflective of our community as a whole, we continue to review all aspects of Partnership recognition and remuneration to ensure they remain appropriate in today's world and we will continue to further develop our approach in 2020.

The Board will spend further time in 2020 considering the wider societal purpose and the culture of the business and how best to refine the way in which it assesses them.

Succession, diversity and workforce engagement

In my report last year I highlighted that one of the main priorities for the Board was long-term succession planning for the Non-executive and Executive Directors and I am pleased to report that good progress has been made.

I am delighted to welcome Rosemary Hilary, Dame Helena Morrissey, Emma Griffin and (from 1 June 2020) Lesley-Ann Nash to the Group Board, and Dawn Hyams to the board of St. James's Place Unit Trust Group Limited. All of them bring valuable skills and experience to the business and add to the diversity of our governance. Once the Board has managed through its current transitional succession phase I would expect the number of Non-executive Directors on the Board to return to a more normal figure. Further information will be presented in the Report of the Nomination Committee in our annual report and accounts.

The Board has also had a particular focus, in conjunction with external specialist support, on further strengthening succession planning and career development at senior levels amongst the Executive, and as part of this the Board was delighted that Elizabeth Kelly was appointed to the Executive Board.

The Board is committed to ensuring greater diversity, in all its facets, throughout the St. James's Place community. Getting to where we want to be will take time, but our significantly increased focus on diversity over the last two years has begun to deliver results. The Board has been active in overseeing plans and monitoring performance in this area and will continue to be so.

St. James's Place is fundamentally a people business and engagement with both employees and the Partnership has always been an essential part of the way in which the business is run. In addition to its normal course of engagement with the business, the Board has formalised an employee engagement programme, led by Baroness Wheatcroft, but with the participation of all of the Directors. The programme has built on the pre-existing mechanisms for colleague engagement and consists of focus groups, surveys and Director lunches. Last year the programme covered topics including reward and recognition, business strategy, diversity and inclusion, Board and management interaction, and culture and ethics. The Board received regular reports on the feedback received and the actions taken as a result.

Responsible investing and climate change

The impact of climate change is clearly a significant concern for society in general and consequently a growing focus from clients, regulators and politicians. The Board recognises that environmental, social and governance factors are vital components of a sustainable investment strategy, and that as a major investor, St. James's Place has a key responsibility in this area. It also believes that the Company has an opportunity to take a leadership position in responsible investing. Last year we achieved an A+ rating in the United Nations Principles for Responsible Investment annual assessment and the Board agreed that the Company should become a supporter of the Task Force on Climate Related Finance Disclosure. The Board spent time last year considering the multi-year plan for the continued evolution of the IMA, of which responsible investment is a key pillar, and we will continue to oversee progress against it.

Dividend and concluding remarks

St. James's Place delivered a solid performance in 2019 in an environment characterised by uncertainty. While we acknowledge that there are lessons to be learned from some of the events which took place in 2019, the Board remains confident in the fundamental strength of the business and in its ability to take advantage of the long-term structural opportunities which exist in its market, to the benefit of all of its stakeholders.

Reflecting our confidence in the business and its future prospects, the Board is pleased to propose a final dividend of 31.22 pence per share, making a total of 49.71 pence per share for the year. This is a 3% increase on 2018.

Finally, I would like to offer the sincere appreciation of the Board to the entire SJP community for their efforts.

IAIN CORNISH

Chair

26 February 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December 2019	Year ended 31 December 2018
	Note	£'Million	£'Million
Insurance premium income		42.6	46.5
Less premiums ceded to reinsurers		(26.8)	(29.6)
Net insurance premium income		15.8	16.9
Fee and commission income	5	2,374.1	1,523.7
Investment return	6	14,173.6	(4,235.0)
Net income/(expense)		16,563.5	(2,694.4)
Policy claims and benefits			
– Gross amount		(56.0)	(54.0)
– Reinsurers' share		22.4	19.6
Net policyholder claims and benefits incurred		(33.6)	(34.4)
Change in insurance contract liabilities			
– Gross amount		(48.5)	36.5
– Reinsurers' share		5.9	–
Net change in insurance contract liabilities		(42.6)	36.5
Movement in investment contract benefits	6	(14,070.6)	4,249.2
Expenses		(1,707.8)	(1,641.5)
Profit/(loss) before tax	4	708.9	(84.6)
Tax attributable to policyholders' returns	7	(521.8)	296.5
Profit before tax attributable to shareholders' returns		187.1	211.9
Total tax (expense)/credit	7	(562.3)	258.1
Less: tax attributable to policyholders' returns	7	521.8	(296.5)
Tax attributable to shareholders' returns	7	(40.5)	(38.4)
Profit and total comprehensive income for the year		146.6	173.5
Loss attributable to non-controlling interests		–	–
Profit attributable to equity shareholders		146.6	173.5
Profit and total comprehensive income for the year		146.6	173.5
		Pence	Pence
Basic earnings per share	16	27.6	33.0
Diluted earnings per share	16	27.5	32.4

The results relate to continuing operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable owners of the Parent						Non-controlling interests	
		Share capital	Share premium	Shares in trust reserve	Retained earnings	Misc reserves	Total	£'Million	Total equity
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 year		–	–	–	173.5	–	173.5	–	173.5
Dividends	16	–	–	–	(242.7)	–	(242.7)	–	(242.7)
Exercise of options	16	–	2.8	–	–	–	2.8	–	2.8
Consideration paid for own shares		–	–	(6.0)	–	–	(6.0)	–	(6.0)
Shares sold during the year		–	–	9.0	(9.0)	–	–	–	–
Retained earnings credit in respect of share option charges		–	–	–	33.4	–	33.4	–	33.4
At 31 December 2018		79.4	174.5	(23.7)	787.3	2.5	1,020.0	(0.9)	1,019.1
Profit and total comprehensive income for the year		–	–	–	146.6	–	146.6	–	146.6
Dividends	16	–	–	–	(256.0)	–	(256.0)	–	(256.0)
Issue of share capital	16	0.1	3.9	–	–	–	4.0	–	4.0
Exercise of options	16	0.7	4.0	–	–	–	4.7	–	4.7
Consideration paid for own shares		–	–	(0.1)	–	–	(0.1)	–	(0.1)
Shares sold during the year		–	–	7.4	(7.4)	–	–	–	–
Proceeds from exercise of shares held in trust		–	–	–	0.2	–	0.2	–	0.2
Retained earnings credit in respect of share option charges		–	–	–	28.7	–	28.7	–	28.7
At 31 December 2019		80.2	182.4	(16.4)	699.4	2.5	948.1	(0.9)	947.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2019	As at 31 December 2018
	Note	£'Million	£'Million
Assets			
Goodwill	8	15.6	15.6
Deferred acquisition costs	8	490.0	558.5
Intangible assets			
– Purchased value of in-force business	8	20.8	24.0
– Computer software	8	8.9	1.4
Property and equipment	9	166.3	28.5
Deferred tax assets	7	131.1	147.1
Reinsurance assets		88.6	82.8
Other receivables	12	2,127.1	1,952.3
Income tax assets		–	9.7
Investments			
– Investment property	11	1,750.9	1,820.7
– Equities	11	72,694.2	56,077.9
– Fixed income securities	11	26,275.6	21,966.0
– Investment in Collective Investment Schemes	11	5,166.4	4,756.1
– Derivative financial instruments	11	1,342.9	508.8
Cash and cash equivalents	11	7,013.6	6,877.6
Total assets		117,292.0	94,827.0
Liabilities			
Borrowings	14	403.7	348.6
Deferred tax liabilities	7	493.7	172.9
Insurance contract liabilities		556.6	508.1
Deferred income	8	614.7	648.3
Other provisions		40.6	22.7
Other payables	13	1,782.7	1,290.8
Investment contracts benefits	11	83,558.5	67,796.1
Derivative financial instruments	11	948.8	517.4
Net asset value attributable to unit holders	11	27,830.0	22,502.9
Income tax liabilities		115.4	–
Preference shares		0.1	0.1
Total liabilities		116,344.8	93,807.9
Net assets		947.2	1,019.1
Shareholders' equity			
Share capital	16	80.2	79.4
Share premium		182.4	174.5
Shares in trust reserve		(16.4)	(23.7)
Miscellaneous reserves		2.5	2.5
Retained earnings		699.4	787.3
Equity attributable to owners of the Parent Company		948.1	1,020.0
Non-controlling interests		(0.9)	(0.9)
Total equity		947.2	1,019.1
Net assets per share		177.1	192.5

