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## **PRESS RELEASE**

24 February 2009

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

### **RESILIENT PERFORMANCE IN TURBULENT MARKETS**

St. James's Place Wealth Management Group, announces its annual results for the year ended 31 December 2008.

#### **Financial Highlights:**

- EEV operating profit of £204.3 million (2007: £244.7 million)
- EEV new business profits of £123.5 million (2007: £150.9 million)
- EEV net asset value per share 232.4 pence (2007: 252.5 pence)
- IFRS profit before shareholder tax of £80.7 million (2007: £96.1 million)
- IFRS net asset value per share 105.9 pence (2007: 92.9 pence)
- Proposed final dividend maintained at 2.55 pence per share making a total dividend for the year of 4.39 pence (2007: 4.3 pence)

#### **Other highlights include:**

- Funds under management of £16.3 billion (2007: £18.2 billion) with retention remaining strong at 95%
- New business for the year of £419.0 million (2007: £428.6 million) measured on an annual premium equivalent
- Total single investments of £3.1 billion (2007: £3.4 billion)
- Partnership numbers at 1,340 up 7%, third consecutive year of growth

#### **David Bellamy, Chief Executive commented:**

“We know that 2009 will be another challenging year but believe that the need for face to face advice is as strong as ever and our business is very well placed in that market.

We have not lost any of our enthusiasm for our medium to long term growth targets. Strong retention of funds under management, three consecutive years of growth in Partner numbers and a good environment for further recruitment of quality advisers give us good reasons to be optimistic for when the markets recover.

In the meantime, we will continue to demonstrate just how resilient this business is.”

**Enquiries:**

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## CHAIRMAN'S STATEMENT

In the Interim report I commented on the volatile world stock markets and deteriorating economic indicators that prevailed at that time. The second half of the year witnessed unprecedented and extraordinary events in the world economy which translated into the most challenging conditions for a wealth management group that any of us have seen before.

Against this backdrop our business is proving resilient. Total new business was down just 2%, while we wrote £3.1bn of single premium investments during the year. Although funds under management fell 10% to £16.3bn in 2008, this was in the context of 30-40% declines in world markets over the same period. In addition, our fund retention rate was an impressive 95% for 2008, demonstrating the strength of the company's advisor-led approach to wealth management despite the more difficult environment. We are delighted to report a third consecutive year of strong growth in the Partnership with total partner numbers up 7% to 1,340 by the year end.

### Financial Performance

As usual the results have been presented on both an IFRS (International Financial Reporting Standards) basis and an EEV (European Embedded Value) basis which we continue to believe provides a more meaningful measure of the Group's operating performance.

On an IFRS basis the operating profit, before shareholder tax, was £80.7 million compared with £96.1 million for the prior year whilst the EEV operating profit at £204.3 million compared with £244.7 million.

Given the economic turmoil during 2008, we consider this operating performance is another indication of the underlying strength of the Group.

The fluctuations in the world stock markets in a particular year not only cause a small impact in emerging profit in that year, but also mean that the level of future annual management charges (and therefore profit) will be impacted. Capitalisation of these future profits comes through the EEV result as an investment variance. When the stock markets perform well, we benefit from a positive variance as was the case in the period 2004-7 and, conversely, when stock markets perform badly we suffer a negative investment variance. Consequently the significant falls in the stock markets during 2008 has resulted in a very large negative investment variance of £320.6 million in the current year (2007: negative variance of £14.5 million).

### Dividend

At the half year we increased the interim dividend by 5% reflecting the resilient first half performance and the economic outlook that prevailed at that time. Given the further sharp deterioration in global markets since then, the Board considers it prudent to maintain the final dividend at 2.55 pence per share (2007: 2.55 pence per share). This provides for a full year dividend of 4.39 pence per share (2007: 4.3 pence per share), an increase of 2% on 2007.

Subject to the approval of shareholders at the Annual General Meeting the final dividend will be paid on 13 May 2009 to those shareholders on the register as at 6 March 2009. Once again shareholders will be offered the alternative of a scrip dividend.

### Board and Shareholder Changes

Last month our major shareholder, HBOS plc, became a subsidiary of Lloyds Banking Group plc and at this time Andy Hornby resigned from the Board as a non-executive, non-independent director. Andy's replacement, as one of two Lloyds representatives on the Board, is Steve Colsell.

I would like to thank Andy for the excellent support he provided during his directorship of St. James's Place.

**Partners and Staff**

It is once again my pleasure to thank, on behalf of the Board and shareholders, the Partnership, our employees and the staff in our administration centres for their outstanding contribution during 2008.

During the extraordinary events that unfolded throughout last year, I am very proud of the continued enthusiasm, commitment and dedication at every level of our community.

Mike Wilson  
23 February 2009

## **CHIEF EXECUTIVE'S STATEMENT**

In more normal times I would probably have started my statement with "I am pleased to report growth in business and profits ...." But these are not normal times.

The world's banking systems were almost brought to their knees as a result of a credit crisis with governments across the globe being forced to support their banks with unprecedented levels of funding and guarantees. The credit crisis spread from banks to other sectors and the world economy moved into recession.

As the year unfolded, we reassessed the business's priorities, worked even harder on keeping our expenses under control and invested more time and effort into existing client relationships whilst keeping our Partners, clients and employees up to date with the rapidly changing markets.

Consequently, as set out in the Chairman's statement, we have been able to report strong operating profits on both an EEV and IFRS basis and, given the circumstances, I believe these results once again demonstrate the robustness of the business and its resilience in bad times as well as good.

### **New Business**

New business in 2008 was down just 2% from 2007's record performance (up 23% on 2006) having been marginally ahead for the first nine months of the year. New single premium investments exceeded £3 billion, with new single pension investments growing by 8%.

The proportion of business represented by our own manufactured products continued to exceed our stated internal target of 80% and represented 85% of the total.

We were particularly pleased to retain 95% of clients' existing funds during 2008. Retention of funds under management is not only a good measure from a profitability point of view but is also a good indicator of the strength of relationships the company has with its clients.

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

We continue to attract high quality advisers who are seeking a strong, well capitalised home with a brand which is recognised for reliable and trusted advice. Equally important is the continued strong retention of Partners and once again we have retained 95% of those who were with us at the start of the year. These two factors led to an increase of 7% in the size of the Partnership in 2008 to 1,340, our third consecutive year of good growth.

Shareholders will recall our 'Academy' initiative where we aim to 'grow our own' advisers to supplement our recruitment activity. The progress of the Academy in its first full year was very encouraging with the first eight new members joining the Partnership from the Academy during the year. We anticipate further new members of the Partnership joining from the Academy this year and will continue to invest in this area.

The marketplace for good advisers continues to be very active at the present time and we are confident we can continue to attract the appropriate number and quality in line with our objectives.

### **Investment Management**

2008 has been one of, if not the, most challenging year we have ever experienced for investment management. Virtually every asset class was down in value and world stock markets fell 30 - 40% year on year. During this period our funds under management were down just 10%, ending the year at £16.3 billion.

With this backdrop it is therefore not surprising that most of our funds fell as well. However, in comparative terms, in 2008 53% of our funds under management achieved top quartile performance with nearly three quarters of our funds in the top half of their peer groups.

Looking at the 5 year record – despite the challenges of 2008 - two thirds of our funds under management are in the top quartile. In every rolling 5 year period since 2000, 60% or more of our funds under management are in the top quartile – with more than 80% beating their peer group average in most years.

During the year, we broadened our fund range to include an Alternative Asset Fund, a Cash Unit Trust and a High Octane Fund managed by Barclays Global Investors, State Street Global Advisers and Oldfield Partners / Thornburg Investment Managers respectively. Our fund range now consists of 38 funds managed by 19 fund managers offering a wide diversification across a number of asset classes.

### **Our Clients**

We have always considered the fair treatment of all members of our community to be central to our culture. This is particularly true of our dealings with clients.

We strive to build long term relationships with clients through the St. James's Place Partnership, providing them with ongoing face to face advice that they can trust.

The reason is simple, clients stay with and do more business with people they trust. They also refer others to them, and that's exactly what drives our business. This is why, when as a result of the market conditions, AIG chose to defer redemptions from its Premier Access Bond, we took steps to support St. James's Place clients caught up in this unfortunate development. The goodwill payment announced is exactly that, a gesture of good will to support our clients, and I believe was appreciated by them.

### **External recognition**

In March 2008 we were delighted to be informed that St. James's Place had been named Best Wealth Manager in the inaugural *Investors Chronicle / FT Wealth Management Awards* as voted for by readers of Investors Chronicle and the Financial Times. This was followed in November 2008 by being named the winner of *The Daily Telegraph Wealth Manager of the Year Award* for the second consecutive year. These awards are a particularly strong endorsement of the advice and service provided by the Partnership.

At the end of last year the highly respected magazine *Management Today* showed St James's Place as 'Britain's Most Admired' Life Assurance and Insurance Company. This was based on the views of our peers, our competitors and market analysts.

It is very pleasing to receive the external recognition for what we do and is a credit to the hard work, commitment and dedication of our entire community.

### **Foundation and Community**

The St. James's Place Foundation continues to play an important role within the lives of Partners and employees; it is an integral part of our culture and fundamental to the ethos of the company.

2008 was another exceptional year for the Foundation and our fund raising initiatives again surpassed everything that has gone before raising over £2.4 million.

Those fund raising efforts enabled the Foundation to continue to grant funds to exceptionally good causes. In addition to the hundreds of small charities supported by the Foundation, we made our largest ever single donation in 2008 in support of a new Hydrotherapy Pool for the Children's Trust at Tadworth. This single donation will fund the entire development of the pool and will benefit children with severe brain disorders. We have also continued our significant support for Teenage Cancer Trust and Hope and Homes.

I would like to thank all members of St James's Place and those suppliers who have generously supported the Foundation by way of sponsorship, time and donations.

**Outlook**

We know that 2009 will be another challenging year but believe that the need for face to face advice is as strong as ever and our business is very well placed in that market.

We have not lost any of our enthusiasm for our medium to long term growth targets. Strong retention of funds under management, three consecutive years of growth in Partner numbers and a good environment for further recruitment of quality advisers give us good reasons to be optimistic for when the markets recover.

In the meantime, we will continue to demonstrate just how resilient this business is.

David Bellamy  
23 February 2009

## FINANCIAL COMMENTARY

Last year we witnessed extraordinary and unprecedented events in the financial markets. Against this backdrop, profit and other financial indicators did not match the records of 2007. However, I am pleased to report a set of strong and resilient financial results.

The solvency position of the Group remains strong. Our prudent investment policy for shareholder assets, together with our approach of not offering products with options or guarantees, continues to immunise our capital base.

This financial commentary is presented in four sections covering the IFRS result, the EEV result, cash flow and capital plus a section covering other matters of interest to shareholders.

### SECTION 1: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

#### **IFRS Result**

The IFRS result is shown on pages 41 to 56.

The IFRS result requires the pre-tax profit of the life business to be 'grossed up' for policyholder tax, with the corresponding amount then being deducted within the tax charge. The table below reflects the IFRS result after eliminating this 'gross up' in order to show the shareholder return from the business. The Board view this figure as the best measure of the performance for the year based on the IFRS results.

