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PRESS RELEASE

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ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

OPERATING PROFIT UP 12% TO £228.9 MILLION

St. James's Place Wealth Management Group, announces its annual results for the year ended 31 December 2009.

Financial Highlights:

- EEV operating profit of £228.9 million (2008: £204.3 million)
- EEV pre-tax profit of £363.2 million (2008: loss of £115.9 million)
- EEV new business profits of £155.4 million (2008: £123.5 million)
- EEV net asset value per share 284.5 pence (2008: 232.4 pence)
- IFRS profit before shareholder tax of £49.9 million (2008: £64.5 million, excluding one-offs of £16.2 million)
- IFRS net asset value per share 112.0 pence (2008: 105.9 pence)
- Proposed final dividend increased by 4% to 2.66 pence per share making a total dividend for the year of 4.5 pence (2008: 4.39 pence) up 2.5%

Other highlights include:

- Total single investments of £3.4 billion (2008: £3.1 billion) up 10%
- Net inflow of funds £2.3 billion (2008: £1.7 billion) up 35%
- Funds under management of £21.4 billion (2008: £16.3 billion) up 31%
- Partnership numbers at 1,464 up 9%, fourth consecutive year of growth

David Bellamy, Chief Executive, commented:

"Given the market conditions, I believe 2009 will come to be viewed as one of our most robust performances. Our results in 2009 show that our business proved its resilience and is in really good shape to capitalise on better times whenever they arrive.

In the meantime, the significant increase in the Partner numbers over the last four years provides a solid foundation for the further growth of our business."

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CHAIRMAN'S STATEMENT

2009 really was a year of two halves as is best illustrated by our new business results.

The first six months saw new business fall by 8% and in our interim statement we said that the Company had again demonstrated its resilience in adverse market conditions.

Stock markets recovered sharply in the second six months of the year and new business on an APE basis increased by 20% with funds under management and profits also increasing strongly. Consequently, total new business for the year grew by 5%.

Net inflows of funds last year were £2.3 billion and our funds under management ended the year at £21.4 billion, up 31% and at the highest level in our history. As a result of the new business figures, the strong net inflows and market recovery, I am pleased to announce a 12% increase in 2009 operating profits of £228.9 million on a European Embedded Value basis.

We are also delighted to announce a fourth consecutive year of strong growth in the size of the Partnership with total Partner numbers increasing by 9% to 1,464.

Financial performance

The Financial Commentary on pages 7 to 20 provides comprehensive detail on the performance of the group for the year on both the IFRS (International Financial Reporting Standards) basis and an EEV (European Embedded Value) basis.

Shareholders will recall that the Board continue to believe the EEV result provides a more meaningful measure of the Group's operating performance since it better reflects the long term nature of the business.

On an IFRS basis the operating profit, before shareholder tax, was £49.9 million compared with £64.5 million (ignoring one-off items) for the prior year. The lower profit reflects the economic conditions and in particular the impact of interest rates which significantly reduced the income received on cash balances.

EEV operating profit for the year at £228.9 million was some 12% higher than the £204.3 million for the prior year. The increase reflects the higher profit arising from new business together with the positive effect of reducing expenses.

Following the strong recovery in the world stock markets during the later part of the year we are reporting a positive EEV investment variance of £148.2 million. The corresponding figure for 2008 was a negative variance of £320.6 million which reflected the 30-40% declines in world markets in that year.

Dividend

At the half year we maintained the dividend at 1.84 pence and indicated that the level of the final dividend would depend upon our full year performance and how the economic and stock markets progressed throughout the remainder of the year together with the outlook for 2010.

In light of the performance of the business in the second half of the year the Board has recommended an increase in the final dividend of just over 4% to 2.66 pence per share. This provides for a full year dividend of 4.5 pence per share (2008: 4.39 pence per share), an increase of 2.5%.

Subject to the approval of shareholders at the Annual General Meeting the final dividend will be paid on 18 May 2010 to those on the register as at 5 March 2010. An alternative of a scrip dividend will once again be available.

Board

On 1 January 2010 Charles Gregson was appointed as an independent non-executive director and I would like to take this opportunity to welcome Charles, whose appointment will further strengthen the Board. In addition, Jo Dawson resigned from the Board as a non-executive director with effect from 5 February 2010. I would like to thank Jo for her contribution during her time on the Board.

Partners and employees

On behalf of the Board and shareholders, I would like to thank the Partnership, our employees and the staff in our administration centres for their outstanding contribution to our results last year.

The quality of our people at every level of our community is exceptional as demonstrated by their continued commitment, dedication and enthusiasm.

Mike Wilson
23 February 2010

CHIEF EXECUTIVE'S STATEMENT

At the end of my 2008 statement I said "2009 will be another challenging year" and "we will continue to demonstrate just how resilient this business is".

2009 was most certainly a challenging year. It is a tribute to the quality of our fund performance and the relationships our Partners have with their clients that we continued to attract new business and record levels of new funds under management. We grew the Partnership at the fastest rate for ten years, whilst at the same time reducing our establishment expenses and thereby increasing profits.

Given the market conditions, I believe 2009 will come to be viewed as one of our most robust performances.

New business

After a difficult first six months, where we reported an 8% fall in new business on an APE basis, we returned to growth in the second half of the year with an increase of 20%. As a result, new business for the year was up 5% and at a record level – a significant achievement given the economic backdrop. The fourth quarter in isolation saw new business up 38% on the corresponding period in 2008.

Total new funds invested, including pension business, grew by 11% to £3.46 billion and, as in the last two years, we retained over 95% of existing clients' funds during the year. We believe these are sector leading retention numbers. The combination of these two factors resulted in a net inflow of funds under management of £2.3 billion, some £600 million higher than in 2008.

The St. James's Place Partnership

The size of the Partnership grew by 9% in 2009. This represents the fourth year of strong growth and is the highest annual growth in the Partnership for ten years, bringing the total to 1,464 at the end of the year.

As well as recruiting quality businesses to the St. James's Place Partnership, of equal importance is the retention of existing Partners and we have once again retained over 90% of those Partners who were with us at the start of the year.

Whilst productivity per Partner for the whole year dipped a little compared to the previous year, we saw strong productivity gains in the final quarter giving us confidence that we can expect further improvements as markets recover.

Our academy initiative progresses well with 20 individuals graduating to join the Partnership during the current year. While we will continue to develop this initiative and expect a further intake during 2010, we intend to utilise some of the existing training resource to meet the professional qualification requirements of the Retail Distribution Review ("RDR").

We continue to see a very active market place for good advisers and expect St. James's Place to continue to attract the highest quality advisers who are seeking a strong and stable home.

Investment Management

The world's stock markets initially started 2009 on a positive footing, but soon went into decline as global economic worries and concerns about the banking sector resurfaced. Consequently, the FTSE 100 fell 20% by March. Since that low point, markets recovered somewhat with the FTSE 100 ending the year up 22%. With that as the backdrop, we were delighted to see our funds under management increase by 31% to £21.4 billion by the end of the year, their highest ever level.

The growth in funds under management was fuelled by a combination of new investments and the performance of our funds, with the positive growth achieved by the markets during 2009 reflected in the return on our funds, enabling them to recover some of the losses seen in 2008. Looking at the long term performance, in every rolling 5 year period since 2002, over 70% of our clients' money has performed above the average of their respective peer group.

We continued to evolve our fund range and during the year we launched an Investment Grade Corporate Bond fund managed by Paul Reed and Paul Causer of Invesco Perpetual and in September we announced some changes to our existing range. John Wood of JO Hambro Capital Management, and Peg McGetrick of Liberty Square Asset Management were appointed as managers of our UK and General Progressive Unit Trust, whilst Stuart Mitchell of SW Mitchell Capital and Kenneth Broekaert of Burgundy Asset Management were appointed as managers of our Greater European Progressive Unit Trust.

Towards the end of the year we appointed our own Chief Investment Officer, Chris Ralph, and increased the membership and experience of the Investment Committee with the appointment of Vivian Bazalgette and Peter Dunscombe. I would like to take this opportunity to welcome all three of them to our community.

Looking forward, and to complement our existing fund range, in April we will be launching some new funds including an Emerging Market fund and a Global Bond fund. Further new investment funds are being developed to be added to the range later in the year.

Our Clients

As I have said in previous statements, we strive to build long term relationships with clients through the St. James's Place Partnership. We do this by providing them with ongoing face to face advice, delivering above average investment performance over the medium term and maintaining regular contact with them.

