ST. JAMES'S PLACE PLC

27 St. James's Place, London SW1A 1NR
Telephone 020 7493 8111 Facsimile 020 7493 2382

PRESS RELEASE

25 February 2015

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

STRONG PERFORMANCE OF THE BUSINESS, RESULTING IN A 50% 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 2014:

	2014 £m	2013 £m	Growth
Underlying cash result	173.8	139.9	24%
EEV new business profit	373.1	327.2	14%
EEV operating profit	596.4	462.7	29%
EEV net asset value per share	657.9p	575.3p	14%
IFRS profit before shareholder tax	182.9	181.8*	1%

*Excluding a positive one off item of £8.9m for reinsurance transaction

Full year dividend:

- Final dividend of 14.37 pence per share – up 50%
- Giving a full year dividend of 23.30 pence per share – up 46%

Strategic initiatives:

- Continued expansion of regional Academy centres
- St. James's Place Money Management Account, in association with Metro Bank to be launched in April
- Back office infrastructure project on target to drive business efficiencies

New business highlights:

- Total new single investments of £7.8 billion (2013: £6.6 billion) – up 18%
- Net inflow of funds under management of £5.09 billion (2013: £4.23 billion) – up 20%
- Funds under management of £52 billion (2013: £44.3 billion)
- Total number of qualified advisers up 10.3% to 2,835

David Bellamy, Chief Executive Officer, commented:

“I am pleased to once again be reporting strong performance in all aspects of our business in 2014.

Our success has been built on our fundamental belief in the value of a human relationship and the highly personal interaction, putting the client and adviser at the core of everything we do. That focus will not change and will continue to be the foundation of our future growth.

At the time of our interim results, given our confidence in the continuing growth and maturity in funds under management, and expectation of strong growth in the underlying cash result, we announced a 40% increase in the 2014 interim dividend and indicated that the full year dividend would increase by a similar amount. The final underlying cash result of £173.8 million was higher than expected at that time, enabling the Board to propose a 50% increase in the final dividend of 14.37 pence per share, taking the total dividend for the year to 23.30 pence per share, up 46% on 2013. This gives a full year payout of 70% of the underlying cash and in future years we expect our dividend payout ratio to be broadly in line with 75% of the cash result.

This year we will seek to further strengthen our relationship with our clients by exploring opportunities to enhance our proposition, through the continual development of our approach to the management of their wealth and the addition of complementary services, so that we are able to offer a more complete proposition. We’re going to start with the introduction of a new banking service in April, The St. James’s Place Money Management Account. Fully branded St. James’s Place, but powered by Metro Bank, the account will offer eligible clients a fully functional banking service. In addition, the account will have the added benefit of an integrated secured overdraft facility, providing immediate access to short term funds, secured against the value of their St. James’s Place investment portfolio. We are delighted to be working with Metro Bank and look forward to being able to offer this additional facility for our clients.

I have said on many occasions, that there is a reassuring consistency about our business that is once again reflected in these results. We begin 2015 with confidence that we are well positioned for future growth, in line with our medium to long-term objectives.”

Enquiries:

David Bellamy, Chief Executive Officer	Tel: 020 7514 1963
Andrew Croft, Chief Financial Officer	Tel: 020 7514 1963
Tony Dunk, Investor Relations Director	Tel: 020 7514 1963
Bell Pottinger	Tel: 020 3772 2566
John Sunnocks	
Ben Woodford	Email: Bwoodford@BellPottinger.com

An interview with David Bellamy, discussing today's results, will be available later today on www.sjp.co.uk.

Analyst presentation 10.45 am (GMT)

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

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

http://www.axisto-live.com/investis/clients/st-jamess-place/presentations/54be446f96cead5939616e0c/fr14

There will also be a Dial in:

Conference call dial in details:
UK & International Number: + 44 20 3059 8125
Participant Password: St. James's Place

Replay details (available for 7 days)
UK & International Number: + 44 121 260 4861
Passcode: 0237287 followed by #

CHIEF EXECUTIVE'S REPORT

I began my statement last year by commenting that 2013 would be remembered as one of the most significant years in our history, the year in which we became a wholly independent FTSE company for the first time.

However, if anything, 2014 will be remembered as an even more significant year. It was the year that we were elevated to the FTSE100, recognition of the hard work and commitment shown by everyone in the St. James's Place community over the 23 years since the company was launched and of course the support of our clients and shareholders.

It was also a year when, despite some uncertainty in world stock markets, we once again achieved record new investments, experienced improved retention and positive investment returns, leading to our client funds under management increasing by £7.7 billion, to a record £52 billion.

Our success has been and continues to be built on our fundamental belief in the value of a human relationship and the highly personal interaction, putting the client and adviser at the core of everything we do. That focus will not change and will continue to be the foundation of our future growth. In many respects, more of the same, but better. Indeed, at a time when more people are living longer, not saving enough and having to take greater personal responsibility for their long term prosperity, we believe that the vast majority will welcome the encouragement coming from government and recognise the need to seek advice, from an experienced adviser that they can trust. With over 2,500 qualified advisers, in the St. James's Place Partnership, we are very well positioned to meet this increasing need.

At the same time, we also believe that we can strengthen our relationship with our clients by exploring opportunities to enhance our proposition, through the development of our investment approach and the addition of complementary services, so that we are able to offer a more complete proposition.

We're going to start with the introduction of a new banking service in April, The St. James's Place Money Management Account. Fully branded St. James's Place, but powered by Metro Bank, the account will offer eligible clients a fully functional banking service, including cheques, debit cards, mobile access and other on line services. In addition, the account will have the added benefit of an integrated secured overdraft facility, providing immediate access to short term funds, secured against the value of their St. James's Place investment portfolio. We are delighted to be working with Metro Bank and look forward to being able to offer this additional facility for our clients.

Financial Performance

As a consequence of another year of good growth in new business, and helped by another positive experience variance, the operating profit for 2014, on a European Embedded Value (EEV) basis, has grown by 29% to £596.4 million (2013: £462.7 million).

The profit before shareholder tax, on an International Financial Reporting Standards (IFRS) basis reflects the sustained growth in our business in recent years, and was £182.9 million for 2014. The 2013 result was £190.7 million having benefited by £8.9 million from a reinsurance transaction during the year. As reported in more detail in the Chief Financial Officer's Report, growth in this measure has also been impacted by certain accounting implications arising from the changes to the adviser charging rules in 2013.

We have therefore introduced a new measure to aid investors, as covered in the comprehensive presentation of the financial results for the year in our Chief Financial Officer's Report and Financial Review.

Dividend

We continue to see a growing cash result, a trend that is expected to continue with the increasing maturity of funds under management.

At the time of our interim results, given our ongoing confidence in the emergence of future cash, we announced a 40% increase in the 2014 interim dividend and indicated that the full year dividend would be increased by a similar amount.

The final underlying cash result of £173.8 million, up 24%, was higher than expected at that time and given this strong growth, the Board proposes increasing the final dividend by 50% to 14.37 pence per share, bringing the full year dividend to 23.30 pence per share, up 46% on 2013. This gives a full year payout of 70% of the underlying cash (the 2013 payout was 60%).

In future years, we expect our dividend payout ratio to be broadly in line with 75% of the cash result.

The final dividend for 2014, subject to approval of shareholders at our AGM, will be paid on 15 May to shareholders on the register at the close of business on 10 April and as with last year, a Dividend Reinvestment Plan ("DRP") continues to be available for shareholders.

Clients

At the heart of the sustained growth I mentioned earlier is the importance we place on maintaining long lasting relationships with our Partners and clients and serving them well. We passionately believe that this personalised and face-to-face approach has a very strong place in UK financial services both today and in the future. Whilst technology is proving to be a game changer and disruptive in a number of retail services, we will embrace the use of technology to enhance the personal service we provide to our clients, not to replace it.

If we do this well, we will maintain our strong retention record and attract new clients and investments through referrals and introductions. That was further evidenced last year by the introduction of over 52,000 new clients to St. James's Place and new investments of £7.8 billion.

However, we are not complacent. Every year, we seek feedback from our clients both through the services of the independent research specialists, Ledbury Research, and by inviting every single client to provide feedback directly in response to their annual Wealth Account statement. Whilst there is room for improvement, the research carried out in the last three months once again shows a very considerable out-performance on all key measures compared to the wider marketplace and an improving trend. Most pleasing is the extremely high advocacy score, where 97% of our clients confirmed that they would recommend St. James's Place to others, with 52% having already done so.

Such research, together with the direct contact we maintain with clients, reassures us that our clients value the personal face-to-face relationship that we provide.

2014 also saw other significant changes for investors, with the government raising the annual ISA allowance to £15,000 and announcing the most radical changes to pensions in a generation. Both of these measures represent good news for our clients and also further strengthens the need for advice.

Investment Management

At the start of last year, the Investment Committee and Stamford Associates were in the process of reviewing the funds managed by Neil Woodford, following his decision to leave Invesco Perpetual. In the event, we decided to retain Neil's services and our clients continue to invest with him via their St. James's Place funds. The seamless transition to his new investment firm is a good example of the strength and the efficiency of our investment approach, which sits at the heart of what it is we do to look after clients' wealth.

Throughout the year, the UK's economy has continued to improve with lower unemployment, lower inflation and higher growth than many had forecast. Yet there remains a sense of fragility, due in part to the much poorer economic performance of the major developed economies of the EU and Japan. There is also the added uncertainty of the forthcoming General Election in May and the wider international uncertainty of the impact from lower oil prices and continuing tension both in the Middle East and between Russia and its neighbours.

Nevertheless, although the UK stock markets were largely unchanged in the year, with the FTSE 100 down 2.7% in capital terms but up 0.7% with dividends reinvested, higher growth was achieved in other asset classes, most notably the US stock market, some sectors of the fixed interest markets and property.

Against a background of mixed performance across the world's economies and more volatility in financial markets, our Growth and Income portfolios produced solid single digit returns, performing in line with our expectations. For individual clients, returns will of course reflect the specific funds held.

The St. James's Place Partnership

In 2014, alongside the impressive financial results, I am pleased to report that through the continued acquisition of highly established advisers, the integration of our new Partners in Asia and the graduation of students from our Academy, we attracted 10% more advisers to the St. James's Place Partnership. The sustained growth in our adviser capacity bears testimony to the reputation that we have built for both the quality of our client proposition and the level of support and development our Partners receive. Increasing the number of Partners and providing them with the tools and support to deliver high quality outcomes for clients is one of the key drivers to achieving our long term growth objectives.

We are very encouraged by the success of the Academy, including those joining family practices through our next generation initiative. Last year, 47 students graduated as fully qualified Partners or advisers from the first three cohorts who joined the London Academy in 2012 and we expect a similar number to qualify this year from the 2013 intake. We also extended the Academy program through the addition of a regional centre in the North West and in 2015 we will extend this initiative further, with two intakes in the North West and the establishment of a regional Academy in the Midlands. We also plan to open our first regional Academy in Scotland in early 2016.

Notwithstanding the fact that we remain very focused on our UK business, we also see further opportunities to expand our services overseas to the expatriate community. Building on the successful integration of our newly acquired team in Hong Kong, Shanghai and Singapore, we are in discussions with the relevant authorities in Dubai and Abu Dhabi and expect to make progress in the provision of financial advice to members of the British expatriate community in these jurisdictions in the near future.

'Back-office' Administration

In 2013, we embarked on one of the most significant developments in our back office for some time. The initial phase, in 2014, saw the unification of our two major back office teams, in Craigforth and Essex, coming together under the management of IFDS. The integrated technology platform that will support them is also well advanced and we expect to begin the migration of our business to the platform during 2015.

We expect to see the benefits of this important investment begin to crystallise in 2016.

The St. James's Place Foundation & Community Engagement

Raising funds for those less fortunate has always been at the heart of the Group's culture, so I am delighted to report that through the collective effort of the whole of our community, including employees, Partners, suppliers and others connected to St. James's Place, 2014 was another record year of fund raising for The St. James's Place Foundation. In total we raised over £3 million which, when matched by the company, meant over £6 million for the Foundation, taking the cumulative total raised to date to over £40 million and enabling us to support over 600 charitable projects in the year.

Our cultural driver of 'doing the right thing' extends to all of our community involvement, which is why we are committed to, and proud of, our continued membership of FTSE4GOOD. It is also why we have been actively developing structured programmes for summer interns and a longer term commitment to Apprenticeships. In 2014, we were particularly pleased to get recognition in the National Apprentices Awards for our work with over 30 Apprentices in recent years. We were also pleased to receive the Living Wage accreditation, one of only 20 FTSE100 companies to have achieved this qualification to date.

I would like to thank our entire community and also our clients, not only for their sponsorship but also for their participation in many of the hundreds of fund raising events that took place throughout the year.

Partners and Employees

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

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

Outlook

I am confident that the growth we achieved in 2014, in both new investments and Partner numbers, bodes well for the continued growth in our business, in line with our medium term objectives.

David Bellamy
Chief Executive
24 February 2015

CHIEF FINANCIAL OFFICER'S REPORT

Following the very strong performance of the business in recent years I am pleased to report the continuation of this trend in 2014.

We have commented earlier in this report on the record £7.8 billion of new investments which, together with the continuing excellent retention of client funds and strong investment markets, have led to a 17% growth in funds under management to a record £52.0 billion.

We have also provided an update on the Partnership and adviser numbers. Whilst the investment in new advisers translates into expense today, it is a lead indicator for future new business. Therefore, the strong growth in advisers over the last few years and, in particular the 10% growth in 2014, has resulted in higher establishment expenses but it bodes well for new business in 2015 and future years.

In this report, I will comment on the other financial results and, as usual, a more detail review is provided in the Financial Review which accompanies this announcement.

Financial results

As shareholders will be aware, we report our results on both IFRS and EEV bases, as well as providing further detail on the cash result emerging from the business.

The EEV result reflects the full economic value of the business and is primarily driven by current year events, particularly new business and investment performance. The IFRS and cash results are the cumulative effect of all previous years and so the increase in these measures over recent years is due as much to our strong underlying retention as our success in attracting new business. Of course, retention and new business are related, as it is the positive experience of clients which means they remain with the Group, which leads to additional investment and also advocacy.

The continuing strong performance of the underlying business and excellent retention of clients are once again key features of the results on all measures. However, shareholders will be aware of the changes to regulatory rules on adviser charging which were introduced in 2013. Whilst the fundamentals of our business were unaffected by the rule changes, we commented at the time on a number of changes to the accounting treatment of certain cashflows which particularly impacted our IFRS reporting. These effects are long-term and will develop in our accounts over the coming years. Therefore to further aid investors understanding we have added a new measure called **underlying profit**, which is based on the IFRS result but adjusted to exclude the impact of the DAC, DIR and PVIF intangibles. Hopefully investors will find this additional disclosure helpful. Detail on the definition of all the measures is provided on pages 13 and 14.

The key drivers to the result both this year and 2013 are the growth in new business, the continued strong retention and the investment we have made in future new business with the growth in the number of advisers. In addition, in each year, we have been able to recognise the value of a capital loss arising in certain legacy companies we originally inherited as part of the St. James's Place group.

The impact of the capital loss in the current year has been a positive within the IFRS post tax result of £39.5 million (2013: £27.9 million) and a positive in the EEV post tax result of £33.6 million (2013: £22.8 million). The benefit of these losses will offset current tax in future years, which we estimate will increase the cash result by c£5 million per annum for the foreseeable future. However, in 2014 there was a positive impact of £16.7 million in the cash result. We will continue the review of the remaining handful of legacy companies during 2015 but it is too early to say if any further capital losses exist.

Looking now at the performance of the key financial measures:

IFRS basis

The IFRS result includes a gross-up for the tax incurred on behalf of policyholders in our UK life assurance company and so historically we have presented the **profit before shareholder tax** eliminating this effect which is unrelated to the performance of the business. As noted above, this year we are also introducing a new 'non GAAP' measure of **underlying profit** which is based on the IFRS result but adjusted for the DAC and DIR intangibles as well as the amortisation of the PVIF. In future the Board will be using **underlying profit** as the most appropriate measure based upon IFRS when considering the operating performance for the year.