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December 2019	Year ended 31 December 2018
	Note	£'Million	£'Million
Cash flows from operating activities			
Profit/(loss) before tax for the year		708.9	(84.6)
Adjustments for:			
Amortisation of purchased value of in-force business	8	3.2	3.2
Amortisation of computer software	8	1.4	1.1
Depreciation	9	20.7	6.5
Share-based payment charge		29.2	34.1
Interest income		(45.4)	(35.1)
Interest expense		12.6	6.1
Increase in provisions		6.7	2.7
Exchange rate losses/(gains)		0.4	(0.3)
Changes in operating assets and liabilities			
Decrease in deferred acquisition costs	8	68.5	64.5
Decrease/(increase) in investment property		69.8	(189.8)
Increase in other investments		(22,170.3)	(4,794.4)
Increase in reinsurance assets		(5.8)	–
Increase in other receivables		(169.3)	(330.3)
Increase/(decrease) in insurance contract liabilities		48.5	(36.5)
Increase in financial liabilities (excluding borrowings)		16,193.8	4,108.9
(Decrease)/increase in deferred income	8	(33.6)	2.0
Increase in other payables		369.0	57.2
Increase in net assets attributable to unit holders		5,327.1	1,153.8
Cash generated from/(used in) operating activities			
Interest received		45.4	35.1
Interest paid		(12.6)	(6.1)
Income taxes paid	7	(102.8)	(213.2)
Net cash generated from operating activities			
		365.4	(215.1)
Cash flows from investing activities			
Acquisition of property and equipment	9	(17.3)	(8.6)
Acquisition of intangible assets	8	(8.9)	(0.1)
Acquisition of subsidiaries and other business combinations, net of cash acquired		(3.0)	(4.1)
Net cash used in investing activities			
		(29.2)	(12.8)
Cash flows from financing activities			
Proceeds from the issue of share capital and exercise of options		8.7	2.8
Consideration paid for own shares		(0.1)	(6.0)
Proceeds from exercise of shares held in trust		0.2	–
Additional borrowings	14	390.0	232.5
Repayment of borrowings	14	(334.8)	(162.2)
Lease payments		(8.1)	–
Dividends paid	16	(256.0)	(242.7)
Net cash used in financing activities			
		(200.1)	(175.6)
Net increase/(decrease) in cash and cash equivalents			
		136.1	(403.5)
Cash and cash equivalents at 1 January	11	6,877.6	7,280.6
Exchange (losses)/gains on cash and cash equivalents		(0.1)	0.5
Cash and cash equivalents at 31 December			
	11	7,013.6	6,877.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. Accounting policies

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

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

Within the financial statements, a number of 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 (IFRSs) 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. Information on Alternative Performance Measures is provided in the Financial Review and Glossary on pages 64 to 66, which defines each APM, explains why it is used and, where applicable, how the measure can be reconciled to the IFRS financial statements.

2. Other accounting policies

The other accounting policies used by the Group in preparing the results are consistent with those applied in preparing the statutory accounts for the year ended 31 December 2018 with the exception of the adoption of IFRS 16 Leases, which impacted the disclosure in this announcement.

IFRS 16 Leases was adopted as of 1 January 2019.

For lessees, IFRS 16 removes the distinction between operating and finance leases and requires almost all leases to be recognised on the statement of financial position. The right to use the leased item is recognised as an asset, and the present value of future lease payments is recognised as a financial liability (the 'lease liability'). The only exceptions are for short-term or low-value leases. The standard has changed the way that the Group accounts for leases previously classified as operating leases.

On adoption of IFRS 16 the Group's lease portfolio transitioned following the modified retrospective approach. As a result, prior period comparatives have not been restated. The Group took advantage of the exemptions offered by the standard for short-term and low-value leases, and the practical expedients available on transition to:

- not reassess whether an existing contract is, or contains a lease;
- account for leases with a remaining lease term of less than 12 months from 1 January 2019 as short-term leases;
- exclude initial direct costs from the measurement of leased assets at transition;
- use hindsight in determining the lease term where a contract contains options to extend or terminate the lease; and
- apply a single discount rate to a portfolio of leases where they have reasonably similar characteristics.

Upon transition, the Group recognised a right-of-use asset of £91.8 million and a lease liability of £83.2 million, along with a lease provision recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets of £8.6 million. The value of the right-of-use asset equaled the value of the lease liability plus the lease provision, and so no adjustment was made to opening reserves.

In the year to 31 December 2019, £21.7 million lease expense on the transitioned portfolio was recognised under IFRS 16. The lease expense comprises depreciation of the right-of-use asset, which is recognised on a straight-line basis over the remaining term of the lease, and interest expense on the lease liability, which is recognised using the effective interest method. This means that the interest expense reduces each year over the course of 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 under IFRS 16 is higher than it would have been under IAS 17.

The disclosure of total operating lease commitments presented under IAS 17 in the financial statements for the year ended 31 December 2018 reconciles to the opening lease liabilities recognised on 1 January 2019 under IFRS 16 as follows:

	£'Million
IAS 17 total undiscounted operating lease commitments disclosed at 31 December 2018	141.3
Less discount using the Group's weighted average incremental borrowing rate of 2.4%	(16.3)
Less lease commitments to which the short-term exemption has been applied	(6.3)
Less lease commitments to which the low-value asset exemption has been applied	(2.4)
Less service/non-lease components of lease contracts	(15.1)
Less VAT	(18.0)
IFRS 16 lease liability at 1 January 2019	83.2

In addition to the leases which transitioned to IFRS 16 on 1 January 2019, the Group entered into a number of new leases in the year to 31 December 2019. Detail of the right-of-use assets and lease liabilities at 1 January and 31 December 2019 in Note 10.

The Group is lessor for a number of investment properties. The accounting for these properties has not changed, but additional disclosures have been presented in Note 11.

3. Critical accounting estimates and judgements in applying accounting policies

JUDGEMENTS

The primary areas in which the Group has applied judgement are as follows:

Classification of contracts between insurance and investment business

Contracts with a significant degree of insurance risk are treated as insurance contracts. All other contracts are treated as investment contracts. It is this classification that management considers to be a critical judgement; however, due to the carrying value of the insurance contract liabilities within the statement of financial position, management does not consider insurance business to be significant to the Group.

Consolidation

Entities are consolidated within the Group financial statements if they are controlled by the Group. Control exists if the Group is exposed to, or has rights to, variable returns from its involvement with the entity and the Group has the ability to affect those returns through its power over the entity. Significant judgement can be involved in determining whether the Group controls an entity, such as in the case of the structured entity set up for the Group's securitisation transaction, SJP Partner Loans No.1 Limited, and for the Group's unit trusts.

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. As a result, factors such as whether a Group entity is able to direct the relevant activities of the entity and the extent to which the Group is exposed to variability of returns are considered. In the case of SJP Partner Loans No.1 Limited, it was determined that the Group does control the entity and hence it is consolidated. This is due to an entity in the Group holding the junior tranche of loan notes, hence being subject to variability of returns, and the same entity being able to direct the relevant activities of the structured entity through its role of servicer to the securitised portfolio.

Unit trusts are consolidated when the Group holds more than 30% of the units in that unit trust. This is the threshold at which the Group is considered to achieve control, having regard for factors such as:

- the scope of decision making authority held by St. James's Place Unit Trust Group Limited, the unit trust manager;
- rights held by external parties to remove the unit trust manager; and
- the Group's exposure to variable returns through its holdings in the unit trusts and the unit trust manager's remuneration.

Determining non-performing business loans to Partners

Business loans to Partners are considered to be non-performing, in the context of the definition prescribed within IFRS 9, if they are in default. This is defined as a loan to either:

- a Partner who has left the St. James's Place Partnership; or
- a Partner who management considers to be at significant risk of leaving the Partnership where an orderly settlement of debt is considered to be in question.

The IFRS 9 presumption that default occurs when a loan is more than 90 days past due has been rebutted. Because of the quality of cash flows on which loans are secured together with the direct control exercised over them from source, past evidence supports the assertion that the vast majority of loans to Partners who remain in the Partnership are repaid in full, irrespective of the number of days past due the loan may be.

ESTIMATES

Critical accounting estimates are those which give rise to a significant risk of material adjustment to the balances recognised in the financial statements within the next 12 months. The Group's critical accounting estimates are:

- determining the value of insurance contract liabilities;
- determining the fair value of investment property; and
- determining the fair value of Level 3 fixed income securities and equities.

Estimates are also applied in other assets of the financial statements, including determining the value of deferred tax assets, investment contract benefits, the operational readiness prepayment and other provisions.

Measurement of insurance contract liabilities

The assumptions used in the calculation of insurance contract liabilities that have an effect on the statement of comprehensive income of the Group are:

- the lapse assumption, which is set prudently based on an investigation of experience during the year;
- the level of expenses, which is based on actual expenses in 2019 and expected rates in 2020 and the long term;
- the mortality and morbidity rates, which are based on the results of an investigation of experience during the year; and
- the assumed rate of investment return, which is based on current gilt yields.

Whilst the measurement of insurance contract liabilities is considered to be a critical accounting estimate for the Group, the vast majority of non-unit-linked insurance business written is reinsured. As a result, the impact of a change in estimate in determining the value of insurance contract liabilities would be mitigated to a significant degree by the impact of the change in estimate in determining the value of reinsurance assets.

Determining the fair value of investment property

In accordance with IAS 40, the Group initially recognises investment properties at cost, and subsequently re-measures its portfolio to fair value in the statement of financial position. Fair value is determined monthly by professional external valuers. It is 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 potential 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. As such, investment properties are classified as Level 3 in the IFRS 13 fair value hierarchy because they are valued using techniques which are not based on observable inputs.

Determining the fair value of Level 3 fixed income securities and equities

In accordance with IFRS 9, the Group elects to classify its portfolio of policyholder fixed income securities at fair value through profit and loss to match the accounting for policyholder liabilities. Its portfolio of equities is required to be held at fair value through profit and loss. As a result, all fixed income securities and equities are initially held at cost and are subsequently re-measured to fair value at the reporting date.

During 2019, a number of investments were made into private credit and private equity assets, which are recognised within fixed income securities and equities on the consolidated statement of financial position respectively. The fair value of these assets is determined following a monthly valuation process which uses two different valuation models and includes verification by professional external valuers. The models use suitable market comparatives and an estimate of future cash flows expected to flow from the issuing entity.