Successfully maintaining these relationships and building on them is crucial to the success of this business. We measure this in two ways: firstly by looking at our retention rates, which as I mentioned earlier, are amongst the best within our peer group. Secondly, from the feedback we receive from clients and here again we're pleased with the results from our regular surveys which show high levels of satisfaction.

In addition to survey results, it is always pleasing to receive external recognition and we were delighted to be awarded the **"Wealth Manager of the Year"** for the second year running from the *Financial Times/Investors Chronicle.* We also received the award for **"Best Wealth Manager for IHT and Succession Planning"** and the **"Best Wealth Manager for Investments".** These are awards voted for by clients.

Alongside these, the highly respected *Management Today* issued their annual league table of **"Britain's Most Admired Companies**" towards the end of the year and St. James's Place was ranked **"51st Most admired Company in Britain"** up from 67th in 2008.

Foundation and Community

Raising funds for our Foundation and supporting those who are less fortunate remains an important ethos within the St. James's Place culture.

Despite the economic climate, 2009 was another exceptional year for the Foundation with our community raising, including the matching by the company, in excess of £2.6 million. This brings the total raised over the last 18 years to £18.0 million.

The funds raised have enabled the Foundation to continue to support hundreds of grants to smaller charities and also to commit to larger projects.

In 2009 a new Hydrotherapy Pool for the Children's Trust at Tadworth, which we committed to fund last year, was completed. This will benefit children with severe brain disorders for many years to come.

Our most recent donation to Hope and Homes has been to commit nearly £1 million to build the St. James's Place "Ray of Hope" centre in the Ukraine. The centre will be a focal point for children, giving them and young mothers community support when they need it, whilst at the same time showing the local authorities an alternative to the institutions so common in the old eastern block.

On behalf of the trustees I would like to thank all members of the St. James's Place community and those suppliers who have generously supported the Foundation during 2009.

Retail Distribution Review

In our Interim Statement in 2009 we reported that the Financial Services Authority had published a Consultation Paper on proposed regulatory changes, commonly referred to as the Retail Distribution Review ("RDR").

Whilst the final details of the proposals, due to take effect in 2013, will not be known until later this year, we do know that changes affecting the whole of the industry are inevitable. In anticipation of this, we have begun to embrace some aspects of the proposals, particularly those linked to the further demonstration of the Partnership's professionalism, and the Partnership is now working towards achieving the new qualification levels expected of them. We will keep shareholders abreast of our progress and of any changes resulting from the RDR once we know more.

Outlook

The current economic climate remains uncertain, and the recovery is fragile, but we begin 2010 with a little more optimism and confidence than last year.

Having said that, we can all expect to see further tax changes (some of which have already been announced), will also experience a General Election, and anticipate some further changes to the regulatory regime as mentioned above.

Clearly, we cannot predict the outcome of these changes, but we do know from our results in 2009 that our business has proved resilient and is in really good shape to capitalise on better times, whenever they arrive. In the meantime, the significant increase in Partner numbers over the last four years provides a solid foundation for the further growth of our business.

David Bellamy
23 February 2010

FINANCIAL COMMENTARY

In a year of economic turbulence St. James's Place has demonstrated both resilience as markets fell and strength as markets recovered.

Overview of results

Despite the difficult economic environment and turbulent world stock markets new business for the year was up 5% whilst retention of existing clients' investments improved further from an already very strong position. The combination of both the new business and retention led to net inflows of funds under management of £2.3 billion, which was 35% higher than the prior year. Overall net inflows amounted to some 14% of opening funds.

Establishment expenses were down 4% for the year, which helped the Group achieve a record new business margin and improved profitability across most of our financial measures.

Solvency remained strong throughout the year benefiting from our prudent investment policy. The cash result for the year at £23.5 million was similar to the £24.1 million for 2008.

The International Financial Reporting Standards ("IFRS") profit before shareholders tax for the year at £49.9 million was lower than the prior year principally reflecting lower interest income, together with some one off impacts in the comparative period.

The European Embedded Value ("EEV") operating profit at £228.9 million was up 12% in the year whilst the strong recovery in the world stock markets resulted in a total pre-tax result of £363.2 million compared with a loss for the prior year of £115.9 million.

In light of the performance of the business the final dividend was increased by 4% to 2.66 pence per share.

Presentation of the financial performance of the business

Our business is long term in nature with an initial investment required to acquire new business and with shareholder cash returns emerging over time. Therefore the performance of the business is presented on three bases; IFRS, EEV and a cash result.

The EEV result recognises the long term nature of the emergence of shareholder cash returns by reflecting the net present value of these future cash flows.

The cash result is a measure of the underlying cash generated by the business. The result is a combination of the cash arising from the business in force at the start of the year less the costs incurred to acquire the business in the current year. In effect a proportion of the cash generated from the in force business is re-invested to acquire future cash returns from the new business added during the year.

The aim of the IFRS result is to smooth the recognition of profit from new business and spread the benefit over the life of the contracts. Therefore the result does not reflect the full impact of the new business in a particular year.

The EEV result provides a measure of the future shareholder value added from the new business in a particular year, whilst the cash result provides a measure of the capital that has been generated for shareholders in the year (a factor in determining the dividend). We believe it is these two measures, and not the IFRS result, that best represent shareholder value.

Sections 1-3 provide a commentary on the performance of the business on these bases whilst Section 4 covers other matters of interest to shareholders.

SECTION 1: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS Result

The IFRS result is shown on pages 38 to 54.

As noted above the aim of the IFRS approach is to smooth the emergence of profit from the business and spread the benefit over the life of the contracts and therefore does not reflect the impact of the higher new business during the year. Consequently IFRS is not the best measure of the underlying cash generated by the business (see the cash result presentation in Section 3) nor the true economic value of the expected future cash flows (see the EEV presentation in Section 2).

A further complication in the presentation of results for life insurers is that IFRS requires the pre-tax profit of the life business be 'grossed up' for policyholder tax, with the corresponding amount then being deducted within the tax charge. The table below shows the profit before shareholder tax, which reflects the IFRS result after eliminating this policyholder tax 'gross up'. This figure is the best measure of shareholder return from the business in the year based on the IFRS result.

	Year Ended 31 December 2009 £' Million	Year Ended 31 December 2008 £' Million
Life business	53.6	83.2
Unit trust business	16.8	18.1
Other	(20.5)	(20.6)
Profit before shareholder tax	49.9	80.7
Policyholder tax	(21.4)	(112.1)
Total pre-tax profit / (loss)	28.5	(31.4)
Policyholder tax	21.4	112.1
Shareholder tax	(10.1)	(13.6)
Profit after tax	39.8	67.1

The profit before shareholder tax at £49.9 million for the current year was lower than the £80.7 million for 2008. The prior year comparative included a one-off £16.2 million in the life business and excluding this amount the like for like comparative was £64.5 million, £14.6 million higher than 2009.

This £14.6 million variance is driven by the fall in interest income of £17.0 million partly offset by a £6.3 million reduction in the cost of expensing share options.

Life Business

The current year life business pre-tax profit of £53.6 million was lower than the prior year £83.2 million.

The 2008 IFRS result included a one-off £16.2 million of tax related benefit which included £7.0 million for the impact of establishing an internal reassurance company. Excluding this one-off the prior year comparative profit was £67.0 million.

Economic conditions also affected the IFRS result and in particular the lower interest rates impacted interest income in the life businesses which was some £7.3 million lower in the current year. The balance of the difference relates to a number of small negative items relating to insurance reserves.

Unit Trust Business

The pre-tax operating profit for the unit trust business was £16.8 million compared with £18.1 million for the prior year.

IFRS treatment of unit trust business requires both income from initial charges and some initial expenses be deferred. Since the amount of income deferred exceeds the expenses, the increase in new business has resulted in an IFRS new business strain compared to the prior year. This has more than offset a small increase in underlying cashflow.

Other

Other Business contributed a loss of £20.5 million (2008: loss of £20.6 million). Within this figure the cost of share options for the year was lower at £8.6 million compared to £14.9 million for 2008.

This reduction in costs was offset by reduced investment income in 2009 being some £9.2 million lower reflecting the lower prevailing interest rates.

Profit before shareholder tax

Due to the factors outlined above the total profit before shareholder tax for the year was £49.9 million, down from the £80.7 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 £21.4 million (2008: £112.1 million credit).

This movement is predominantly driven by the 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.