Table A below, provides the last five years results on both the profit before shareholder tax and the underlying profit measure.

Table A: Profit and Underlying Profit

	Profit before shareholder tax	**Growth**	**Underlying profit before shareholder tax**	**Growth**
	£'Million		**£'Million**	
2014	182.9	(4%)	173.6	(7%)
2013	190.7	42%	187.2	69%
2012	134.6	23%	110.8	55%
2011	109.7	30%	71.4	65%
2010	84.2	69%	43.4	

The progression of profit before shareholder tax in recent years has been impacted by the effect of the changes in the adviser charging rules in 2013. In addition the reinsurance transaction in 2013 resulted in a one off positive £8.9 million in that year, which reflects the net impact of a £21.4 million underlying benefit less a reduction in the value of the DAC asset associated with this business. However, growth over the five year period is still strong at 117%.

The effect of the change in adviser charging rules is mitigated in the underlying profit result, although the 2013 result does reflect the £21.4 million benefit from the reinsurance transaction. There is no DAC in this measure and so no DAC asset reduction.

Removing this item would give a like for like comparison of £165.8 million and an increase of 5% between the periods, which reflects an increase in income from funds under management, partially offset by both an increased share option expense and a higher cost associated with the back office infrastructure project in the current year.

EEV result

The three key measures within the EEV results are the new business profit, the operating profit and the net asset value per share. The development of these measures over the last five years is shown in Table B.

Table B: Key EEV financial measures

	EEV new business contribution £'Million	EEV operating profit £'Million	EEV net asset value per share Pence
2014	373.1	596.4	657.9
2013	327.2	462.7	575.3
2012	276.8	365.9	461.0
2011	246.0	371.5	385.0
2010	217.8	332.6	352.9

The new business profit at £373.1 million was up 14% during the year, in line with the average growth through the whole period. The growth in new business profit reflects increasing new business volumes, positive business mix and expense management.

The operating profit increased by 29% during the year to £596.4 million reflecting the growth in the new business profit together with strong positive experience variances in the year.

The net asset value per share on an EEV basis at the end 2014 was 657.9 pence, some 14% higher than the start of the year and has almost doubled over the period.

Cash result

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

The first column in the table below shows how the underlying cash arising from the business in-force at the valuation date (in-force business) has grown by 26% in the year.

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

Column 2 of the table shows the underlying level of cash earnings that is 're-invested' in acquiring new business. Despite the new business growth during the five year period, the level of the investment required has stayed fairly constant. Consequently the return which shareholders can expect from this investment has increased.

The net effect of growing the cash arising from the in-force business, whilst keeping the level of cash invested in new business relatively flat, is growth in the underlying cash result. As can be seen from Table C, the underlying cash result was up 24% in the year, resulting in a quadrupling of the result over the period.

We fully expect the cash result to continue to grow as the business continues to mature.

Table C: Cash result

	Cash arising on in-force business	Cash invested in acquiring new business	Underlying cash result	Growth
	£'Million	£'Million	£'Million	
2014	236.5	(62.7)	173.8	24%
2013	188.2	(48.3)	139.9	67%
2012	144.5	(60.5)	84.0	33%
2011	125.4	(62.4)	63.0	54%
2010	102.3	(61.4)	40.9	74%

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

The underlying cash result is presented adjusting for a number variances totalling a negative £8.7 million. The total post tax cash result for the year was therefore £165.1 million, slightly lower than the prior year.

Dividend

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

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

Having increased the dividend by 50% last year, and by 33% in each of the three previous years, we declared an increase in the 2014 interim dividend of 40% at the time of the interim results, and indicated that the full year dividend would be increased by a similar amount. However, given the strong results and in particular the strong underlying cash result, the Board has proposed a 50% increase in the final dividend. This will provide for a pay-out ratio of 70% for the current year and we expect the pay-out ratio to increase to 75% in the near term.

Table D: Dividend

	Dividend per Share	Growth
	Pence	
2014	23.30	46%
2013	15.96	50%
2012	10.64	33%
2011	8.0	33%
2010	6.0	33%

Capital

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

The Group continues to be capitalised well in excess of regulatory solvency requirements, and the surplus solvency assets remain invested prudently in cash, AAA rated money market funds and UK government securities. We also believe we will continue to be well capitalised when the new Solvency II regime is implemented in 2016. The relative lack of balance sheet risk, not least due to our prudent investment policy, has provided for an increasingly resilient solvency position over recent years despite the difficult financial and market environment recently experienced.

Future developments

We have commenced an investment programme working with our key 'back-office' administration provider to enhance our 'back office' systems to accommodate both continued growth and achieve future efficiency savings. Whilst the major systems development costs will be amortised over the term of the contract, we will incur our own internal project costs over the next couple of years and this is covered in more detail in Section 4 of the Financial Review.

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

Concluding remarks

2014 has been another year of strong growth in the fundamentals of our business, which feed through into the healthy underlying financials. Our business is in good shape and we expect to continue our growth trend.

The developing cash result has enabled the Board to significantly increase the dividend over the last five years and given the strength and resilience of the business we will move towards a dividend pay-out ratio of 75% of the underlying cash in the future.

Andrew Croft
Chief Financial Officer
24 February 2015

FINANCIAL REVIEW

The Financial Model

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

The level of income is dependent on the level of client funds and changes with market movements. Since a proportion of our business does not generate net cash in the first six years, the level of income will increase as a result of new business from six years ago becoming cash generative. This deferral of cash generation means the business always has six years' worth of funds "in the gestation period" (see page 23).

Group expenditure is carefully managed with clear targets set for growth in Establishment expenses in the year. Many other expenses increase with business levels and are met from margins in the products (see page 35). However, the Group also invests in new client services, computer systems and other corporate initiatives, all of which are reported as development expenditure.

A small proportion of Group expenditure is required to support management of existing funds, but the majority of expenditure is investment in growing the Partnership and acquiring new funds. The resulting new business is expected to generate income for an average of 14 years, and is expected to provide a good return on the investment (see page 24).

As the business matures, the proportion of the cash emergence from the existing business required to support the acquisition of new business is reducing. This has resulted in strong growth in underlying cash emergence in recent years which has ultimately fed through to growth in the dividend.

Presentation of financial results

Given the long-term nature of the business and the high level of investment in new business generation each year, management believes the IFRS result does not provide an easy guide to the cash likely to emerge in future years, nor does it reflect the total economic value of the business. We therefore complement our statutory IFRS reporting with additional analysis.

Firstly we provide additional analysis in relation to the tax reported under IFRS. 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, management believes it is useful to separately identify the **profit before shareholder tax**. This measure reflects the profit before tax adjusted for tax paid on behalf of policyholders.

Secondly the IFRS standards promote 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 (known as DAC – Deferred Acquisition Costs and DIR – Deferred Income). Our products are typically well matched in relation to initial charges to meet initial costs, and this treatment results in the establishment of largely offsetting DAC and DIR balances. However, the implementation of the changes to adviser charging rules in 2013 resulted in changes to the nature of some of those cashflows, moving them from long-term manufacturing margins to short-term advice margins, which resulted in significant accounting presentation changes despite the fundamentals of our vertically-integrated business remaining unchanged. Management has therefore developed a new 'non-GAAP' **underlying profit** measure which doesn't have the complexity associated with these adjustments since it is derived from the IFRS profit by adjusting for these intangibles. Management believes this measure will provide the most useful measure, based upon IFRS, of operating performance in the future.

The **cash result** measure was developed with the aim of assisting investors seeking to understand the sources of cash emergence and to create a measure which more reflected the underlying cash generated by the business.

It is similar to the new underlying profit measure in that it is based upon the IFRS result adjusted for the DAC, DIR and PVIF intangibles, but also for deferred tax and share-option costs. In addition it also includes adjustments to reflect solvency constraints on profits emerging from regulated companies such as our insurance businesses.

Since the cash result can be impacted by one off items, timing variances and changes in insurance reserves, management believes it is also useful to present an **underlying cash result,** which excludes these effects. Neither of the cash result measures should be confused with the IFRS cash flow statement which is prepared in accordance with IAS 7 and disclosed on page 64.

It is the underlying cash result that the Board considers when determining the dividend payment to shareholders.

As noted previously, the reported results reflect strong investment in new business each year. Management believes it is useful to understand the contribution to profits from just the in-force business as this reflects the value being generated by the underlying business. We therefore provide breakdown of the cash result, identifying the new business impact and making clear the ongoing contribution from the established business.

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

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

Sections 1-3 below provide a commentary on the performance of the business on the IFRS, Cash and EEV result bases; whilst Section 4 covers other matters of interest to shareholders.

SECTION 1: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As noted at the start of this review the IFRS result includes the tax incurred on behalf of policyholders in our UK life assurance company and therefore we present the IFRS **profit before shareholder tax**. As IFRS also spreads the initial cash flows over the life of the contract through the use of intangible assets, we present an **underlying profit** in addition which adjusts for these items together with the amortisation of the PVIF. In future the Board will be using the **underlying profit** as the most appropriate measure, based upon IFRS, for considering the operating performance in the year.

The detailed IFRS result is shown on pages 60 to 80 and is analysed in the table below:

	2014		2013	
	Before shareholder tax	**After tax**	Before shareholder tax	After tax *
	£' Million	**£' Million**	£' Million	£' Million
Underlying profit	173.6	180.9	187.2	175.4
DAC	(75.8)	(60.2)	(82.8)	(40.4)
DIR	88.3	69.8	89.5	56.7
PVIF	(3.2)	(2.6)	(3.2)	(1.4)
IFRS profit	182.9	187.9	190.7	190.3

* includes the impact of the corporation tax rate change

	Year Ended 31 December 2014	Year Ended 31 December 2013
	Pence	Pence
IFRS Basic earnings per share	36.6	37.4
IFRS Diluted earnings per share	35.9	36.7
Underlying basic earnings per share	35.2	34.4
Underlying diluted earnings per share	34.6	33.8

Underlying Profit before shareholder tax

The result for the year was £173.6 million compared with £187.2 million for the prior year. However, 2013 benefitted from a one-off £21.4 million relating to a reinsurance transaction in that year. Removing this item would give a like for like comparison of £165.8 million and an increase of 5% between the periods, which reflects an increase in income from funds under management partially offset by both an increased share option expense and a higher cost associated with the back office infrastructure project in the current year.

A breakdown by segment of the underlying profit is provided in the following table:

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Life business	160.7	162.7
Unit Trust business	61.2	58.3
Distribution business	(10.9)	(6.1)
Other	(37.4)	(27.7)
Underlying profit before shareholder tax	173.6	187.2

Life business

The Life business profit for the year was £160.7 million (2013: £162.7 million) marginally lower than last year.

However, adjusting the prior year result for the £21.4 million one off from the reinsurance transaction, would give a like for like comparison of £141.3 million and therefore growth of some 14%. The principal contributor to this growth in profit was the increase in income derived from higher funds under management.

Unit Trust business

The Unit Trust business profit for the year was £61.2 million (2013: £58.3 million) was higher than last year. As with life business, the principal contributor to this rise in profit was the increase in income arising from higher funds under management.

Distribution business

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

The Distribution business loss for the year was £10.9 million (2013: loss of £6.1 million) which includes a negative contribution of £1.7 million from the recently acquired Henley group as we integrate and invest in the growth of this business. The result also reflects higher expenses in 2014 associated with the strong increase in adviser recruitment in recent years and the benefit from this investment will be seen in future periods.

The result continues to be impacted by the Financial Services Compensation Scheme levy which remains at an elevated level for the industry and which impacted St. James's Place by £5.9 million (2013: £5.5 million).

Other

Other operations contributed a loss of £37.4 million (2013: loss of £27.7 million). Included within this figure is the £11.9 million (2013: £5.0 million) development costs related to the investment in the back-office infrastructure, and £11.4 million (2013: £7.8 million) for the cost of expensing share options. The comparative was impacted by one-off costs in relation to the reduction in the Lloyds Banking Group ("LBG") shareholding on 11 March 2013 of £6.2 million. The balance, in both years, included the corporate donation to the St. James's Place Foundation but principally reflected costs associated with corporate initiatives and projects.

DAC/DIR/PVIF before shareholder tax

As noted in the table below the net movement in theses intangibles provided for a positive contribution to profit of £9.3 million for the year compared with an increase in profit of £3.5 million for 2013. However, the 2013 figure was negatively impacted by the previously mentioned reinsurance transaction and therefore, on a like for like basis, the net movement in the intangibles in 2013 increased profit by £16.0 million.

	2014	2013
	£'Million	£'Million
Amortisation charge	28.3	39.1
Arising on new business	(19.0)	(23.1)
Normalised movement for the year	9.3	16.0
Revaluation of DAC for reinsurance transaction	-	(12.5)
Movement in year	9.3	3.5

The reduction in the like for like net movement in the intangibles arises because of the changes in adviser charging rules in 2013, which changed the nature of certain cash flows in the Group, moving them from long term manufacturing margins to short term advice margins. Consequently, the positive contribution from the amortisation of accumulated DAC, DIR and PVIF balances from prior years is reducing and in 2015 is expected to be £17.2 million lower at £11.1 million. In future years the contribution is expected to turn negative. The DAC/DIR arising on new business is expected to move in line with new business growth.

However it is important to note the intangible and deferred nature of these items, meaning that they don't reflect the operating performance of the business. This is why management believes the new underlying profit will be the most appropriate measure, based upon IFRS, for considering the operating performance in future.

Profit before shareholder tax

The profit before shareholder tax for the year was £182.9 million, which was lower than the prior year result of £190.7 million. As with the underlying profit result, the prior year figure includes the impact of the one off reinsurance treaty. The reduced contribution from the net movement in DAC/DIR/PVIF intangibles, as noted above, also contributed to the lower result in the current year.

Shareholder tax

The tax reported under IFRS each year is impacted by a variety of effects, both current and future, particularly one-off events such as the change in corporation tax rate. Therefore, to assist shareholders, the table below provides a high level analysis of shareholder tax and the implied tax rate. A more detailed analysis is included in Note 6 to this announcement.

	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
Expected shareholder tax	(35.7)	(41.9)
Recognition of capital losses	39.5	27.9
Other tax adjustments	1.2	1.6
Corporation tax rate change	-	12.0
Actual shareholder tax	5.0	(0.4)
Expected shareholder tax rate	19.5%	22.0%
Actual shareholder tax rate	(2.7%)	0.2%

The **expected shareholder tax** principally reflects the current corporation tax rate applicable and will vary from year to year depending upon the emergence of profit between the different tax regimes which apply to the St. James's Place Group companies. More detail is included in Note 6 to this announcement.

As previously commented, the recognition of the future effect of Group capital losses reduced the shareholder tax recognised in the year by £39.5 million (2013: £27.9 million).

The impact of the **corporation tax rate change** on deferred assets and liabilities reduced the tax charge in 2013 by £12.0 million. This impact reflected implementation of the full corporation tax rate reductions from 23% to 20%.

The overall impact of all of the above effects is to decrease the tax charge reported in the IFRS results, moving it from a charge of £0.4 million to a credit of £5.0 million. However it is worth noting that when deferred tax effects are stripped out, the total current tax charge in the year was £95.5 million (see Note 6 on page 74).

In arriving at the profit before shareholder tax, it is necessary to estimate the analysis of the total tax charge between that payable in respect of policyholders and that payable by shareholders. Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders, with the balance being treated as tax in respect of policyholders.

IFRS profit before tax

The total IFRS result, is presented in the table below, grossed up for the inclusion of tax incurred on behalf of policyholders:

	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
IFRS profit before tax	294.4	461.2
Policyholder tax	(111.5)	(270.5)
Profit before shareholder tax	182.9	190.7
Shareholder tax	5.0	(0.4)
IFRS profit after tax	187.9	190.3

In 2014, the **IFRS profit before tax** for the year was £294.4 million (2013: £461.2 million) with the principal contribution to the change being the reduction in the policyholder tax charges from £270.5 million in 2013 to £111.5 million in 2014.

The **policyholder tax** charge depends on the level of underlying policyholder taxable benefit determined by growth in value of the funds. The lower charge in 2014 reflecting the lower stock growth compared to 2013. The movement between the reporting dates has resulted in a tax charge of £111.5 million.