	Year Ended 31 December 2008 £' Million	Year Ended 31 December 2007 £' Million
Life business	83.2	84.4
Unit trust business	18.1	15.9
Other	(20.6)	(4.2)
Profit before shareholder tax	80.7	96.1
Policyholder tax	(112.1)	7.1
Total pre-tax (loss) /profit	(31.4)	103.2
Policyholder tax	112.1	(7.1)
Shareholder tax	(13.6)	(18.0)
Profit after tax	<u>67.1</u>	<u>78.1</u>

#### ***Life Business***

The life business pre-tax profit for the current year, at £83.2 million, was marginally lower than the prior year £84.4 million.

In 2007 there was a one-off increase of £19.7 million in life profits due to the adoption of an alternative tax methodology. Removing this one-off gave an underlying profit of £64.7 million.



The 2008 IFRS result has also benefited from a number of positive one-offs. The main benefit arises from £16.2 million of tax related one-offs. After allowance for one-offs, the profits for the life business in 2008 were in line with 2007, reflecting the benefit of higher funds under management, offset by the impact of stock market falls in the year.

### ***Unit Trust Business***

The pre-tax operating profit for the unit trust business was £18.1 million, £2.2 million higher than the comparative year profit of £15.9 million.

The net movements on the deferred acquisition cost (DAC) and deferred income reserve (DIR) decreased the profit for the year by £1.0 million compared with a reduction of £5.9 million for the prior year. The lower impact in the current year reflects the increasing importance of the positive impact from amortisation of existing DAC and DIR, but also the impact of lower deferral of income, as there was a greater proportion of corporate bond and cash unit trust new business which have a lower initial charge.

### ***Other***

The other result comprises the cost of share options, the AIG goodwill payment and the other operations of the Group.

- The share option cost for the year was £14.9 million compared with a cost of £12.5 million for 2007. The slightly higher charge is the result of the new Partner PSP scheme launched at the start of 2008.
- The AIG goodwill charge, together with legal and professional costs incurred, amounted to £7.2 million.
- The other operations of the Group contributed a small profit of £1.5 million for the year compared with £8.3 million for the 2007. The difference primarily relates to lower income from third party product sales and lower interest income.

### ***Profit before shareholder tax***

The total profit before shareholder tax for the year was £80.7 million, down from the £96.1 million last year.

### ***Policyholder tax***

The policyholder tax charge reflects the movement in the tax position of the policyholder funds, which in the current year amounted to a credit of £112.1 million (2007: £7.1 million charge).

This credit movement is predominantly driven by a change in deferred tax on unrealised capital gains on equity holdings in the unit linked life funds. The liability established is closely correlated with movements in asset values within these funds. The significant market falls in 2008 have therefore led to a reduction in the deferred tax liability which has been almost entirely written off, giving a credit adjustment of £97.0 million.

Taking account of the negative policyholder pre-tax movement the result for the year was a total loss of £31.4 million compared with a profit for the prior year of £103.2 million.

## Analysis of constituent parts of the IFRS post tax profit

Shareholders have requested additional disclosure to assist in their understanding of the IFRS result. The table and commentary below, based on the cash flow analysis set out on page 17, provides an analysis of the constituent parts of the IFRS post tax profit.

	Note	2008			2007		
		In Force	New Business	Total	In Force	New Business	Total
		£'m	£'m	£'m	£'m	£'m	£'m
Net annual management fee	1	111.2	11.0	122.2	109.3	13.9	123.2
Unwind of surrender penalties	1	(41.1)	(3.3)	(44.4)	(40.2)	(4.4)	(44.6)
DIR amortisation	2	57.6	4.4	62.0	47.5	4.4	51.9
DAC amortisation	3	(41.4)	(4.4)	(45.8)	(34.0)	(4.4)	(38.4)
PVIF amortisation	4	(2.4)	-	(2.4)	(2.3)	-	(2.3)
New business margin	1	-	(10.0)	(10.0)	-	(7.7)	(7.7)
DIR on new business	2	-	(77.4)	(77.4)	-	(94.0)	(94.0)
DAC on new business	3	-	100.0	100.0	-	100.8	100.8
Expenses	1	(7.2)	(65.0)	(72.2)	(6.7)	(60.6)	(67.3)
Investment income	1	10.1	-	10.1	10.5	-	10.5
Miscellaneous	1	18.4	-	18.4	19.0	-	19.0
Share options	5	(14.9)	-	(14.9)	(12.5)	-	(12.5)
IFRS deferred tax impacts	6	16.5	-	16.5	42.5	-	42.5
Other IFRS	7	5.0	-	5.0	(3.0)	-	(3.0)
<b>IFRS profit (post tax)</b>		<b>111.8</b>	<b>(44.7)</b>	<b>67.1</b>	<b>130.1</b>	<b>(52.0)</b>	<b>78.1</b>
Shareholder tax		-	-	13.6	-	-	18.0
<i>Effective shareholder tax rate</i>				<i>16.9%</i>			<i>18.7%</i>
<b>IFRS operating profit</b>		<b>-</b>	<b>-</b>	<b>80.7</b>	<b>-</b>	<b>-</b>	<b>96.1</b>

The post tax IFRS profit arising from the in-force business in the last year decreased from £130.1 million to £111.8 million.

The loss associated with acquiring new business during the year was £44.7 million and should be viewed as an investment for future profits. These profits will arise as net annual management fees less the future amortisation of the associated DAC and DIR in subsequent years.

### Notes:

1. These figures are explained in the analysis of the post tax cash flows in Section 3.
2. DIR: IFRS requires any initial profit which arises on new business (either through an initial charge or surrender penalty) to be deferred at the outset and then amortised over the life of the associated product or the surrender penalty period. This required treatment gives rise to two adjustments to arrive at the IFRS result.

(a) The amortisation of the opening deferred income which for the current year was £57.6 million. The release in a particular year will depend upon the value of DIR at the start of the year and the remaining life of the policies to which the DIR relates or the remaining surrender penalty period. The expected release for 2009 is £64.4 million.

(b) The deferral of the initial profit associated with new business sales in the year. In 2008 the deferred profit reduced the IFRS result by £77.4 million. The deferral of profit in any particular year will be dependent upon the level of new business.

3. DAC: Specific new business acquisition expenses are required to be deferred in the year they arise and then amortised in future years over the life of the policies to which the costs relate. This treatment of these acquisition expenses gives rise to two adjustments to arrive at the IFRS result.

(a) The amortisation of the opening DAC which for the current year was a charge of £41.4 million. The charge in a particular year will depend upon the value of the DAC at the start of the year and the remaining life of the policies to which the DAC relates. The expected amortisation charge for 2009 is £49.2 million.

(b) The deferral of the specific acquisition costs incurred in the current year. In 2008 this deferral increased IFRS profits by £100.0 million. The deferral of expenses in any particular year will be dependent upon the level of the acquisition costs which themselves will be determined by the level of new business.

4. The IFRS balance sheet includes an asset representing purchased value of in-force. This asset is amortised over the remaining life of the policies associated with this asset. The amortisation charge for 2009 is expected to be £2.6 million.

5. Share options: this figure is the notional cost that is associated with the various share option schemes.

6. IFRS deferred tax: under IFRS a deferred tax asset is established for future benefits, not recognised in the cash result, that are expected to be derived. Both the current year and prior year figure includes an element of one-off impacts although in normal circumstances the annual impact would be small.

7. Other IFRS: this reflects a number of other adjustments from the cash result. There will be a small impact, either positive or negative, in future years.

8. The effective shareholder tax rate: this reflects the weighting of IFRS profit between UK Life insurance business (with a marginal tax rate of 8%), International business (taxed at 12.5%) and Pensions and Unit Trust business (taxed at 28%).

## Analysis of IFRS Assets and Net Assets per Share

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

	<u>Year Ended</u> <u>31 December 2008</u> £' Million	<u>Year Ended</u> <u>31 December 2007</u> £' Million
Purchased value of in-force	41.6	44.0
Deferred acquisition costs	417.7	359.0
Deferred income reserve	(305.4)	(285.6)
Other IFRS net assets	94.1	67.7
Solvency assets	260.0	257.4
Total IFRS net assets	<u>508.0</u>	<u>442.5</u>

	<u>Year Ended</u> <u>31 December 2008</u> Pence	<u>Year Ended</u> <u>31 December 2007</u> Pence
Net asset value per share	<u>105.9</u>	<u>92.9</u>

## SECTION 2: EUROPEAN EMBEDDED VALUE

Life business differs from most other businesses, in that the expected shareholder cash flow from a sale of a product emerges over a long period in the future.

We therefore present our results not only on an IFRS basis, but also on an EEV basis, which brings into account the net present value of the expected future cash flows.

We continue to believe that the EEV basis provides a more meaningful measure of the Group's operating performance.

### EEV Result

The table below summarises the pre-tax profit of the combined business and the detailed result is shown on pages 30 to 40.

	Year Ended 31 December 2008 £' Million	Year Ended 31 December 2007 £' Million
Life business	174.1	189.9
Unit trust business	50.8	59.0
Other	(20.6)	(4.2)
<b>Operating profit</b>	<b>204.3</b>	<b>244.7</b>
Investment return	(320.6)	(14.5)
Economic assumption changes	0.4	0.2
Total pre-tax result	(115.9)	230.4
Tax	28.5	(42.0)
Post tax result	<u>(87.4)</u>	<u>188.4</u>

### *Life Business*

Operating profit has decreased from £189.9 million to £174.1 million and a full analysis of the result is shown on page 36.

The decrease in operating profit is principally due to lower **new business profit** which was down from £114.5 million to £93.0 million.

This fall reflects the lower new business volumes, a less favourable business mix in the current year and higher expenses. As a consequence of these factors the new business margin has declined from the historic high of last year. Further detail on the new business margin is noted below.

The **unwind of the discount rate** for the year was £63.4 million compared with £59.1 million for the prior year. The unwind is calculated by applying the year end discount rate (as determined by the 10 year gilt yield) to the value of in force at the start of the year. The movement between the two years therefore reflects the movement in the value of the in force between the two reporting dates and also changes in the discount rate.

The events witnessed in the world money markets during the second half of 2008 have seen the yield on 10 year gilts fall by 1.2%, lowering the discount rate applied to the unwind by an equivalent amount. This larger than usual movement in the discount rate has reduced the unwind by some £11.5 million on a like for like basis.

The **investment income** at £4.9 million for the year is lower than the £6.9 million last year reflecting the lower interest rate environment.

The **experience variance** during the year increased operating profit by £13.7 million. Included within this figure is a positive experience variance of £11.2 million resulting from the establishment of an internal reinsurance company to reassure all future pensions business. The amount reflects the anticipated earlier utilisation of existing pension tax losses.

Last year there was a positive variance of a similar magnitude which was mainly due to a one off recovery of prior year unrelieved foreign withholding tax. The balance of the experience variance in both years represents a number of offsetting factors.

There is a small loss of £0.9 million from **operating assumption changes** which have been made to the calculation of the embedded value.

### ***Unit Trust Business***

The operating profit decreased from £59.0 million to £50.8 million and a full analysis of the unit trust result is shown on page 36.

Similar to the life business the operating profit is principally lower due to the movement in the **new business profit** which at £30.5 million was lower than the £36.4 million for the prior year. The fall in the new business profit reflects the marginally lower new business volumes and higher expenses.

The **unwind of the discount rate** at £17.1 million was lower than last year's £18.6 million. As explained above in the life result a lower discount rate has been applied to the unwind which has reduced the unwind by some £3.1 million on a like for like basis.