The valuations are inherently subjective as they require a number of assumptions to be made, such as determining which entities provide suitable market comparatives and their relevant performance metrics (for example earnings before interest, tax, depreciation and amortisation), determining appropriate discount rates and cash flow forecasts to use in models, the weighting to apply to each valuation methodologies and the point in the range of valuations to select as the fair value. As the inputs to the valuation models are unobservable, the investments in private credit and private equity assets are classified as Level 3 in the IFRS 13 fair value hierarchy.

4. 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 5, which details 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).

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 non-cash-settled 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 16 to 18 of the Financial Review.

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

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Underlying cash result after tax	273.1	309.0
Non-cash-settled share-based payments	(28.7)	(33.4)
Impacts of deferred tax	(10.4)	(31.8)
Back-office infrastructure	(38.8)	(35.8)
Impact in the year of DAC/DIR/PVIF	(26.2)	(54.4)
Other	(22.4)	19.9
IFRS profit after tax	146.6	173.5
Shareholder tax	40.5	38.4
Profit before tax attributable to shareholders' returns	187.1	211.9
Tax attributable to policyholder returns	521.8	(296.5)
IFRS profit/(loss) before tax	708.9	(84.6)

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 the Annual Report and Accounts.

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
EEV operating profit before tax	952.0	1,002.0
Investment return variance	768.6	(460.9)
Economic assumption changes	(27.0)	(15.1)
EEV profit before tax	1,693.6	526.0
Adjustments to IFRS basis		
Deduct: amortisation of purchased value of in-force	(3.2)	(3.2)
Movement of balance sheet life value of in-force (net of tax)	(946.6)	(243.7)
Movement of balance sheet unit trust and DFM value of in-force (net of tax)	(310.9)	(16.5)
Tax of movement in value of in-force	(245.8)	(50.7)
Profit before tax attributable to shareholders' returns	187.1	211.9
Tax attributable to policyholder returns	521.8	(296.5)
IFRS profit/(loss) before tax	708.9	(84.6)

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

SEGMENT ASSETS

Funds Under Management (FUM)

FUM, as reported in Section 1 of the Financial Review on pages 11 and 12, is the measure of segment assets which is monitored on a monthly basis by the Board.

	31 December 2019	31 December 2018
	£'Million	£'Million
Investment	31,220.0	27,620.0
Pension	52,840.0	40,720.0
UT/ISA and DFM	32,930.0	27,210.0
Total FUM	116,990.0	95,550.0
Exclude client and third-party holdings in non-consolidated unit trusts and DFM	(5,185.1)	(4,701.6)
Other	1,742.0	666.9
Gross assets held to cover unit liabilities	113,546.9	91,515.3
IFRS intangible assets (see page 19 adjustment 2) including goodwill, DAC, PVIF, reinsurance and deferred tax	658.6	720.9
Shareholder gross assets (see page 19)	3,086.5	2,590.8
Total assets	117,292.0	94,827.0

5. Fee and commission income

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Advice charges (post-RDR)	749.7	743.2
Third-party fee and commission income	120.8	113.0
Wealth management fees	724.8	721.9
Investment management fees	71.6	85.7
Fund tax deductions	521.8	(296.5)
Discretionary fund management fees	16.2	13.8
Fee and commission income before DIR amortisation	2,204.9	1,381.1
Amortisation of DIR	169.2	142.6
Total fee and commission income	2,374.1	1,523.7

For all post-RDR business, advice charges are received from clients for the provision of initial and ongoing advice in relation to an investment into a St. James's Place or third-party product.

Where an investment has been made into a St. James's Place product, the initial product charge and any dealing margin is deferred and recognised as a deferred income liability. This liability is extinguished, and income recognised, over the expected life of the investment. The income is the amortisation of DIR in the table above. Ongoing product charges for St. James's Place products are recognised within wealth management fees. This line also includes advice charges on pre-RDR business, for which an explicit advice charge was not made.

Where an investment has been made into a third-party product, third-party fee and commission income is received from the product provider.

Investment management fees are received from clients for the provision of all aspects of investment management. Broadly, investment management fees match investment management expenses.

Fund tax deductions represent amounts deducted from, or credited to, the underlying funds to match policyholder tax charges or credit. This arises because the UK tax regime includes a policyholder tax element within the Group's tax arrangements. The amount of tax attributable to policyholders reflects investment return in the underlying funds. During 2019, market gains led to a significant policyholder tax charge, hence £521.8 million of deductions were made from the funds. In contrast, during 2018, market falls led to a significant policyholder tax credit, hence a credit of £296.5 million to the funds.

Discretionary fund management fees are received from clients for DFM services.

6. Investment return and movement in investment contract benefits

The majority of the business written by the Group is unit-linked investment business, and so investment contract benefits are measured by reference to the underlying net asset value of the Group's unitised investment funds. As a result, investment return on the unitised investment funds and the movement in investment contract benefits are linked.

INVESTMENT RETURN

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Investment return on net assets held to cover unit liabilities:		
Rental income	94.1	90.9
Loss on revaluation of investment properties	(74.2)	(22.8)
Net investment return on financial instruments classified as fair value through profit and loss	10,741.6	(3,046.0)
	10,761.5	(2,977.9)
<i>Attributable to unit-linked insurance contract liabilities</i>	<i>65.4</i>	6.6
<i>Attributable to unit-linked investment contract benefits</i>	<i>10,696.1</i>	(2,984.5)
	10,761.5	(2,977.9)
Income attributable to third-party holdings in unit trusts	3,374.5	(1,264.7)
	14,136.0	(4,242.6)
Investment return on shareholder assets:		
Net investment return on financial instruments classified as fair value through profit and loss	18.7	(4.5)
Interest income on financial instruments held at amortised cost	18.9	12.1
	37.6	7.6
Total investment return	14,173.6	(4,235.0)

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 £1,285.6 million (2018: £987.7 million).

MOVEMENT IN INVESTMENT CONTRACT BENEFITS

	2019	2018
	£'Million	£'Million
Balance at 1 January		
Balance at 1 January	67,796.1	64,014.3
Deposits	10,852.9	11,307.4
Withdrawals	(4,641.4)	(4,168.5)
Movement in unit-linked investment contract benefits	10,696.1	(2,984.5)
Less: fees and other adjustments	(1,145.2)	(372.6)
Balance at 31 December	83,558.5	67,796.1
Current	5,316.4	4,188.2
Non-current	78,242.1	63,607.9
	83,558.5	67,796.1
Movement in unit liabilities		
Unit-linked investment contract benefits	10,696.1	(2,984.5)
Third-party unit trust holdings	3,374.5	(1,264.7)
Movement in investment contract benefits in consolidated statement of comprehensive income	14,070.6	(4,249.2)

7. Income and deferred taxes

TAX FOR THE YEAR

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Current tax		
UK corporation tax		
– Current year charge	215.7	79.1
– Adjustment in respect of prior year	1.0	(2.7)
Overseas taxes		
– Current year charge	11.0	4.9
– Adjustment in respect of prior year	0.2	0.1
	227.9	81.4
Deferred tax		
Unrealised capital gains/(losses) in unit-linked funds	333.8	(359.2)
Unrelieved expenses		
– Additional expenses recognised in the year	(11.6)	(11.1)
– Utilisation in the year	12.9	15.0
Capital losses		
– Revaluation in the year	1.1	(1.8)
– Utilisation in the year	10.3	29.7
– Adjustment in respect of prior year	(0.3)	2.4
DAC, DIR and PVIF	(11.0)	(11.5)
Other items	1.1	(3.4)
Overseas losses	(0.7)	(0.5)
Adjustments in respect of prior periods	(1.2)	0.9
	334.4	(339.5)
Total tax charge/(credit) for the year	562.3	(258.1)
Attributable to:		
– policyholders	521.8	(296.5)
– shareholders	40.5	38.4
	562.3	(258.1)

The prior year adjustment of £1.2 million in current tax above represents a credit of £0.1 million in respect of policyholder tax (2018: £0.9 million charge) and a charge of £1.3 million in respect of shareholder tax (2018: £3.5 million credit). The total prior year adjustments in deferred tax relate entirely to shareholder tax.

Included within the deferred tax on 'other items' is a charge of £1.5 million (2018: £0.8 million credit) 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.

RECONCILIATION OF TAX CHARGE TO EXPECTED TAX

	Year ended 31 December 2019	Year ended 31 December 2018		
	£'Million	£'Million		
Profit/(loss) before tax	708.9	(84.6)		
Tax attributable to policyholders' returns	(521.8)	296.5		
Profit before tax attributable to shareholders' return	187.1	211.9		
Shareholder tax charge at corporate tax rate of 19% (2018: 19%)	35.5	19%	40.3	19%
Adjustments:				
Lower rates of corporation tax in overseas subsidiaries	(0.5)	(0.3%)	(0.3)	(0.1%)
Expected shareholder tax	35.0	18.7%	40.0	18.9%
Effects of:				
Non-taxable income	(1.3)	(0.2)		
Revaluation of historic capital losses in the Group	1.1	(1.8)		
Adjustment in respect of prior year				
– Current tax	1.3	(3.5)		
– Deferred tax	(1.5)	0.9		
Differences in accounting and tax bases in relation to employee share schemes	1.2	(1.1)		
Disallowable expenses	2.3	2.0		
Other	(0.2)	-		
Tax losses not recognised	2.6	2.1		
	5.5	2.9%	(1.6)	(0.8%)
Shareholder tax charge	40.5	21.6%	38.4	18.1%
Policyholder tax charge/(credit)	521.8		(296.5)	
Total tax charge/(credit) for the year	562.3		(258.1)	

Tax calculated on profit/(loss) before tax at 19% (2018: 19%) would amount to £134.7 million (2018: £(16.1) million). The difference of £427.6 million (2018: £(242.0) million) between this number and the total tax of £562.3 million (2018: £(258.1) million) is made up of the reconciling items above which total £5.0 million (2018: £(1.9) million) and the effect of the apportionment methodology on tax applicable to policyholder returns of £422.6 million (2018: £(240.1) million).