IFRS profit after tax

The IFRS profit after tax reduced marginally from £190.3 million in 2013 to £187.9 million in 2014. The result reflects not only the business performance in each year but also the recognition of deferred tax assets for capital losses emerging in both years. The 2013 result also benefitted from both the reinsurance transaction and the corporation tax rate change.

Analysis of IFRS Assets and Net Assets per Share

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

	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
Purchased value of in-force*	29.4	32.0
Deferred acquisition costs*	662.2	720.8
Deferred income*	(398.7)	(466.7)
Other IFRS net assets	145.2	112.4
Solvency net assets	572.0	507.6
Total IFRS net assets	1,010.1	906.1

* net of deferred tax

	Year Ended 31 December 2014 Pence	Year Ended 31 December 2013 Pence
Net asset value per share	194.5	175.9

SECTION 2: CASH RESULT AND CAPITAL

In addition to presenting the financial performance on the IFRS basis, we also provide an analysis of the sources of cash emergence in the year, which we refer to as the cash result and is shown post tax. This cash result is based on the **underlying profit after tax** but is adjusted for deferred tax (including the corporation tax rate change in 2013) and to reflect the level of regulatory solvency constraint on profits emerging from regulated companies, such as our insurance businesses, in line with that required by Regulators. It is also adjusted for the share option cost in the year.

Since the cash result can be impacted by timing variances and capitalised impacts in solvency requirements, management believes it is also useful to present an **underlying cash result** excluding these effects, which the Board reviews, in conjunction with Group solvency, when determining the proposed dividend to shareholders.

The table below shows the movement from the underlying profit on page 15 to the underlying cash result:

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Underlying profit after tax	180.9	175.4
Share options	11.4	7.8
IFRS deferred tax impacts	(34.6)	(2.0)
Solvency reserves	7.4	(0.4)
Corporation tax rate change	-	(12.0)
Cash result	165.1	168.8
Reinsurance transaction	-	(18.3)
Back office infrastructure	9.3	4.0
Variance	(0.6)	(14.6)
Underlying cash result	173.8	139.9

	Year Ended 31 December 2014	Year Ended 31 December 2013
	Pence	Pence
Underlying cash basic earnings per share	33.8	27.5
Underlying cash diluted earnings per share	33.2	27.0

The underlying cash result for the year at £173.8 million increased by 24% over the same period last year principally reflecting the higher income from funds under management.

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

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

Year Ended 31 December 2014	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Net annual management fee	1	344.1	29.3	373.4
Unwind of early withdrawal charge	2	(121.0)	(16.1)	(137.1)
Net income from funds under management		223.1	13.2	236.3
Margin arising from new business	3	-	36.6	36.6
Establishment expenses	4	(9.9)	(88.5)	(98.4)
Development expenses	5	-	(15.6)	(15.6)
Regulatory fees	6	(0.5)	(4.2)	(4.7)
FSCS levy	7	(0.5)	(4.2)	(4.7)
Shareholder interest	8	7.7	-	7.7
Utilisation of capital losses	9	16.7	-	16.7
Miscellaneous	10	(0.1)	-	(0.1)
Underlying cash result		236.5	(62.7)	173.8
Back office infrastructure	12			(9.3)
Variance	13			0.6
Cash result				165.1

Year Ended 31 December 2013	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Net annual management fee	1	290.5	27.0	317.5
Unwind of early withdrawal charge	2	(103.4)	(15.9)	(119.3)
Net income from funds under management		187.1	11.1	198.2
Margin arising from new business	3	-	37.8	37.8
Establishment expenses	4	(8.6)	(78.4)	(87.0)
Development expenses	5	-	(10.8)	(10.8)
Regulatory fees	6	(0.9)	(3.8)	(4.7)
FSCS levy	7	-	(4.2)	(4.2)
Shareholder interest	8	7.4	-	7.4
Miscellaneous	10	3.2	-	3.2
Underlying cash result		188.2	(48.3)	139.9
Reinsurance transaction	11			18.3
Back office infrastructure	12			(4.0)
Variance	13			14.6
Cash result				168.8

Notes

Since all numbers are expressed after tax, they are impacted by the prevailing tax rate for each year.

1. The net annual management fee: This is the manufacturing margin the Group retains from the funds under management after payment of the associated costs (e.g. investment advisory fees and Partner remuneration). Broadly speaking, the Group retains around 1% before tax (0.77% after tax) of funds under management.

   The level of net annual management fee was some 18% higher than the prior year reflecting the higher average funds under management in 2014 compared to 2013.

2. Unwind of early withdrawal charge: This relates to the reserving methodology applied to the early withdrawal charge within the charging structure of the single premium life bonds and pensions. At the outset of the product, we establish a liability net of the outstanding early withdrawal charge which would apply if the policy were to be encashed.

   As the early withdrawal charge reduces to zero, so the liability to the policyholder is enhanced by increasing their funds by 1% per annum over the first six years of the product life, to correspond to this 'unwind' of the early withdrawal charge. In other words, there is a cost which offsets the annual management fee above.

   Like the net annual management fee, the unwind of the early withdrawal charge has increased due to the growth in funds under management. However the increase is also impacted by new funds but offset by the fact that the funds added six years ago have completed the withdrawal charge period.

3. Margin arising from new business: This is the cash impact of new business in the year after taking into account the directly attributable expenses.

   The result will be impacted by volumes of new business, business mix and the level of production related costs.

4. Establishment expenses: These are the expenses of running the Group's infrastructure as shown in the table on page 35. In line with the rest of this table, they are presented after allowance for tax.

5. Development expenses: These represent the sum of the other expenditure noted in the table on page 35 (e.g. developments, the cost of regulatory change and Academy). The impact on the cash result in the year was £15.6 million (2013: £10.8 million).

6. Regulatory fees: This relates to the fees payable to the Regulatory bodies.

7. FSCS levy: This relates to the charge levied by the FSCS for the current year.

8. Shareholder interest arising from regulated and non-regulated business: This is the actual income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.

   The small increase in interest received reflects the increased level of assets invested.

9. Utilisation of capital losses: In 2013, a deferred tax asset of £27.9 million was established for old capital losses which were regarded as being capable of utilisation over the medium term. During 2014, £16.7 million tax value of these losses has been utilised benefiting the cash result by the same amount.

10. Miscellaneous: This represents the cash flow of the business not covered in any of the other categories, together with the utilisation of the deferred tax asset in respect of prior year's unrelieved expenses (due to structural timing differences in the life company tax computation).

11. Reinsurance transaction: During 2013 a reinsurance treaty was entered into by the UK life company which reinsured the company's remaining insurance and persistency risk of its closed book of Protection business. As a result of the transaction there was a one-off impact on the cash result of £18.3 million, reflecting the release of the associated prudent solvency reserves together with the realisation of the capitalised value of expected future margins.

12. Back office infrastructure: These costs relate to a major project seeking to combine our back offices under one management team and to put in place one unified, client centric administration system, enabling them to deliver improved service and improved efficiency for the business.

13. Variance: This reflects variances in the cash result in a year due to the impact of actual experience (including economic assumptions changes and investment performance) on insurance reserves, as well as variances in the settlement of tax related liabilities between the policyholders (unit-linked funds), the shareholder and HMRC.

    The small benefit of £0.6 million in 2014 reflects a number of offsetting impacts whilst the larger variance of £14.6 million in 2013 reflects a release of solvency reserves, the utilisation of brought forward pension losses and positive impacts from tax timing variances.

Return on In-Force business

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

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

In addition, a proportion of the new business has an early withdrawal charge which unwinds during the first six years and, consequently, this business does not make a meaningful contribution to the cash result until year seven. The table below provides an estimated current value of the funds under management where the early withdrawal charge applies. This funds under management is not yet generating income within the cash result.

Year	Estimated Current Fund Value £'Billion
2009	1.8
2010	2.2
2011	2.5
2012	2.8
2013	3.4
2014	3.4
Total	16.1

This £16.1 billion represents some 31% of the total funds under management which, if all the business reached the end of the early withdrawal charge period, would contribute an additional £123.9 million to the annual post-tax cash result (based on 0.77% post-tax earnings from funds under management).

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

Return on investment in new business

As noted in the table on page 21, £62.7 million (2013: £48.3 million restated to exclude the £4.0 million of back office infrastructure cost) of the cash arising from the in-force business has been re-invested in acquiring the new business during the year.

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

	Year Ended 31 December 2014	Year Ended 31 December 2013
Post-tax investment in new business (£'Million)	(62.7)	(48.3)
Post-tax present value of expected profit from investment (£'Million)	298.4	261.8
Gross inflow of funds under management (£'Billion)	7.9	6.8
Investment as % of gross inflow*	0.8%	0.8%
New business margin (% of manufactured APE)	41.7%	42.9%
Cash payback period (years)	4	4
Internal rate of return (net of tax)	26.1%	28.4%

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

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

Capital Position

In addition to presenting an IFRS balance sheet (on page 63) and an EEV balance sheet (on page 50), we believe it is beneficial to provide a balance sheet using the approach underlying our cash result. This is because the cash result is adjusted for non-cash items such as DAC, DIR and deferred tax. The Board therefore considers this cash result balance sheet provides the best indication of the net asset position of the Group.

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

	IFRS Balance Sheet	Adjustment 1	Adjustment 2	**Cash Result Balance Sheet**	**2013**
	£'Million	**£'Million**	**£'Million**	**£'Million**	**£'Million**
Assets					
Goodwill	10.1			10.1	-
Deferred acquisition costs	813.0	-	(813.0)	-	-
Acquired value of in force business	36.8	-	(36.8)	-	-
Developments	7.7	-	-	7.7	8.7
Property and equipment	7.9	-	-	7.9	5.8
Deferred tax assets	192.8	-	(192.8)	-	-
Investment property	1,031.4	(1,031.4)	-	-	-
Equities	34,734.9	(34,734.9)	-	-	-
Fixed income securities	6,838.8	(6,755.5)	-	83.3	67.7
Investment in Collective Investment Schemes	2,961.7	(2,444.4)	-	517.3	522.3
Derivative financial instruments	166.4	(166.4)	-	-	-
Reinsurance assets	85.5	-	-	85.5	64.2
Insurance & investment contract receivables	63.5	-	-	63.5	49.9
Other receivables	604.6	(306.9)	(5.1)	292.6	226.0
Cash & cash equivalents	5,139.4	(4,865.1)	-	274.3	197.1
Total assets	**52,694.5**	**(50,304.6)**	**(1,047.7)**	**1,342.2**	**1,141.7**
Liabilities					
Insurance contract liabilities	474.4	(384.3)	(0.9)	89.2	79.3
Other provisions	11.4	-	-	11.4	9.7
Investment contracts	38,851.2	(38,832.5)	-	18.7	6.6
Borrowings	84.3	-	-	84.3	98.7
Derivative financial instruments	79.3	(79.3)	-	-	-
Deferred tax liabilities	519.8	(80.0)	(176.2)	263.6	246.6
Insurance & investment contract payables	50.4	-	-	50.4	38.1
Deferred income	463.2	-	(463.2)	-	-
Income tax liabilities	32.8	-	-	32.8	4.9
Other payables	499.7	(310.7)	(0.4)	188.6	125.0
NAV attributable to unit holders	10,617.8	(10,617.8)	-	-	-
Preference shares	0.1	-	-	0.1	0.1
Total liabilities	**51,684.4**	**(50,304.6)**	**(640.7)**	**739.1**	**609.0**
Net Assets	**1,010.1**	**-**	**(407.0)**	**603.1**	**532.7**

Adjustments

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

The movement in the cash result net assets is equal to the cash result adjusted for dividends paid in the year and other changes in equity excluding the cost of share options (see page 62 – Consolidated Statement of Changes in Equity).

The table above provides an analysis of the differences between the IFRS balance sheet and the cash result balance sheet. As in previous years, we also provide an analysis of the Solvency position. The key difference between the cash result net assets (above) and the Solvency net assets is an amount of additional reserves arising from the Irish solvency regulations. These reserves include additional prudential reserves over that required by the UK regulator. As a result, the Solvency position is £572.0 million, which is £31.1million lower than the cash result net assets of £603.1 million. (2013: £507.6 million and £532.7 million, respectively).

The table below provides an analysis of the Solvency position between regulated and non-regulated entities, together with an assessment of the solvency position against both the required minimum regulatory capital and the internal capital requirement set by the Board (referred to as the management solvency requirement).

	Life	**Other Regulated**	**Other**	**Total**
	£'Million	**£'Million**	**£'Million**	**£'Million**
Solvency net assets	327.1	52.1	192.8	572.0
Intra-group proposed dividends	(145.0)	(10.0)	155.0	-
Final 2014 dividend			(74.6)	(74.6)
Net assets after dividends	182.1	42.1	273.2	497.4
Required minimum regulatory capital	48.9	22.3		
Solvency ratio	372%	189%		
Management solvency requirement	153.9	42.1		
Management solvency ratio	118%	100%		

Comparison with previous valuations will show that the Group solvency position remains resilient, reflecting the Group's low appetite for market, credit and liquidity risk in relation to solvency.

A further measure of solvency for an insurance group is the Insurance Groups Directive (IGD) resources. This is calculated by considering the level of net assets in the Group (outside of the insurance companies) that could be available to support the solvency of the insurance company (and other regulated companies). It therefore represents additional solvency cover over the £327.1 million Life company solvency assets identified in the table above. At 31 December 2014 the IGD resources amount was estimated as £240 million (2013: £260.0 million).

The balance of Other assets after intra-group dividends received and the payment of the final 2014 dividend is £273.2 million which includes £112.5 million of non-cash items. The balance represents free group resources, including an amount of £90 million held as a buffer to maintain future dividends in the event of stock market volatility impacting the cash result in a particular year.

The Group continues to be capitalised well in excess of regulatory solvency requirements, with over 60% of cash result balance sheet assets (and solvency assets) invested prudently in cash, AAA rated money market funds and UK government securities. Other assets (principally other receivables) are less liquid. An analysis of the liquid asset holdings is provided below.

Analysis of liquid assets

Holding Name	**£'Million**	**£'Million**
UK government gilts		
2.75% UK Treasury 22/01/2015	13.5	
4.75% UK Treasury 07/09/2015	11.6	
5.8% UK Treasury 26/07/2016	11.7	
2.5% UK Treasury Index Linked 17/07/2024	18.8	
2% UK Treasury Index Linked 26/01/2035	25.3	80.9
Other government bonds		
0.25% Singapore Government Bonds		2.4
AAA rated money market funds		
BlackRock	128.2	
HSBC	83.9	
Insight	90.0	
Legal & General	82.6	
Scottish Widows	40.0	
JP Morgan	92.6	517.3
Bank balances		
UK banks*	271.4	
Others	2.9	274.3
		874.9

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

Solvency II

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

Share options maturity

At 31 December 2014, there were 4.9 million share options outstanding under the various share option schemes which, if exercised, will provide up to £15.4 million (2013: £19.1 million) of future capital for the Company.

The table below provides a breakdown by date and exercise price.

Earliest date of exercise	Average exercise price	Number of share options outstanding	Potential proceeds
	£	Million	£' Million
Prior to 1 Jan 2015	2.90	3.5	10.0
Jan – Jun 2015	2.96	0.3	0.8
Jul – Dec 2015	2.75	0.7	2.0
Jan – Jun 2016	3.88	0.2	0.8
Jul – Dec 2016	-	-	-
Jan – Jun 2017	6.77	0.2	1.8
		4.9	15.4

SECTION 3: EUROPEAN EMBEDDED VALUE (EEV)

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

The table below and accompanying notes summarise the profit before tax of the combined business. The detailed results are shown on pages 48 to 59 and include information about the sensitivity of the results to key assumptions on pages 57 and 58.

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Life business	467.0	365.7
Unit Trust business	177.7	130.8
Distribution	(10.9)	(6.1)
Other	(37.4)	(27.7)
EEV operating profit	596.4	462.7
Investment return variance	80.2	344.2
Economic assumption changes	(7.0)	10.6
EEV profit before tax	669.6	817.5
Tax	(132.6)	(161.9)
Corporation tax change	-	18.9
EEV profit after tax	537.0	674.5

Total EEV operating profit for the year, at £596.4 million, was 29% higher than the 2013 result of £462.7 million.