There was a positive **experience variance** for the year of £3.2 million for the current year reflecting a number of small positive variances. The experience variance for the prior year was a positive £4.0 million.

### ***Other***

The loss from other operations has previously been commented on in the IFRS section.

### ***Investment Return and Economic Assumption Changes***

The significant fall in the stock markets during the year caused a small reduction in emerging profit in the year, but more importantly means that the level of future annual management charges (and profits) will be much lower than previously assumed. Capitalisation of this reduction in future profits meant there was a very large negative **investment variance** of £320.6 million for the year (2007: negative £14.5 million).

As I commented at the half year, when considering the investment variance I encourage shareholders to remember that it reflects the impact of the level of the stock markets at the end of the period on the expected future cash flows. The negative variance is the result of the large falls seen in the world stock markets last year.

The **economic assumptions** used in the projection of the cash flows has resulted in a small profit of £0.4 million for the year compared with a profit of £0.2 million for the prior year.

**Total pre-tax result** for the year was a loss of £115.9 million compared with a profit of £230.4 million for the prior year.

## New Business margin

The insurance sector has historically disclosed new business in terms of Annual Premium Equivalent (APE). Most commentators would agree that APE no longer has much correlation with the underlying profitability of the new business and consequently the industry is moving to provide additional disclosure on the present value of new business premiums (PVNBP).

APE is calculated as the sum of regular premiums plus 1/10<sup>th</sup> single premiums. PVNBP is calculated as single premiums plus the present value of expected premiums from regular premium business, allowing for lapses and other EEV assumptions.

Noted in the table below is the new business margin calculated both as a % of APE and PVNBP.

	2008	2007
<u>Life business</u>		
New business contribution (£' m)	93.0	114.5
APE (£' m)	350.5	359.1
Margin (%)	<u>26.5</u>	<u>31.9</u>
PVNBP (£' m)	2,520.4	2,661.7
Margin (%)	<u>3.7</u>	<u>4.3</u>
<u>Unit trust business</u>		
New business contribution (£' m)	30.5	36.4
APE (£' m)	68.5	69.5
Margin (%)	<u>44.6</u>	<u>52.4</u>
PVNBP (£' m)	685.0	694.6
Margin (%)	<u>4.5</u>	<u>5.2</u>
<u>Total business</u>		
New business contribution (£' m)*	123.5	150.9
APE (£' m)	419.0	428.6
Margin (%)	<u>29.5</u>	<u>35.2</u>
PVNBP (£' m)	3,205.3	3,356.3
Margin (%)	<u>3.9</u>	<u>4.5</u>

\* New business contribution is calculated as the gross margin of £250.2 million (2007: £272.8 million) from new business sales less the direct expenses of £126.7 million (2007: £121.9 million), as can be seen in the expenses table in Section 4.

The PVNBP calculation only includes our manufactured business, as we do not apply these principles to the non-manufactured business.

The new business margin has been impacted by both the lower new business volumes and the lower proportion of manufactured business. In addition the underlying business mix has been less favourable in the current year, with a high proportion of pension business and higher proportion of corporate bond and cash unit trust business.

## Analysis of the Embedded Value and Net Asset per Share

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

	Year Ended 31 December 2008	Year Ended 31 December 2007
	£' Million	£' Million
Value of in-force		
- Life	702.2	746.2
- Unit trust	152.1	199.7
Solvency assets	260.0	257.4
Total embedded value	<u>1,114.3</u>	<u>1,203.3</u>

	Year Ended 31 December 2008	Year Ended 31 December 2007
	Pence	Pence
Net asset value per share	<u>232.4</u>	<u>252.5</u>

### Market Consistent Embedded Value

In June 2008 the European Insurance Chief Financial Officers Forum Market Consistent Embedded Value Principles (MCEV Principles) were launched. For CFO Forum companies, reporting using the MCEV Principles will be mandatory from 31 December 2009 and will supersede the European Embedded Value (EEV) regime. Early implementation is optional, and very few companies have moved to the new approach in 2008.

The objectives of the MCEV Principles are to ensure greater consistency and comparability between companies' supplementary reporting and to provide useful and appropriate information to the investment community.

SJP is planning to move to MCEV reporting during 2009. The main changes relative to SJP's EEV approach are:

- Move from using a single risk free rate related to 10 year gilts to risk free rates based on a swap curve,
- Making specific allowance for asymmetric risk within the non-economic assumptions, rather than within a "non-market risk" addition to the risk discount rate, and
- More detailed guidance covering how to assess and make provision for residual "non-hedgeable risk"

The adoption of MCEV also has consequences for the presentation of SJP's results. We will:

- Move from our current "traditional" embedded value form of presentation to a "bottom-up" market consistent analysis based on the risk free rate,
- Make a wider range of supporting disclosure including, for example, a greater focus on cash emerging from the business and explicit disclosure of the allowance for non-hedgeable risks.

It is important to note that the adoption of MCEV does not change the economics of our business, nor does it affect statutory results, the regulatory capital position or dividend paying capacity. However, to an extent, it does change the timing of reporting of the profits earned from the business written.

Subject to potential further detailed guidance anticipated from the CFO Forum and further detailed work, the financial impact of the new approach is expected to be relatively small as at 2008 year end, with the MCEV net assets likely to be within £20m of published EEV.



### SECTION 3: CASH FLOW AND CAPITAL

Noted below are a number of issues regarding cash flow and the capital position.

#### Cash flow

Last year we provided additional disclosure on the underlying cash flow of the Group analysed between that arising from the opening in-force business and the cash flow arising from new business.

As noted last year, to obtain the underlying cash flow of the business it is first necessary to adjust the post tax IFRS profits for the 'non- cash' items.

The table below sets out these adjustments:

	<u>2008</u>	<u>2007</u>
	£'million	£'million
Post tax IFRS result	67.1	78.1
<u>Adjustments</u>		
Movement in deferred acquisition costs	(54.2)	(62.4)
Movement in deferred income	15.4	42.1
Amortisation of purchased VIF	2.4	2.3
Share option expense	14.9	12.5
IFRS deferred tax impacts	(16.5)	(42.5)
Other	<u>(5.0)</u>	<u>3.0</u>
Adjusted post tax cash flow	<u>24.1</u>	<u>33.1</u>

Taking account of these non-cash adjustments the Group generated positive cash flow of £24.1 million during 2008 (2007: £33.1 million). The tables and commentary below provide an indicative analysis of the sources of this cash flow.

<u>2008</u>	Note	Arising from business in-force at 1 January	Arising from new business in year	Total:
		<u>£'million</u>	<u>£'million</u>	<u>£'million</u>
Net annual management fee	1	111.2	11.0	122.2
Unwind of surrender penalties	2	(41.1)	(3.3)	(44.4)
Margin arising from new business	3	-	(10.0)	(10.0)
Establishment expenses	4	(7.2)	(65.0)	(72.2)
Investment income	5	10.1	-	10.1
Miscellaneous	6	<u>18.4</u>	<u>-</u>	<u>18.4</u>
Post tax cash flow		<u>91.4</u>	<u>(67.3)</u>	<u>24.1</u>

<u>2007</u>	Note	Arising from business in-force at 1 January £'million	Arising from new business in year £'million	Total £'million
Net annual management fee	1	109.3	13.9	123.2
Unwind of surrender penalties	2	(40.2)	(4.4)	(44.6)
Margin arising from new business	3	-	(7.7)	(7.7)
Establishment expenses	4	(6.7)	(60.6)	(67.3)
Investment income	5	10.5	-	10.5
Miscellaneous	6	11.8	-	11.8
Underlying cash flow		84.7	(58.8)	25.9
EUFT	7	7.2	-	7.2
Post tax cash flow		91.9	(58.8)	33.1

The level of **net annual management fee** was maintained in 2008 despite the 30% fall in stock markets during the year. This growth was achieved as a result of the net inflow of funds under management arising from the current and prior years' new business, which offset the impact of the stock market falls.

Similar to the net annual management fee, **unwind of surrender penalties** has increased due to net inflows during 2007 and the current year.

Whilst new business volume was marginally lower than 2007, the negative **margin on new business** increased as a result of the higher proportion of business that is pensions.

Although **establishment expenses** have increased in the year, they will be held level in 2009. These expenses are the main reduction in cash flow and holding expenses level will gear the impact of any increase in net annual management charge.

The small reduction in **investment income** reflects the lower interest rates available towards the end of 2008.

Compared with 2007 **miscellaneous** in 2008 has benefited from a number of small one-offs. However the main impact is a £7.4m contribution from tax impacts in the year.

The charge for **AIG** has reduced cash flow by £7.2m in 2008.

#### Notes

1. The net annual management fee: this is the income on the funds under management that the group retains after payment of the associated costs. Broadly speaking the group retains around 1% pre-tax of funds under management.
2. Unwind of surrender penalties: this relates to the reserving methodology applied to the surrender penalties within the charging structure of the single premium life bonds. At the outset of the life bond we establish a liability net of the outstanding surrender penalty which would apply if the policy were to be encashed.

As the surrender penalty reduces to zero so the liability to the policyholder is enhanced by increasing their funds by 1% per annum over the first six years of the product life, to correspond to this 'unwind' of the surrender penalty. In other words there is a cash transfer from the shareholder to the policyholder.

3. Margin arising from new business: this is the cash flow arising in the year after taking into account the directly attributable expenses.
4. Establishment expenses: these are the post tax expenses of running the Group's infrastructure.
5. Investment income: this is the assumed income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.
6. Miscellaneous: this represents the cash flow of the business not covered in any of the other categories. It will include miscellaneous product charges, reserving changes, experience variances and the income and expenses included within the Other operations of the business.
7. EUFT: in 2007 we were able to obtain relief for prior year *excess unrelieved foreign withholding tax* which resulted in a one-off in that year of £7.2 million.

### Capital Position

In recent months there has been considerable investor debate, focus and concern about the balance sheets of financial institutions.

The capital position of the Group, together with a categorisation of the net assets, is shown in the table below.

It will be noted that the regulated entities are well capitalised over their solvency requirement and that the assets are prudently managed – being predominantly in cash, AAA money market funds and government backed fixed interest securities.

Comparison with previous valuations would show that the solvency position has remained stable despite the recent market uncertainty, reflecting the low risk appetite for Market, Credit and Liquidity risks in relation to solvency.

	Life	Other Regulated	Other	Total
	£'m	£'m	£'m	£'m
<b>Solvency position</b>				
Solvency net assets	151.9	19.3	88.8	260.0
Solvency requirement	41.1	14.6		
Solvency ratio	370%	132%		
<b>Analysis of net assets</b>				
UK Govt. gilts	23.0	-	-	23.0
Other Govt backed debt	26.3	-	-	26.3
AAA rated money market funds	137.0	15.6	20.5	173.1
Bank balances	26.3	20.1	15.3	61.7
Fixed assets	-	-	12.2	12.2
Actuarial reserves	(32.2)	-	-	(32.2)
Other assets / liabilities	(28.5)	(16.4)	40.8	(4.1)
	151.9	19.3	88.8	260.0
Adjustments to IFRS basis				
- Purchased VIF	41.6	-	-	41.6
- DAC and DIR	120.5	(8.3)	-	112.2
- Other	94.2	-	-	94.2
Total net assets	408.2	11.0	88.8	508.0

## Share options maturity

In addition to the strong solvency, the company has share options outstanding under the various share option schemes at 31 December 2008, which amount to 32.9 million (31 December 2007: 35.0 million). As can be seen from the table below the share options, if exercised, will provide a significant source, up to £74.6 million, of future capital for the company. It must be recognised that at present a number of these options are ‘underwater’ and would not therefore be exercised.