TAX PAID IN THE YEAR

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Current tax charge for the year	227.9	81.4
(Payments to be made)/refunds due to be received in future years in respect of current year	(115.4)	9.7
(Refunds received)/payments made in current year in respect of prior years	(7.9)	124.7
Other	(1.8)	0.7
Tax paid	102.8	216.5
Tax paid can be analysed as:		
– Taxes paid in UK	91.2	211.5
– Taxes paid in overseas jurisdictions	1.9	1.5
– Withholding taxes suffered on investment income received	9.7	3.5
Total	102.8	216.5

DEFERRED TAX BALANCES

Deferred tax assets

	Unrelieved expenses £'Million	Deferred income (DIR) £'Million	Capital losses (available for future relief) £'Million	Share-based payments £'Million	Fixed asset temporary differences £'Million	Other temporary differences £'Million	Total £'Million
At 1 January 2018	46.4	37.9	86.0	7.5	3.7	1.2	182.7
(Charge)/credit to the statement of comprehensive income	(3.9)	(2.3)	(30.3)	0.5	0.3	0.1	(35.6)
At 31 December 2018	42.5	35.6	55.7	8.0	4.0	1.3	147.1
(Charge)/credit to the statement of comprehensive income	(1.3)	(3.0)	(11.1)	(1.5)	0.9	-	(16.0)
At 31 December 2019	41.2	32.6	44.6	6.5	4.9	1.3	131.1

Expected utilisation period

As at 31 December 2018	6 years	14 years	6 years	3 years	6 years
As at 31 December 2019	6 years	14 years	7 years	3 years	6 years

Deferred tax liabilities

	Unrealised capital gains on life insurance (BLAGAB) assets backing unit liabilities £'Million	Deferred acquisition costs (DAC) £'Million	Purchased value of in-force business (PVIF) £'Million	Renewal income assets £'Million	Other temporary differences £'Million	Total £'Million
At 1 January 2018	445.5	84.0	4.8	10.6	1.9	546.8
(Credit)/charge to the statement of comprehensive income	(359.2)	(13.1)	(0.7)	(1.4)	(0.7)	(375.1)
Impact of acquisitions	-	-	-	1.2	-	1.2
At 31 December 2018	86.3	70.9	4.1	10.4	1.2	172.9
Charge/(credit) to the statement of comprehensive income	333.8	(13.4)	(0.6)	(1.7)	0.3	318.4
Impact of acquisition	-	-	-	2.4	-	2.4
At 31 December 2019	420.1	57.5	3.5	11.1	1.5	493.7

Expected utilisation period

As at 31 December 2018	6 years	14 years	7 years	20 years
As at 31 December 2019	6 years	14 years	6 years	20 years

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.

The expected utilisation period for the deferred tax asset on capital losses has been extended in the year. The increase reflects the impact of the extension of the existing loss restriction rules to also cover capital losses, which is expected to have effect from 1 April 2020.

At the reporting date there were unrecognised deferred tax assets of £12.0 million (2018: £7.5 million) in respect of £71.5 million (2018: £44.9 million) 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.

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.

In November 2019, the UK Prime Minister pledged to postpone this reduction in the corporation tax rate to 17%. This change has yet to be substantively enacted and therefore is not reflected in the above numbers. The impact, were the change to be substantively enacted, would be immaterial.

8. Goodwill, intangible assets, deferred acquisition costs and deferred income

	Goodwill	Purchased value of in-force business	Computer software and other specific software developments		DAC	DIR
			£'Million	£'Million	£'Million	£'Million
Cost						
At 1 January 2018	15.6	73.4	16.0	1,686.7	(1,669.4)	
Additions	–	–	0.1	33.7	(144.6)	
At 31 December 2018	15.6	73.4	16.1	1,720.4	(1,814.0)	
Additions	–	–	8.9	28.1	(135.6)	
At 31 December 2019	15.6	73.4	25.0	1,748.5	(1,949.6)	
Accumulated amortisation						
At 1 January 2018	–	46.2	13.6	1,063.7	(1,023.1)	
Charge for the year	–	3.2	1.1	98.2	(142.6)	
At 31 December 2018	–	49.4	14.7	1,161.9	(1,165.7)	
Charge for the year	–	3.2	1.4	96.6	(169.2)	
At 31 December 2019	–	52.6	16.1	1,258.5	(1,334.9)	
Carrying value						
At 1 January 2018	15.6	27.2	2.4	623.0	(646.3)	
At 31 December 2018	15.6	24.0	1.4	558.5	(648.3)	
At 31 December 2019	15.6	20.8	8.9	490.0	(614.7)	
Current	–	3.2	2.4	92.2	(156.0)	
Non-current	15.6	17.6	6.5	397.8	(458.7)	
	15.6	20.8	8.9	490.0	(614.7)	
Outstanding amortisation period						
At 31 December 2018	n/a	7 years	3 years	14 years	6–14 years	
At 31 December 2019	n/a	6 years	2–5 years	14 years	6–14 years	

GOODWILL

The carrying value of goodwill split by acquisition is as follows:

	31 December 2019	31 December 2018
	£'Million	£'Million
SJP Asia companies	10.1	10.1
Technical Connection Limited	3.7	3.7
Rowan Dartington companies	1.8	1.8
Balance at 31 December	15.6	15.6

Goodwill is reviewed at least annually for impairment, or when circumstances or events indicate there may be uncertainty over this value. The recoverable amount has been based on value-in-use calculations using pre-tax cash flows. Details of the assumptions made in these calculations are provided below:

Key assumptions based on experience:	Value of new business
Projection period:	Five years of detailed forecasts extrapolated into perpetuity using a long-term growth rate
Long-term growth rate based on economic forecasts:	1.3% (2018: 1.3%)
Pre-tax discount rate based on a risk-free rate plus a risk margin:	4.0% (2018: 4.5%)

It is considered that any reasonably possible levels of change in the key assumptions would not result in impairment of the goodwill.

PURCHASED VALUE OF IN-FORCE BUSINESS/DAC/COMPUTER SOFTWARE

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

DIR

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

9. Property and equipment, including leased assets

	Fixtures, fittings and office equipment	Computer equipment	Leased assets: properties	Total
	£'Million	£'Million	£'Million	£'Million
Cost				
At 1 January 2018	46.2	5.7	–	51.9
Additions	6.6	2.0	–	8.6
Disposals	(0.1)	–	–	(0.1)
At 31 December 2018	52.7	7.7	–	60.4
Recognised on adoption of IFRS 16 Leases	–	–	91.8	91.8
Additions	16.2	1.1	49.7	67.0
Disposals	(0.8)	(0.4)	–	(1.2)
At 31 December 2019	68.1	8.4	141.5	218.0
Accumulated depreciation				
At 1 January 2018	22.7	2.8	–	25.5
Charge for the year	4.7	1.8	–	6.5
Eliminated on disposal	(0.1)	–	–	(0.1)
At 31 December 2018	27.3	4.6	–	31.9
Charge for the year	4.0	1.8	14.9	20.7
Eliminated on disposal	(0.7)	(0.2)	–	(0.9)
At 31 December 2019	30.6	6.2	14.9	51.7
Net book value				
At 1 January 2018	23.5	2.9	–	26.4
At 31 December 2018	25.4	3.1	–	28.5
At 31 December 2019	37.5	2.2	126.6	166.3
Amortisation period (estimated useful life)	5–15 years	3 years	1–23 years	

Leased assets – properties were recognised for the first time on 1 January 2019, upon adoption of IFRS 16 Leases. Further information about the adoption of this new accounting standard can be found in Note 2.

10. Leases

This note provides information on leases where the Group is a lessee. For information on leases where the Group is a lessor, refer to Note 11.

THE GROUP'S LEASING ACTIVITIES AND HOW THESE ARE ACCOUNTED FOR

The Group leases a portfolio of office properties, equipment and vehicles. The exemptions available under IFRS 16 for low-value or short-term leases have been applied to all leased equipment and vehicles, and so the leased assets and lease liabilities on the consolidated statement of financial position, and the depreciation charge for leased assets and interest expense on lease liabilities in the consolidated statement of comprehensive income, relate to the Group's portfolio of office properties only.

Leases are negotiated on an individual basis and hence contain a variety of different terms and conditions. They contain covenants and restrictions but generally these are standard and to be expected in a modern, commercial lease created under open-market terms. Typical covenants include paying the annual rent, insurance premiums, service charge, rates and VAT and keeping the property in good repair and condition throughout the lease. Typical restrictions include permitting office use only and not transferring or assigning the lease to a third party without the lessor's consent. There are no residual value guarantees.

At 31 December 2019 the Group has committed to the lease of an office property, which will commence on 1 January 2020 with a 15-year lease term and annual rent payments of £1.0 million excluding VAT. On the commencement date of this lease, in accordance with IFRS 16 the Group will recognise a right-of-use asset of £11.7 million and a lease liability of £11.4 million.

The Group is exposed to variability in lease payments as a number of leases include rent reviews during the lease term which are linked to an index or market rates. In accordance with IFRS 16, these variable lease payments are initially measured based on the index or rate at the commencement date of the lease. Estimates of future rent changes are not made; these changes are taken into account in the lease liabilities and leased assets only when the lease payments change and so the variability is resolved. There are no variable lease payments which are not linked to an index or market rates.