	Year Ended 31 December 2014	Year Ended 31 December 2013
	Pence	Pence
EEV operating profit basic earnings per share	93.1	72.9
EEV operating profit diluted earnings per share	91.5	71.6

EEV operating profit

Life business

The Life business operating profit has increased to £467.0 million in the year (2013: £365.7 million) mainly due to the significant contribution from experience variances in the year. A full analysis of the result is shown below:

	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
New business contribution	233.7	213.6
Profit from existing business		
- unwind of the discount rate	144.9	89.4
- experience variance	78.1	53.9
- operating assumption change	3.0	4.6
Investment income	7.3	4.2
Life business EEV operating profit	467.0	365.7

The increase in the **new business contribution** for the year to £233.7 million (2013: £213.6 million) reflects the positive impact of the growth in new business being greater than the growth in the associated expenses (the operational gearing).

The **unwind of the discount rate** was £144.9 million (2013: £89.4 million), reflecting both the higher opening value of in-force business and higher discount rate.

As the discount rate is set by reference to the yield on a UK 10 year gilt at the start of each reporting period, then the 1.2% lower gilt yield at the start of 2015 will negatively impact the unwind of the discount rate for the current year.

The **experience variance** in the year was £78.1 million (2013: £53.9 million). The key contributors to the positive variance in the current year were a £42.2 million (2013: £28.6 million) value placed on further capital losses identified within the Group, which we now regard as being capable of utilisation in the medium term, and the continued strong retention of client funds, which contributed a further significant positive variance of some £39.4 million. The balance is made up by a number of smaller positive and negative variances.

There was a small positive **operating assumption change** of £3.0 million (2013: £4.6 million positive variance).

The **investment income** for the year was £7.3 million (2013: £4.2 million) and reflects an assumed interest rate earned on our free assets.

Unit Trust business

The Unit Trust operating profit was £177.7 million (2013: £130.8 million) and a full analysis of the result is shown below:

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
New business contribution	139.4	113.6
Profit from existing business		
- unwind of the discount rate	37.1	22.7
- experience variance	0.4	(6.5)
- operating assumption change	-	-
Investment income	0.8	1.0
Unit Trust business EEV operating profit	177.7	130.8

New business contribution at £139.4 million (2013: £113.6 million) was 23% higher than the prior year as a result of the strong new business growth in the year together with lower growth of associated expenses.

The **unwind of the discount rate** was £37.1 million (2013: £22.7 million), reflecting both the higher opening value of in-force business and higher discount rate.

As noted above the 1.2% lower gilt yield at the start of 2015 will negatively impact the unwind of the discount rate for the current year.

There was a small positive **experience variance** of £0.4 million (2013: £6.5 million negative variance) which is accounted for by a number of small positive and negative items in both years.

There were no **operating assumption changes** during the year (2013: no assumption changes) and a small amount of **investment income** of £0.8 million (2013: £1.0 million).

Distribution business and Other

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

Investment return variance

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

During 2014, world stock markets rose, with, for example, the MSCI £ world index increasing by some 9%. This was reflected in the investment return on our funds, which exceeded the assumed investment return. As a result, there was a positive investment return variance of £80.2 million for the year.

In the prior year, there was a positive investment variance of £344.2 million, reflecting the higher level of stock market growth.

Economic assumption changes

There was a negative variance of £7.0 million arising from changes in the economic basis adopted at the year end and, in particular, decreases in 'real' yields below inflation (2013: £10.6 million positive variance).

EEV profit before tax

The total EEV profit before tax for the year was £669.6 million (2013: £817.5 million) with the higher 2014 operating performance being more than offset by the higher investment variance in the prior year.

Tax

The tax charge at £132.6 million (2013: £161.9 million charge) was lower than 2013 reflecting the higher profit before tax in the prior year.

The prior year also included a positive impact of £18.9 million from a 1% reduction in the corporation tax rate announced in that year.

EEV profit after tax

The EEV profit after tax was £537.0 million (2013: £674.5 million). The principal reason for the variation is the change in investment return variance.

New Business Margin

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

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

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

	Year Ended 31 December 2014	Year Ended 31 December 2013
Life business		
New business contribution (£’ m)	233.7	213.6
APE (£’m)	583.0	532.9
Margin (%)	40.1	40.1
PVNBP (£’m)	5,194.0	4,758.0
Margin (%)	4.5	4.5
Unit Trust business		
New business contribution (£’ m)	139.4	113.6
APE (£’m)	312.6	230.0
Margin (%)	44.6	49.4
PVNBP (£’m)	3,126.1	2,300.2
Margin (%)	4.5	4.9
Total business		
New business contribution (£’ m)	373.1	327.2
APE (£’m)	895.6	762.9
Margin (%)	41.7	42.9
PVNBP (£’m)	8,320.1	7,058.2
Margin (%)	4.5	4.6

The Total business margin has reduced slightly over the year from 4.6% to 4.5% on a PVNBP basis and from 42.9% to 41.7% on the APE basis. This reflects a high level of investment expenditure in the year. The greater reduction in the margin for the Unit Trust business reflects a reallocation of corporate expenses between Life and Unit Trust business as the respective proportions of the business change.

Analysis of the European Embedded Value and Net Assets per Share

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

	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
Value of in-force		
- Life	2,234.0	1,950.2
- Unit Trust	611.2	506.3
Solvency net assets	572.0	507.6
Total embedded value	3,417.2	2,964.1

	Year Ended 31 December 2014 Pence	Year Ended 31 December 2013 Pence
Net asset value per share	657.9	575.3

SECTION 4: OTHER MATTERS

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

Management Expenses

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

	Notes	**Year Ended 31 December 2014**	Year Ended* 31 December 2013
		£' Million	£' Million
Paid from policy margins and advice charges			
Partner remuneration	1	455.4	407.1
Investment expenses	1	124.6	101.8
Third party administration	1	44.3	41.8
		624.3	550.7
Direct expenses			
Other performance related costs	2	86.8	72.5
Establishment costs	3	125.1	108.0
Academy costs	4	4.1	2.7
Other development costs	5	15.6	11.9
Back office infrastructure costs	6	11.9	5.0
Regulatory fees	7	6.1	6.1
FSCS levy	7	5.9	5.5
Regulatory change costs	8	-	3.1
Contribution from third party product sales	9	(22.4)	(20.4)
		233.1	194.4
		857.4	745.1

*We have changed the presentation of this analysis of Group expenses to provide further information on performance related costs and business as usual other developments. The 2013 comparative has been re-presented to be in a consistent format.

Notes

1. These costs are met from corresponding policy margins and any variation in them from changes in the volumes of new business or the level of the stock markets does not directly impact the profitability of the Group.

2. Other performance related costs, for both Partners and employees, vary with the level of new business and operating profit performance of the business. Establishment costs are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term, although they are subject to inflationary increases. These costs will increase as the infrastructure expands to manage the higher number of existing clients, the growing number of advisers and increasing business volumes.

3. The growth in establishment expenses during the year was higher than our original expectations as a consequence of an increase in expenditure associated with the high level of adviser recruitment in the year together with the costs relating to the higher business volumes.

   We expect establishment expenses in 2015 to increase by around 10%.

4. The Academy is an important strategic investment for the future and the increase in the costs during 2014 reflects the increased number of students within the programme and the launch of our first regional academy in Manchester.

   2015 will see further growth in this investment as the Academy continues to expand with further intakes planned in London and Manchester together with our first academy intake in Solihull.

5. Other development costs represent the expenditure associated with the on-going development in our investment proposition, corporate initiatives, technology improvements and other system developments. These costs will vary year by year depending upon the extent of change and/or investment planned.

   The development expenses were £15.6 million during 2014 (2013: £11.9 million) and we expect a similar level of spend in 2015.

6. The costs of the back office investment programme were £11.9 million for the year compared to a second half year cost of £5.0 million in 2013.

   The change programme progressed well during 2014 and we 'soft launched' ISA and unit trust business at the end of the year with full migration of this business expected in 2015.

   As we continue to develop the system and migrate the existing business we will incur further investment expenditure and anticipate the costs for 2015 to be some £15.0 million.

7. The regulatory costs represent the fees payable to the regulatory bodies of £6.1 million (2013: £6.1 million), together with our required contribution to the Financial Services Compensation Scheme of £5.9 million (2013: £5.5 million).

8. These were the one-off costs of changing our systems and process for the implementation of the adviser charging rules. As these changes have now been implemented, we do not expect further expenditure in 2015.

9. Contribution from third party product new business reflects the net income received from wealth management business of £9.0 million (2013: £8.2 million), from group pension business of £0.8 million (2013: £0.5 million) and from Protection business of £12.6 million (2013: £11.7 million).

The table below provides a reconciliation from these management expenses to the total group expenses included in the Consolidated Statement of Comprehensive Income on page 60.

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£'Million
Expenses per table above	857.4	745.1
Reversal of contribution to third party product sales	22.4	20.4
Other expenses		
DAC movement	75.8	82.8
Amortisation of PVIF	3.2	3.2
Investment transaction costs	20.6	14.1
Costs associated with the 2013 LBG share sale	-	6.2
Share option costs	11.4	7.8
Share option NI	2.7	3.4
Acquired IFA operating costs	6.0	6.7
Henley operating costs	3.6	-
Interest expense	3.8	2.8
Charitable donations	3.6	1.9
Other	12.4	2.4
	143.1	131.3
Total expenses	**1,022.9**	**896.8**

Movement in funds under management

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

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Billion	£' Billion
Opening funds under management	44.3	34.8
New money invested	7.9	6.8
Investment return	2.6	5.2
	54.8	46.8
Regular withdrawals / maturities	(0.9)	(0.7)
Surrenders / part surrenders	(1.9)	(1.8)
Closing funds under management	52.0	44.3
Implied surrender rate as % of average funds under management	4.0%	4.7%
Net inflow of funds	£5.09bn	£4.23bn
Net inflow as % of opening funds under management	11.5%	12.2%

Shareholders will be pleased to note that the continued strong retention of funds under management, together with the level of new money invested, provides for a **net inflow of funds** of £5.09 billion, £0.86 billion higher than the prior year. This net inflow represents 11.5% (2013: 12.2%) of opening funds under management and can be viewed as the organic growth of the business.

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

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

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

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

Analysis of funds under management

The following table provides an analysis of the funds under management at 31 December 2014 split by geography and asset type:

	2014	**2013**
	£'Billion	**£'Billion**
UK Equities	14.9	13.3
North American Equities	10.4	8.4
Fixed Interest	7.1	6.1
European Equities	6.0	5.0
Asia & Pacific Equities	4.8	3.9
Property	1.5	1.1
Alternative Investments	0.9	1.3
Cash	4.4	3.6
Other	2.0	1.6
Total	52.0	44.3

The Henley Group

As shareholders are aware during 2014 we acquired The Henley Group ("THG"), a business providing financial advice to largely British expatriate clients based in Shanghai, Singapore and Hong Kong.

We consider THG to be a strong cultural fit with our business and see the acquisition as an important extension of our existing face to face advice model to clients through our own dedicated advisers albeit focusing on the expatriate market place.

There are currently some 90,000 British expatriates in these three locations served by an estimated 310 British expatriate focused advisers. Our expectations are that the number of expatriates in these markets will continue to grow by some 7-10% per annum providing for 110-130,000 expatriates across Shanghai, Singapore and Hong Kong by 2020, with an estimated £21 billion of investible assets.

THG currently has 4,400 clients with £453 million funds under management serviced by 51 advisers. Our intention, mirroring our UK proposition, is to expand the number of advisers and increase their productivity year by year so that by 2020 we have an adviser population of 200 and funds under management of over £2 billion.

Since the acquisition we have been integrating the business into our Group, commencing conversations with a number of potential adviser recruits and applying for regulatory approval to market our products and services in these markets.

The financial details of the acquisition are include in Note 7 on page 77. Since the date of acquisition during 2014, the integration and running costs of £1.7 million (which is reported in 'Distribution') together with other costs and our investment spend of £2.3 million (which is reported in 'Other')' have reduced profit by a total of £4.0 million. We expect the ongoing investment into THG to continue for a number of years. However, as the investment generates new funds under management we will see an increasing contribution to the Embedded Value of the Group.

We have recently rebranded THG as St. James's Place Asia and continue to explore opportunities in other expatriate markets.

RISK, RISK MANAGEMENT AND INTERNAL CONTROL

The mechanisms for identifying, assessing, managing and monitoring risks, including internal controls, are an integral part of the management processes of the Group. Understanding the risks we face, and managing them appropriately, enables effective decision-making, contributes to our competitive advantage and helps us to achieve our business objectives. In establishing the system of internal control, the Directors have regard to the materiality of relevant risks, the likelihood of risks occurring and the costs of mitigating risks. The system does not seek to eliminate risk entirely, but rather is designed to manage the risk of failure to achieve business objectives and to provide reasonable assurance against material financial mis-statement or loss.

Risk Management Framework

The Risk Management Framework, which is the responsibility of the Board, describes the ways in which the Group identifies, assesses, measures, manages and monitors the risks that may impact on the successful delivery of our business objectives.

The Risk Committee oversees our Risk Management Framework on behalf of the Board. The Risk Committee comprises Non-executive Board members, and is responsible for ensuring that a culture of effective risk identification and management is fostered across the Group.

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

During 2014 a new Risk Management Framework has been developed, to ensure continued close alignment between our business objectives and the management of risks to those objectives. The revised framework is grounded in the outcomes which are key to our organisation. These are:

- Clients – that we deliver positive outcomes to clients
- Partners – that we continue to grow and develop the Partnership
- Investment Management Approach – that we increase the amount of Funds Under Management
- Financials and shareholders – that we deliver strong, sustainable financial results and shareholder value
- Regulators – that we are compliant and have an open and honest relationship with our regulators
- People – that we treat all of our stakeholders well

Each of these outcomes, and each key project, has an owner on the Executive Board, who is accountable for managing the risks in that area and providing regular reports to the Executive Board, covering the key and topical risks to that outcome or project, and associated management information.

To ensure a comprehensive risk universe, there is also a bottom-up element to our framework. Each division of the Group is responsible for identifying, managing and reporting of its own risks via divisional risk logs, and is supported in this by the Risk Management team. Each risk is assessed by considering its potential impact and the likelihood of its occurrence, with impact assessments being made against financial and non-financial metrics. Establishment of appropriate controls is a core part of the risk management process.

Financial Reporting Processes

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

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

Control Self-assessment

The Group introduced a process of control self-assessments in 2013. The process requires business areas to review their key controls and sign-off on their efficacy. This process has been further developed during 2014 and is now an annual process.

Compliance with Corporate Governance Code and Turnbull

Processes for identifying, evaluating and managing the significant risks faced by the Group have been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts, although the nature of these processes has been revised during this period. They are regularly reviewed by the Board, assisted by the Risk Committee, and accord with the Guidance for Directors in C.2.1 of the UK Corporate Governance Code and with the Turnbull Guidance for Directors on Internal Control.

Risk Appetite and Risk Policies

At the centre of our Risk Management Framework is the Risk Appetite Statement. In our Risk Appetite Statement, the Board sets out risk ‘boundaries’ which specify the types of risks the Group is willing to take and to what extent. It also sets out how the Group operates in its chosen business and specifies appropriate metrics for monitoring this. The Statement is currently being reshaped through engagement with risk owners across the business to ensure its continued relevance to the objectives of the Group and to reflect the requirements of forthcoming Solvency II regulations. Whilst some aspects, such as the appetite for overseas clients, will change to accommodate the Group’s expansion into Asia, there will not be a fundamental shift of the underlying risk appetite of the Group.

In support of our Risk Appetite Statement, we have a number of Risk Policies which clearly establish our objectives, principles and high level management activities in relation to each of the main types of risk that the Group faces.

Risk Schedules and Key Risk Indicators

Corporate and Divisional risk schedules and quarterly Key Risk Indicator reports are produced to facilitate the monitoring of risks by the Risk and Finance Executive Committees, Risk Committee and Board. These schedules and indicators provide a mechanism for capturing and considering the significant risks facing the business.