Taking account of the policyholder pre-tax movement, the pre-tax result for the year was a profit of £28.5 million compared with a loss for the prior year of £31.4 million.

Analysis of constituent parts of the IFRS post tax profit

The table below provides additional disclosure to assist in the understanding of the IFRS result. The starting point for the analysis is the cash result shown in Section 3.

		2009			2008		
	Note	**In Force**	**New Business**	**Total**	In Force	New Business	Total
		£'m	£'m	£'m	£'m	£'m	£'m
Cash result	1	88.8	(65.3)	23.5	91.4	(67.3)	24.1
DIR amortisation	2	64.4	4.4	68.8	57.6	4.4	62.0
DAC amortisation	3	(49.0)	(4.4)	(53.4)	(41.4)	(4.4)	(45.8)
PVIF amortisation	4	(2.6)	-	(2.6)	(2.4)	-	(2.4)
DIR on new business	2	-	(86.3)	(86.3)	-	(77.4)	(77.4)
DAC on new business	3	-	105.1	105.1	-	100.0	100.0
Share options	5	(8.6)	-	(8.6)	(14.9)	-	(14.9)
IFRS deferred tax impacts	6	(4.2)	-	(4.2)	16.5	-	16.5
Other IFRS	7	(2.5)	-	(2.5)	5.0	-	5.0
IFRS profit (post tax)		**86.3**	**(46.5)**	**39.8**	**111.8**	**(44.7)**	**67.1**
Shareholder tax	8	-	-	10.1	-	-	13.6
Effective shareholder tax rate				*20.2%*			*16.9%*
IFRS operating profit		**-**	**-**	**49.9**	**-**	**-**	**80.7**

The post tax IFRS profit arising from the in-force business in the last year decreased from £111.8 million to £86.3 million.

The loss associated with acquiring new business during the year was £46.5 million (2008: loss of £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 deferred acquisition cost ("DAC") and deferred income ("DIR") in subsequent years.

Notes:

1. See explanation 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 £64.4 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 2010 is £71.0 million.

(b) The deferral of the initial profit associated with new business sales in the year. In 2009 the deferred profit reduced the IFRS result by £86.3 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 £49.0 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 2010 is £55.2 million.

(b) The deferral of the specific acquisition costs incurred in the current year. In 2009 this deferral increased IFRS profits by £105.1 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 2010 is expected to be £2.8 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 expected future tax impacts not recognised in the cash result. In 2008 this adjustment reflected a number of positive one-offs, including £7 million of anticipated benefit from the establishment of an internal reassurance company. In 2009 £4 million of this benefit has been realised, increasing cash and decreasing IFRS deferred tax.

7. Other IFRS: this adjustment offsets strains emerging in the cash result. These strains move opposite to the stock market and normally the impact would be small. However the significant stock market movements recently have resulted in more significant adjustments in the last few 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:

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' Million	£' Million
Purchased value of in-force*	39.0	41.6
Deferred acquisition costs*	473.7	417.7
Deferred income*	(327.3)	(305.4)
Other IFRS net assets	91.1	94.1
Solvency assets	263.3	260.0
Total IFRS net assets	539.8	508.0

*Net of deferred tax

	Year Ended 31 December 2009	Year Ended 31 December 2008
	Pence	Pence
Net asset value per share	112.0	105.9

SECTION 2: EUROPEAN EMBEDDED VALUE

The new business of the group is long-term investments and pension business where shareholder cash flow emerges over time. The EEV result reflects the net present value of those future cashflows, calculated using accepted actuarial techniques.

As the EEV result reflects the long term shareholder value we believe this is the most meaningful measure of the Group's operating performance. The EEV result is shown on pages 27 to 37.

The table below summaries the profit of the combined life and unit trust business.

	Year Ended 31 December 2009 £' Million	Year Ended 31 December 2008 £' Million
Life business	175.1	174.1
Unit trust business	74.3	50.8
Other	(20.5)	(20.6)
Operating profit	**228.9**	**204.3**
Investment return	148.2	(320.6)
Economic assumption changes	(13.9)	0.4
Total pre-tax result	363.2	(115.9)
Tax	(98.1)	28.5
Post tax result	265.1	(87.4)

The group operating profit at £228.9 million increased 12% over the corresponding figure for 2008, the increase principally reflects a higher new business profit resulting from the record new business margin. In addition our retention of client money improved over the year from the already very strong position, providing for a positive experience variance.

The recovery in the world stock markets resulted in a higher than assumed investment return and therefore a positive investment variance partly reversing the significant negative investment variance in 2008. Total pre-tax profit for the year was £363.2 million which compares to a pre-tax loss in 2008 of £115.9 million.

Life Business

Operating profit increased from £174.1 million to £175.1 million. A full analysis of the result is shown on page 33 and the principal movements are commented on below.

The **new business profit** increased from £93.0 million to £106.3 million reflecting an increase in the new business margin due to the higher level of new business together with lower expenses.

The expected profit for the year, the so called **unwind of the discount rate,** at £63.7 million was at a similar level of £63.4 million for the prior year.

The assumed **investment income** at £4.8 million for the year was in line with the £4.9 million last year reflecting the continuing low interest rate environment.

The **experience variance** during the year increased operating profit by £2.6 million (2008: £13.7 million). The prior year experience variance included a positive one-off experience variance of £11.2 million resulting from the establishment of an internal reassurance company to reassure all future pensions business. The amount reflected the anticipated earlier utilisation of existing pension tax losses. Excluding this one-off item both the current year and prior year experience variance was a small positive of c£2.5 million.

In my interim commentary I indicated that a change in taxation of overseas dividends from 1 July 2009 could lead to a write-off of an £8.6 million tax asset in the second half of the year. I am pleased to say that the final year end tax position proved to be better than expected and the amount we were required to write off was only £1.7 million.

There was a small loss of £2.3 million (2008 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 increased to £74.3 million from £50.8 million and a full analysis of the unit trust result is shown on page 33.

Similar to the life business, the operating profit is principally higher due to the increase in the **new business profit,** which at £49.1 million was higher than the £30.5 million for the prior year. This significant increase in the new business profit reflects the 30% higher new business.

The expected profit or **unwind of the discount rate** at £14.6 million was lower than last year's £17.1 million.

There was a positive **experience variance** of £9.0 million in the current year principally reflecting the stronger retention than assumed in the embedded value calculation. The experience variance for the prior year was a positive £3.2 million.

There was a small profit of £0.8 million (2008: nil) from operating assumption changes which have been made to the calculation of the embedded value.

Other

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

Investment Return and Economic Assumption Changes

Variations from the assumed level of stock market growth, both positive and negative, impact the expected future annual management charges (and therefore profits) the business will earn. The capitalised effect of any such variation on the future annual management fees (and profits) is shown in the analysis of the embedded value movement for the year as an investment variance. The strong recovery in the world stock markets in the second half of the year resulted in a positive **investment variance** of £148.2 million for the year, reflecting the 15.7% growth in the MSCI £ World Index over the same period. In 2008 there was a large negative investment variance of £320.6 million reflecting the significant fall in world stock markets and property prices during that year (the MSCI £ World Index fell 17.9% in 2008).

The **economic assumptions** used in the projection of the cash flows have resulted in loss of £13.9 million for the year compared with a profit of £0.4 million for the prior year. The current year loss principally reflects an increase in the rate of inflation implied by 10 year index linked gilts from 1.7% to 3.2%. The increase in expected inflation impacts the expected future costs of maintaining the in force business.

Total pre-tax result for the year was a profit of £363.2 million compared with a loss of £115.9 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 $1/10^{th}$ 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.

	2009	2008
Life business		
New business contribution (£' m)	106.3	93.0
APE (£'m)	351.6	350.5
Margin (%)	30.2	26.5
PVNBP (£'m)	2,764.1	2,520.4
Margin (%)	3.8	3.7
Unit trust business		
New business contribution (£' m)	49.1	30.5
APE (£'m)	89.2	68.5
Margin (%)	55.0	44.6
PVNBP (£'m)	892.2	685.0
Margin (%)	5.5	4.5
Total business		
New business contribution (£' m)*	155.4	123.5
APE (£'m)	440.8	419.0
Margin (%)	35.3	29.5
PVNBP (£'m)	3,656.3	3,205.3
Margin (%)	4.3	3.9

* New business contribution is calculated as the gross margin of £277.3 million (2008: £250.2 million) from new business sales less the direct expenses of £121.9 million (2008: £126.7 million), as can be seen in the expenses table in Section 4.