The Group has not entered into any sale and leaseback transactions.

The disclosures required upon transition to IFRS 16 are set out in Note 2.

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following amounts are recognised in the consolidated statement of financial position:

	31 December 2019	1 January 2019 ⁽¹⁾
	£'Million	£'Million
<i>Within the property and equipment balance – refer to Note 9</i>		
Leased assets – properties	126.6	91.8
<i>Within the other payables balance – refer to Note 13</i>		
Lease liabilities - properties	118.6	83.2

(1) Comparatives are presented as at 1 January 2019, being the date of transition to IFRS 16 and hence the date of initial recognition for these balances.

A movement schedule for leased assets, setting out additions during the year and depreciation charged, is presented in Note 9.

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The following amounts are recognised within expenses in the consolidated statement of comprehensive income:

	Year ended 31 December 2019
	£'Million
<i>Depreciation charge for leased assets – properties</i>	
Interest expense on lease liabilities – properties	14.9
Lease expense relating to short-term leases	2.9
Lease expense relating to low-value assets	2.6
Total lease expense for the year	1.3
Total cash outflow for leases during the year	21.7

11. Investments, investment property and cash and cash equivalents

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. The assets held to cover unit liabilities are set out in adjustment 1 of the IFRS to Solvency II Net Assets Balance Sheet reconciliation on page 19.

	31 December 2019	31 December 2018
	£'Million	£'Million
Assets		
Investment property	1,750.9	1,820.7
Equities	72,694.2	56,077.9
Fixed income securities	26,270.4	21,960.6
Investment in Collective Investment Schemes	4,034.6	3,459.1
Cash and cash equivalents	6,720.8	6,629.1
Other receivables	733.1	1,059.1
Derivative financial instruments		
– <i>Currency forwards</i>	588.2	153.7
– <i>Interest rate swaps</i>	76.7	70.0
– <i>Index options</i>	23.3	45.6
– <i>Contracts for differences</i>	359.3	8.4
– <i>Equity rate swaps</i>	8.1	3.5
– <i>Foreign currency options</i>	7.0	21.4
– <i>Total return swaps</i>	129.0	139.0
– <i>Fixed income options</i>	41.4	55.9
– <i>Credit default swaps</i>	109.9	11.3
Total derivative financial assets	1,342.9	508.8
Total assets	113,546.9	91,515.3
Liabilities		
Other payables	745.4	277.7
Derivative financial instruments		
– <i>Currency forwards</i>	295.2	199.4
– <i>Interest rate swaps</i>	81.5	52.2
– <i>Index options</i>	49.1	26.5
– <i>Contracts for differences</i>	357.7	10.1
– <i>Equity rate swaps</i>	40.1	5.8
– <i>Foreign currency options</i>	6.1	0.7
– <i>Total return swaps</i>	88.3	194.5
– <i>Credit default swaps</i>	24.2	20.6
– <i>Fixed income options</i>	6.6	7.6
Total derivative financial liabilities	948.8	517.4
Total liabilities	1,694.2	795.1
Net assets held to cover linked liabilities	111,852.7	90,720.2
Investment contract benefits	83,558.5	67,796.1
Net asset value attributable to unit holders	27,830.0	22,502.9
Unit-linked insurance contract liabilities	464.2	421.2
Net unit-linked liabilities	111,852.7	90,720.2

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.

INVESTMENT PROPERTY

	31 December 2019	31 December 2018
	£'Million	£'Million
Balance at 1 January	1,820.7	1,630.9
Additions	42.5	274.0
Capitalised expenditure on existing properties	14.4	3.3
Disposals	(52.5)	(64.7)
Changes in fair value	(74.2)	(22.8)
Balance at 31 December	1,750.9	1,820.7

The Group is the lessor for a portfolio of properties which meet the definition of investment property. The portfolio is held within unit-linked funds, leased out under operating leases and is considered current. However, since investment properties are not traded in an organised public market they are relatively illiquid compared with many other asset classes. There are no restrictions on the realisability of the Group's individual properties, or on the remittance of income or proceeds of disposal.

The Group follow various strategies to minimise the risks associated with any rights the Group retains in the investment properties. These strategies include:

- actively reviewing and monitoring the condition of the properties and maintaining appropriate repairs, capital works projects and investments;
- engaging professional legal advisors in drafting prudent lease terms governing the use of the properties and engaging specialist asset managers to oversee adherence to these terms on an ongoing basis;
- actively reviewing and monitoring lessee financial covenant positions;
- maintaining appropriate and prudent insurance for the properties; and
- senior management regularly reviewing the investment property portfolio to oversee diversification and performance, and to maximise value and occupancy rates.

Investment property is valued monthly by external chartered surveyors in accordance with the guidance issued by The Royal Institution of Chartered Surveyors. The investment property valuation has been prepared using the 'market approach' valuation technique: that is, using prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets.

The historical cost of investment properties held at 31 December 2019 is £1,726.7 million (2018: £1,706.6 million). This represents the price paid for investment properties, prior to any subsequent revaluation.

The rental income and direct operating expenses recognised in the statement of comprehensive income in respect of investment properties are set out below. All expenses relate to property generating rental income.

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Rental income	94.1	90.9
Direct operating expenses	8.1	7.6

At the year end contractual obligations to purchase, construct or develop investment property amounted to £24.5 million (2018: £23.0 million). The most significant contractual obligations at 31 December 2019 were:

- £13.7 million for the funding of a pre-let hotel development, which commenced in 2018 and is scheduled for completion in 2020. The lease will complete upon delivery of the finished building; and
- £5.6 million for the redevelopment of a vacant 2.9 acre estate to accommodate modern, high-quality industrial space, also scheduled for completion in 2020.

Contractual obligations to dispose of investment property amounted to nil (2018: £nil).

A maturity analysis of undiscounted contractual rental income to be received on an annual basis for the next five years, and the total to be received thereafter, is set out below.

	31 December 2019
	£'Million
Undiscounted contractual rental income to be received in:	
2020	86.8
2021	83.4
2022	77.3
2023	71.7
2024	65.0
2025 onwards	339.1
Total undiscounted contractual rental income to be received	723.3

CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
	£'Million	£'Million
Cash and cash equivalents not held to cover unit liabilities	292.8	248.5
Balances held to cover unit liabilities	6,720.8	6,629.1
Total cash and cash equivalents	7,013.6	6,877.6

All cash and cash equivalents are considered current.

12. Other receivables

	31 December 2019	31 December 2018
	£'Million	£'Million
Receivables in relation to unit liabilities excluding policyholder interests	313.6	1.0
Other receivables in relation to insurance and unit trust business	83.6	68.6
Operational readiness prepayment	299.2	236.4
Advanced payments to Partners	59.8	44.9
Other prepayments	67.6	70.1
Business loans to Partners	476.5	394.5
Renewal income assets	85.7	72.1
Miscellaneous	5.9	2.5
Total other receivables on the Solvency II Net Assets Balance Sheet¹	1,391.9	890.1
Policyholder interests in other receivables (see Note 11)	733.1	1,059.1
Miscellaneous (see adjustment 2 on page 19)	2.1	3.1
Total other receivables	2,127.1	1,952.3
Current	1,310.9	1,297.7
Non-current	816.2	654.6
	2,127.1	1,952.3

¹ This note has been represented in 2019 to include a sub-total for 'Total other receivables on the Solvency II Net Assets Balance Sheet'.

All items within other receivables meet the definition of financial assets with the exception of prepayments and advanced payments to Partners. The fair value of those financial assets held at amortised cost is not materially different from amortised cost.

Receivables in relation to unit liabilities and policyholder interests in other receivables 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 Bluedoor administration platform which has been 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.

Renewal income assets represent the present value of future cash flows associated with books of business acquired by the Group. Typically they arise through business combinations, where the asset represents the value of non-Group related business on the date of acquisition.

BUSINESS LOANS TO PARTNERS

	31 December 2019	31 December 2018
	£'Million	£'Million
Business loans to Partners directly funded by the Group	316.0	295.5
Securitised business loans to Partners	160.5	99.0
Total business loans to Partners	476.5	394.5

Business loans to Partners are interest-bearing (linked to Bank of England base rate plus a margin), repayable in line with the terms of the loan contract and secured against the future income streams of the Partner.

The Group has securitised £160.5 million (31 December 2018: £99.0 million) of the business loans to Partners portfolio. Legal ownership of the securitised business loans to Partners has been transferred to a structured entity, SJP Partner Loans No.1 Limited, which has issued loan notes secured upon them. Note 14 Borrowings and financial commitments provides information on these loan notes. The securitised business loans to Partners are ring-fenced from the other assets of the Group, which means that the cash flows associated with these business loans to Partners can only be used to purchase new loans into the structure or repay the note holders, plus associated issuance fees and costs. Holders of the loan notes have no recourse to the Group's other assets.

The securitised business loans to Partners remain recognised on the Group statement of financial position as the Group controls SJP Partner Loans No.1 Limited: refer to the Consolidation judgement in Note 3 for further information.