Risk Capital Management

Many of the activities of the Group, and the legal entities in the Group are regulated. We have existing relationships with UK and Irish regulators and have developed new relationships with local regulators in Singapore and Hong Kong this year. The sensitive nature of these activities and the regulatory focus results in additional risk management activities including, but not limited to, stress and scenario testing, loss event recording, resolution planning and risk capital management activity.

A significant current project in relation to risk capital management is the forthcoming implementation of Solvency II. In 2014, development work to satisfy the transition requirements included submission of Own Risk and Solvency Assessment (ORSA) reports to the relevant regulators for our two insurance companies. As a result of this work we considered the allocation of risk capital to all the major risks in these entities and are confident that our insurance companies remain strongly capitalised.

Principal Risks and Uncertainties

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

Risk	Description	Outcome	Management and Controls
Client proposition	Clients invariably rely on members of our Partnership for the provision of initial and ongoing advice. Failures in the quality of service provided, and in particular any advice failings, could lead to redress costs, reputational damage and regulatory intervention.	Clients, financials and shareholders	There are many processes in place to mitigate this risk, including detailed advice guidance, Partner training and accreditation, appropriate incentive structures, quality checking, client engagement conducted by the Client Outcomes team and extensive monitoring of the internal funds and portfolios. We also have appropriate professional indemnity insurance in place.
Competition	Competitor activity in the adviser-based wealth management market may result in a reduction in new business volumes, reduced retention of existing business, and the potential loss of Partners and key employees.	Financials and shareholders	This risk is mitigated through ensuring our business is run efficiently, being responsive to the needs of our clients and Partners and seeking continual improvements to processes. Charges are benchmarked against competitors and competitor activity monitored. Regular reports are provided to the Executive Board, allowing action to be taken in a timely manner in the event of a threat to our business model. We have a proven track record in Partner acquisition and retention, which we believe would make it difficult for a new entrant to challenge our position. In addition, our more established Partners often have significant equity stakes in their practices and their ability to access these is structured to aid retention.

Risk	Description	Outcome	Management and Controls
Regulatory, legislative and tax environment	The nature of the Group is such that it falls under the influence of regulators and legislators in multiple jurisdictions, a growing number given the Group's expansion into Asia. New regulatory, legislative or tax requirements may result in implementation costs and disruption to business. The Group could face a fine or regulatory censure from failure to comply with applicable regulations.	Regulators, Partners, clients, financials and shareholders	Regulatory and legislative change is largely a risk which cannot be mitigated, although the Group seeks to engage with regulators and policy makers in an open and constructive manner, with the aim that key issues impacting the group are taken into consideration in the drafting of changes. Our governance structures, management committees and compliance monitoring activities seek to ensure we remain compliant with regulation.
People and culture	People and the distinctive culture of the Group play an important part in its success. Over-stretch, the loss of key personnel or unwanted changes to culture may therefore impact on this success.	People	This risk is mitigated through effective leadership including succession planning, the implementation of executive and management development initiatives and regular surveys and consultation groups. The latter enable us to monitor the sentiment of our staff and Partners and identify any potential adverse impacts upon, or trends within, our culture, and respond appropriately.
Partner proposition, recruitment and retention	Group products are distributed, and ongoing advice is provided, exclusively through the St. James's Place Partnership. Inadequacies in the range of products, technology or processes offered by the Partnership may result in inefficiencies and frustration, with consequent loss of Partners and client impact, or inability to recruit new Partners.	Partners	The Partner proposition is an area of continual focus, with outputs from regular Partner surveys and other Partner feedback being reflected on an ongoing basis. We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners, and a dedicated senior management team oversees the Academy, which broadens our recruitment streams. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality and experienced Partners. All recruitment and retention activity is closely monitored.
Investment Management Approach	Our approach to investment management may fail to deliver expected returns to clients of the Group.	Clients, the Investment Management Approach	We actively manage and monitor the performance of our investment managers through the Investment Committee which also makes use of firms of professional advisers – led by Stamford Associates – to help them with this key task. We offer a broad range of funds, which allows client diversification and mitigates our new business, persistency and market risks.

Risk	Description	Outcome	Management and Controls
Operations and IT	The Group's business model involves the outsourcing of administration to third parties. Poor service from, or failure of, one of these third parties, the failure of an IT system, or a significant cyber-attack, could lead to disruption of services to clients, reputational damage and profit impacts. There is also a risk that clients or Partners may experience disruption of service during the implementation of our new third party administration platform.	Clients, financials and shareholders	These risks are mitigated by service level agreements, monitoring of administration providers and an effective information security control framework. We are enhancing our existing cyber security risk management capabilities, including a significant improvement in our testing framework, in light of the increasing threat in this area. We maintain close working relationships with our outsourcing partners, who are central to our business model. This enables us to work effectively and efficiently together to deliver the best result. In the extreme event, all our relationships are governed by formal agreements with notice periods and full exit management plans and, if required, strong alternative providers exist in the market. The business continuity arrangements of each outsourcer are also continually tested and improved and scenario analysis is carried out. The risk of service disruption on implementation of the new administration platform is being mitigated through diligent quality checking and phased implementations.
Political	Changes in the political landscape could lead to substantial changes in policy, resulting in significant development costs and disruption to the Group's business. Failure to deliver changes in the required timescales may lead to reputational damage and loss of new business.	Financials and shareholders	This risk is mitigated, to the extent this is possible, through engagement with the major political parties and through engaging the services of relevant public relations and communications consultants.
Investor relations	Failure to communicate effectively with new and existing shareholders may lead to falls in the share price and reputational damage.	Financials and shareholders	This risk is mitigated through the work of the investor relations team, whose remit is to ensure the maintenance of positive relationships with shareholders.

Other Key Risks and Uncertainties

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

Financial risks

Risk	Description	Management and Controls
Credit	The risk of loss due to a debtor's non-payment of a loan or other line of credit, including holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions.	The Group has adopted a risk averse approach to credit risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other business objectives. Loans and advances to Partners are assessed on a prudent basis and monitored carefully.
Liquidity	The risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.	The Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other business objectives. Generally, free assets are invested in cash or near cash assets with strong counterparties and the Group's cash position and forecast are monitored on a monthly basis. The Group also makes use of some bank financing. In certain, unlikely, circumstances (including change of control) the terms of these agreements could mandate immediate repayment.
Market	The risk of loss due to the impact of movement in the value of equity or other asset markets.	The Group adopts a risk averse approach to market risk, with a stated solvency policy of not actively pursuing or accepting market risk except where necessary to support other business objectives. Generally, free assets are invested in cash or near cash to minimise market movement impact. However, future profits are dependent on annual management charges which will vary with market levels.
Insurance	The risk that arises from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The Group assumes insurance risk by issuing insurance contracts under which it agrees to compensate the client if a specified future event occurs.	The Group has a medium appetite for insurance risk, only actively pursuing it where beneficial or in support of strategic objectives. Historically, the Group insured mortality and morbidity risks, through protection business, but this risk has now been substantially reinsured through a combination of treaties, leaving only small amounts of mortality and morbidity risk but including low levels of mortality risk on other investment and pension insurance contracts. The Group has no longevity risk as we have never written annuity business.

CHAIRMAN'S REPORT

I am pleased we are reporting to you on another good year for St. James's Place plc, its clients, shareholders Partners, staff and other stakeholders. David Bellamy reports on the achievements of the Company in detail on pages 4 to 7 of this announcement, and Andrew Croft reports on financial developments on pages 8 to 12. In addition, the Committee Chairmen will report on the work of their committees over the year in the Annual Report and Accounts

My task is to provide an overview of the work of the Board of the Company and its support for and oversight of the Group, its operations and its strategy.

As noted elsewhere in this report, we have seen considerable change in the last year; in the economy, in our market place, for our clients, in politics, in financial services and in other areas of regulation. It seems unlikely that the rate of change will decrease and we need to continue to adapt to new circumstances as effectively as we have done in the past. Against this background, your Board has been determined to ensure our business retains a consistent approach. St. James's Place is unusual in its commitment to the centrality of the relationship between our clients and their Partners. This means that the distance between our clients and Partners, and the Boardroom is quite short, and the flow of both informal and formal information is rapid. Clients and Partners appear to appreciate this approach and it ensures the Board has access to very direct information about the marketplace for our services. This continues to be invaluable in the development of our strategy and in our understanding of the external risks to our approach.

Long-term Focus

A significant part of my task is to keep the Board's focus on the long term and on how the business should adapt and develop for the next 20 years, having been so successful in the first 23 years of its existence. More information about the variety of opportunities and threats we considered in our strategic discussions (particularly in specific sessions in April and September) will be found in our Annual Report and Accounts, along with a summary of our review of the principal risks and challenges "from" and "to" our strategy and business model. However, a key part of the debate involved exploring more generally what sort of strategic risks we might take. We concluded that we must continue carefully to evolve what we do. Where we safely can, we will add to the range of services we provide to our clients, including making further small overseas moves, but we won't take significant strategic risks. We still see considerable opportunity in our own market place and must strive to keep doing what we currently do ever more effectively, evolving to meet the ways our clients' expectations and preferences change.

Much of the input to the strategic discussions was developed with members of the Executive Management Team by considering the development of St. James's Place to 2020. This included work on how to preserve our culture, the development of the operating model and infrastructure, the development of the Partnership and advisers, and the development of the Investment Management Approach over that timescale. The Board was pleased to spend time with members of the EMT discussing their work and debating the vision for the future.

Board and Executive Development

We were also pleased to see the expansion of the Executive Board in the autumn with the appointment of four additional members, Iain Rayner, Ian Mackenzie, Jonathan McMahon and Mike Gravestock. This followed changes to the Investment Committee in the middle of the year, with the appointment of David Lamb as Chairman, the appointment of Davina Curlish and Steven Daniels as non-executive members to the Committee, and significant addition of internal resources to support the work of the Investment Committee and Chris Ralph, our Chief Investment Officer. It also built on the appointment of Jonathan McMahon as our new Chief Risk Officer, and Bill Tonks as the Group Audit Director at the start of the year. All of these changes reflect the growth in our Group and anticipate the continued increase in complexity of our activities and environment.

Overseeing the building of the executive team for the future is an important part of our Board responsibility, as is succession planning for the Board itself and for the CEO. The expansion and development of the internal team is part of that planning. We were also pleased that Simon Jeffries and Roger Yates joined the board as Independent Non-executive Directors, at the beginning of the year. Simon took over as Chairman of the Audit Committee as well as joining the Risk and Remuneration Committees. Roger has taken over as Chairman of the Remuneration Committee and has joined the Risk and Audit Committees. Iain Cornish was appointed Senior Independent Director and Chairman of the Risk Committee, at the beginning of the year. Vivian Bazalgette stepped down from the Board in June for family reasons, and we are very grateful for the contribution he made to the Investment Committee and to the board over the period of his service. Following the new Non-executive Director appointments made at the beginning of this year and our Board evaluation process in 2014, we do not see an immediate requirement to appoint any further Non-executive Directors to the Board. Our CEO succession plans are also longer term.

Ensuring we have the best people within our community has been an important topic of discussion for the Board during the year with particular focus on diversity. Our industry is not particularly diverse with regard to gender and we have found no evidence of systematic gender discrimination in the Group. However, if we are limiting the opportunities for particular groups, however unintentionally, we are not being as effective as we could be and so Ian Gascoigne and I have begun some more systematic research into patterns of female participation in different parts of our community, from which we hope to learn in 2015.

Board Culture and Evaluation

At the beginning of 2014, the Board spent some time talking about how it could be most effective and meet the expectations and requirements of its various stakeholders. We noted the need to meet formal governance requirements, as they encourage debate and transparency and provide mechanisms to deal with problems should they arise. We also noted the essential responsibility of the Board to sustain and promote the culture of "doing the right thing", without which it would be very difficult to deliver safe and sustainable growth. Given the increased complexity and scale of the business, we noted the need to bring different and diverse perspectives and approaches to our discussions and considered that the best way of achieving our responsibilities to support and oversee the business was through constructive dialogue. The asymmetry of information between Executive and Non-executive directors was identified as a challenge and so we have developed methods of working to seek to address this issue. Informal topic-specific meetings have proved useful, as did visits to particular areas of operation which the NEDs undertook as a team. I was pleased that both our new NEDs were able to comment favourably on the openness of the business and the access they have within the organisation.

Our internal but thorough Board evaluation process at the end of 2014 provided useful feedback on how these developments were working. There was common agreement that we had made good progress in developing our strategic discussions, in developing our risk discussions and in developing a way of working in which there continue to be no "no-go" areas. More detail of the findings will be found in the Annual Report and Accounts but a key message was that we should continue in the same direction. For 2015, our Board objectives will include overseeing the development of the new Executive Board's oversight of the day to day running of the business, and the flow of information which allows it to do that, as the organisation becomes more complex. We will undertake an external Board evaluation in 2015, led by Boardroom Dialogue.

Corporate Governance

Finally, there are many rather strongly held views about the role of the Board and Corporate Governance. St. James's Place has an unusual position in these debates, as both a listed company itself, seeking to meet the requirements of our shareholders, and also as custodian of our clients' assets. We are both the subject and object of corporate governance activity. In promoting a culture of "doing the right thing" we are clear about our responsibility to our shareholders. It has always been important to us that our fund managers should engage with the companies in which they invest by voting their stock, but this is a topical area in which we will be further developing our thinking in 2015. I am, of course, available to talk to shareholders and can always be contacted via our Company Secretary.

As I suggested at the start, it has been another good year for St. James's Place, but also for your Board, and we are delighted with the proposed final dividend of 14.37 pence per share.

Sarah Bates
Chairman
24 February 2015

EUROPEAN EMBEDDED VALUE BASIS

The following supplementary information shows the result for the Group adopting a European Embedded Value (EEV) basis for reporting the results of its wholly owned life and unit trust businesses.

CONSOLIDATED STATEMENT OF INCOME

	Note	Year Ended 31 December 2014	Year Ended 31 December 2013
		£' Million	£' Million
Life business		467.0	365.7
Unit Trust business		177.7	130.8
Distribution business		(10.9)	(6.1)
Other		(37.4)	(27.7)
EEV operating profit		596.4	462.7
Investment return variances		80.2	344.2
Economic assumption changes		(7.0)	10.6
EEV profit before tax		669.6	817.5
Tax			
Life business		(104.1)	(127.5)
Unit Trust business		(39.4)	(42.3)
Distribution business		2.1	1.4
Other		8.8	6.5
Corporation tax rate change		-	18.9
		(132.6)	(143.0)
EEV profit after tax		537.0	674.5
EEV profit attributable to non-controlling interests		(0.1)	-
EEV profit attributable to equity share holders		537.1	674.5
EEV profit on ordinary activities after tax		537.0	674.5
		Pence	Pence
Basic earnings per share	VI	104.5	132.4
Diluted earnings per share	VI	102.7	130.1
Operating profit basic earnings per share	VI	93.1	72.9
Operating profit diluted earnings per share	VI	91.5	71.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Opening equity on an EEV basis	**2,964.1**	**2,336.3**
EEV profit after tax for the year	537.0	674.5
Issue of share capital	5.8	15.8
Retained earnings credit in respect of share option charges	11.0	7.8
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust	-	0.1
Dividends paid	(95.5)	(65.3)
Consideration paid for own shares	(5.2)	(5.3)
Non-controlling interests arising on purchase of subsidiaries during the year	-	0.2
Closing equity on an EEV basis	**3,417.2**	**2,964.1**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2014	31 December 2013
	£' Million	£' Million
Assets		
Goodwill	10.1	-
Intangible assets		
Deferred acquisition costs	813.0	888.8
Value of long-term business in-force		
- long-term insurance	1,825.3	1,583.7
- unit trusts	611.2	506.3
Computer software	7.7	8.7
	3,267.3	2,987.5
Property & equipment	7.9	5.8
Deferred tax assets	192.8	181.8
Investment property	1,031.4	732.7
Investments	44,701.8	38,967.7
Reinsurance assets	85.5	64.2
Insurance and investment contract receivables	63.5	49.9
Income tax assets	-	-
Other receivables	604.6	554.0
Cash & cash equivalents	5,139.4	3,845.7
Total assets	**55,094.2**	**47,389.3**
Liabilities		
Insurance contract liabilities	474.4	466.4
Other provisions	11.4	9.7
Financial liabilities	39,014.8	33,904.0
Deferred tax liabilities	512.4	488.6
Insurance and investment contract payables	50.4	38.1
Deferred income	463.2	538.6
Income tax liabilities	32.8	4.9
Other payables	499.7	439.4
Net asset value attributable to unit holders	10,617.8	8,535.4
Preference shares	0.1	0.1
Total liabilities	**51,677.0**	**44,425.2**
Net assets	**3,417.2**	**2,964.1**
Shareholders' equity		
Share capital	77.9	77.3
Share premium	147.4	142.2
Treasury share reserve	(10.5)	(10.2)
Miscellaneous reserves	2.3	2.3
Retained earnings	3,200.1	2,752.5
Total shareholders' equity on an EEV basis	**3,417.2**	**2,964.1**
	Pence	Pence
Net assets per share	657.9	575.3

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

I. BASIS OF PREPARATION

The supplementary information on pages 48 to 59 shows the Group's results as measured on a European Embedded Value (EEV) basis. This includes results for the life, pension and investment business, including unit trust business. The valuation is undertaken on a basis determined in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum, a group of chief financial officers from 19 major European insurers as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 (together "the EEV Principles"). The treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis. The EEV basis recognises the long-term nature of the emergence of shareholder cash returns by reflecting the net present value of expected future cash flows.