The total number of options (including those in the SJP Employee Trust), together with their earliest exercise date, is set out in the table below:

Earliest date of exercise	Average exercise price £'s	Number of Share options outstanding Million	Potential Proceeds £' Million
Prior to 1 Jan 2009	1.72	14.3	24.7
Jan – Jun 2009	2.21	0.9	2.0
Jul – Dec 2009	2.75	16.2	44.4
Jan – Jun 2010	2.58	0.5	1.4
Jul – Dec 2010	2.62	0.2	0.4
Jan – Jun 2011	2.13	0.8	1.7
		32.9	74.6

Of those options with an earliest date of exercise prior to 1 January 2009, 0.6 million options require further performance conditions to be met before vesting unconditionally.

## SECTION 4: OTHER MATTERS

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

### Expenses

The table and commentary below provides details of the Group’s expense position.

Category	Note	Year Ended 31 December 2008 £' Million	Year Ended 31 December 2007 £' Million
<i>Paid from policy margins</i>			
Partner remuneration	1	176.9	191.8
Investment expenses	1	59.6	68.4
Third party administration	1	27.8	24.7
		264.3	284.9
<i>Direct expenses</i>			
Other new business related costs	2	42.2	44.4
Establishment costs	3	97.6	91.9
Contribution from third party product sales	4	(13.1)	(14.4)
		126.7	121.9
		391.0	406.8

For 2008 we originally set a target of limiting the growth in the establishment expenses to around 10% in the expectation of growing new business in line with our longer term growth target of 15-20%. As the year progressed and it became clear that 2008 would be a difficult year, we took steps to reduce our expenditure plans.

At the half year the establishment expense growth was 9% and in my commentary in the Interim report I indicated that the full year growth would be in the region of 5-6% and the actual growth was 6%.

We are budgeting for 2009 establishment expenses to be level with the current year.

#### Notes

1. These costs are met from corresponding policy margins and any variation in them from changes in the volumes of new business or the level of the stock markets does not directly impact the profitability of the Company.
2. The other new business related costs, such as sales force incentivisation, vary with the level of sales – determined on our internal measure. As production rises or falls these costs will move in the corresponding direction.
3. Establishment costs are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term although subject to inflationary increases. These costs will increase as the infrastructure expands to manage the higher number of existing clients and the growth in the Partnership.
4. Contribution from third party product sales reflects the net income received from wealth management sales of £5.4 million (2007: £6.1 million), sales of stakeholder products of £1.1 million (2007: £0.6 million) and sales through the Protection Panel of £6.6 million (2007: £7.7 million).

#### **Movement in funds under management**

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

As can be seen from the table we have not experienced any significant outflows and the implied surrender rate for the current year is at a similar level to 2007.

	Year Ended 31 December 2008 <hr/> £' billion	Year Ended 31 December 2007 <hr/> £' billion
Opening funds under management	18.2	15.4
New money invested	3.0	3.1
Investment return	<hr/> (3.6)	<hr/> 0.9
	17.6	19.4
Regular income withdrawals / maturities	(0.4)	(0.3)
Surrender / part surrenders	<hr/> (0.9)	<hr/> (0.9)
Closing funds under management	<hr/> 16.3	<hr/> 18.2
Implied surrender rate as % of average funds under management	<hr/> 5.2%	<hr/> 5.1%

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

Similarly, 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 it should not be assumed that small movements in this rate will result in a change to the embedded value assumptions.

### **Taxation**

HMRC is currently consulting on proposals outlined in the pre-budget report, published in November 2008, to alter the tax treatment of dividends on overseas equities. Should the proposals be enacted as currently envisaged, this would impact the EEV and cash flow of the UK life business. Whilst the changes would reduce the tax paid on unit linked fund income (which would improve the future expected fund growth) overseas dividend income would no longer be available to relieve management expenses. Relief of management expenses would therefore be more dependent upon realised capital gains in the unit linked funds, which may impact upon the timing of the relief and therefore the timing of cash flows.

After reading my statement I hope shareholders will agree with my opening remark that these are a resilient set of results given the developments in the financial markets during 2008.

Andrew Croft  
23 February 2009

# RISK AND RISK MANAGEMENT

## Introduction

The mechanisms for identifying, assessing, managing and monitoring risks are an integral part of our day to day management process. Understanding the risks we face and managing them appropriately enables effective decision making and helps us to achieve our business objectives.

In the following sections we outline the framework for the management of risk in the Group and provide detail on the main strategic risks facing the business and associated management activity which is followed by individual sections focussing on each of the following areas:

- Market Risk
- Credit Risk
- Liquidity & Currency Risk
- Insurance Risk
- Operational Risk

## The Risk Management Framework

### Risk Appetite Statement

The Board is ultimately responsible for setting the framework within which risk is managed at SJP. At the centre of this framework is our Risk Appetite Statement.

In our Risk Appetite Statement, the Board clearly sets out our ‘risk boundaries’ – a specification of the types of risks the Group is willing to take and to what extent. The Statement is regularly reviewed and updated by the Board to ensure that it remains current and continues to take account of the implications of any emerging or topical risk.

### Risk Policies

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

### The Risk Committee & Group Risk Function

Overseeing our Risk Management Framework is the Risk Committee – a group of non-executive Board members responsible for ensuring that a culture of effective risk identification and management is fostered across the Group. The Committee is also responsible for reviewing and assessing corporate and emerging risks.

The Risk Committee is supported by a central Group Risk function whose primary role is to ensure that an appropriate Risk Management Framework is in place, that it is fit for purpose and is working as intended. The Group Risk function is responsible for the ongoing development and co-ordination of risk management and, importantly, for the consolidation, reporting and, where appropriate, escalation of risk related management information.

## Strategic Risks and Uncertainties

Certain risks and uncertainties are inherent within both the Group's business model and the market in which we operate. At the time of preparing this report, the key strategic risks and uncertainties facing the business, and the high level controls and processes through which we aim to mitigate these risks, are:

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Economic environment	That a major and prolonged economic downturn and/or stock market crash leads to a failure to meet targets and to a significant underperformance of our business plan.	We closely monitor the achievement of our business plan, the performance of the markets and consumer confidence. Robust management information is used to facilitate this monitoring and to identify early signals of a market decline so we can manage expenses and strategy appropriately.
Distribution capability	That the Group's distribution strength may be eroded due to an inability to recruit and retain Partners of the appropriate quality.	We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality, experienced Partners. All recruitment and retention activity is closely monitored.
Investment management approach	That our approach to investment management may fail to deliver expected returns to clients of the Group.	We actively manage and monitor the performance of our investment managers through the Investment Committee and a firm of professional external advisers – Stamford Associates.
Outsourcing	That the Group's dependence on outsourcing may come under threat should any of its key investment management or administration business partners decide to exit the market, significantly revise their strategy or fail.	We maintain close working relationships with our outsourced business partners and should have sufficient warning of any material changes that may impact upon our business model. All relationships are governed by formal agreements with adequate notice periods and full exit management plans. Strong alternative providers exist in the market. Business continuity arrangements have been considered and scenario analysis carried out.
Competitor activity	That a major and successful new entrant to the adviser-based wealth management market has an impact on the success of SJP's business.	We closely monitor competitor activity and the marketplace for signs of any potential new entrants or threats. As noted above, we also have a proven track record in Partner acquisition and retention which we believe would make it difficult for a new entrant to challenge SJP's position. Established SJP Partners have significant equity stakes in their practices and these are structured to aid retention.



Culture	That developments in the industry or in the scale of SJP's business have an adverse effect on SJP's culture and ultimately the continuing success of the business.	We have a range of strategic initiatives in place including, for example, regular staff surveys and consultation groups which enable us to monitor the sentiment of our staff and Partners, identify any adverse or potential adverse impacts upon our culture, and allow us to take appropriate action.
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## Market Risk

Market risk is the impact a fall in equity or other asset values may have on the business. The Group adopts a risk averse approach to market risk with a stated policy of not actively pursuing or accepting market risk except where necessary to support other objectives.

The group seeks to manage market risk by undertaking unit linked business whereby the client bears the market risk. This strategy mitigates any risk to the Group associated with being unable to meet clients' liabilities. However, a reduction in the market value of the unit linked funds would affect the annual management charges paid to the Group, since these charges are based on the market value of funds under management. The associated reduction in dividends could also result in the deferral of tax relief on UK life business expenses and indirectly could also be associated with a reduction in the volume of new business sales.

## Management of market risk

The table below summarises the main market risks that the business is exposed to and the methods by which the Group seeks to mitigate them.

<u>Risk</u>	<u>Description</u>	<u>Management</u>
New Business	Poor performance in the stock market leads to existing and future clients rejecting equity investment	The benefit of long term equity investment is fundamental to the business model. Advice and marketing remain valid even when market values fall, however greater attention is required to support and give confidence to existing and future clients in such circumstances, and this the Group does.
Retention	That adverse market conditions lead to clients withdrawing their funds.	Retention of funds is monitored closely. Currently retention has remained consistently high at 95%.
Tax	In adverse market conditions, when the company is realising investment losses rather than gains, the working of the I-E tax regime can lead to short term capital inefficiencies	The tax position is monitored closely.
Shareholder funds	That the value of shareholder funds decreases, thereby reducing the capital available to support the business.	Financial assets and liabilities held outside unitised funds primarily consist of low volatility government, supranational fixed interest securities, units in AAA rated money market funds, cash and cash equivalents.

Client liabilities	That as a result of reduction in equity values the Group may be unable to meet client liabilities	The Group's business is predominantly unit-linked, which mitigates this risk.
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## Credit Risk

Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit. The Group has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

The Group's exposure to credit risk is mitigated by a number of policies including the SJP Group Credit Policy and SJP Group Reinsurance Policy.

## Management of credit risk

The table below summarises the main credit risks to which the business is exposed and the methods by which the Group seeks to mitigate them.

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Shareholder assets	Loss of assets	Invested in AAA rated unitised money market funds and deposits with approved banks. Maximum counterparty limits are set for each company within the Group and aggregate limits are also set at a Group level.
Investment matching of non-linked liabilities	Loss of value of assets	Matched by fixed interest securities with minimum AAA credit ratings; maximum counterparty limits are again set for each company within the Group and at an aggregate Group level.
Reinsurance	Failure of counterparty or counterparty unable to meet liabilities	It is necessary for the credit ratings of potential reinsurers to meet or exceed minimum specified levels. Consideration is also given to size, risk concentrations / exposures and ownership in the selection of reinsurers. The Group also seeks to diversify its reinsurance credit risk through the use of a spread of reinsurers.
Partner loans	Inability of Partners to repay loans from the business	The Group has guaranteed certain loans made by Bank of Scotland to St. James's Place Partners. These loans are explicitly or implicitly secured on the future renewal income expected from a Partner's portfolio, and loan size varies in relation to the projected future income of a Partner. Outstanding balances are reviewed on a regular basis and support is provided to help Partners manage their business appropriately.