Reconciliation of the business loans to Partners opening and closing gross loan balances

	Stage 1 performing	Stage 2 under- performing	Stage 3 non- performing	Total
	£'Million	£'Million	£'Million	£'Million
Gross balance at 1 January 2019	383.0	7.6	7.0	397.6
Business loans to Partners classification changes:				
– Transfer to underperforming	(9.5)	9.5	-	-
– Transfer to non-performing	(3.4)	(0.1)	3.5	-
– Transfer to performing	4.7	(3.8)	(0.9)	-
New lending activity during the year	230.9	-	-	230.9
Interest charged during the year	18.2	0.4	0.3	18.9
Repayments activity during the year	(164.1)	(0.7)	(2.4)	(167.2)
Write-off for non-credit related reasons	(0.1)	-	-	(0.1)
Gross balance at 31 December 2019	459.7	12.9	7.5	480.1

	Stage 1 performing	Stage 2 under- performing	Stage 3 non- performing	Total
	£'Million	£'Million	£'Million	£'Million
Gross balance at 1 January 2018	252.0	8.3	8.1	268.4
Business loans to Partners classification changes:				
– Transfer to underperforming	(5.0)	5.0	-	-
– Transfer to non-performing	(0.2)	(0.1)	0.3	-
– Transfer to performing	5.0	(5.0)	-	-
New lending activity during the year	296.5	-	-	296.5
Interest charged during the year ¹	11.3	0.5	0.3	12.1
Repayments activity during the year ¹	(176.6)	(1.1)	(1.7)	(179.4)
Gross balance at 31 December 2018	383.0	7.6	7.0	397.6

¹ In 2018, interest charged was netted against repayments, hence the total repayments for the year were given as £167.3 million. For 2019, interest has been presented separately, and so the 2018 table has been represented accordingly.

Business loans to Partners: provision

The expected loss impairment model for business loans to Partners is based on the levels of loss experienced in the portfolio, with due consideration given to forward-looking information.

The provision held against business loans to Partners is immaterial: at 31 December 2019, the provision was £3.6 million (31 December 2018: £3.1 million). During the year, £0.2 million of the provision was released (2018: £0.6 million) whilst new provisions and adjustments to existing provisions increased the total by £0.7 million (2018: £1.4 million).

There is no provision held against any other receivables held at amortised cost.

Business loans to Partners as recognised on the statement of financial position

	31 December 2019	31 December 2018
	£'Million	£'Million
Gross business loans to Partners	480.1	397.6
Provision	(3.6)	(3.1)
Net business loans to Partners	476.5	394.5

MOVEMENT IN RENEWAL INCOME ASSETS

	2019 £'Million	2018 £'Million
At 1 January	72.1	71.6
Additions	17.1	9.7
Disposals	-	(0.2)
Revaluation	(3.5)	(9.0)
Total renewal income assets at 31 December	85.7	72.1

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

	31 December 2019	31 December 2018
Lapse rate – SJP Partner renewal income ¹	5.0%–15.0%	5.0%–15.0%
Lapse rate – non-SJP renewal income ¹	15.0%–25.0%	15.0%–25.0%
Discount rate	5.8%–7.5%	5.0%–7.5%

1 Future income streams are projected making use of retention assumptions derived from the Group's experience of the business or, where insufficient data exists, from external industry experience. These assumptions are reviewed on an annual basis.

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

13. Other payables

	31 December 2019 £'Million	31 December 2018 £'Million
Payables in relation to unit liabilities excluding policyholder interests	106.8	282.6
Other payables in relation to insurance and unit trust business	411.0	336.9
Accrual for ongoing advice fees	118.1	107.3
Other accruals ¹	72.1	90.1
Contract payment ²	77.9	85.3
Lease liabilities	118.6	-
Miscellaneous ^{1,2}	129.2	54.7
Total other payables on the Solvency II Net Assets Balance Sheet²	1,033.7	956.9
Policyholder interests in other payables (see Note 11)	745.4	277.7
Miscellaneous (see adjustment 2 on page 19)	3.6	56.2
Total other payables	1,782.7	1,290.8
Current	1,605.7	1,213.7
Non-current	177.0	77.1
	1,782.7	1,290.8

1 Following a review of accruals during 2019, a balance of £61.1 million relating to payables to Partners at 31 December 2018 has been reclassified from other accruals to miscellaneous.

2 This note has been represented in 2019 to include a sub-total for total other payables on the Solvency II Net Assets Balance Sheet and to separate the contract payment from miscellaneous.

Payables in relation to unit liabilities and policyholder interests in other payables 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.

The contract payment of £77.9 million (2018: £85.3 million) is non-interest bearing and repayable on a straight-line basis over the life of a 12-year service agreement. The repayment period commenced on 1 January 2017.

Lease liabilities represent the present value of future cash flows associated with the Group's portfolio of property leases. They were initially recognised on 1 January 2019, upon adoption of IFRS 16 Leases. Further information about the adoption of this new accounting standard can be found on in Note 2.

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

14. Borrowings and financial commitments

BORROWINGS

Borrowings are a liability arising from financing activities. The Group has two different types of borrowings:

- senior unsecured corporate borrowings which are used to manage working capital, bridge intra-Group cash flows and to fund investment in the business; and
- securitisation loan notes which are secured only on a legally segregated pool of the Group's business loans to Partners, and hence are non-recourse to the Group's other assets. Further information about business loans to Partners is provided in Note 12 Other receivables.

Senior unsecured corporate borrowings

	31 December 2019	31 December 2018
	£'Million	£'Million
Corporate borrowings: bank loans	173.3	164.8
Corporate borrowings: loan notes	113.8	113.8
Senior unsecured corporate borrowings	287.1	278.6

The primary senior unsecured corporate borrowings are:

- a £340 million revolving credit facility which is repayable at maturity in 2022 with a variable interest rate. At 31 December 2019 the undrawn credit available under this facility was £170 million (31 December 2018: £179 million); and
- a US Dollar \$160 million private shelf facility, under which the Group has issued two tranches of loan notes: one for £50 million and another for £64 million. The 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.

Senior tranche of non-recourse securitisation loan notes

	31 December 2019	31 December 2018
	£'Million	£'Million
Senior unsecured corporate borrowings	287.1	278.6
Senior tranche of non-recourse securitisation loan notes	116.6	70.0
Total borrowings	403.7	348.6
Current	-	0.3
Non-current	403.7	348.3
	403.7	348.6

The senior tranche of securitisation loan notes are AAA-rated and repayable over the expected life of the securitisation (estimated to be five years) with a variable interest rate. £70.0 million of these loan notes were issued during 2018 with a further £50.0 million issued during 2019: a movement schedule has been set out below. They are held by third-party investors and are secured on a legally segregated portfolio of £160.5 million business loans to Partners, and the other net assets of the securitisation entity SJP Partner Loans No.1 Limited. For further information on business loans to Partners, including those that have been securitised, refer to Note 12 Other receivables. Holders of the securitisation loan notes have no recourse to the assets held by any other entity within the Group.

In addition to the senior tranche of securitisation loan notes, a junior tranche has been issued to another entity within the Group. The junior notes are eliminated on consolidation in the preparation of the Group financial statements and so do not form part of Group borrowings.

	31 December 2019	31 December 2018
	£'Million	£'Million
Junior tranche of non-recourse securitisation loan notes	49.9	32.8
Senior tranche of non-recourse securitisation loan notes	116.6	70.0
Total non-recourse securitisation loan notes	166.5	102.8
Backed by:		
Securitised business loans to Partners (see Note 12)	160.5	99.0
Other net assets of SJP Partner Loans No.1 Limited	6.0	3.8
Total net assets held by SJP Partner Loans No.1 Limited	166.5	102.8

Movement in borrowings

Borrowings are liabilities arising from financing activities. The cash and non-cash movement in borrowings over the year are set out below, with the cash movements also set out in the consolidated statement of cash flows on page 38.

	Senior unsecured corporate borrowings	Senior tranche of securitisation loan notes	Total borrowings	Senior unsecured corporate borrowings	Senior tranche of securitisation loan notes	Total borrowings
	2019	2019	2019	2018	2018	2018
	£'Million	£'Million	£'Million	£'Million	£'Million	£'Million
Borrowings at 1 January	278.6	70.0	348.6	279.9	-	279.9
Additional borrowing during the year	340.0	50.0	390.0	161.0	71.5	232.5
Repayment of borrowings during the year	(332.0)	(2.8)	(334.8)	(162.2)	-	(162.2)
Costs on additional borrowings during the year	-	(1.0)	(1.0)	(0.5)	(1.5)	(2.0)
Unwind of borrowing costs (non-cash movement)	0.5	0.4	0.9	0.4	-	0.4
Borrowings at 31 December	287.1	116.6	403.7	278.6	70.0	348.6

The fair value of the outstanding borrowings is not materially different from amortised cost. Interest expense on borrowings is recognised within expenses in the consolidated statement of comprehensive income.

FINANCIAL COMMITMENTS

Guarantees

The Group guarantees 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. For this third party the Group guarantees to cover losses up to 50% of the value to the total loans drawn. These loans are secured against the future income streams of the Partner. The value of the loans guaranteed is as follows:

	Loans drawn		Facility	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	£'Million	£'Million	£'Million	£'Million
Bank of Scotland	57.7	61.7	70.0	80.0
Investec	18.5	-	25.0	-
Metro Bank	45.7	52.5	61.0	61.0
Royal Bank of Scotland	15.1	-	25.0	-
Santander	44.5	49.5	50.0	50.0
Total loans	181.5	163.7	231.0	191.0

The fair value of these guarantees has been assessed as nil (2018: £nil).

Operating lease commitments

The Group leases a portfolio of office properties, equipment and vehicles with varying lease end dates ranging from 2020 to 2042. Prior to the adoption of IFRS 16 Leases on 1 January 2019, these were classified as operating leases. The following table represents the future minimum lease payments under non-cancellable operating leases, including VAT, service charges and buildings insurance. No disclosure is provided for 2019 as from 1 January 2019, the distinction between finance and operating leases disappeared for lessees and the Group recognised right-of-use assets for these leases, except where they are short-term or low-value.