Under the EEV methodology, profit is recognised as it is earned over the life of the products within the covered business. The embedded value of the covered business is the sum of the shareholders' net worth in respect of the covered business and the present value of the projected profit stream.

II. METHODOLOGY

(a) Covered business

The covered business is the life, pension and investment business, including unit trust business, undertaken by the Group.

(b) Calculation of EEV on existing business

Profit from existing business comprises the expected return on the value of in-force business at the start of the year plus the impact of any changes in the assumptions regarding future operating experience, plus changes in reserving basis (other than economic assumption changes), plus profits and losses caused by differences between the actual experience for the year and the assumptions used to calculate the embedded value at the end of the year.

(c) Allowance for risk

The allowance for risk in the shareholder cash flows is a key feature of the EEV Principles. The EEV Principles set out three main areas of allowance for risk in the embedded value:

- the risk discount rate;
- the allowance for the cost of financial options and guarantees; and
- the cost of holding both prudential reserves and any additional capital required.

The reported EEV allows for risk via a risk discount rate based on a bottom-up market-consistent approach, plus an appropriate additional margin for non-market risk. The Group does not offer products that carry any significant financial guarantees or options.

(d) Non-market risk

Best estimate assumptions have been established based on available information and when used within the market consistent calculations provide the primary evaluation of the impact of non-market risk. However, some non-market operational risks are not symmetric, with adverse experience having a higher impact on the EEV than favourable experience. Allowance has been made for this by increasing the risk discount rate by 0.8% (2013: 0.8%).

(e) The risk discount rate

A market-consistent embedded value for each product class has been calculated.

In principle, each cash flow is valued using the discount rate applied to such a cash flow in the capital markets. However in practice, where cash flows are either independent or move linearly with market movement, it is possible to apply a simplified method known as the "certainty equivalent" approach. Under this approach all assets are assumed to earn the risk free rate and are discounted using that risk free rate. A market-consistent cost of holding the required capital has also been calculated.

As part of this approach, an appropriate adjustment has been made to reflect the fact that the value of tax relief on expenses does not move linearly with market movements. Finally, an additional allowance for non-market risk has been made by increasing the discount rate by 0.8%.

For presentational purposes, a risk discount rate has then been calculated which under the EEV basis gives the same value determined above. This provides an average risk discount rate for the EEV and is described in relation to the risk free rate. This average risk discount rate has also been used to calculate the published value of new business.

(f) Cost of required capital

In light of the results of internal analysis, the Directors consider that the minimum regulatory capital provides adequate capital cover for the risks inherent in the covered business. The required capital for the EEV calculations has therefore been set to the optimised minimum regulatory capital.

The EEV includes a reduction for the cost of holding the required capital. No allowance has been made for any potential adjustment that the investors may apply because they do not have direct control over their capital. Any such adjustment would be subjective, as different investors will have different views of what, if any, adjustment should be made.

(g) New business

The new business contribution arising from reported new business premiums has been calculated using the same assumptions as used in the EEV at the end of the financial year. The value of contractual incremental premiums to existing business is treated as new business in the year of the increment, rather than at the outset of the policy. This approach better reflects the way the Group manages its business.

The value of new business has been established at the end of the reporting year and has been calculated using actual acquisition costs.

(h) Operating profit

Operating profit is determined as the increase in the embedded value over the year excluding market-related impacts such as the effects of economic assumption changes and investment variances and grossed up for shareholder tax.

(i) Tax

The EEV includes the present value of tax relief on life assurance expenses calculated on a market-consistent basis. This calculation takes into account all expense and income amounts projected for the in-force business (including any carried forward unutilised relief on expenses).

In determining the market-consistent value an appropriate allowance is made to reflect the fact that the value of tax relief on expenses does not move linearly with market movements.

When calculating the value of new business, priority is given to relieving the expenses relating to that business.

III. ASSUMPTIONS

(a) Economic assumptions

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

	Year Ended 31 December 2014	Year Ended 31 December 2013
Risk free rate	1.9%	3.1%
Inflation rate	2.9%	3.2%
Risk discount rate (net of tax)	5.0%	6.2%
Future investment returns:		
- Gilts	1.9%	3.1%
- Equities	4.9%	6.1%
- Unit linked funds		
- Capital growth	1.5%	2.5%
- Dividend income	2.7%	2.9%
- Total	4.2%	5.4%
Expense inflation	3.7%	4.0%

The risk free rate is set by reference to the yield on 10 year gilts. Other investment returns are set by reference to the risk free rate.

The inflation rate is derived from the implicit inflation in the valuation of 10 year index-linked gilts. This rate is increased to reflect higher increases in earnings related expenses.

(b) Experience assumptions

The principal experience assumptions have been set on a best estimate basis. They are reviewed regularly.

The persistency assumptions are derived from the Group's own experience or, where insufficient data exists, from external industry experience. They reflect our best estimate of experience over the long-term. Given the significant changes currently being implemented in the pension market, we have maintained our persistency assumptions for pension business unchanged at this year-end. At our next review of the assumption in 2015, we will take into account both the positive experience from recent years, but also any change in policyholder behaviour that becomes evident following the changes in April 2015 during the year. To aid investors who wish to make their own judgement about these changes, we have provided the pensions persistency sensitivity separately in our analysis on page 57.

The expense assumptions include allowance for both third party administration costs and corporate overhead costs incurred in respect of covered business. The corporate costs have been apportioned so that the total maintenance cost represents the anticipated ongoing expenses, including systems development costs, which are expected to arise in future years in meeting the policy servicing requirements of the in-force business. In line with the EEV principles, our expense assumptions make no allowance for efficiency savings or future productivity gains that are not confirmed and quantifiable. In particular, despite good progress with the investment programme at our key outsource provider to enhance our 'back office' systems, we have not reflected any benefit from these changes to the ongoing expense assumptions. We expect that the impact will be confirmed during 2015. For investors who wish to make their own judgement about the potential impact, an expense sensitivity is included on page 57.

Mortality and morbidity assumptions have been set by reference to the Group's own experience, published industry data and the rates set by the Group's reassurers.

(c) Tax

The EEV result has been calculated allowing for tax and has been grossed up to a pre-tax level for presentation in the profit and loss account. The corporation tax rate used for this grossing up is 20.1% (2013: 20.3%) for UK life and pensions business, 12.5% (2013: 12.5%) for Irish life and pensions business and 20.2% (2013: 20.5%) for unit trust business. Future tax has been determined assuming a continuation of the current tax legislation. The reduction in tax rates for UK business reflects the changes in tax rate enacted in the year.

IV. COMPONENTS OF EEV PROFIT

(a) Life business

	Note	Year Ended 31 December 2014	Year Ended 31 December 2013
		£' Million	£' Million
New business contribution	1	233.7	213.6
Profit from existing business			
Unwind of discount rate		144.9	89.4
Experience variances		78.1	53.9
Operating assumption changes		3.0	4.6
Investment income		7.3	4.2
EEV operating profit		**467.0**	**365.7**
Investment return variances		61.8	271.8
Economic assumption changes		(3.3)	7.7
EEV profit before tax		**525.5**	**645.2**
Tax		(104.1)	(127.5)
Corporation tax rate change		-	15.2
EEV profit after tax		**421.4**	**532.9**

Note 1: New business contribution after tax is £187.6 million (2013: £171.4 million)

(b) Unit Trust business

	Note	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
New business contribution	1	139.4	113.6
Profit from existing business			
Unwind of discount rate		37.1	22.7
Experience variances		0.4	(6.5)
Operating assumption changes		-	-
Investment income		0.8	1.0
EEV operating profit		**177.7**	**130.8**
Investment return variances		18.4	72.4
Economic assumption changes		(3.7)	2.9
EEV profit before tax		**192.4**	**206.1**
Tax		(39.4)	(42.3)
Corporation tax rate change		-	3.7
EEV profit after tax		**153.0**	**167.5**

Note 1: New business contribution after tax is £110.8 million (2013: £90.3 million)

(c) Combined Life and Unit Trust business

	Note	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
New business contribution	1	373.1	327.2
Profit from existing business:			
Unwind of discount rate		182.0	112.1
Experience variances		78.5	47.4
Operating assumption changes		3.0	4.6
Investment income		8.1	5.2
EEV operating profit		**644.7**	**496.5**
Investment return variances		80.2	344.2
Economic assumption changes		(7.0)	10.6
EEV profit before tax		**717.9**	**851.3**
Tax		(143.5)	(169.8)
Corporation tax rate change		-	18.9
EEV profit after tax		**574.4**	**700.4**

Note 1: New business contribution after tax is £298.4 million (2013: £261.7 million).

(d) Detailed analysis

In order to better explain the movement in capital flows, the components of the EEV profit for the year ended 31 December 2014 are shown separately between the movement in IFRS net assets and the present value of the in-force business (VIF) in the table below. All figures are shown net of tax.

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(49.3)	347.7	298.4
Profit from existing business	236.7	(236.7)	-
Unwind of discount rate	-	145.5	145.5
Experience variances	27.7	21.3	49.0
Operating assumption changes	(1.4)	4.0	2.6
Investment return	6.6	-	6.6
Investment return variances	(0.1)	64.3	64.2
Economic assumption changes	(0.9)	(4.7)	(5.6)
Miscellaneous	(31.3)	7.7	(23.6)
EEV profit after tax	**188.0**	**349.1**	**537.1**

The comparative figures for 2013 are as follows:

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(45.8)	307.6	261.8
Profit from existing business	191.4	(191.4)	-
Unwind of discount rate	-	89.6	89.6
Experience variances	41.3	(11.3)	30.0
Operating assumption changes	(5.0)	9.0	4.0
Investment return	4.2	-	4.2
Investment return variances	18.4	257.1	275.5
Economic assumption changes	3.9	4.8	8.7
Miscellaneous	(18.2)	-	(18.2)
Corporation tax rate change	-	18.9	18.9
EEV profit after tax	**190.2**	**484.3**	**674.5**

V. EEV SENSITIVITIES

The table below shows the estimated impact on the combined life and unit trust reported value of new business and EEV to changes in key assumptions. The sensitivities are specified by the EEV principles and reflect reasonably possible levels of change. In each case, only the indicated item is varied relative to the restated values.

	Note	Change in new business Contribution		Change in European Embedded Value
		Pre-tax	Post-tax	Post-tax
		£' Million	£' Million	£' Million
Value at 31 December 2014		**373.1**	**298.4**	**3,417.2**
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(6.3)	(5.1)	(15.5)
10% reduction in withdrawal rates:	2			
Pensions		11.1	8.9	60.1
Other		22.1	17.7	121.2
Total		33.2	26.6	181.3
10% reduction in expenses		7.6	6.2	36.1
10% reduction in market value of equity assets	3	-	-	(322.2)
5% reduction in mortality and morbidity	4	-	-	-
100bp increase in equity expected returns	5	-	-	-
100bp increase in assumed inflation	6	(7.4)	(6.0)	(28.9)

Note 1: This is the key economic basis change sensitivity. The business model is relatively insensitive to change in economic basis. Note that the sensitivity assumes a corresponding change in all investment returns but no change in inflation.

Note 2: The 10% reduction is applied to the lapse rate. For instance, if the lapse rate is 8% then a 10% sensitivity reduction would reflect a change to 7.2%.

Note 3: For the purposes of this required sensitivity, all unit linked funds are assumed to be invested in equities. The actual mix of assets varies and in recent years the proportion invested directly in UK and overseas equities has exceeded 70%.

Note 4: Assumes the benefit of lower experience is passed on to clients and reassurers at the earliest opportunity.

Note 5: As a market-consistent approach is used, equity expected returns only affect the derived discount rates and not the embedded value or contribution to profit from new business.

Note 6: Assumed inflation is set by reference to 10 year index linked gilt yields.

	Change in new business Contribution		Change in European Embedded Value
	Pre-tax	Post-tax	Post-tax
	£' Million	£' Million	£' Million
100bp reduction in risk discount rate	46.7	37.4	239.7

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.

VI. EARNINGS PER SHARE

	Year Ended 31 December 2014	Year Ended 31 December 2013
	Pence	Pence
Basic earnings per share	104.5	132.4
Diluted earnings per share	102.7	130.1
Operating basic earnings per share	93.1	72.9
Operating diluted earnings per share	91.5	71.6

The earnings per share calculations are based on the following figures:

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£'Million	£'Million
Earnings		
Profit after tax *(for both basic and diluted EPS)*	537.0	674.5
Operating profit after tax *(for both basic and diluted EPS)*	478.4	371.5
	Million	Million
Weighted average number of shares		
Weighted average number of ordinary shares in issue *(for basic EPS)*	514.0	509.4
Adjustments for outstanding share options	9.0	9.2
Weighted average number of ordinary shares *(for diluted EPS)*	523.0	518.6

VII. RECONCILIATION OF IFRS AND EEV PROFIT BEFORE TAX AND NET ASSETS

	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
IFRS profit before tax	**294.4**	**461.2**
Tax attributable to policyholder returns	(111.5)	(270.5)
Profit before shareholder tax	182.9	190.7
Add back: amortisation of acquired value in-force business	3.2	3.2
Movement in life value of in-force (net of tax)	241.7	360.1
Movement in unit trust value of in-force (net of tax)	104.9	122.8
Tax gross up of movement in value in-force	136.9	140.7
EEV profit before tax	**669.6**	**817.5**

	31 December 2014 £'Million	31 December 2013 £' Million
IFRS net assets	**1,010.1**	**906.1**
Less: acquired value of in-force	(36.8)	(40.0)
Add: deferred tax on acquired value of in-force	7.4	8.0
Add: life value of in-force	1,825.3	1,583.7
Add: unit trust value of in-force	611.2	506.3
EEV net assets	**3,417.2**	**2,964.1**

VIII. RECONCILIATION OF LIFE COMPANY FREE ASSETS TO CONSOLIDATED GROUP EQUITY AND ANALYSIS OF MOVEMENT IN FREE ASSETS

	31 December 2014 £' Million	31 December 2013 £' Million
Life company estimated free assets	**278.3**	**234.9**
Estimated required life company solvency capital	48.9	49.3
Other subsidiaries, consolidation and IFRS adjustments	682.9	621.9
IFRS net assets	**1,010.1**	**906.1**

	31 December 2014 £' Million	31 December 2013 £' Million
Life company estimated free assets at 1 January	**234.9**	**155.7**
Investment in new business	(26.8)	(28.7)
Profit from existing business	163.9	157.0
Dividends paid	(100.0)	(47.0)
Investment return	5.9	3.4
Movement in required solvency capital	0.4	(5.5)
Life company estimated free assets at 31 December	**278.3**	**234.9**