The new business margin on an APE basis has increased significantly over the year from 29.5% to 35.3%, a record high. The improvement reflects the higher new business volumes, the higher proportion of manufactured business, good retention and strong control of establishment expenses.

The PVNBP new business margin has increased from 3.9% to 4.3% and reflects the higher new business volumes and the lower expenses. The PVNBP calculation only includes our manufactured business, as we do not apply these principles to the non-manufactured business.

Analysis of the Embedded Value and Net Asset per Share

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

	Year Ended 31 December 2009 £' Million	Year Ended 31 December 2008 £' Million
Value of in-force		
- Life	886.6	702.2
- Unit trust	221.5	152.1
Solvency assets	263.3	260.0
Total embedded value	1,371.4	1,114.3

	Year Ended 31 December 2009	Year Ended 31 December 2008
	Pence	Pence
Net asset value per share	284.5	232.4

SECTION 3: CASH RESULT AND CAPITAL

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

Cash result

The cash result of the business in the year is a measure of the underlying shareholder cash generated by the business and is a factor in determining the dividend.

The cash result is the combination of the cash profit arising from the business in force at the start of the year less the costs incurred to acquire the business in the current year. In effect the Group is re-investing a proportion of the cash generated from the in force business to acquire future cash generation from the new business added during the year. In other words cash returns are deferred in order to build a growing stream of future income and therefore future dividends for shareholders.

In 2009 the cash generated from the in force business at £88.8 million was at a similar level to the £91.4 million in the prior year. While the cost of acquiring the new business at £65.3 million was £2.0 million lower than in 2008. The EEV post tax new business profit arising from the new business added during the year was £115.0 million and represents the net present value of the expected future shareholder cash flows after deducting this cost of investment.

The cash result for the year was £23.5 million (2008: £24.1 million) and the tables and commentary below provides an indicative analysis of the sources of this cash result:

2009	Note	Arising from business in-force at 1 January	Arising from new business in year	Total
		£'million	£'million	£'million
Net annual management fee	1	119.9	13.2	133.1
Unwind of surrender penalties	2	(40.8)	(4.4)	(45.2)
Margin arising from new business	3	-	(12.0)	(12.0)
Establishment expenses	4	(6.9)	(62.1)	(69.0)
Shareholder interest (regulated companies)	5	3.0	-	3.0
Shareholder interest (non-regulated companies)	5	1.7	-	1.7
Miscellaneous	6	11.9	-	11.9
Post tax cash flow		88.8	(65.3)	23.5

2008	Note	Arising from business in-force at 1 January	Arising from new business in year	Total
		£'million	£'million	£'million
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)
Shareholder interest (regulated companies)	5	10.1	-	10.1
Shareholder interest (non-regulated companies)	5	6.9	-	6.9
Miscellaneous	6	11.5	-	11.5
Post tax cash flow		91.4	(67.3)	24.1

Notes

The cash result is unaudited and differs from the IFRS result as it removes the non-cash items such as the DAC, DIR and the cost of expensing share options.

1. The net annual management fee 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 and therefore the net annual management fee will increase or decrease in line with funds under management. Over the course of 2009 funds under management have benefited from the new money invested by clients and the strong recovery in the level of the word stock markets.

   The income for the year at £133.1 million was up 9% over the prior year.

2. Unwind of surrender penalty relates to the reserving methodology applied to the surrender penalties within the charging structure of the single premium life and pension plans. At the outset of these plans 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.

   This cash outflow has increased from £44.4 million to £45.2 million due to net inflows and the increase in the level of the stock markets.

3. The margin arising from new business reflects the net cash impact of the new business contribution less the associated directly attributable expenses. The negative cash flow increased in the year to £12.0 million (2008: £10.0 million) as a result of higher pension business in the year.

4. Establishment expenses are the post tax expenses of running the Group's infrastructure. During 2009 these expenses were 4% lower than the prior year at £69.0 million (2008: £72.2 million).

5. Shareholder interest is the income accruing on the investments and cash held by the group and is shown separately for both the regulated and non-regulated companies. Given the lower prevailing interest rates in the year the combined level of income has fallen from £17.0 million to £4.7 million.

6. Miscellaneous represents the cash result of the business not covered in any of the other categories. It will include miscellaneous product charges, reserving changes, experience variances and the income (excluding interest) and expenses included within the Other operations of the business.

The miscellaneous cash result for the current year at £11.9 million was at a similar level to the prior year. As noted last year, 2008 benefited from a number of one-offs, including a £7.4 million positive tax impact. 2009 has also benefited from one-offs, including a positive £2.5 million reduction in insurance reserves due to stock market increases, and a positive £4.0 million emerging from an internal reassurance company that we established during 2008. Ordinarily shareholders should expect a small positive miscellaneous cash result.

Capital Position

The capital position of the Group, assessing solvency assets and required capital on an entity basis, 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 UK government backed 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
	£'Million	£'Million	£'Million	£'Million
Solvency position				
Solvency net assets	124.7	19.8	118.8	263.3
Solvency requirement	42.5	13.3		
Solvency ratio	293%	149%		
Analysis of solvency net assets				
UK Govt gilts	50.2	-	-	50.2
Other Govt backed debt	3.1	-	-	3.1
AAA rated money market funds	110.0	21.3	31.8	163.1
Bank balances	24.3	28.2	14.8	67.3
Fixed assets	-	-	10.4	10.4
Actuarial reserves	(20.5)	-	-	(20.5)
Other assets / liabilities	(42.4)	(29.7)	61.8	(10.3)
Solvency net assets	124.7	19.8	118.8	263.3
Reconciliation to IFRS net assets				
Solvency net assets	124.7	19.8	118.8	263.3
- Purchased VIF	39.0	-	-	39.0
- DAC and DIR	157.1	(10.8)	-	146.3
- Other	91.2	-	-	91.2
Total IFRS net assets	412.0	9.0	118.8	539.8

Solvency II

The European Commission is continuing to develop the detail of the new Solvency II regime, due to be implemented in 2012. This will result in significant changes to accounting for insurance business with the underlying aim of better reflecting the inherent risk. Because of the low risk, unit-linked nature of our insurance business, we believe that Solvency II should have a positive impact on our business, however, until the actual rules are finalised it is not possible to confirm. We will continue to monitor development of the solvency standards and track the implications for the business.

Share options maturity

The Group has share options outstanding under the various share option schemes at 31 December 2009, amounting to 31.0 million (31 December 2008: 32.9 million). As can be seen from the table below if exercised they will provide a source, up to £69.5 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**	**Number of Share options outstanding**	**Potential Proceeds**
	£'s	Million	£' Million
Prior to 1 Jan 2010	2.28	28.5	64.9
Jan – Jun 2010	2.59	0.6	1.6
Jul – Dec 2010	2.62	0.2	0.4
Jan – Jun 2011	2.14	0.1	0.2
Jul – Dec 2011	-	-	-
Jan – Jun 2012	1.50	1.6	2.4
		31.0	69.5

Of those options with an earliest date of exercise prior to 1 January 2010, 2.5 million options require further performance conditions to be met before vesting unconditionally.

SECTION 4: OTHER MATTERS

As usual 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 2009 £' Million	Year Ended 31 December 2008 £' Million
Paid from policy margins			
Partner remuneration	1	190.0	176.9
Investment expenses	1	75.4	59.6
Third party administration	1	30.0	27.8
		295.4	264.3
Direct expenses			
Other new business related costs	2	41.9	42.2
Establishment costs	3	93.3	97.6
Contribution from third party product sales	4	(13.3)	(13.1)
		121.9	126.7
		417.3	391.0

I am pleased to say that despite the very strong 9% growth in the Partnership, which increases the infrastructure costs, we were able to reduce the establishment costs by over 4% during 2009.

We expect establishment expenses for 2010 to be at a similar level to the current year which means these expenses will remain well below the 2008 level despite the increase in the size of the Partnership and higher new business since that year.

In addition in 2010 we will incur expenditure of some £4.0 million as a result of a significant change in our investment proposition together with some £2.0 million of costs associated with the advancing the Partnership towards full Diploma status as commented upon in the Chief Executive's statement.

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 Partner 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 £4.3 million (2008: £5.4 million), sales of stakeholder products of £0.9 million (2008: £1.1 million) and sales through the Protection Panel of £8.1 million (2008: £6.6 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 has improved marginally over 2008.