## Liquidity Risk & Currency Risk

The Group adopts a risk averse approach to both liquidity and currency risk. The Group is subject to minimal liquidity risk since it maintains a high level of liquid assets; shareholder assets are held in AAA rated money market funds with same day settlement, and UK and other government backed debt where the market has remained liquid. The Group actively monitors and manages its liquidity needs and position. The Group is not subject to any significant currency risk since all material financial assets and financial liabilities are denominated in Sterling.

## Insurance Risk

The Group assumes insurance risk by issuing insurance contracts under which the Group agrees to compensate the client (or other beneficiary) if a specified future event (the insured event) occurs. The Group insures mortality and morbidity risks but not annuity risk.

The Group has a medium appetite for insurance risk, except where financially beneficial, or in support of strategic objectives. We seek to manage insurance risk through the use of reinsurance, reviewable contract terms, regular pricing reviews and underwriting controls.

The terms and conditions of the insurance contracts offered by the Group and our reinsurance programme determine the level of risk accepted by the Group. The general terms and conditions of the main insurance contracts and the associated risks are set out in the table below. The Group has no with-profit contracts.

<u>Category</u>	<u>Essential Terms</u>	<u>Risks Generated</u>	<u>Client Guarantee</u>
Unit linked reviewable assurances	Deductions from units pay for benefits. Deductions are reviewable at any time	Expense	No significant guarantees
Conventional reviewable assurances	Regular premiums pay for benefits. Premium level is reviewable every fifth policy anniversary	Mortality, morbidity, expense	Premium level guaranteed between reviews
Conventional guaranteed assurances	Premium level fixed throughout life	Mortality, expense	Premium and benefit level guaranteed

## Management of insurance risk

The table below summarises the main risks to which the insurance business is exposed and the methods by which the Group seeks to mitigate them.

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Underwriting	Failure to price appropriately for a risk, or the impact of anti-selection	Experience is monitored regularly. For most business the premium or deduction rates can be re-set.
Epidemic / disaster	An unusually large number of claims arising from a single incident or event	Protection is provided through reinsurance.
Expense	Administration costs exceed expense allowance	Administration is outsourced and a tariff of costs is agreed. The contract is monitored regularly to rationalise costs incurred.

Persistence	Loss of product margins due to higher than anticipated lapses	Monitoring of lapse rates and investigation of unexpected experience.
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## Operational Risk

Operational risk is the risk arising from inadequately controlled internal processes or systems, human error and from external events. This includes all risks that we are exposed to, other than the financial and insurance risks described above. The Group has a medium appetite for operational risk except where necessary to support other objectives and seeks to manage it through outsourcing and close management of the Partnership. Operational risks include risks relating to:

- Regulation, information technology, financial crime, business protection, human resources, outsourcing, purchasing, communications and legal contracts and obligations
- Brand value
- Product development process
- Advice, sales management and distribution
- Financial processes including financial reporting and taxation
- External events and developments

Each division of the Group is responsible for identifying, managing and reporting its operational risks as part of the quarterly risk reporting process. There is an Operational Risk Policy which expresses the Group risk appetite and provides the business with guidance on how to manage this type of risk. Each risk is assessed by considering its potential impact and the probability of its occurrence. Impact assessments are made against financial and non-financial metrics. This is consistent with the assessment of all other type of risk as specified in the SJP Risk Management Framework document.

## Management of operational risk

The table below summarises the main operational risks to which the business is exposed and the methods by which the Group seeks to mitigate them.

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Advice	That advice given by an individual Partner or authorised by the Group is deemed unsuitable leading to redress costs and potential reputation damage	Advice guidelines are agreed by technical specialists and reviewed by group management. These guidelines are supported by Training and Accreditation arrangements that have been established, with close compliance monitoring to ensure advice guidelines are followed. Appropriate incentives exist to promote Partner compliance, whilst those failing to do so are subject to censure and other sanctions.
Retail Distribution Review	Changes arising from the Retail Distribution Review, particularly in relation to proposals to split the market and implications for advised sales.	Continuing liaison with FSA, trade bodies, professional service firms and relevant peers. Incorporation of reactions to better developed areas (E.g. Professionalism) into the Group's normal business planning and operations.
Regulatory censure	That the Group could face regulatory censure should it fail to comply with regulation.	We seek to maintain open and mutually beneficial relationships with our regulators. We have a range of compliance monitoring activities designed to ensure we remain compliant with all applicable regulations.

Regulatory and legislative environment

Changes in the wider regulatory, legislative or tax environment have an adverse impact on the Group's business.

Governance structure, management committees and active management of the FSA relationship provides intelligence and tools to mitigate the impact of operating in a highly regulated sector.

## 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 INCOME STATEMENT

	Year Ended 31 December 2008	Year Ended 31 December 2007
	<u>£' Million</u>	<u>£' Million</u>
Life business	174.1	189.9
Unit trust business	50.8	59.0
Other	<u>(20.6)</u>	<u>(4.2)</u>
<b>Operating profit</b>	204.3	244.7
Investment return variances	(320.6)	(14.5)
Economic assumption changes	<u>0.4</u>	<u>0.2</u>
<b>EEV (loss) / profit on ordinary activities before tax</b>	(115.9)	230.4
<b>Taxation</b>		
Life business	11.6	(44.8)
Unit trust business	13.2	(15.3)
Other	3.7	(2.0)
Tax rate change	<u>-</u>	<u>20.1</u>
	<u>28.5</u>	<u>(42.0)</u>
<b>EEV (loss) / profit on ordinary activities after tax</b>	<u>(87.4)</u>	<u>188.4</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2008	Year Ended 31 December 2007
	<u>£' Million</u>	<u>£' Million</u>
<b>Opening equity shareholders' funds on an EEV basis</b>	<b>1,203.3</b>	<b>1,032.7</b>
Post tax (loss) / profit for the year	(87.4)	188.4
Issue of share capital	4.5	26.7
P&L reserve credit in respect of share option charges	14.9	12.5
P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust	0.1	1.0
Dividends	(20.8)	(47.7)
Consideration paid for own shares	(0.3)	(10.3)
<b>Closing equity shareholders' funds on an EEV basis</b>	<b><u>1,114.3</u></b>	<b><u>1,203.3</u></b>

## CONSOLIDATED BALANCE SHEET

	31 December 2008	31 December 2007
	£' Million	£' Million
<b>Assets</b>		
Intangible assets		
- Deferred acquisition costs	564.9	484.6
- Value of long-term business in-force		
- long-term insurance	495.8	605.1
- unit trusts	152.1	199.7
	1,212.8	1,289.4
Property & equipment	12.2	10.4
Deferred tax assets	143.7	125.2
Investment property	410.6	642.5
Investments	11,440.3	12,599.9
Reinsurance assets	32.2	32.9
Insurance and investment contract receivables	14.9	18.0
Income tax assets	32.4	19.5
Other receivables	229.9	160.2
Cash & cash equivalents	2,253.5	1,929.2
	<b>15,782.5</b>	<b>16,827.2</b>
<b>Liabilities</b>		
Insurance contract liabilities	338.4	405.4
Other provisions	12.9	5.3
Financial liabilities	13,244.2	14,155.4
Deferred tax liabilities	152.7	251.2
Insurance and investment contract payables	22.9	21.8
Deferred income	372.6	347.8
Income tax liabilities	27.6	50.0
Other payables	161.1	119.4
Net asset value attributable to unit holders	335.8	267.6
	<b>14,668.2</b>	<b>15,623.9</b>
<b>Net assets</b>	<b>1,114.3</b>	<b>1,203.3</b>
<b>Shareholders' equity</b>		
Share capital	71.9	71.5
Share premium	86.3	82.2
Other reserves	956.1	1,049.6
	<b>1,114.3</b>	<b>1,203.3</b>
	Pence	Pence
<b>Net assets per share</b>	232.4	252.5



# NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

## I. BASIS OF PREPARATION

The supplementary information on pages 30 to 40 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 objective of the EEV basis is to provide shareholders with more realistic information on the financial position and performance of the Group than that provided by the IFRS basis.

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

## II. METHODOLOGY

### (a) Covered business

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

### (b) Calculation of EEV on existing business

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

### (c) Allowance for risk

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

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

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

### (d) Non-market risk

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

#### **(e) The risk discount rate**

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

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

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

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

#### **(f) Cost of required capital**

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

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

#### **(g) New business**

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

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

#### **(h) Taxation**

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 2008 are set out below:

	Year Ended 31 December 2008	Year Ended 31 December 2007
Risk free rate	3.5%	4.7%
Inflation rate	1.7%	3.1%
Risk discount rate (net of tax)	6.6%	7.8%
Future investment returns:		
- Gilts	3.5%	4.7%
- Equities	6.5%	7.7%
- Unit linked funds		
- Capital growth	2.6%	3.9%
- Dividend income	3.3%	3.2%
- Total	5.9%	7.1%
Expense inflation	2.7%	3.8%
Indexation of capital gains	1.2%	2.2%

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. The inflation rate is reduced by 10% to derive the indexation of capital gains for the proportion of the fund invested in equities.

#### (b) Experience Assumptions

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

The persistency assumptions are derived from the Group's own experience, or where insufficient data exists, from external industry experience.

The expense assumptions include allowance for both the costs charged by the relevant third party administrators for acquisition and maintenance, and the corporate costs incurred in respect of covered business. The corporate costs have been apportioned so that the total maintenance costs represent the anticipated ongoing expenses, including systems development costs, which are expected to arise in future years in meeting the policy servicing requirements of the in-force business.

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

#### (c) Taxation

Future taxation has been determined assuming a continuation of the current tax legislation. The EEV result has been calculated on an after-tax basis 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 26% for UK life and pensions business, 12.5% for Irish life and pensions business and 28% for unit trust business.

#### IV. COMPONENTS OF EEV PROFIT

##### (a) Life Business

	Note	Year Ended 31 December 2008 £' Million	Year Ended 31 December 2007 £' Million
New business contribution	1	93.0	114.5
Profit from existing business			
- Unwind of discount rate		63.4	59.1
- Experience variances		13.7	12.2
- Operating assumption changes		(0.9)	(2.8)
Investment income		4.9	6.9
<b>Operating profit before tax</b>		<b>174.1</b>	<b>189.9</b>
Investment return variances		(223.0)	(9.5)
Economic assumption changes		0.9	(0.3)
<b>(Loss) / profit before tax</b>		<b>(48.0)</b>	<b>180.1</b>
Attributed tax		11.6	(44.8)
Tax rate change		-	15.8
<b>(Loss) / profit after tax</b>		<b>(36.4)</b>	<b>151.1</b>

Note 1: New business contribution after tax is £69.7 million (2007: £86.3 million)

##### (b) Unit Trust Business

	Note	Year Ended 31 December 2008 £' Million	Year Ended 31 December 2007 £' Million
New business contribution	1	30.5	36.4
Profit from existing business			
- Unwind of discount rate		17.1	18.6
- Experience variances		3.2	4.0
- Operating assumption changes		-	-
<b>Operating profit before tax</b>		<b>50.8</b>	<b>59.0</b>
Investment return variances		(97.6)	(5.0)
Economic assumption changes		(0.5)	0.5
<b>(Loss) / profit before tax</b>		<b>(47.3)</b>	<b>54.5</b>
Attributed tax		13.2	(15.3)
Tax rate change		-	4.3
<b>(Loss) / profit after tax</b>		<b>(34.1)</b>	<b>43.5</b>

Note 1: New business contribution after tax is £22.0 million (2007: £26.2 million)

**(c) Combined Life and Unit Trust Business**

	Note	Year Ended 31 December 2008 £' Million	Year Ended 31 December 2007 £' Million
New business contribution	1	123.5	150.9
Profit from existing business:			
- Unwind of discount rate		80.5	77.7
- Experience variances		16.9	16.2
- Operating assumption changes		(0.9)	(2.8)
Investment income		4.9	6.9
<b>Operating profit before tax</b>		<b>224.9</b>	<b>248.9</b>
Investment return variances		(320.6)	(14.5)
Economic assumption changes		0.4	0.2
<b>(Loss) / profit before tax</b>		<b>(95.3)</b>	<b>234.6</b>
Attributed tax		24.8	(60.1)
Tax rate change		-	20.1
<b>(Loss) / profit after tax</b>		<b>(70.5)</b>	<b>194.6</b>

Note 1: New business contribution after tax is £91.7 million (2007: £112.5 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 2008 are shown separately between the movement in IFRS net assets and the present value of the in-force business (PVIF) in the table below. All figures are shown net of tax.