CONSOLIDATED ACCOUNTS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS BASIS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
Insurance premium income		57.4	61.2
Less premiums ceded to reinsurers		(33.5)	(54.3)
Net insurance premium income		23.9	6.9
Fee and commission income	5	1,201.0	1,013.3
Investment return		3,347.1	5,831.1
Other operating income		1.2	2.5
Net income	4	4,573.2	6,853.8
Policy claims and benefits			
- Gross amount		(58.8)	(50.2)
- Reinsurers' share		24.1	20.5
Net policyholder claims and benefits incurred		(34.7)	(29.7)
Change in insurance contract liabilities			
- Gross amount		(8.0)	(42.3)
- Reinsurers' share		21.2	25.6
Net change in insurance contract liabilities		13.2	(16.7)
Investment contract benefits		(3,234.4)	(5,449.4)
Fees, commission and other acquisition costs		(824.0)	(734.7)
Administration expenses		(195.7)	(158.9)
Other operating expenses		(3.2)	(3.2)
		(1,022.9)	(896.8)
Profit before tax	4	294.4	461.2
Tax attributable to policyholders' returns	6	(111.5)	(270.5)
Profit before tax attributable to shareholders' returns		182.9	190.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	Notes	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
Profit before tax attributable to shareholders' returns		182.9	190.7
Total tax expense	6	(106.5)	(270.9)
Less: tax attributable to policyholders' returns	6	111.5	270.5
Tax attributable to shareholders' returns	6	5.0	(0.4)
Profit and total comprehensive income for the year		**187.9**	**190.3**
Profit/(loss) attributable to non-controlling interests		(0.1)	(0.2)
Profit attributable to equity shareholders		188.0	190.5
Profit and total comprehensive income for the year		**187.9**	**190.3**
		Pence	Pence
Basic earnings per share	8	36.6	37.4
Diluted earnings per share	8	35.9	36.7

Underlying profit measure:

	Notes	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
Profit before tax attributable to shareholders' returns		**182.9**	**190.7**
Adjustments:			
DAC/DIR/PVIF		(9.3)	(3.5)
Underlying profit before tax attributable to shareholders' returns	1	**173.6**	**187.2**
Profit and total comprehensive income for the year		**187.9**	**190.3**
Adjustments:			
DAC/DIR/PVIF		(7.0)	(14.9)
Underlying profit and total comprehensive income for the year	1	**180.9**	**175.4**
		Pence	Pence
Underlying basic earnings per share	8	35.2	34.4
Underlying diluted earnings per share	8	34.6	33.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to Equity Shareholders							
		Share Capital	Share Premium	Treasury Shares Reserve	Retained Earnings	Misc Reserves	Total	Non-controlling Interests	Total
		£'M	£' M	£' M	£' M	£'M	£' M	£' M	£' M
At 1 January 2013		76.0	127.7	(8.9)	565.4	2.3	762.5	-	762.5
Non-controlling interests arising on the purchase of subsidiaries during the year								0.2	0.2
Profit/(loss) and total comprehensive income for the year					190.5		190.5	(0.2)	190.3
- Dividends	9				(65.3)		(65.3)		(65.3)
- Issue of share capital		0.3					0.3		0.3
- Exercise of options		1.0	14.5				15.5		15.5
Consideration paid for own shares				(5.3)			(5.3)		(5.3)
Own shares vesting charge				4.0	(4.0)		-		-
Retained earnings credit in respect of share option charges					7.8		7.8		7.8
Retained earnings credit in respect of proceeds from exercise of share options held in trust					0.1		0.1		0.1
At 31 December 2013		77.3	142.2	(10.2)	694.5	2.3	906.1	-	906.1
Non-controlling interests arising on the purchase of subsidiaries during the year								-	-
Profit/(loss) and total comprehensive income for the year					188.0		188.0	(0.1)	187.9
- Dividends	9				(95.5)		(95.5)		(95.5)
- Issue of share capital		0.2					0.2		0.2
- Exercise of options		0.4	5.2				5.6		5.6
Consideration paid for own shares				(5.2)			(5.2)		(5.2)
Own shares vesting charge				4.9	(4.9)		-		-
Retained earnings credit in respect of share option charges					11.0		11.0		11.0
At 31 December 2014		77.9	147.4	(10.5)	793.1	2.3	1,010.2	(0.1)	1,010.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2014	31 December 2013
		£' Million	£' Million
Assets			
Goodwill	7	10.1	-
Intangible assets			
- Deferred acquisition costs		813.0	888.8
- Acquired value of in-force business		36.8	40.0
- Computer software		7.7	8.7
		867.6	937.5
Property & equipment		7.9	5.8
Deferred tax assets		192.8	181.8
Investment property		1,031.4	732.7
Investments			
- Equities		34,734.9	29,614.8
- Fixed income securities		6,838.8	5,965.7
- Investment in Collective Investment Schemes		2,961.7	3,244.3
- Derivative Financial Instruments		166.4	142.9
Reinsurance assets		85.5	64.2
Insurance and investment contract receivables		63.5	49.9
Other receivables		604.6	554.0
Cash & cash equivalents		5,139.4	3,845.7
Total assets		**52,694.5**	**45,339.3**
Liabilities			
Insurance contract liabilities		474.4	466.4
Other provisions	10	11.4	9.7
Financial liabilities			
- Investment contracts benefits		38,851.2	33,717.5
- Borrowings		84.3	98.7
- Derivative Financial Instruments		79.3	87.8
Deferred tax liabilities		519.8	496.6
Insurance and investment contract payables		50.4	38.1
Deferred income		463.2	538.6
Income tax liabilities		32.8	4.9
Other payables		499.7	439.4
Net asset value attributable to unit holders		10,617.8	8,535.4
Preference shares		0.1	0.1
Total liabilities		**51,684.4**	**44,433.2**
Net assets		**1,010.1**	**906.1**
Shareholders' equity			
Share capital	11	77.9	77.3
Share premium		147.4	142.2
Treasury shares reserve		(10.5)	(10.2)
Miscellaneous reserves		2.3	2.3
Retained earnings		793.1	694.5
Shareholders' equity		**1,010.2**	**906.1**
Non-controlling interests		(0.1)	**-**
Total equity		**1,010.1**	**906.1**
		Pence	Pence
Net assets per share		194.5	175.9

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year Ended 31 December 2014	Year Ended 31 December 2013
		£' Million	£' Million
Cash flows from operating activities			
Profit before tax for the year		294.4	461.2
Adjustments for:			
Depreciation		1.9	1.6
Revaluation		-	0.1
Amortisation of acquired value of in-force business		3.2	3.2
Amortisation of computer software and customer list		2.8	2.5
Share based payment charge		11.4	7.8
Interest income		(21.9)	(22.5)
Interest paid		3.8	2.8
Changes in operating assets and liabilities			
Decrease in deferred acquisition costs (net)		75.8	82.8
Increase in investment property		(298.7)	(135.1)
Increase in investments		(5,734.1)	(9,382.2)
Increase in reinsurance assets		(21.3)	(25.6)
Increase in insurance and investment contract receivables		(13.6)	(3.4)
Increase in other receivables		(84.9)	(22.4)
Increase in insurance contract liabilities		8.0	42.4
Increase in provisions		1.7	0.5
Increase in financial liabilities (excluding borrowings)		5,125.2	6,605.0
Increase in insurance and investment contract payables		12.3	13.2
Decrease in deferred income		(75.4)	(77.9)
Increase in other payables		60.3	3.6
Increase in net assets attributable to unit holders		2,082.4	3,241.9
Cash generated from operating activities		**1,433.3**	**799.5**
Interest received		21.9	22.5
Interest paid		(3.8)	(2.8)
Income taxes paid		(35.5)	(14.8)
Net cash generated from operating activities		**1,415.9**	**804.4**
Cash flows from investing activities			
Acquisition of property & equipment		(4.0)	(3.8)
(Acquisition)/disposal of intangible assets		(1.8)	0.5
Acquisition of subsidiaries and other business combinations, net of cash acquired	7	(7.2)	(9.1)
Net cash used in investing activities		**(13.0)**	**(12.4)**
Cash flows from financing activities			
Proceeds from the issue of share capital		5.9	15.8
Consideration paid for own shares		(5.2)	(5.3)
Proceeds from exercise of options over shares held in trust		-	0.1
Proceeds from issue of non-redeemable preference shares		-	0.1
Acquisition of non-controlling interests		-	0.2
Additional borrowings		-	30.0
Repayment of borrowings		(14.4)	(2.0)
Dividends paid	9	(95.5)	(65.3)
Net cash used in financing activities		**(109.2)**	**(26.4)**
Net increase in cash & cash equivalents		**1,293.7**	**765.6**
Cash & cash equivalents at 1 January		**3,845.7**	**3,080.1**
Cash & cash equivalents at 31 December		**5,139.4**	**3,845.7**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. BASIS OF PREPARATION

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.

An underlying profit measure has been included as a useful measure of performance. This is a non-Generally Accepted Accounting Principles (GAAP) measure and is derived from the IFRS based Profit before tax attributable to shareholders' returns measure by excluding the movement in DAC, DIR and PVIF. A reconciliation to the underlying profit is set out in the Financial Review on page 15.

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 2013.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements

The primary areas in which the Group has applied judgement in applying accounting policies are in the classification of contracts between insurance and investment business and when applying the concept of control to determine which entities are subsidiaries.

Classification of contracts between insurance and investment business

Contracts with a significant degree of insurance risk are treated as insurance. All other contracts are treated as investment contracts. The Group has also elected to treat all assets backing linked and non unit linked contracts as fair value through profit or loss although some of the assets in question may ultimately be held to maturity.

Subsidiaries

Subsidiaries are those entities in which the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity (including unit trusts in which the Group holds more than 30% of the units).

Estimates

The principal areas in which the Group applies accounting estimates are:

- Determining the value of insurance contract liabilities.
- Deciding the amount of management expenses that are treated as acquisition expenses.
- Amortisation and recoverability of deferred acquisition costs and deferred income.
- Determining the fair value, amortisation and recoverability of acquired in-force business.
- Determining the fair value liability to policyholders for capital losses in unit funds.
- Determining the value of deferred tax assets.
- Determining the fair value of financial instruments and investment property.
- Determining the fair value of share-based payments.
- Recoverability of St. James's Place Partnership loans.
- Measurement of prepaid operational readiness costs.
- Fair value estimation of assets acquired.

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

Measurement of insurance contract liabilities

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

- The lapse assumption, which is set prudently based on an investigation of experience during the year.
- The level of expenses, which is based on actual expenses in 2014 and expected long term rates.
- The mortality and morbidity rates, which are based on the results of an investigation of experience during the year.
- The assumed rate of investment return, which is based on current gilt yields.

Acquisition expenses

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

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

Deferred acquisition costs on investment contracts are amortised on a straight-line basis over the expected lifetime of the underlying contracts. The expected lifetime of the contracts has been estimated from the experienced termination rates and the age of clients at inception and maturity.

Deferred income on investment contracts is amortised on a straight line basis over the expected lifetime of the underlying contracts, although on certain contracts, the impacts of early withdrawal charges means the income is effectively recognised over a shorter period.

Deferred acquisition costs on insurance contracts are amortised over the period during which the costs are expected to be recoverable in accordance with the projected emergence of future margins.

Deferred acquisition costs relating to insurance and investment contracts are tested annually for recoverability by reference to expected future income levels. Future income levels are projected using assumptions consistent with those underlying our embedded value calculation.

Acquired in-force business

There have been no new business combinations generating acquired in-force business during the year. The acquired value of the in-force business is amortised on a basis that reflects the expected profit stream arising from the business acquired at the date of acquisition. This profit stream is estimated from the experienced termination rates, expenses of management and age of the clients under the individual contracts as well as global estimates of investment growth, based on recent experience at the date of acquisition.

The acquired value of in-force business relating to insurance and investment contracts is tested annually for recoverability by reference to expected future income levels.

Valuing capital losses in the unit funds

In line with IAS 12, the Group has recognised a deferred tax asset in relation to capital losses in the unit funds at the reporting date. This asset has been tested for impairment against the level of capital gains realistically expected to arise in future.

Much of the benefit of the deferred tax asset on capital losses in the unit funds will be shared with policyholders. The policyholder investment contract liability has therefore been increased to reflect the fair value of this additional benefit. The assumptions that have a significant effect on the fair value of the liability are as follows:

- The assumed rate of investment return, which is based on current gilt yields.
- The lapse assumption, which is set prudently based on experience during the year.
- The assumed period for development of capital gains, which is estimated from recent experience.

Determining the value of deferred tax assets

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

Determining the fair value of financial instruments and investment property

In accordance with IFRS 13, the Group categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information.

Determining the fair value of share-based payments

In determining the fair value of share-based payments and the related charge to the income statement, the Group makes assumptions about the future events and market conditions. In particular, judgement must be formed as to the likely number of shares that will vest, and the fair value of each award granted.

Recoverability of St. James's Place Partnership loans

During the normal course of business the Group provides loans to St. James's Place Partners in order to support the development and growth of the St. James's Place Partnership. The St. James's Place Partnership loans are initially recognised at fair value and subsequently held at amortised cost less impairment losses. The recoverability of loans is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. The allowance for impairment losses on St. James's Place Partnership loans is management's best estimate of losses incurred in the portfolio at the statement of financial position date.

Measurement of prepaid operational readiness costs

Included within prepayments are operational readiness costs relating to the new administration service agreement which are initially recognised at the amounts advanced. The prepayment is expensed in line with the provision of services under the service agreement. At each statement of financial position date, the value of the prepayment is assessed for impairment recognised against the present value of the estimated future contract benefits. In determining the present value of the estimated future contract benefits, the critical judgements are the levels of future business that will be serviced, the anticipated future service tariffs, terminations fees payable and receivable under the contract and the rate used to discount amounts to present value.

Fair value estimation of assets acquired

In accordance with IFRS 3 Business Combinations, as of the acquisition date, the Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree and classifies the identifiable assets acquired and liabilities assumed on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date. The Group measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

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 reportable segments under IFRS 8 are therefore as follows:

1. Life business – offering pensions, protection and investment products through the Group's life assurance subsidiaries;

2. Unit Trust business – offering unit trust investment products, including ISAs, through the St. James's Place Unit Trust Group;

3. Distribution business – the distribution network for the St. James's Place life and unit trust products as well as financial products such as annuities, mortgages and stakeholder pensions, from third party providers.

The figures for segment income provided to the Board in respect of the distribution business relate to the distribution of the products of third party providers only. The figures for segment profit provided to the Board take account of fees and commissions payable by the life business and unit trust business to the distribution business.

4. Other – all other Group activities.

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

The income, profit and assets of these segments are set out below.

Segment Income
Annual Premium Equivalents ("APE")

APE, being regular premiums plus one tenth of single premiums, is the income measure that is monitored on a monthly basis by the Board.

	Year Ended 31 December 2014 £' Million	Year Ended 31 December 2013 £' Million
Life business	583.0	532.9
Unit Trust business	312.6	230.0
Distribution business	111.6	102.3
Total APE	**1,007.2**	**865.2**
Adjustments to reconcile to IFRS basis		
Life business		
Exclude investment business APE	(580.7)	(530.5)
Difference between insurance business APE and premium receivable	55.2	58.8
Less insurance premium income ceded to reinsurers	(33.5)	(54.3)
Fee income (management fees and initial margin)	520.8	460.7
Net movement on deferred income	64.7	70.8
Investment income (primarily in unit linked funds)	2,914.6	4,886.3
Unit Trust business		
Exclude unit trust APE	(312.6)	(230.0)
Fee income (dealing profit and management fees)	170.0	150.9
Net movement on deferred income	10.7	7.1
Investment income	0.4	0.3
Distribution business		
Exclude distribution APE	(111.7)	(102.3)
Fee and commission income receivable	429.3	319.2
Other investment income	0.3	0.2
Other business		
Income receivable	5.5	4.6
Investment income on third party holdings in consolidated unit trusts	425.9	939.2
Other investment income	5.9	5.1
Other operating income	1.2	2.5
Total adjustments	3,566.0	5,988.6
Net income - IFRS	**4,573.2**	**6,853.8**

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

Segment Profit

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

Going forward an additional profit measure "underlying profit" will be monitored by the chief operating decision maker. This measure has been included on a pre-tax basis below for information.