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£'billion	£'billion
Opening funds under management	16.3	18.2
New money invested	3.5	3.0
Investment return	2.8	(3.6)
	22.6	17.6
Regular income withdrawals / maturities	(0.4)	(0.4)
Surrenders / part surrenders	(0.8)	(0.9)
Closing funds under management	21.4	16.3
Implied surrender rate as % of average funds under management	4.0%	5.2%

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.

Net inflow of funds under management

The table below shows the net inflow of funds under management and the inflow as a percentage of opening funds under management.

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' billion	£'billion
Net inflow of funds under management	2.3	1.7
Inflow as % of opening funds under management	14.1%	9.3%

The net inflow of funds for the year, at £2.3 billion, was 35% higher than the prior year and amounted to some 14% of opening fund under management.

After reading this statement I hope shareholders will agree with my opening remark that the business demonstrated both resilience in the first half of the year whilst in the second half of the year our business recovered strongly.

Andrew Croft
23 February 2010

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, contributes to our competitive advantage and helps us to achieve our business objectives.

In the following sections we outline the framework for the management of risk in the Group. We provide detail on the main strategic risks facing the business and associated management activity, followed by individual sections on:

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

This information is an integral part of the audited financial statements.

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.

Some examples of activities that our Risk Appetite Statement currently explicitly inhibits are:

- Providing guarantees on investment returns or options for unit-linked funds;
- Manufacturing any general insurance or lending products, or assuming insurance or credit risk arising from them, other than PI insurance manufacture through the captive arrangement; and
- The sale of with-profits business.

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 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. The Risk Committee is made up 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, emerging and topical 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 within SJP 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 risks and uncertainties facing the business, and the high level controls and processes through which we aim to mitigate these risks are:

Risk	Description	Management
Distribution capability	The Group's distribution strength may be eroded due to an inability to recruit and retain Partners of the appropriate quality.	We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality, experienced Partners. All recruitment and retention activity is closely monitored.
Investment Management Approach	Our approach to investment management may fail to deliver expected returns to clients of the Group.	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	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	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	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.
Economic environment	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.

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. The Group accepts the risk associated with the level of future profits.

Management of market risks

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

Risk	Description	Management
Shareholder funds	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	As a result of a reduction in equity values the group may be unable to meet client liabilities	There is no risk to the Group in this area as market risk is borne by clients. This has been achieved by the Group's strategic focus on unit-linked business.
Tax	In adverse market conditions, when the Group is realising investment losses rather than gains, the working of the I-E tax regime can lead to short term capital inefficiencies including deferral of cash benefit of tax relief on expenses.	The tax position is monitored closely.
Retention	Adverse market conditions lead to clients withdrawing their funds.	Retention of funds is monitored closely. Currently retention has remained consistently high at 95%.
New Business	Poor performance in the stockmarket 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.

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 risks

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.

Risk	Description	Management
Shareholders 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	Loans are managed in line with the Secured Lending Policy. All loans are explicitly or implicitly secured on the future renewals income stream 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. Appropriate provision is made where impairment risk is high.

Liquidity Risk

The Group adopts a risk averse approach to liquidity risk, with a policy of not actively pursuing liquidity risk except where necessary to support other objectives. The Group is subject to minimal liquidity risk since it maintains a high level of liquid assets to meet its liabilities rather than relying on recourse to the market.

Currency Risk

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 has no longevity risk or annuity business.

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

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

Category	Essential Terms	Risks Generated	Client Guarantee
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 risks

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

Risk	Description	Management
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 reassurance.
Expense	Administration costs exceed expense allowance	Administration is outsourced and a tariff of costs is agreed. The contract is monitored regularly to rationalise costs incurred. Internal overhead expenses are monitored and closely managed.
Persistency	Loss of product margins due to higher than anticipated lapses	Lapse rates are monitored and unexpected experience is investigated.

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, only actively pursuing where necessary to support other objectives, and seeks to manage it through outsourcing and close management of the Partnership. Operational risks that could affect SJP include:

- 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 risks
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.

Risk	Description	Management
Advice	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 professionalism, proposals to split the market and implications for advised sales.	Strategic plans in place to move Partnership towards achieving Diploma status ahead of 2012 deadline and to manage the outcome of the adviser charging review.
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 STATEMENT OF INCOME

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' Million	£' Million
Life business	175.1	174.1
Unit trust business	74.3	50.8
Other	(20.5)	(20.6)
Operating profit	228.9	204.3
Investment return variances	148.2	(320.6)
Economic assumption changes	(13.9)	0.4
EEV profit / (loss) on ordinary activities before tax	363.2	(115.9)
Taxation		
Life business	(67.5)	11.6
Unit trust business	(32.7)	13.2
Other	2.1	3.7
	(98.1)	28.5
EEV profit / (loss) on ordinary activities after tax	265.1	(87.4)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2009 £' Million	Year Ended 31 December 2008 £' Million
Opening equity shareholders' funds on an EEV basis	**1,114.3**	**1,203.3**
Post tax profit / (loss) for the year	265.1	(87.4)
Issue of share capital	4.6	4.5
P & L reserve credit in respect of share option charges	8.6	14.9
P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust	0.1	0.1
Dividends paid	(21.0)	(20.8)
Consideration paid for own shares	(0.3)	(0.3)
Closing equity shareholders' funds on an EEV basis	**1,371.4**	**1,114.3**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2009	31 December 2008
	£' Million	£' Million
Assets		
Intangible assets		
Deferred acquisition costs	642.4	564.9
Value of long-term business in-force		
- long-term insurance	649.1	495.8
- unit trusts	221.5	152.1
	1,513.0	1,212.8
Property & equipment	10.4	12.2
Deferred tax assets	187.0	143.7
Investment property	401.7	410.6
Investments	16,384.2	11,440.3
Reinsurance assets	36.8	32.2
Insurance and investment contract receivables	17.4	14.9
Income tax assets	18.6	32.4
Other receivables	235.0	229.9
Cash & cash equivalents	1,711.1	2,253.5
Total assets	**20,515.2**	**15,782.5**
Liabilities		
Insurance contract liabilities	388.1	338.4
Other provisions	4.8	12.9
Financial liabilities	16,997.0	13,244.2
Deferred tax liabilities	172.7	152.7
Insurance and investment contract payables	21.5	22.9
Deferred income	401.1	372.6
Income tax liabilities	14.5	27.6
Other payables	142.4	161.1
Net asset value attributable to unit holders	1,001.7	335.8
Total liabilities	**19,143.8**	**14,668.2**
Net assets	**1,371.4**	**1,114.3**
Shareholders' equity		
Share capital	72.3	71.9
Share premium	90.5	86.3
Other reserves	1,208.6	956.1
Total shareholders' equity	**1,371.4**	**1,114.3**
	Pence	Pence
Net assets per share	284.5	232.4

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

I. BASIS OF PREPARATION

The supplementary information on pages 27 to 37 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% (2008: 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 2009 are set out below:

	Year Ended 31 December 2009	Year Ended 31 December 2008
Risk free rate	4.2%	3.5%
Inflation rate	3.2%	1.7%
Risk discount rate (net of tax)	7.3%	6.6%
Future investment returns:		
- Gilts	4.2%	3.5%
- Equities	7.2%	6.5%
- Unit linked funds		
- Capital growth	3.4%	2.6%
- Dividend income	3.1%	3.3%
- Total	6.5%	5.9%
Expense inflation	3.9%	2.7%

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

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

(b) Experience Assumptions

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

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

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

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

(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 2009 £' Million	Year Ended 31 December 2008 £' Million
New business contribution	1	106.3	93.0
Profit from existing business			
Unwind of discount rate		63.7	63.4
Experience variances		2.6	13.7
Operating assumption changes		(2.3)	(0.9)
Investment income		4.8	4.9
Operating profit before tax		**175.1**	**174.1**
Investment return variances		104.0	(223.0)
Economic assumption changes		(12.1)	0.9
Profit / (loss) before tax		**267.0**	**(48.0)**
Attributed tax		(67.5)	11.6
Profit / (loss) after tax		**199.5**	**(36.4)**

Note 1: New business contribution after tax is £79.7 million (2008: £69.7 million)

(b) Unit Trust Business

	Note	Year Ended 31 December 2009 £' Million	Year Ended 31 December 2008 £' Million
New business contribution	1	49.1	30.5
Profit from existing business			
Unwind of discount rate		14.6	17.1
Experience variances		9.0	3.2
Operating assumption changes		0.8	-
Investment income		0.8	-
Operating profit before tax		**74.3**	**50.8**
Investment return variances		44.2	(97.6)
Economic assumption changes		(1.8)	(0.5)
Profit / (loss) before tax		**116.7**	**(47.3)**
Attributed tax		(32.7)	13.2
Profit / (loss) after tax		**84.0**	**(34.1)**

Note 1: New business contribution after tax is £35.3 million (2008: £22.0 million)

(c) Combined Life and Unit Trust Business

	Note	Year Ended 31 December 2009	Year Ended 31 December 2008
		£' Million	£' Million
New business contribution	1	155.4	123.5
Profit from existing business:			
Unwind of discount rate		78.3	80.5
Experience variances		11.6	16.9
Operating assumption changes		(1.5)	(0.9)
Investment income		5.6	4.9
Operating profit before tax		**249.4**	**224.9**
Investment return variances		148.2	(320.6)
Economic assumption changes		(13.9)	0.4
Profit / (loss) before tax		**383.7**	**(95.3)**
Attributed tax		(100.2)	24.8
Profit / (loss) after tax		**283.5**	**(70.5)**

Note 1: New business contribution after tax is £115.0 million (2008: £91.7 million).