Further information on leases for which the Group is the lessee is provided in Note 10 Leases.

	31 December 2019	31 December 2018
	£'Million	£'Million
Not later than one year	-	18.0
Later than one year and not later than five years	-	53.7
Later than five years	-	69.6
Total financial commitments	-	141.3

15. Capital management and allocation

The Group's Capital Management policy, set by the Board, is to maintain a strong capital base in order to:

- protect clients' interests;
- meet regulatory requirements;
- protect creditors' interests; and
- create shareholder value through support for business development.

The policy requires that each subsidiary manages its own capital, in particular to maintain regulatory solvency, in the context of a Group capital plan. Any capital in excess of planned requirements is returned to the Group's Parent Company, St. James's Place plc, normally by way of dividends. The Group capital position is monitored by the Audit Committee on behalf of the St. James's Place plc Board.

REGULATORY CAPITAL

The Group's capital management policy is, for each subsidiary, to hold the higher of:

- the capital required by any relevant supervisory body uplifted by a specified margin to absorb changes; or
- the capital required based on the Company's internal assessment.

For our insurance companies, we hold capital based on our own internal assessment, recognising the regulatory requirement. For other regulated companies we generally hold capital based on the regulatory requirement uplifted by a specified margin.

The following entities are subject to regulatory supervision and have to maintain a minimum level of regulatory capital:

Entity	Regulatory body and jurisdiction
St. James's Place UK plc	PRA and FCA: Long-term insurance business
St. James's Place International plc	Central Bank of Ireland: Life insurance business
St. James's Place Unit Trust Group Limited	FCA: UCITS Management Company
St. James's Place Investment Administration Limited	FCA: Investment Firm
St. James's Place Wealth Management plc	FCA: Personal Investment Firm
St. James's Place Partnership Services Limited	FCA: Consumer Credit Firm
BFS Financial Services Limited	FCA: Personal Investment Firm
Linden House Financial Services Limited	FCA: Personal Investment Firm
St. James's Place (Hong Kong) Limited	Securities and Futures Commission (Hong Kong): A Member of The Hong Kong Confederation of Insurance Brokers
St. James's Place International (Hong Kong) Limited	Insurance Authority (Hong Kong)
St. James's Place (Singapore) Private Limited	Monetary Authority Singapore: A Member of the Association of Financial Advisers
Rowan Dartington & Co Limited	FCA: Investment Firm

In addition, the St. James's Place Group is regulated as an insurance group under Solvency II, with the PRA as the lead regulator.

As an insurance group, St. James's Place is subject to the Solvency II regulations, which were implemented on 1 January 2016. More information about capital position of the Group under Solvency II regulations is set out in the separate Solvency and Financial Condition Report document. The overall capital position for the Group at 31 December 2019, assessed on the standard formula basis, is presented in the following table:

	31 December 2019	31 December 2018
	£'Million	£'Million
IFRS total assets	117,292.0	94,827.0
Less Solvency II valuation adjustments and unit-linked liabilities	(116,235.2)	(93,719.0)
Solvency II net assets	1,056.8	1,108.0
Solvency II VIF	4,303.5	3,388.8
Risk margin	(1,213.3)	(989.4)
Own funds (A)	4,147.0	3,507.4
Standard formula SCR (B)	3,148.0	2,447.3
Solvency II free assets (A-B)	999.0	1,060.1
Solvency II ratio (A/B)	132%	143%

	31 December 2019	31 December 2018
	£'Million	£'Million
Solvency II net assets	1,056.8	1,108.0
Less: Management Solvency Buffer (MSB)	(476.2)	(491.0)
Excess of free assets over MSB	580.6	617.0

An overall internal capital assessment is required for insurance groups. This is known as an ORSA (Own Risk and Solvency Assessment) and is described in more detail in the ORSA section of the Risk and Risk Management report; refer to pages 28 and 29.

The regulatory capital requirements of companies within the Group, and the associated solvency of the Group, are assessed and monitored by the Finance Executive Committee, a Committee of the Executive Board, with oversight by the Audit Committee on behalf of the Group Board. Ultimate responsibility for individual companies' regulatory capital lies with the relevant subsidiary boards.

There has been no material change in the level of capital requirements of individual companies during the year, nor in the Group's management of capital. All regulated entities exceeded the minimum solvency requirements at the reporting date and during the year.

IFRS CAPITAL COMPOSITION

The principal forms of capital are included in the following balances on the consolidated statement of financial position:

	31 December 2019	31 December 2018
	£'Million	£'Million
Share capital	80.2	79.4
Share premium	182.4	174.5
Shares in trust reserve	(16.4)	(23.7)
Miscellaneous reserves	2.5	2.5
Retained earnings	699.4	787.3
Shareholders' equity	948.1	1,020.0
Non-controlling interests	(0.9)	(0.9)
Total equity	947.2	1,019.1

The above assets do not all qualify as regulatory capital. The required minimum regulatory capital and analysis of the assets that qualify as regulatory capital are outlined in Section 3 of the Financial Review on page 26, which demonstrates that the Group has met its internal capital objectives. The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the year.

16. Share capital, earnings per share and dividends

SHARE CAPITAL

	Number of ordinary shares	Called-up share capital
	£'Million	
At 1 January 2018	529,077,896	79.4
– Exercise of options	375,501	-
At 31 December 2018	529,453,397	79.4
– Issue of shares	388,783	0.1
– Exercise of options	4,958,446	0.7
At 31 December 2019	534,800,626	80.2

Ordinary shares have a par value of 15 pence per share (2018: 15 pence per share) and are fully paid.

Included in the issued share capital are 2,894,530 (2018: 3,505,217) shares held in the shares in trust reserve with a nominal value of £0.4 million (2018: £0.5 million). The shares are held by the SJP Employee Share Trust and the St. James's Place 2010 SIP Trust to satisfy certain share-based payment schemes. The trustees of the SJP 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 438,105 shares at 31 December 2019 and 845,897 shares at 31 December 2018. No dividends have been waived on shares held in the St. James's Place 2010 SIP Trust in 2019 or 2018.

Share capital increases are included within the 'exercise of options' row of the table above where they relate to the Group's share-based payment schemes. Other share capital increases are included within the 'issue of shares' row.

EARNINGS PER SHARE

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Earnings		
Profit after tax attributable to equity shareholders (for both basic and diluted EPS)	146.6	173.5

	Million	Million
Weighted average number of shares		
Weighted average number of ordinary shares in issue (for basic EPS)	531.3	526.0
Adjustments for outstanding share options	2.7	8.7
Weighted average number of ordinary shares (for diluted EPS)	534.0	534.7

	Pence	Pence
Earnings per share (EPS)		
Basic earnings per share	27.6	33.0
Diluted earnings per share	27.5	32.4

DIVIDENDS

The following dividends have been paid by the Group:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2018
	Pence per share	Pence per share	£'Million	£'Million
Final dividend in respect of previous financial year	29.73	27.45	157.5	145.0
Interim dividend in respect of current financial year	18.49	18.49	98.5	97.7
Total dividends	48.22	45.94	256.0	242.7

The Directors have recommended a final dividend of 31.22 pence per share (2018: 29.73 pence). This amounts to £167.0 million (2018: £157.4 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 22 May 2020 to those shareholders on the register as at 17 April 2020.

17. Related party transactions

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 were gains recognised of £12.3 million (2018: losses of £36.2 million) and the total value of transactions with those non-consolidated unit trusts was £28.0 million (2018: £26.1 million). Net management fees receivable from these unit trusts amounted to £11.3 million (2018: £12.2 million). The value of the investment into the non-consolidated unit trusts at 31 December 2019 was £139.9 million (2018: £143.2 million).

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel have been defined as the Board of Directors and members of the Executive Board. The remuneration paid to the Board of Directors of St. James's Place plc will be set out in the Directors' Remuneration Report in our annual report and accounts, in addition to the disclosure below.

The Remuneration Report also sets out transactions with the Directors under the Group's share-based payment schemes, together with details of the Directors' interests in the share capital of the Company.

Compensation of key management personnel is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Short-term employee benefits	4.6	5.9
Post-employment benefits	0.4	0.5
Share-based payment	2.3	4.5
Total	7.3	10.9

The total value of Group FUM held by related parties of the Group as at 31 December 2019 was £27.1 million (2018: £24.7 million). The total value of St. James's Place plc dividends paid to related parties of the Group during the year was £0.9 million (2018: £1.2 million).

Following his appointment to the Executive Board in May 2019, Robert Gardner became a member of the Group's key management personnel and hence a related party. As a result Redington Limited, a company under his joint control which provides the Group with investment consultancy services, also became a related party. During 2019, £6.0 million was expensed for these services, of which £0.5 million remains outstanding as a payable at 31 December 2019.

18. Non-statutory accounts

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

19. Annual Report

The Company's annual report and accounts for the year ended 31 December 2019 is expected to be posted to shareholders by 7 April 2020. Copies of both this announcement and the annual report and accounts will be available to the public at the Company's registered office at St. James's Place House, 1 Tetbury Road, Cirencester GL7 1FP and through the Company's website at www.sjp.co.uk.

GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

Within the Annual 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:

Financial position related APMs

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"> 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 2. Adjustment to remove the matching client assets and the liabilities as these do not represent shareholder assets. <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>	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.	Refer to page 19.
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>	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 supplement 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.	Not applicable.
Net asset value (NAV) 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.
NAV 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.