EEV Operating Profit

EEV operating profit is monitored on a monthly basis by the Board. The components of the EEV operating profit are included in more detail in the Supplementary Information on the EEV basis within this announcement. A reconciliation of EEV operating profit to IFRS profit before tax is shown below.

EEV result	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Life business	467.0	365.7
Unit Trust business	177.7	130.8
Distribution business	(10.9)	(6.1)
Other business	(37.4)	(27.7)
EEV operating profit	**596.4**	**462.7**
Investment return variance	80.2	344.2
Economic assumption changes	(7.0)	10.6
EEV profit before tax	**669.6**	**817.5**
Adjustments to IFRS basis		
Deduct: amortisation of acquired value of in-force	(3.2)	(3.2)
Movement in life value of in-force (net of tax)	(241.7)	(360.1)
Movement in unit trust value of in-force (net of tax)	(104.9)	(122.8)
Tax of movement in value of in-force	(136.9)	(140.7)
Profit before tax attributable to shareholders' returns	182.9	190.7
Tax attributable to policyholder returns	111.5	270.5
IFRS profit before tax	**294.4**	**461.2**

Cash result	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Life business	146.2	143.8
Unit Trust business	48.1	44.8
Distribution business	(8.5)	(4.7)
Other business	(20.7)	(15.1)
Cash result after tax	**165.1**	**168.8**
IFRS adjustments (after tax)		
Share option expense	(11.4)	(7.8)
Deferred acquisition costs (DAC)	(58.6)	(62.9)
Deferred income (DIR)	68.0	67.9
Acquired value of in-force (PVIF)	(2.6)	(2.6)
Sterling reserves	(7.4)	0.4
IFRS deferred tax adjustments	34.8	26.5
IFRS profit after tax	187.9	190.3
Shareholder tax	(5.0)	0.4
Profit before tax attributable to shareholders' returns	182.9	190.7
Policyholder tax	111.5	270.5
IFRS profit before tax	**294.4**	**461.2**

IFRS result	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Life business		
- shareholder	171.7	170.6
- policyholder tax gross up	111.5	270.5
Unit Trust business	59.5	53.9
Distribution business	(10.9)	(6.1)
Other business	(37.4)	(27.7)
IFRS profit before tax	**294.4**	**461.2**

Underlying profit	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Life business	160.7	162.7
Unit Trust business	61.2	58.3
Distribution business	(10.9)	(6.1)
Other business	(37.4)	(27.7)
Underlying profit before shareholder tax	**173.6**	**187.2**
Adjustments		
DAC/DIR/PVIF	9.3	3.5
Profit before tax attributable to shareholders' returns	**182.9**	**190.7**

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

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£'Million	£'Million
Shareholder interest income	8.8	7.3
Depreciation	1.9	1.6

Segment Assets

Funds under Management ("FUM")

FUM within the St. James's Place Group, rounded to the nearest £0.1 billion, are monitored on a monthly basis by the Board.

	31 December 2014	31 December 2013
	£' Million	£' Million
Life business	39,200.0	34,100.0
Unit Trust business	12,800.0	10,200.0
Total FUM	**52,000.0**	**44,300.0**
Exclude third party holdings in non-consolidated unit trusts	(2,086.4)	(1,665.6)
Add balance sheet liabilities in unit linked funds	480.9	545.6
Adjustments for other balance sheet assets excluded from FUM		
DAC	813.0	888.8
PVIF	36.8	40.0
Computer software	7.7	8.7
Goodwill	10.1	-
Property & equipment	7.9	5.8
Deferred tax assets	192.8	181.8
Fixed income securities	83.3	67.7
Collective investment schemes	521.7	523.0
Reinsurance assets	85.5	64.2
Insurance and investment contract receivables	63.5	49.9
Other receivables	292.6	229.9
Other receivables eliminated on consolidation	(94.9)	(151.9)
Cash & cash equivalents	274.3	197.1
Other adjustments	5.7	54.3
Total adjustments	**694.5**	**1,039.3**
Total assets	**52,694.5**	**45,339.3**

5. FEE AND COMMISSION INCOME

	Year Ended 31 December 2014	Year Ended 31 December 2013*
	£' Million	£' Million
Advice charges	340.4	250.8
Third party fee and commission income	94.4	73.0
Life company initial margin	26.3	27.9*
Life company management fees	494.5	432.8*
Unit Trust dealing profit	16.0	19.1
Unit Trust management fees	122.4	105.3*
Unit Trust other income	31.6	26.5*
Movement in deferred income	75.4	77.9
Total fee and commission income	**1,201.0**	**1,013.3**

*These figures have been re-presented to more appropriately reflect the management fee income for life and unit trust business.

6. INCOME TAXES

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
UK corporation tax		
- Current year charge	96.2	29.0
- Adjustment in respect of prior year	(7.6)	2.5
Overseas taxes		
- Current year charge	6.9	6.8
	95.5	38.3
Deferred tax on unrealised capital gains and losses in unit linked funds	40.6	278.1
Deferred tax on unrelieved expenses	8.4	2.2
Deferred tax on pensions business losses	-	6.4
Deferred tax on Group Company capital losses		
- Current year	(29.6)	(27.9)
- Adjustment in respect of prior year	6.8	-
Deferred tax charge on other items	(13.3)	(14.2)
Effect on deferred tax of change in tax rate	-	(12.0)
Overseas taxes	(1.9)	-
	11.0	232.6
Total tax charge for the year	**106.5**	**270.9**
Attributable to:		
- policyholders	111.5	270.5
- shareholders	(5.0)	0.4
	106.5	**270.9**

The prior year adjustment in current tax above includes a credit of £0.6 million in respect of policyholder tax (2013: £1.7 million charge).

In arriving at the profit before shareholder tax, it is necessary to estimate the analysis of the total tax charge between that payable in respect of policyholders and that payable by shareholders. Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders, with the balance being treated as tax in respect of policyholders.

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Deferred tax		
Balance at 1 January	314.8	78.1
Charge through the consolidated statement of comprehensive income	11.0	232.6
Arising on acquisitions during the year	1.2	4.1
Balance at 31 December	**327.0**	**314.8**

Included within the deferred tax current year charge is a credit of £1.5 million (2013: £1.7 million credit) relating to share based payments.

The change in the corporation tax rate from 21% to 20% effective from 1 April 2015 had already been incorporated into the deferred tax balances in 2013.

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Reconciliation of tax charge		
Profit before tax	294.4	461.2
Tax at 21.5% (2013: 23.25%)	63.3	107.2
Effects of:		
Overseas rates and bases of tax	(3.6)	(2.4)
Shareholder deduction for policyholder tax	87.5	207.6
Group company capital losses	(39.5)	(27.9)
Share options	(2.1)	(2.7)
Disallowable expenses	0.9	1.4
Adjustment in respect of prior year	(0.2)	0.8
Change in tax rate	-	(12.0)
Other adjustments	0.2	(1.1)
Total tax charge for the year	**106.5**	**270.9**

Reconciliation of tax charge	Year Ended 31 December 2014		Year Ended 31 December 2013	
	£'Million		£'Million	
Profit before tax	294.4		461.2	
Tax attributable to policyholders' returns*	(111.5)		(270.5)	
Profit before tax attributable to shareholders' returns	182.9		190.7	
Shareholder tax charge at corporate tax rate of 21.5% (2013: 23.25%)	39.3	21.5%	44.3	23.25%
Adjustments:				
Tax regime differences				
Difference due to overseas subsidiaries	(3.6)		(2.4)	
	(3.6)	(2.0%)	(2.4)	(1.3%)
Other				
Creation of deferred tax asset on Group Company capital losses	(39.5)		(27.9)	
Adjustment in respect of prior year	(0.2)		0.8	
Share options	(2.1)		(2.7)	
Disallowable expenses	0.9		1.4	
Other	0.2		(1.1)	
	(40.7)	(22.3%)	(29.5)	(15.5%)
Change in tax rate	-	-%	(12.0)	(6.3%)
Shareholder tax charge	(5.0)	(2.7%)	0.4	0.2%
Policyholder tax charge	111.5		270.5	
Total tax charge for the year	**106.5**		**270.9**	

* Tax attributable to policyholder returns is equal to the policyholder tax charge.

7. BUSINESS COMBINATIONS

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

Subsidiary undertaking	Principal activity	% Shareholding	Date of acquisition
PFP Group			
PFPTime Limited	IFA*	100	24 January 2014
G.M.B Financial Services Limited	Non-trading	100	24 January 2014
PFPTime (IFA) Limited	Dormant	100	24 January 2014
Henley Group			
Henley Wealth Management International Pte Ltd	Holding Company	100	10 June 2014
Australian Ex-pat Services Limited	Dormant	100	10 June 2014
Expatriate Insurance Group Limited	Dormant	100	10 June 2014
International Protection Group Pte Limited	General Insurance	100	10 June 2014
The Henley Group Ltd	IFA*	100	10 June 2014
The Henley Group Pte Ltd	IFA*	100	10 June 2014
THG Wealth Management Ltd	UK Distribution	100	10 June 2014

* Independent Financial Adviser

Acquisition-related costs of £0.1 million have been charged to administration expenses in the consolidated income statement for the year ended 31 December 2014.

PFP Group

The PFP Group acquisition contributed £0.8 million to revenue and a £0.2 million profit before income tax for the period between the acquisition date and the statement of financial position date.

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

	Book value	Fair value adjustment	Total
	£'Million	£'Million	£'Million
Financial assets	0.1	1.8	1.9
Cash and cash equivalents	0.4	-	0.4
Financial liabilities	(1.5)	-	(1.5)
Total	(1.0)	1.8	0.8
Consideration			
Cash consideration			0.5
Contingent consideration			0.3
Total consideration			0.8

The contingent consideration is payable if certain performance targets are met, being based on the individual Partner performances. It is expected this will be paid in full with no changes to the amount initially recognised. The carrying amount of the contingent consideration at the statement of financial position date is £0.3 million. Of the remaining balance to be settled, the Group expects that £0.15 million will be settled by 24 April 2015 and another £0.15 million settled by 24 April 2016.

The Henley Group
The Henley Group acquisition contributed £3.8 million to revenue and a £1.7 million loss before income tax for the period between the acquisition date and the statement of financial position date. Had the above acquisitions been consolidated from 1 January 2014, they would have contributed £5.5 million to revenue and a £1.8 million loss before income tax to the consolidated statement of income for the year.

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

	Book value	Fair value adjustment	Total
	£'Million	£'Million	£'Million
Financial assets	0.6	4.6	5.2
Cash and cash equivalents	-	-	-
Financial liabilities	-	-	-
Total	0.6	4.6	5.2
Consideration			
Cash consideration			7.1
Contingent consideration			8.2
Total consideration			15.3
Goodwill			10.1

Goodwill comprises of the value placed on the Asian distribution network being acquired and the local experience and knowledge that The Henley Group holds across these regulatory jurisdictions.

It is expected that the contingent consideration will be paid in full with no changes to the amount initially recognised, however, should the target number of advisors not be met the contingent consideration will decrease on a pro-rata basis down to a value of £1.3 million. The carrying amount of the contingent consideration at the statement of financial position date is £8.2 million. Of the remaining balance to be settled, the Group expects that £3.4 million will be settled by 31 August 2015, £1.3 million settled by 30 June 2017 and £3.5 million settled by 28 February 2017.

8. EARNINGS PER SHARE

	Year Ended 31 December 2014	Year Ended 31 December 2013
	Pence	Pence
Basic earnings per share	36.6	37.4
Diluted earnings per share	35.9	36.7
Underlying basic earnings per share	35.2	34.4
Underlying diluted earnings per share	34.6	33.8

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

	Year Ended 31 December 2014	Year Ended 31 December 2013
	£' Million	£' Million
Earnings		
Profit after tax (*for both basic and diluted EPS*)	187.9	190.3
Weighted average number of shares		
Weighted average number of ordinary shares in issue *(for basic EPS)*	514.0	509.4
Adjustments for outstanding share options	9.0	9.2
Weighted average number of ordinary shares *(for diluted EPS)*	523.0	518.6

9. DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2014	Year Ended 31 December 2013	Year Ended 31 December 2014	Year Ended 31 December 2013
	Pence per Share	Pence per Share	£' Million	£' Million
Final dividend in respect of previous financial year	9.58	6.39	49.4	32.6
Interim dividend in respect of current financial year	8.93	6.38	46.1	32.7
Total dividends	**18.51**	**12.77**	**95.5**	**65.3**

The Directors have recommended a final dividend of 14.37 pence per share (2013: 9.58 pence). This amounts to £74.6 million (2013: £49.4 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 15 May 2015 to those shareholders on the register as at 10 April 2015.

10. OTHER PROVISIONS AND CONTINGENT LIABILITIES

	Total provisions
	£' Million
At 1 January 2014	9.7
Utilised/released during the year	(10.7)
Additional provisions	12.4
At 31 December 2014	**11.4**
Current	7.2
Non-current	4.2
	11.4

Total provisions relate to the cost of redress for mortgage endowment and other complaints. The provision is based on estimates of the total number of complaints expected to be upheld, the estimated cost of redress and the expected timing of settlement.

As more fully set out in the summary of principal risks and uncertainties on pages 42 to 44, the Group could in the course of its business be subject to legal proceedings and/or regulatory activity. Should such an event arise, the Board would consider their best estimate of the amount required to settle the obligation and, where appropriate and material, establish a provision. While there can be no assurances that circumstances won't change, based upon information currently available to them, the Directors do not believe there is any possible activity or event that could have a material adverse effect on the Group's financial position.

During the normal course of business, the Group may from time to time provide guarantees to Partners, clients or other third parties. However, based upon the information currently available to them, the Directors do not believe there are any guarantees which would have a material adverse effect on the Group's financial position, and so the fair value of any guarantees has been assessed as £nil (2013: £nil).

11. SHARE CAPITAL

	Number of Ordinary Shares	Share Capital
		£' Million
At 1 January 2013	506,831,147	76.0
- Exercise of options	8,384,836	1.3
At 31 December 2013	**515,215,983**	**77.3**
- Exercise of options	4,231,408	0.6
At 31 December 2014	**519,447,391**	**77.9**

The total authorised number of ordinary shares is 605 million (2013: 605 million), with a par value of 15 pence per share (2013: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,760,585 (2013: 3,338,458) shares held in the Treasury Shares Reserve with a nominal value of £0.6 million (2013: £0.5 million).

12. 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 was income recognised of £8.0 million (2013: £16.1 million income) and the total value of transactions with those non-consolidated unit trusts was £47.4 million (2013: £32.1 million). Net management fees receivable from these unit trusts amounted to £20.7 million (2013: £19.4 million). The value of the investment into the non-consolidated unit trusts at 31 December 2014 was £130.7 million (2013: £92.2 million).

Transactions with key management personnel

Key management personnel have been defined as the Board of Directors and members of the Executive Board Committee.

The remuneration paid to key management personnel is as follows:

	31 December 2014	31 December 2013
	£' Million	£' Million
Aggregate emoluments	2.6	1.8
Bonuses	3.1	1.8
Pension contribution	0.4	0.3
Other benefits	0.3	0.2
	6.4	**4.1**

The charge to the statement of comprehensive income in respect of the share-based payment awards made to the key management personnel of St. James's Place during 2014 was £3.6 million (2013: £2.8 million).

The total value of St. James's Place funds under management held by related parties of the Group as at 31 December 2014 was £16.2 million (2013: £11.0 million).

13. NON STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013, but is derived from those accounts. Statutory accounts for 2013 have been delivered to the registrar of companies, and those for 2014 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.

14. ANNUAL REPORT

The Company's annual report and accounts for the year ended 31 December 2014 is expected to be posted to shareholders by 2 April 2015. 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.

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;
- The EEV supplementary information has been prepared in accordance with the EEV Principles; 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

David Bellamy	Andrew Croft
Chief Executive	Chief Financial Officer

24 February 2015