(d) Detailed Analysis

In order to better explain the movement in capital flows, the components of the EEV profit for the year ended 31 December 2009 are shown separately between the movement in IFRS net assets and the present value of the in-force business (VIF) in the table below. All figures are shown net of tax.

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(50.5)	165.5	115.0
Profit from existing business	102.0	(102.0)	-
Unwind of discount rate	-	58.2	58.2
Experience variances	7.8	0.8	8.6
Operating assumption changes	(7.5)	6.0	(1.5)
Investment return	4.4	-	4.4
Investment return variances	(0.2)	109.9	109.7
Economic assumption changes	2.2	(13.1)	(10.9)
Miscellaneous	(18.4)	-	(18.4)
Profit after tax	**39.8**	**225.3**	**265.1**

The comparative figures for 2008 are as follows:

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' 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)
Profit after tax	**67.1**	**(154.5)**	**(87.4)**

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.

	Note	Change in new business contribution Pre-tax	Change in new business contribution Post-tax	Change in European Embedded Value Post-tax
		£' Million	£' Million	£' Million
Value at 31 December 2009		**155.4**	**115.0**	**1,371.4**
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	0.2	0.1	5.7
10% reduction in withdrawal rates		16.5	12.2	65.5
10% reduction in expenses		3.3	2.5	18.6
10% reduction in market value of equity assets	2	-	-	(122.4)
5% reduction in mortality and morbidity	3	-	-	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 reassurers 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 Pre-tax	Change in new business contribution Post-tax	Change in European Embedded Value Post-tax
	£' Million	£' Million	£' Million
100bp reduction in risk discount rate	23.9	17.7	91.2

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

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

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' Million	£' Million
IFRS profit/(loss) before tax	**28.5**	**(31.4)**
Movement in life value of in-force	234.8	(19.1)
Movement in unit trust value of in-force	99.9	(65.4)
Total EEV profit/(loss) before tax	**363.2**	**(115.9)**

	31 December 2009	31 December 2008
	£' Million	£' Million
IFRS net assets	**539.8**	**508.0**
Less: acquired value of in-force	(54.1)	(57.7)
Add: deferred tax on acquired value of in-force	15.1	16.1
Add: life value of in-force	649.1	495.8
Add: unit trust value of in-force	221.5	152.1
EEV net assets	**1,371.4**	**1,114.3**

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

	31 December 2009	31 December 2008
	£' Million	£' Million
Life company estimated free assets	**82.2**	**110.8**
Estimated required life company solvency capital	42.5	41.1
Other subsidiaries, consolidation and IFRS adjustments	415.1	356.1
IFRS net assets	**539.8**	**508.0**

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' Million	£' Million
Life company estimated free assets at 1 January	**110.8**	**100.5**
Investment in new business	(65.2)	(66.0)
Profit from existing business	78.6	74.0
Dividends paid	(44.4)	-
Investment return	3.8	3.9
Movement in required solvency capital	(1.4)	(1.6)
Life company estimated free assets at 31 December	**82.2**	**110.8**

CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year Ended 31 December 2009	Year Ended 31 December 2008
		£' Million	£' Million
Insurance premium income		85.5	93.8
Less premiums ceded to reinsurers		(30.5)	(33.9)
Net insurance premium income		55.0	59.9
Fee and commission income		101.2	102.1
Other investment return		2,706.1	(2,390.8)
Other operating income		0.9	6.6
Net income	4	2,863.2	(2,222.2)
Policy claims and benefits			
- Gross amount		(55.4)	(53.2)
- Reinsurers' share		22.1	21.0
Net policyholder claims and benefits incurred		(33.3)	(32.2)
Change in insurance contract liabilities			
- Gross amount		(49.7)	67.0
- Reinsurers' share		4.6	(0.7)
Net change in insurance contract liabilities		(45.1)	66.3
Investment contract benefits		(2,364.9)	2,536.2
Fees, commission and other acquisition costs		(273.3)	(258.4)
Administration expenses		(114.5)	(117.7)
Other operating expenses		(3.6)	(3.4)
		(391.4)	(379.5)
Operating profit/(loss) and profit/(loss) before tax	4	28.5	(31.4)
Tax on policyholders' return	5	21.4	112.1
Tax on shareholders' return	5	(10.1)	(13.6)
Total tax credit	5	11.3	98.5
Profit for period		**39.8**	**67.1**
Other comprehensive income, net of tax		**-**	**-**
Total comprehensive income for the period		**39.8**	**67.1**
		Pence	Pence
Basic earnings per share	6	8.3	14.2
Diluted earnings per share	6	8.2	14.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Treasury Shares Reserve	Retained Earnings	Miscellaneous Reserves	Total
	£'Million	£' Million	£' Million	£' Million	£' Million	£' Million
At 1 January 2008	71.5	82.2	(18.2)	304.7	2.3	442.5
Total comprehensive income for the period				67.1		67.1
- Dividends				(20.8)		(20.8)
- Issue of share capital						
- Scrip dividend	0.1	2.0				2.1
- Exercise of options	0.3	2.1				2.4
Consideration paid for own shares			(0.3)			(0.3)
Own shares vesting charge			5.5	(5.5)		-
P&L reserve 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	71.9	86.3	(13.0)	360.5	2.3	508.0
Total comprehensive income for the period				39.8		39.8
- Dividends				(21.0)		(21.0)
- Issue of share capital						
- Scrip dividend	0.1	1.4				1.5
- Exercise of options	0.3	2.8				3.1
Consideration paid for own shares			(0.3)			(0.3)
Own shares vesting charge			5.6	(5.6)		-
P&L reserve 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				8.6		8.6
At 31 December 2009	72.3	90.5	(7.7)	382.4	2.3	539.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2009 £' Million	31 December 2008 £' Million
Assets			
Intangible assets			
- Deferred acquisition costs		642.4	564.9
- Acquired value of in force business		54.1	57.7
		696.5	622.6
Property & equipment		10.4	12.2
Deferred tax assets		187.0	143.7
Investment property		401.7	410.6
Investments			
- Equities		12,361.4	9,190.5
- Fixed income securities		2,249.5	1,009.9
- Investment in Collective Investment Schemes		1,753.7	1,239.4
- Currency forwards		19.6	0.5
Reinsurance assets		36.8	32.2
Insurance and investment contract receivables		17.4	14.9
Income tax assets		18.6	32.4
Other receivables		235.0	229.9
Cash & cash equivalents		1,711.1	2,253.5
Total assets		**19,698.7**	**15,192.3**
Liabilities			
Insurance contract liabilities	8	388.1	338.4
Other provisions	9	4.8	12.9
Financial liabilities			
- Investment contracts		16,994.4	13,109.8
- Borrowings		2.6	7.8
- Currency forwards		-	126.6
Deferred tax liabilities		187.8	168.8
Insurance and investment contract payables		21.5	22.9
Deferred income		401.1	372.6
Income tax liabilities		14.5	27.6
Other payables		142.4	161.1
Net asset value attributable to unit holders		1,001.7	335.8
Total liabilities		**19,158.9**	**14,684.3**
Net assets		**539.8**	**508.0**
Shareholders' equity			
Share capital	10	72.3	71.9
Share premium		90.5	86.3
Other reserves		(5.4)	(10.7)
Retained earnings		382.4	360.5
Total shareholders' equity		**539.8**	**508.0**
		Pence	Pence
Net assets per share		112.0	105.9