Financial performance related APMs

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Operating cash result, Underlying cash result and 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"> 1. The movement in deferred tax is removed to reflect just the cash realisation from the deferred tax position; 2. The movements in goodwill and other intangibles are included; and 3. Other changes in equity, such as dividends paid in the year and non-cash-settled share option costs, are excluded. <p>The Operating cash result reflects the regular emergence of cash from the business operations. 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>IFRS income statement methodology recognises non-cash items such as deferred tax and non-cash-settled 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 long-term rate of cash emergence, which supports dividends and sustainable dividend growth.</p>	Refer to pages 15, 16 and also see Note 4 – Segment Profit to the consolidated financial statements.
Underlying cash basic and diluted earnings per share (EPS)	These EPS measures are calculated as Underlying cash divided by the number of shares used in the calculation of IFRS basic and diluted EPS.	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.	Not applicable.
EEV profit	Derived as the movement in the total EEV during the year.	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.	See Note 4 – Segment Profit to the consolidated financial statements.
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>Within EEV operating profit is new business contribution, which is the change in embedded value arising from writing new business during the year.</p>	<p>Both the IFRS and Cash results reflect only the cash flows 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 4 – Segment Profit to the consolidated financial statements.
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.
Policyholder and Shareholder tax	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.	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	Disclosed as separate line items in the statement of comprehensive

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
	<p>The remainder of the tax charge represents tax on policyholders' investment returns.</p> <p>This calculation method is consistent with the legislation relating to the calculation of the tax on shareholders' profits.</p>	<p>and an element more closely related to normal corporation tax.</p> <p>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 do not 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.</p>	income on page 35.
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 statement of comprehensive income on page 35.
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 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.	Refer to page 14.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

The Directors confirm to the best of their knowledge that:

- The financial statements have been prepared in accordance with International Reporting Financial Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation as a whole; and
- Pursuant to Disclosure and Transparency Rules Chapter 4, the Directors' report of the Company's annual report and accounts includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the business.

On behalf of the Board

Andrew Croft
Chief Executive

Craig Gentle
Chief Financial Officer

26 February 2020

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.

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

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

		Year ended 31 December 2019	Year ended 31 December 2018
	Note	£'Million	£'Million
Fee and commission income		2,355.4	1,523.6
Investment return	6	37.6	7.6
Net income		2,393.0	1,531.2
 Expenses		 (1,600.8)	 (1,540.5)
 Profit/(loss) before tax		 792.2	 (9.3)
Tax attributable to policyholders' returns	7	(521.8)	296.5
Tax attributable to shareholders' returns		(41.0)	(18.5)
 Total Cash result for the year		 229.4	 268.7
 Cash result basic earnings per share		 III	 43.2
 Cash result diluted earnings per share		 III	 43.0
		Pence	Pence

The Note references above cross refer to the Notes to the consolidated financial statements under IFRS on pages 39 to 63, except where denoted in roman numerals.

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

	Note	Equity attributable owners of the Parent Company						Non-controlling interests	Total equity
		Share capital	Share premium	Shares in trust reserve	Retained earnings	Misc reserves	Total		
		£'Million	£'Million	£'Million	£'Million	£'Million	£'Million		
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 year		—	—	—	268.7	—	268.7	—	268.7
Dividends	16	—	—	—	(242.7)	—	(242.7)	—	(242.7)
Exercise of options	16	—	2.8	—	—	—	2.8	—	2.8
Consideration paid for own shares		—	—	(6.0)	—	—	(6.0)	—	(6.0)
Shares sold during the year		—	—	9.0	(9.0)	—	—	—	—
Change in deferred tax		—	—	—	(31.8)	—	(31.8)	—	(31.8)
Change in tax discounting		—	—	—	23.4	—	23.4	—	23.4
Change in goodwill and intangibles		—	—	—	(1.5)	—	(1.5)	—	(1.5)
At 31 December 2018		79.4	174.5	(23.7)	876.2	2.5	1,108.9	(0.9)	1,108.0
Cash result for the year		—	—	—	229.4	—	229.4	—	229.4
Dividends	16	—	—	—	(256.0)	—	(256.0)	—	(256.0)
Issue of share capital	16	0.1	3.9	—	—	—	4.0	—	4.0
Exercise of options	16	0.7	4.0	—	—	—	4.7	—	4.7
Consideration paid for own shares		—	—	(0.1)	—	—	(0.1)	—	(0.1)
Shares sold during the year		—	—	7.4	(7.4)	—	—	—	—
Proceeds from exercise of shares held in trust		—	—	—	0.2	—	0.2	—	0.2
Change in deferred tax		—	—	—	(10.4)	—	(10.4)	—	(10.4)
Change in tax discounting		—	—	—	(10.0)	—	(10.0)	—	(10.0)
Change in goodwill and intangibles		—	—	—	(13.0)	—	(13.0)	—	(13.0)
At 31 December 2019		80.2	182.4	(16.4)	809.0	2.5	1,057.7	(0.9)	1,056.8

The Note references above cross refer to the Notes to the consolidated financial statements under IFRS on pages 39 to 63, except where denoted in roman numerals.

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

		31 December 2019	31 December 2018
	Note	£'Million	£'Million
Assets			
Property and equipment	9	166.3	28.5
Fixed income securities		5.2	5.4
Investment in Collective Investment Schemes		1,131.8	1,297.0
Cash and cash equivalents	11	292.8	248.5
Other receivables	12	1,391.9	890.1
Income tax assets		–	9.7
Deferred tax assets		98.5	111.6
Total assets		3,086.5	2,590.8
Liabilities			
Borrowings	14	403.7	348.6
Other provisions		40.6	22.7
Other payables	13	1,033.7	956.9
Income tax liabilities		115.4	–
Deferred tax liabilities		436.2	154.5
Preference shares		0.1	0.1
Total liabilities		2,029.7	1,482.8
Net assets		1,056.8	1,108.0
Shareholders' equity			
Share capital	16	80.2	79.4
Share premium		182.4	174.5
Shares in trust reserve		(16.4)	(23.7)
Miscellaneous reserves		2.5	2.5
Retained earnings		809.0	876.2
Shareholders' equity		1,057.7	1,108.9
Non-controlling interests		(0.9)	(0.9)
Total shareholders' equity on a Cash result basis		1,056.8	1,108.0
		Pence	Pence
Net assets per share		197.6	209.3

The Note references above cross refer to the Notes to the consolidated financial statements under IFRS on pages 39 to 63, 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 11 to the consolidated financial statements, 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 8 to the consolidated financial statements.
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.

II. Reconciliation of the IFRS Balance Sheet to the Cash Balance Sheet

The Solvency II Net Assets (or Cash) balance sheet is based on the IFRS consolidated statement of financial position (on page 37), 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 reconciliation between the IFRS and Solvency II Net Assets Balance Sheet as at 31 December 2019 is set out on page 19. The reconciliation as at 31 December 2018 is set out below.

	IFRS Balance Sheet	Adjustment 1	Adjustment 2	Solvency II Net Assets Balance Sheet
31 December 2018	£'Million	£'Million	£'Million	£'Million
Assets				
Goodwill	15.6	–	(15.6)	–
Deferred acquisition costs	558.5	–	(558.5)	–
Purchased value of in-force business	24.0	–	(24.0)	–
Computer software	1.4	–	(1.4)	–
Property and equipment	28.5	–	–	28.5
Deferred tax assets	147.1	–	(35.5)	111.6
Reinsurance assets	82.8	–	(82.8)	–
Other receivables	1,952.3	(1,059.1)	(3.1)	890.1
Income tax assets	9.7	–	–	9.7
Investment property	1,820.7	(1,820.7)	–	–
Equities	56,077.9	(56,077.9)	–	–
Fixed income securities	21,966.0	(21,960.6)	–	5.4
Investment in Collective Investment Schemes	4,756.1	(3,459.1)	–	1,297.0
Derivative financial instruments	508.8	(508.8)	–	–
Cash and cash equivalents	6,877.6	(6,629.1)	–	248.5
Total assets	94,827.0	(91,515.3)	(720.9)	2,590.8
Liabilities				
Borrowings	348.6	–	–	348.6
Deferred tax liabilities	172.9	–	(18.4)	154.5
Insurance contract liabilities	508.1	(421.2)	(86.9)	–
Deferred income	648.3	–	(648.3)	–
Other provisions	22.7	–	–	22.7
Other payables	1,290.8	(277.7)	(56.2)	956.9
Investment contract benefits	67,796.1	(67,796.1)	–	–
Derivative financial instruments	517.4	(517.4)	–	–
Net asset value attributable to unit holders	22,502.9	(22,502.9)	–	–
Income tax liabilities	–	–	–	–
Preference shares	0.1	–	–	0.1
Total liabilities	93,807.9	(91,515.3)	(809.8)	1,482.8
Net Assets	1,019.1	–	88.9	1,108.0

Adjustment 1 nets out the policyholder interest in unit-linked assets and liabilities.

Adjustment 2 comprises adjustment 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.

III. Earnings per share

	Year ended 31 December 2019	Year ended 31 December 2018
	£'Million	£'Million
Earnings		
Cash result after tax attributable to equity shareholders (for both basic and diluted EPS)	229.4	268.7
Weighted average number of shares		
Weighted average number of ordinary shares in issue (for basic EPS)	531.3	526.0
Adjustments for outstanding share options	2.7	8.7
Weighted average number of ordinary shares (for diluted EPS)	534.0	534.7
Earnings per share (EPS)		
Basic earnings per share	43.2	51.1
Diluted earnings per share	43.0	50.2