	Movement in IFRS Net Assets £' Million	Movement in PVIF £' Million	Movement in EEV £' Million
New business contribution	(49.3)	141.0	91.7
Profit from existing business	112.5	(112.5)	-
- Unwind of discount rate	-	59.9	59.9
- Experience variances	31.9	(20.3)	11.6
- Operating assumption changes	3.4	(4.1)	(0.7)
Investment return	3.9	-	3.9
Investment return variances	(17.2)	(220.2)	(237.4)
Economic assumption changes	(1.2)	1.7	0.5
Miscellaneous	(16.9)	-	(16.9)
<b>Profit after tax</b>	<b>67.1</b>	<b>(154.5)</b>	<b>(87.4)</b>

The main component of the experience variances derive from the setting up of an internal reinsurance arrangement for pensions new business and various other one-off tax effects during 2008.

The comparative figures for 2007 are as follows:

	Movement in IFRS Net Assets	Movement in PVIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(54.6)	167.1	112.5
Profit from existing business	95.4	(95.4)	-
- Unwind of discount rate	-	57.8	57.8
- Experience variances	28.4	(16.8)	11.6
- Operating assumption changes	5.4	12.6	18.0
Investment return	5.5	-	5.5
Investment return variances	(1.1)	(9.9)	(11.0)
Economic assumption changes	(0.6)	0.8	0.2
Miscellaneous	(0.3)	(5.9)	(6.2)
<b>Profit after tax</b>	<b>78.1</b>	<b>110.3</b>	<b>188.4</b>

## 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 various assumptions. In each case, only the indicated item is varied relative to the restated values.

		Change in new business contribution	Change in European Embedded Value	
Note	Pre-tax £' Million	Post-tax £' Million	Post-tax £' Million	
<b>Value at 31 December 2008</b>	<b>123.5</b>	<b>91.7</b>	<b>1,114.3</b>	
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(1.1)	(0.8)	0.4
10% reduction in withdrawal rates		11.9	8.8	42.0
10% reduction in expenses		2.7	2.0	14.8
10% reduction in market value of equity assets	2	-	-	(90.7)
5% reduction in mortality and morbidity	3	0.0	0.0	0.3
100bp increase in equity expected returns	4	-	-	-

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: 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 3: Assumes the benefit of lower experience is passed on to clients and reinsurers at the earliest opportunity.

Note 4: 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.

	Change in new business contribution		Change in European Embedded Value
	Pre-tax	Post-tax	Post-tax
	£' Million	£' Million	£' Million
100bp reduction in risk discount	20.9	15.5	69.8

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

	Year Ended 31 December 2008 £' Million	Year Ended 31 December 2007 £' Million
<b>IFRS (loss) / profit before tax</b>	<b>(31.4)</b>	<b>103.2</b>
Movement in life value of in-force	(19.1)	88.6
Movement in unit trust value of in-force	(65.4)	38.6
<b>Total EEV profit before tax</b>	<b>(115.9)</b>	<b>230.4</b>
	31 December 2008 £' Million	31 December 2007 £' Million
<b>IFRS net assets</b>	<b>508.0</b>	<b>442.5</b>
Less: acquired value of in-force	(57.7)	(61.0)
Add: deferred tax on acquired value of in-force	16.1	17.0
Add: life value of in-force	495.8	605.1
Add: unit trust value of in-force	152.1	199.7
<b>EEV net assets</b>	<b>1,114.3</b>	<b>1,203.3</b>

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

	31 December 2008 <u>£' Million</u>	31 December 2007 <u>£' Million</u>
<b>Life company free assets</b>	<b>110.8</b>	<b>100.5</b>
Required life company solvency capital	41.1	39.5
Other subsidiaries, consolidation and IFRS adjustments	356.1	302.5
<b>IFRS net assets</b>	<b>508.0</b>	<b>442.5</b>
	Year Ended 31 December 2008 <u>£' Million</u>	Year Ended 31 December 2007 <u>£' Million</u>
<b>Life company free assets at 1 January</b>	<b>100.5</b>	<b>105.4</b>
Investment in new business	(66.0)	(55.6)
Profit from existing business	74.0	51.8
Investment return	3.9	5.4
Movement in required solvency capital	(1.6)	(6.5)
<b>Life company free assets at 31 December</b>	<b>110.8</b>	<b>100.5</b>



**CONSOLIDATED ACCOUNTS UNDER  
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**CONSOLIDATED INCOME STATEMENT**

	Note	Year Ended 31 December 2008 £' Million	Year Ended 31 December 2007 £' Million
Insurance premium revenue		93.8	97.2
Less premiums ceded to reinsurers		(33.9)	(27.3)
<b>Net insurance premium revenue</b>		<u>59.9</u>	<u>69.9</u>
Fee and commission income		102.1	83.8
Other investment return		(2,390.8)	1,088.8
Other operating income		6.6	2.5
<b>Net revenue</b>	4	<u>(2,222.2)</u>	<u>1,245.0</u>
Policy claims and benefits			
- Gross amount		(53.2)	(50.7)
- Reinsurers' share		21.0	18.2
<b>Net policyholder claims and benefits incurred</b>		<u>(32.2)</u>	<u>(32.5)</u>
Change in insurance contract liabilities			
- Gross amount		67.0	(31.0)
- Reinsurers' share		(0.7)	4.6
<b>Net change in insurance contract liabilities</b>		<u>66.3</u>	<u>(26.4)</u>
<b>Investment contract benefits</b>		2,536.2	(697.1)
Fees, commission and other acquisition costs		(258.4)	(269.9)
Administration expenses		(117.7)	(112.6)
Other operating expenses		(3.4)	(3.3)
		<u>(379.5)</u>	<u>(385.8)</u>
<b>Operating (loss)/profit and (loss)/profit before tax</b>		(31.4)	103.2
Tax on policyholders' return	5	112.1	(7.1)
Tax on shareholders' return	5	(13.6)	(18.0)
Total tax credit/(expense)	5	98.5	(25.1)
<b>Profit for period attributable to shareholders</b>	4	<u><u>67.1</u></u>	<u><u>78.1</u></u>
Basic earnings per share	6	14.2	16.8
Diluted earnings per share	6	14.1	16.1

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2008	Year Ended 31 December 2007
	<u>£' Million</u>	<u>£' Million</u>
<b>Opening equity shareholders' funds</b>	<b>442.5</b>	<b>382.2</b>
Profit for the financial period, being total recognised income for the financial period	67.1	78.1
Issue of share capital		
- Scrip dividend	2.1	10.7
- Exercise of share options	2.4	16.0
P & L reserve credit in respect of share option charges	14.9	12.5
P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust	0.1	1.0
<b>Total credit</b>	<b>86.6</b>	<b>118.3</b>
Dividends	(20.8)	(47.7)
Consideration paid for own shares	(0.3)	(10.3)
<b>Net increase to shareholders' funds</b>	<b>65.5</b>	<b>60.3</b>
<b>Closing equity shareholders' funds</b>	<b>508.0</b>	<b>442.5</b>

## CONSOLIDATED BALANCE SHEET

	Note	31 December 2008	31 December 2007
		<u>£' Million</u>	<u>£' Million</u>
<b>Assets</b>			
Intangible assets			
- Deferred acquisition costs		564.9	484.6
- Acquired value of in force business		57.7	61.0
		<u>622.6</u>	<u>545.6</u>
Property & equipment		12.2	10.4
Deferred tax assets		143.7	125.2
Investment property		410.6	642.5
Investments			
- Equities		9,190.5	10,780.4
- Fixed income securities		1,009.9	720.7
- Investment in Collective Investment Schemes		1,239.4	1,098.8
- Currency forwards		0.5	-
Reinsurance assets		32.2	32.9
Insurance and investment contract receivables		14.9	18.0
Income tax assets		32.4	19.5
Other receivables		229.9	160.2
Cash & cash equivalents		2,253.5	1,929.2
<b>Total assets</b>		<b><u>15,192.3</u></b>	<b><u>16,083.4</u></b>
<b>Liabilities</b>			
Insurance contract liabilities	8	338.4	405.4
Other provisions	9	12.9	5.3
Financial liabilities			
- Investment contracts		13,109.8	14,144.0
- Borrowings		7.8	11.2
- Currency forwards		126.6	0.2
Deferred tax liabilities		168.8	268.2
Insurance and investment contract payables		22.9	21.8
Deferred income		372.6	347.8
Income tax liabilities		27.6	50.0
Other payables		161.1	119.4
Net asset value attributable to unit holders		335.8	267.6
<b>Total liabilities</b>		<b><u>14,684.3</u></b>	<b><u>15,640.9</u></b>
<b>Net assets</b>		<b><u>508.0</u></b>	<b><u>442.5</u></b>
<b>Shareholders' equity</b>			
Share capital	10	71.9	71.5
Share premium	11	86.3	82.2
Other reserves	11	(10.7)	(15.9)
Retained earnings	11	360.5	304.7
<b>Total shareholders' equity</b>		<b><u>508.0</u></b>	<b><u>442.5</u></b>
		<u>Pence</u>	<u>Pence</u>
Net assets per share		<u>105.9</u>	<u>92.9</u>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December 2008	Year Ended 31 December 2007
	£' Million	£' Million
<b>Cash flows from operating activities</b>		
(Loss) / profit before tax for the period	(31.4)	103.2
Adjustments for:		
Depreciation	3.8	2.2
Amortisation of acquired value of in-force business	3.3	3.3
Fair value gains on non-operating investments	(0.1)	-
Share based payment charge	14.9	12.5
<b>Changes in operating assets and liabilities</b>		
Increase in deferred acquisition costs	(80.3)	(91.0)
Decrease / (increase) in investment property	231.9	(74.3)
Decrease / (increase) in investments	1,159.6	(2,026.1)
Decrease / (increase) in reinsurance assets	0.7	(4.6)
Decrease / (increase) in insurance and investment contract receivables	3.1	(6.5)
Increase in other receivables	(88.5)	(75.8)
(Decrease) / increase in insurance contract liabilities	(67.0)	31.1
Increase in provisions	7.6	2.2
(Decrease) / increase in financial liabilities (excluding borrowings)	(1,012.9)	2,319.0
Increase in insurance and investment contract payables	1.1	3.3
Increase in deferred income	24.8	55.9
Increase in other payables	37.5	18.9
Increase in net assets attributable to unit holders	68.2	135.1
	<b>276.3</b>	<b>408.4</b>
<b>Cash generated from operations</b>		
Income taxes paid	(31.9)	(52.8)
	<b>244.4</b>	<b>355.6</b>
<b>Net cash from operating activities</b>		
<b>Cash flows from investing activities</b>		
Acquisition of property & equipment	(5.9)	(6.5)
Proceeds from sale of plant & equipment	0.3	0.1
	<b>(5.6)</b>	<b>(6.4)</b>
<b>Net cash from investing activities</b>		
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	4.5	26.7
Consideration paid for own shares	(0.3)	(10.3)
Proceeds from exercise of options over shares held in trust	0.1	1.0
Repayment of borrowings	(3.4)	(1.9)
Dividends paid	(20.8)	(47.7)
	<b>(19.9)</b>	<b>(32.2)</b>
<b>Net cash from financing activities</b>		
<b>Net increase in cash &amp; cash equivalents</b>	<b>218.9</b>	<b>317.0</b>
Cash & cash equivalents at 1 January	1,929.2	1,606.9
Effect of exchange rate fluctuations on cash held	105.4	5.3
	<b>2,253.5</b>	<b>1,929.2</b>
<b>Cash &amp; cash equivalents at 31 December</b>		

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

# **NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS**

## **1. BASIS OF PREPARATION**

St. James's Place plc ("the Company") is a company incorporated and domiciled in England and Wales.