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' Million	£' Million
Cash flows from operating activities		
Profit /(loss) before tax for the period	28.5	(31.4)
Adjustments for:		
Depreciation	3.4	3.8
Amortisation of acquired value of in-force business	3.6	3.3
Fair value gains on non-operating investments	(0.1)	(0.1)
Share based payment charge	8.6	14.9
Changes in operating assets and liabilities		
Increase in deferred acquisition costs	(77.5)	(80.3)
Decrease in investment property	8.9	231.9
(Increase) / decrease in investments	(4,943.9)	1,159.6
(Increase) / decrease in reassurance assets	(4.6)	0.7
(Increase) / decrease in insurance and investment contract receivables	(2.5)	3.1
Increase in other receivables	(16.5)	(88.5)
Increase / (decrease) in insurance contract liabilities	49.7	(67.0)
(Decrease) / increase in provisions	(8.1)	7.6
Increase / (decrease) in financial liabilities (excluding borrowings)	3,849.6	(1,012.9)
(Decrease) / increase in insurance and investment contract payables	(1.4)	1.1
Increase in deferred income	28.5	24.8
(Decrease) / increase in other payables	(31.6)	37.5
Increase in net assets attributable to unit holders	665.9	68.2
Cash generated from operations	**(439.5)**	**276.3**
Income taxes received / (paid)	12.2	(31.9)
Net cash from operating activities	**(427.3)**	**244.4**
Cash flows from investing activities		
Acquisition of property & equipment	(2.7)	(5.9)
Proceeds from sale of plant & equipment	1.1	0.3
Net cash from investing activities	**(1.6)**	**(5.6)**
Cash flows from financing activities		
Proceeds from the issue of share capital	4.6	4.5
Consideration paid for own shares	(0.3)	(0.3)
Proceeds from exercise of options over shares held in trust	-	0.1
Repayment of borrowings	(5.2)	(3.4)
Dividends paid	(21.0)	(20.8)
Net cash from financing activities	**(21.9)**	**(19.9)**
Net (decrease) / increase in cash & cash equivalents	**(450.8)**	**218.9**
Cash & cash equivalents at 1 January	2,253.5	1,929.2
Effect of exchange rate fluctuations on cash held	(91.6)	105.4
Cash & cash equivalents at 31 December	**1,711.1**	**2,253.5**

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

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 2009 mandatory for accounting periods beginning on or before 1 January 2009.

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 consistent with those applied in preparing the statutory accounts for the year ended 31 December 2008.

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

Estimates

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

- determining the value of insurance contract liabilities;
- deciding the amount of management expenses that are treated as acquisition expenses;
- amortisation and recoverability of deferred acquisition costs and deferred income;
- determining the fair value, amortisation and recoverability of acquired in-force business; and
- determining the fair value liability to policyholders for capital losses in unit funds.

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 2009 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.

Greater detail on the assumptions applied is shown in Note 8.

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 (DAC) and Deferred Income (DIR)

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.

Valuing capital losses in unit funds

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

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

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

4. SEGMENT REPORTING

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Due to the nature of the Group's internal reporting, there is considered to be no difference between the previous segments reported under business and geographical segments and those now required to be reported under the new Standard. The Group's reportable segments under IFRS 8 are therefore as follows:

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

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

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

Separate geographical segmental information is not presented since the Group does not segment its business geographically, its customers being based and its assets managed predominantly in the United Kingdom.

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

Segment Income
Annual Premium Equivalents ("APE")

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

	Year Ended 31 December 2009 £' Million	Year Ended 31 December 2008 £' Million
Life business	310.9	288.6
Unit Trust business	89.2	68.5
Other business	40.7	61.9
Total APE	**440.8**	**419.0**
Adjustments to IFRS basis		
Life Business		
Exclude investment business APE	(306.2)	(281.9)
Difference between insurance business APE and premium receivable	80.8	87.1
Less insurance premium income ceded to reinsurers	(30.5)	(33.9)
Net movement on deferred income	(5.5)	(7.9)
Investment income (primarily in unit linked funds)	2,523.3	(2,322.2)
Unit trust business		
Exclude unit trust APE	(89.2)	(68.5)
Fee income (dealing profit and management fees)	89.6	81.4
Net movement on deferred income	(23.0)	(16.8)
Investment income	0.4	2.5
Other business		
Difference between APE and income receivable	(0.6)	(16.5)
Investment income on third party holdings in consolidated unit trusts	180.1	(77.7)
Other investment income	2.3	6.6
Other operating income	0.9	6.6
Total adjustments	2,422.4	(2,641.2)
Net income	**2,863.2**	**(2,222.2)**

All revenue is generated by external customers and there are no transactions between operating segments.

Segment Profit
European Embedded Value ("EEV") Operating Profit before tax

EEV Operating Profit before tax is monitored on a monthly basis by the chief operating decision maker. The components of the EEV Operating Profit are included in more detail in the EEV basis section within this announcement.

	Year Ended 31 December 2009 £' Million	Year Ended 31 December 2008 £' Million
Life business	175.1	174.1
Unit Trust business	74.3	50.8
Other business	(20.5)	(20.6)
EEV operating profit before tax	**228.9**	**204.3**
Investment return variance	148.2	(320.6)
Economic assumption changes	(13.9)	0.4
EEV profit / (loss) before tax	363.2	(115.9)
Adjustments to IFRS basis		
Movement in life value of in-force	(234.8)	19.1
Movement in unit trust value of in-force	(99.9)	65.4
IFRS profit / (loss) before tax	**28.5**	**(31.4)**

The segmental analysis for profit before tax on an IFRS basis is as follows:

	Year Ended 31 December 2009 £' Million	Year Ended 31 December 2008 £' Million
Life business		
- shareholder	53.6	83.2
- policyholder tax gross up	(21.4)	(112.1)
Unit trust business	16.8	18.1
Other business	(20.5)	(20.6)
Operating profit/(loss) and profit/(loss) before tax	**28.5**	**(31.4)**

Included within both the EEV and IFRS profit before tax are the following:

	Year Ended 31 December 2009 £'Million	Year Ended 31 December 2008 £'Million
Interest income	4.0	17.5
Depreciation	3.4	3.8

Segment Assets

Funds under management ("FUM")

FUM within the St. James's Place Group are monitored on a monthly basis by the chief operating decision maker.

	31 December 2009 £' Million	31 December 2008 £' Million
Total FUM	**21,400.0**	**16,300.0**
Exclude external holdings in non consolidated unit trusts	(3,207.2)	(2,645.2)
Add balance sheet liabilities in unit linked funds	49.0	209.5
Adjustments for other balance sheet assets excluded from FUM		
DAC	642.4	564.9
PVIF	54.1	57.7
Property & equipment	10.4	12.2
Deferred tax assets	187.0	143.7
Fixed income securities	53.3	49.2
Collective investment schemes	163.7	173.8
Reinsurance assets	36.8	32.2
Insurance and investment contract receivables	17.4	14.9
Income tax assets	18.6	32.4
Other receivables	146.6	140.6
Cash & cash equivalents	67.2	61.7
Other adjustments	59.4	44.7
Total adjustments	**(1,701.3)**	**(1,107.7)**
Total assets	**19,698.7**	**15,192.3**

5. INCOME TAXES

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' Million	£' Million
Policyholder tax		
Overseas withholding taxes	16.1	22.5
Deferred tax on eligible unrelieved foreign tax	8.4	(8.4)
Deferred tax on unrelieved expenses		
- Current year credit	(3.4)	(2.8)
- Prior year credit	5.4	-
Deferred tax on unrealised gains and capital losses in unit linked funds	(42.4)	(120.1)
UK corporation tax		
- Current year charge	-	1.5
- Prior year credit	(5.5)	(4.8)
Total policyholder tax credit for the year	**(21.4)**	**(112.1)**
Shareholder tax		
UK corporation tax		
- Current year charge (28%)	3.0	0.8
- Prior year charge (28.5%)	(1.1)	(2.6)
- Overseas taxes	0.4	2.0
	2.3	0.2
Deferred tax on pension business losses		
- Current year credit	1.1	(2.5)
- Prior year credit	(2.7)	(3.4)
Deferred tax charge on other items		
- Current year charge	10.1	19.3
- Prior year credit	(0.7)	-
Total shareholder tax charge for the year	**10.1**	**13.6**

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

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' Million	£' Million
Reconciliation of tax charge		
Profit / (loss) before tax	28.5	(31.4)
Tax at 28% (2008: 28.5%)	8.0	(8.9)
Effects of:		
Deferred tax on unrelieved expenses current year	(3.4)	(2.8)
Deferred tax on unrelieved expenses prior year	5.4	-
Overseas withholding tax in unit linked funds	10.0	12.9
Deferred tax in respect of unit linked funds	(30.6)	(86.8)
Shareholder deduction for policyholder tax	1.5	(0.4)
Adjustments to reserves	1.2	0.6
Policyholder tax rate differential	4.5	(6.1)
Prior year items	(9.9)	(10.9)
Change in tax rate	-	(0.3)
Other adjustments	2.0	4.2
Total tax credit for the year	**(11.3)**	**(98.5)**

The policyholder tax rate differential relates to the effect of the difference between the shareholder tax rate of 28% and the policyholder tax rate of 20%.