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"). The Group has applied all IFRSs and interpretations adopted by the EU by 31 December 2008 with the exception of:

- IFRS 8 Operating Segments
- Amendment to IAS23 Borrowing Costs
- Amendments to IAS1 Presentation of Financial Statements: A Revised Presentation

The effective date for these standards is for accounting periods commencing 1 January 2009 and it is likely that further disclosures will be required when the standards are applied.

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

The Group financial statements have been prepared on a going concern basis.

## **2. OTHER ACCOUNTING POLICIES**

The other accounting policies used by the Group in preparing the results are also consistent with those applied in preparing statutory accounts for the year ended 31 December 2007.

## **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Judgements**

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

### **Estimates**

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

- determining the value of insurance contract liabilities;
- deciding the amount of management expenses that are treated as acquisition expenses;
- amortisation and recoverability of deferred acquisition costs and deferred income; and
- determining the fair value, amortisation and recoverability of acquired in-force business.

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 income statement 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 2008 and expected long term rates;
- the mortality and morbidity rates, which are based on the results of an investigation of experience during the year; and
- the assumed rate of investment return, which is based on current gilt rates.

### ***Acquisition expenses***

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

### ***Amortisation and recoverability of Deferred Acquisition Costs and Deferred Income***

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

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

Deferred acquisition costs relating to insurance and investment contracts are tested annually for recoverability by reference to expected future income levels.

### ***Acquired in-force business***

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

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

## **4. SEGMENT REPORTING**

The Group segments its operations into three lines of business:

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; and
3. Other – offering financial products such as annuities, mortgages and stakeholder pensions, from third party providers.

The income and results of these segments are as follows:

	Year Ended 31 December 2008	Year Ended 31 December 2007
<b>Net Revenue</b>	<u>£' Million</u>	<u>£' Million</u>
Life business		
- Net insurance premium income	59.9	69.9
- Net movement on deferred income	(8.0)	(30.5)
- Investment income – unit linked policyholders	<u>(2,322.1)</u>	<u>1,063.9</u>
<b>Segment revenue</b>	<b>(2,270.2)</b>	<b>1,103.3</b>
Unit trust business		
- Fee income (excluding deferred income)	81.4	85.4
- Net movement on deferred income	<u>(16.8)</u>	<u>(25.4)</u>
<b>Segment revenue</b>	<b>64.6</b>	<b>60.0</b>
Other business		
- Commission income	45.4	54.3
- Investment income – other shareholders	9.1	11.6
- Investment income – other <sup>(1)</sup>	<u>(77.7)</u>	<u>13.3</u>
- Other operating income	<u>6.6</u>	<u>2.5</u>
<b>Segment revenue</b>	<b>(16.6)</b>	<b>81.7</b>
<b>Total net revenue<sup>(2)</sup></b>	<b><u>(2,222.2)</u></b>	<b><u>1,245.0</u></b>

(1) *Investment income - other* relates to investment income on third party holdings in the St. James's Place unit trusts which are subject to consolidation (the third party holdings are disclosed as "net asset value attributable to unit holders" within the balance sheet).

This income is offset by a change in investment contract benefits within the income statement.

(2) All revenue is generated from external transactions.

	Year Ended 31 December 2008	Year Ended 31 December 2007
<b>Segment Result</b>	<u>£' Million</u>	<u>£' Million</u>
Life business		
- Shareholder	83.2	84.4
- Policyholder tax gross up	(112.1)	7.1
Unit trust business	18.1	15.9
Other business	<u>(20.6)</u>	<u>(4.2)</u>
<b>Total operating (loss)/profit and (loss)/profit before tax</b>	<b>(31.4)</b>	<b>103.2</b>
Income taxes		
- Policyholder tax	112.1	(7.1)
- Shareholder tax	<u>(13.6)</u>	<u>(18.0)</u>
<b>Profit after tax</b>	<b><u>67.1</u></b>	<b><u>78.1</u></b>

## Other Segmental Information

	Year Ended 31 December 2008	Year Ended 31 December 2007
	£' Million	£' Million
<b>Segment assets</b>		
- Life business	14,376.2	15,385.0
- Unit trust business	169.2	150.6
- Other business	294.8	300.5
- Unallocated assets	176.1	144.7
- Consolidation adjustments	176.0	102.6
<b>Total assets</b>	<b>15,192.3</b>	<b>16,083.4</b>
<b>Segment liabilities</b>		
- Life business	13,937.1	14,879.7
- Unit trust business	162.8	130.1
- Other business	63.4	76.1
- Unallocated liabilities	196.4	318.2
- Consolidation adjustments	324.6	236.8
<b>Total liabilities</b>	<b>14,684.3</b>	<b>15,640.9</b>
<b>Capital expenditure</b>		
- Other business	5.9	6.5
<b>Depreciation expense</b>		
- Other business	3.8	2.2
<b>Amortisation expense</b>		
- Life business – DAC	46.8	38.6
- Life business – acquired value of in-force business	3.3	3.3
- Unit trust business - DAC	8.9	6.8



## 5. INCOME TAXES

	Year Ended 31 December 2008	Year Ended 31 December 2007
	£' Million	£' Million
<b>Policyholder tax</b>		
Overseas withholding taxes	22.5	12.4
Deferred tax on eligible unrelieved foreign tax	(8.4)	-
Deferred tax on unrelieved expenses		
- Current year credit	(2.8)	(7.5)
- Prior year credit	-	(30.4)
Deferred tax on unrealised gains in unit linked funds	(120.1)	(23.2)
UK corporation tax		
- Current year charge	1.5	55.8
- Prior year credit	(4.8)	-
<b>Total policyholder tax (credit)/charge for the year</b>	<b>(112.1)</b>	<b>7.1</b>
<b>Shareholder tax</b>		
UK corporation tax		
- Current year charge	0.8	4.6
- Prior year charge	(2.6)	1.0
- Overseas taxes	2.0	2.2
	0.2	7.8
Deferred tax on pension business losses		
- Current year credit	(2.5)	-
- Prior year credit	(3.4)	-
Deferred tax charge on other items	19.3	10.2
<b>Total shareholder tax charge for the year</b>	<b>13.6</b>	<b>18.0</b>

The prior year credit in 2007 for deferred tax on unrelieved expenses relates to the change in basis of valuation for tax relief from a market consistent stochastic model to the recognition of deferred tax on the entire balance of unrelieved expenses.

In addition, where deferred tax balances represent future adjustments at the policyholder rate, these are recognised as policyholder items.

The change in the corporation tax rate from 30% to 28% effective from 1 April 2008 included in the 2007 Finance Act has been incorporated into the deferred tax balances.

The policyholder tax rate differential relates to the effect of the difference between the shareholder tax rate of 28.5% and the policyholder tax rate of 20%.

## 6. EARNINGS PER SHARE

	Year Ended 31 December 2008	Year Ended 31 December 2007
	Pence	Pence
Basic earnings per share	14.2	16.8
Adjustments	-	-
Basic adjusted earnings per share	<u>14.2</u>	<u>16.8</u>
Diluted earnings per share	14.1	16.1
Adjustments	-	-
Diluted adjusted earnings per share	<u>14.1</u>	<u>16.1</u>

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

	Year Ended 31 December 2008	Year Ended 31 December 2007
	£' Million	£' Million
<b>Earnings</b>		
Profit after tax ( <i>for both basic and diluted EPS</i> )	67.1	78.1
Adjustments	-	-
Adjusted profit ( <i>for both basic and diluted EPS</i> )	<u>67.1</u>	<u>78.1</u>
<b>Weighted average number of shares</b>		
Weighted average number of ordinary shares in issue ( <i>for basic EPS</i> )	473.6	465.6
Adjustments for outstanding share options	2.5	20.4
Weighted average number of ordinary shares ( <i>for diluted EPS</i> )	<u>476.1</u>	<u>486.0</u>

## 7. DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2008	Year Ended 31 December 2007	Year Ended 31 December 2008	Year Ended 31 December 2007
	Pence per share	Pence per share	£' Million	£' Million
Final dividend in respect of previous financial year	2.55	2.15	12.1	10.0
Special dividend in respect of previous financial year	-	6.35	-	29.4
Interim dividend in respect of current financial year	<u>1.84</u>	<u>1.75</u>	<u>8.7</u>	<u>8.3</u>
<b>Total</b>	<u><b>4.39</b></u>	<u><b>10.25</b></u>	<u><b>20.8</b></u>	<u><b>47.7</b></u>

The Directors have recommended a final dividend of 2.55 pence per share (2007: 2.55 pence). This amounts to £12.2 million (2007: £12.1 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 13 May 2009 to those shareholders on the register as at 6 March 2009.