6. EARNINGS PER SHARE

	Year Ended 31 December 2009	Year Ended 31 December 2008
	Pence	Pence
Basic earnings per share	8.3	14.2
Diluted earnings per share	8.2	14.1

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

	Year Ended 31 December 2009	Year Ended 31 December 2008
	£' Million	£' Million
Earnings		
Profit after tax (*for both basic and diluted EPS*)	39.8	67.1
Adjustments	-	-
Adjusted profit (*for both basic and diluted EPS*)	39.8	67.1
Weighted average number of shares		
Weighted average number of ordinary shares in issue *(for basic EPS)*	477.3	473.6
Adjustments for outstanding share options	6.7	2.5
Weighted average number of ordinary shares *(for diluted EPS)*	484.0	476.1

7. DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2009	Year Ended 31 December 2008	Year Ended 31 December 2009	Year Ended 31 December 2008
	Pence per share	Pence per Share	£' Million	£' Million
Final dividend in respect of previous financial year	2.55	2.55	12.2	12.1
Interim dividend in respect of current financial year	1.84	1.84	8.8	8.7
Total	**4.39**	**4.39**	**21.0**	**20.8**

The Directors have recommended a final dividend of 2.66 pence per share (2008: 2.55 pence). This amounts to £12.8 million (2008: £12.2 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 18 May 2010 to those shareholders on the register as at 5 March 2010.

8. INSURANCE CONTRACT LIABILITIES

	2009	2008
	£' Million	£' Million
Balance at 1 January	338.4	405.4
Movement in unit linked liabilities	41.3	(53.3)
Movement in non-unit linked liabilities		
- New business	0.2	0.3
- Existing business	(1.7)	(0.7)
- Other assumption changes	3.4	(1.3)
- Experience variance	6.5	(12.0)
Total movement in non-unit linked liabilities	8.4	(13.7)
Balance at 31 December	**388.1**	**338.4**
Unit linked	321.8	280.5
Non-unit linked	66.3	57.9
	388.1	338.4
Current	66.9	48.8
Non current	321.2	289.6
	388.1	338.4

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

Assumptions used in the calculation of liabilities

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

Assumption	Description
Interest rate	The valuation interest rate is calculated by reference to the long term gilt yield at 31 December 2009 and the specific gilts backing the liabilities. The specific rates used are between 3.0% and 4.1% depending on the tax regime (2.1% and 3.4% at 31 December 2008).
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 is unchanged since last year, but the level has been increased by 9%. Sample annual rates per £ for a male non-smoker are:

Age	Rate 2009	Rate 2008
25	0.000760	0.000703
35	0.001334	0.001235
45	0.003189	0.002953

Assumption	Description
Morbidity Permanent Health Insurance	Morbidity is based on company experience. The shape is unchanged since last year, but the level has been increased by 9%. Sample annual rates per £ income benefit p.a. for a male non-smoker are:

Age	Rate 2009	Rate 2008
25	0.00548	0.00510
35	0.01447	0.01345
45	0.03138	0.02918

Assumption	Description
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.

Product	Annual Cost 2009	Annual Cost 2008
Protection business	£34.22	£33.01

Assumption	Description
Persistency	Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2009. Sample annual lapse rates are:

2008 & 2009	Lapses Year 1	Lapses Year 5	Lapses Year 10
Protection	7%	9%	8%

Sensitivity analysis

The table below sets out the sensitivity of the profit on insurance business 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 2009	Change in profit before tax 2008	Change in net assets 2009	Change in net assets 2008
	%	£' Million	£' Million	£' Million	£' Million
Withdrawal rates	-10%	(3.4)	(2.9)	(2.6)	(2.3)
Expense assumptions	-10%	1.5	1.5	1.2	1.2
Mortality / morbidity	-5%	0.4	0.4	0.3	0.3

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 2009	**0.2**	**4.7**	**8.0**	**12.9**
Charged to the consolidated income statement	(0.1)	(1.1)	(7.6)	(8.8)
Additional provisions	-	0.7	-	0.7
At 31 December 2009	**0.1**	**4.3**	**0.4**	**4.8**
Current	0.1	3.0	0.4	3.5
Non current	-	1.3	-	1.3
	0.1	4.3	0.4	4.8

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.

The remaining £0.4 million (2008: £8.0 million) relates to sundry miscellaneous items.

10. SHARE CAPITAL

	Number of Ordinary Shares	Share Capital
		£' Million
At 1 January 2008	476,485,853	71.5
- Scrip dividend	860,179	0.1
- Exercise of options	2,206,828	0.3
At 31 December 2008	**479,552,860**	**71.9**
- Scrip dividend	798,315	0.1
- Exercise of options	1,680,612	0.3
At 31 December 2009	**482,031,787**	**72.3**

The total authorised number of ordinary shares is 605 million (2008: 605 million), with a par value of 15 pence per share (2008: 15 pence per share). All issued shares are fully paid.

11. RELATED PARTY TRANSACTIONS

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

Transactions with LBG and LBG group companies

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

- Commission of £1.1 million (2008: £2.9 million) was receivable from the sale of banking services for St. James's Place Bank (a division of Halifax plc).
- Commission of £0.8 million (2008: £0.9 million) was receivable from the sale of pensions offered by Clerical Medical.
- Commission of £2.3 million (2008: £4.0 million) was receivable from the sale of Halifax, Cheltenham & Gloucester, Bank of Scotland, Birmingham Midshires, Scottish Widows and The Mortgage Business mortgages.
- Commission of £0.7 million (2008: £0.7m) was receivable from Bank of Scotland Annuity Service.
- Commission of £10,000 (2008: £53,000) was receivable from Bank of Scotland in respect of corporate banking income in 2009.
- During the year, deposits were placed with Bank of Scotland on normal commercial terms. At 31 December 2009 these deposits amounted to £46.2 million (2008: £34.9 million).
- Amounts lent by, or assigned to, the Bank of Scotland to members of the St. James's Place Partnership, under guarantee by St. James's Place, totalled £66.0 million (2008: £65.3 million).
- Amounts lent by the Bank of Scotland to the Group totalled £2.6 million (2008: £7.8 million).
- Fees of £22,000 (2008: £21,000) were payable to Insight Investment Management Limited in respect of investment management services to the St. James's Place Tracker Unit Trust. The outstanding balance payable at 31 December 2008 was £2,000 (2008: £nil).
- Fees of £1.3 million (2008: £2.5 million) were payable to Invista Real Estate Investment Management Limited (55% owned by LBG) in respect of investment management services for the property portfolio of the St. James's Place UK life and pension funds. The outstanding balance payable at 31 December 2008 was £0.5 million (2008: £0.3 million).
- Tax fees of £25,530 (2008: £22,637) in respect of annual tax compliance and ad-hoc tax advice were charged by LBG plc to certain unit trusts.

- Fees of £50,000 (2008: £50,000) were payable to LBG in respect of the services of non-executive St. James's Place Board Directors.

All of these unit trusts are managed in the United Kingdom.

12. NON STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008, but is derived from those accounts. Statutory accounts for 2008 have been delivered to the registrar of companies, and those for 2009 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

13. ANNUAL REPORT

The Company's annual report and accounts for the year ended 31 December 2009 is expected to be posted to shareholders by 12 April 2010. Copies of both this announcement and the annual report and accounts will be available to the public at the Company's registered office at St. James's Place House, 1 Tetbury Road, Cirencester GL7 1FP and through the Company's website at www.sjp.co.uk.

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

The Directors confirm to the best of their knowledge that:

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

On behalf of the Board

D Bellamy Chief Executive	A Croft Finance Director

23 February 2010