## 8. INSURANCE CONTRACT LIABILITIES

	<u>2008</u>	<u>2007</u>
	£' Million	£' Million
Balance at 1 January	405.4	374.3
Movement in unit linked liabilities	(53.3)	26.3
Movement in non-unit linked liabilities		
- New business	0.3	(2.6)
- Existing business	(0.7)	3.4
- Other assumption changes	(1.3)	(6.0)
- Experience variance	<u>(12.0)</u>	<u>10.0</u>
Total movement in non-unit linked liabilities	<u>(13.7)</u>	<u>4.8</u>
<b>Balance at 31 December</b>	<b><u>338.4</u></b>	<b><u>405.4</u></b>
Unit linked	280.5	333.8
Non-unit linked	<u>57.9</u>	<u>71.6</u>
	<u>338.4</u>	<u>405.4</u>
Current	48.8	56.4
Non current	<u>289.6</u>	<u>349.0</u>
	<u>338.4</u>	<u>405.4</u>

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

## Assumptions used in the calculation of liabilities

The principal assumptions used in the calculation of the liabilities are:

<u>Assumption</u>	<u>Description</u>														
Interest rate	The valuation interest rate is calculated by reference to the long term gilt yield at 31 December 2008 and the specific gilts backing the liabilities. The specific rates used are between 2.0% and 3.4% depending on the tax regime (3.2% and 4.6% at 31 December 2007).														
Mortality	Mortality is based on company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. There has been no change since 2006.														
Morbidity – Critical Illness	Morbidity is based on company experience. The shape and level are unchanged since last year. Sample annual rates per £ for a male non-smoker are: <table border="1" data-bbox="552 787 974 924"> <thead> <tr> <th><u>Age</u></th> <th><u>Rate</u></th> </tr> </thead> <tbody> <tr> <td>25</td> <td>0.000703</td> </tr> <tr> <td>35</td> <td>0.001235</td> </tr> <tr> <td>45</td> <td>0.002953</td> </tr> </tbody> </table>	<u>Age</u>	<u>Rate</u>	25	0.000703	35	0.001235	45	0.002953						
<u>Age</u>	<u>Rate</u>														
25	0.000703														
35	0.001235														
45	0.002953														
Morbidity – Permanent Health Insurance	Morbidity is based on company experience. The shape and level are unchanged since last year. Sample annual rates per £ income benefit p.a. for a male non-smoker are: <table border="1" data-bbox="552 1102 974 1239"> <thead> <tr> <th><u>Age</u></th> <th><u>Rate</u></th> </tr> </thead> <tbody> <tr> <td>25</td> <td>0.00510</td> </tr> <tr> <td>35</td> <td>0.01345</td> </tr> <tr> <td>45</td> <td>0.02918</td> </tr> </tbody> </table>	<u>Age</u>	<u>Rate</u>	25	0.00510	35	0.01345	45	0.02918						
<u>Age</u>	<u>Rate</u>														
25	0.00510														
35	0.01345														
45	0.02918														
Expenses	Contract liabilities are calculated allowing for the actual costs of administration of the business. The assumption has been increased to allow for inflation but is otherwise unchanged. <table border="1" data-bbox="552 1386 1104 1554"> <thead> <tr> <th rowspan="2"><u>Product</u></th> <th colspan="2"><u>Annual Cost</u></th> </tr> <tr> <th><u>2008</u></th> <th><u>2007</u></th> </tr> </thead> <tbody> <tr> <td>Investment bonds</td> <td>£21.10</td> <td>£20.65</td> </tr> <tr> <td>Pension business</td> <td>£41.39</td> <td>£40.48</td> </tr> <tr> <td>Protection business</td> <td>£33.01</td> <td>£32.38</td> </tr> </tbody> </table>	<u>Product</u>	<u>Annual Cost</u>		<u>2008</u>	<u>2007</u>	Investment bonds	£21.10	£20.65	Pension business	£41.39	£40.48	Protection business	£33.01	£32.38
<u>Product</u>	<u>Annual Cost</u>														
	<u>2008</u>	<u>2007</u>													
Investment bonds	£21.10	£20.65													
Pension business	£41.39	£40.48													
Protection business	£33.01	£32.38													

Persistency Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have been changed in 2008.

<u>2008</u>	<u>Protection lapses</u>		
	<u>Year 1</u>	<u>Year 5</u>	<u>Year 10</u>
Protection	7%	9%	8%
<u>2007</u>	<u>Year 1</u>	<u>Year 5</u>	<u>Year 10</u>
Protection	14%	14%	11%

### Sensitivity analysis

The table below sets out the sensitivity of the profit and net assets to key assumptions. The analysis reflects the change in the variable / assumption shown while all other variables / assumptions are left unchanged. In practice variables / assumptions may change at the same time as some may be correlated (for example, an increase in interest rates may also result in an increase in expenses if the increase reflects higher inflation). It should also be noted that in some instances sensitivities are non-linear.

Sensitivity analysis	Change in assumption	Change in profit before tax 2008	Change in profit before tax 2007	Change in net assets 2008	Change in net assets 2007
	%	£' Million	£' Million	£' Million	£' Million
Withdrawal rates	-10%	(2.9)	(2.3)	(2.3)	(1.9)
Expense assumptions	-10%	1.5	1.3	1.2	1.0
Mortality / morbidity	-5%	0.4	0.8	0.3	0.6

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

### 9. OTHER PROVISIONS

	Endowments	Office Restructuring	Other Provisions	Total
	£' Million	£' Million	£' Million	£' Million
At 1 January 2008	<b>0.5</b>	<b>3.7</b>	<b>1.1</b>	<b>5.3</b>
Charged to the consolidated income statement	(0.3)	-	-	(0.3)
Additional provisions	-	1.0	6.9	7.9
<b>At 31 December 2008</b>	<b>0.2</b>	<b>4.7</b>	<b>8.0</b>	<b>12.9</b>
Current	0.2	1.3	8.0	9.5
Non current	-	3.4	-	3.4
	0.2	4.7	8.0	12.9

The endowments provision relates to the cost of redress for mortgage endowment complaints. The provision is based on estimates of the total number of complaints expected to be upheld, the average cost of redress and the estimated timing of settlement.

The office restructuring provision represents the expected amounts payable under a number of non-cancellable operating leases for office space that the Group no longer occupies. The provision is based on estimates of the rental payable until the approximate dates on which the Group expects either to have sublet the affected space or to have reached break clauses within the relevant lease agreements and after making appropriate allowance for the time value of money.

£6.9 million (2007: £nil) of other provisions is an amount relating to a forthcoming goodwill payment to be made to clients who were impacted by the recent closure of the Enhanced Fund within the AIG Premier Access Bond and AIG Bond products. The remaining £1.1 million (2007: £1.1 million) relates to sundry miscellaneous items.

## 10. SHARE CAPITAL

	<u>Number of Ordinary Shares</u>	<u>Share Capital £' Million</u>
At 1 January 2007	463,858,948	69.6
- Scrip dividend	2,422,538	0.4
- Exercise of options	<u>10,204,367</u>	<u>1.5</u>
At 31 December 2007	<b>476,485,853</b>	<b>71.5</b>
- Scrip dividend	860,179	0.1
- Exercise of options	<u>2,206,828</u>	<u>0.3</u>
<b>At 31 December 2008</b>	<b><u>479,552,860</u></b>	<b><u>71.9</u></b>

The total authorised number of ordinary shares is 605 million (2007: 605 million), with a par value of 15 pence per share (2007: 15 pence per share). All issued shares are fully paid.

## 11. RESERVES

	Share Premium	Treasury Shares Reserve	Profit and Loss Reserve	Miscellaneous Reserves	Total
	£' Million	£' Million	£' Million	£' Million	£' Million
At 1 January 2007	57.4	(10.7)	263.6	2.3	312.6
- Profit for the year			78.1		78.1
- Dividends			(47.7)		(47.7)
- Issue of share capital					
- Scrip dividend	10.3				10.3
- Exercise of options	14.5				14.5
- Consideration paid for own shares		(10.3)			(10.3)
- Own shares vesting charge		2.8	(2.8)		-
- P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust			1.0		1.0
- P & L reserve credit in respect of share option charges			12.5		12.5
At 31 December 2007	82.2	(18.2)	304.7	2.3	371.0
- Profit for the year			67.1		67.1
- Dividends			(20.8)		(20.8)
- Issue of share capital					
- Scrip dividend	2.0				2.0
- Exercise of options	2.1				2.1
- Consideration paid for own shares		(0.3)			(0.3)
- Own shares vesting charge		5.5	(5.5)		-
- P & L credit in respect of proceeds from exercise of share options of shares held in trust			0.1		0.1
- P & L reserve credit in respect of share option charges			14.9		14.9
At 31 December 2008	86.3	(13.0)	360.5	2.3	436.1

Miscellaneous reserves represent other non-distributable reserves that arose from Group restructurings prior to the 1997 acquisition of St. James's Place Wealth Management plc by St. James's Place plc.

## 12. RELATED PARTY TRANSACTIONS

The Company and the Group have entered into related party transactions with HBOS plc ("HBOS"), various subsidiaries of HBOS and the Directors of the Company and the Group. HBOS, which owns 60% of the Company's share capital, is the ultimate controlling party of the Group.

## Transactions with HBOS and HBOS group companies

The following transactions were carried out, on an arm's length basis, with HBOS and its subsidiaries during the year:

- Commission of £2.9 million (2007: £5.1 million) was receivable from the sale of banking services for St. James's Place Bank (a division of Halifax plc).
- Commission of £0.9 million (2007: £1.2 million) was receivable from the sale of Stakeholder pensions offered by Clerical Medical.
- Commission of £4.0 million (2007: 8.2 million) was receivable from the sale of Halifax, Bank of Scotland and Birmingham Midshires mortgages.
- Commission of £0.7 million (2007: £0.5 million) was receivable from the Bank of Scotland Annuity Service.
- Commission of £53,000 (2007: £78,000) was receivable from Bank of Scotland in respect of corporate banking income.
- In 2007, HBOS provided a guarantee at a cost of £0.3 million to the Group's reassurers in respect of the Group's obligations in relation to a financial reinsurance arrangement. No equivalent arrangement was in place in 2008.
- During the year, deposits were placed with Bank of Scotland on normal commercial terms. At 31 December 2008 these deposits amounted to £34.9 million (2007: £54.0 million)
- Amounts lent by, or assigned to, the Bank of Scotland to members of the St. James's Place Partnership, under guarantee by SJP, totalled £65.3 million (2007: £64.1 million)
- Fees of £20,680 (2007: £23,098) were payable to Insight Investment Management Limited in respect of investment management services to a number of SJP life, pension and unit trust funds. The outstanding balance payable at 31 December 2008 was £0 (2007: £5,748)
- Fees of £2.5 million (2007: £4.7 million) were payable to Invista Real Estate Investment Management Limited (55% owned by HBOS) in respect of investment management services for the property portfolio of the SJP UK life and pension funds. The outstanding balance payable at 31 December 2008 was £0.3 million (2007: £0.4 million)
- Tax fees of £22,637 (2007: £11,450) in respect of annual tax compliance and ad-hoc tax advice were charged by HBOS to certain St. James's Place unit trusts. These fees were borne by St. James's Place Unit Trust Group Limited rather than the unit trusts themselves.
- Fees of £50,000 (2007: £50,000) were payable to HBOS in respect of the services of non-executive SJP Board Directors
- SJP Board Directors have been included in a directors' and officers' insurance policy negotiated on a group basis by HBOS

The Company and the Group have received commission from the sale of products offered by Lloyds TSB and Lloyds TSB group companies. These amounts were determined on an arm's length basis. Following the creation of the Lloyds Banking Group, the 2009 Company and Group Financial Statements will disclose such amounts as related party transactions.

## 13. NON STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2008 or 2007, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the registrar of companies, and those for 2008 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 237 (2) or (3) of the Companies Act 1985.

## 14. ANNUAL REPORT

The Company's annual report and accounts for the year ended 31 December 2008 is expected to be posted to shareholders by 27 March 2009. 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, Dollar Street, Cirencester GL7 2AQ and through the Company's website at [www.sjp.co.uk](http://www.sjp.co.uk).



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

The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole; and

Pursuant to Disclosure and Transparency Rules, Chapter 4, the Directors' Report of the Company's annual report 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.

**D. Bellamy**  
Chief Executive

**A. Croft**  
Finance Director

On behalf of the Board

23 February 2009