ST. JAMES'S PLACE PLC

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ST. JAMES'S PLACE WEALTH MANAGEMENT

PRESS RELEASE

22 February 2012

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

STRONG FINANCIAL PERFORMANCE AND 33% INCREASE IN THE FULL YEAR DIVIDEND

St. James's Place plc ("SJP"), the wealth management group, today announces its annual results for the year ended 31 December 2011:

Financial highlights:

- EEV new business profit of £246.0 million (2010: £217.8 million) up 13%
- EEV operating profit of £371.5 million (2010: £332.6 million) up 12%
- EEV net asset value per share of 385.0p (2010: 352.9p per share) up 9%
- IFRS profit before shareholder tax of £109.7 million (2010: £84.2 million) up 30%
- Cash result of £67.0 million (2010: £48.3 million) up 39%
- Proposed final dividend of 4.8p (2010: 3.975p) up 21%, providing for a full year dividend of 8.0p (2010: 6.0p) up 33%

Other highlights:

- Total single investments of £5.2 billion (2010: £4.75 billion) up 10%
- Net inflow of funds under management of £3.3 billion (2010: £3.0 billion) up 10%
- Funds under management of £28.5 billion (2010: £27.0 billion) up 6%
- Partnership numbers at 1,649 (2010: 1,552) up 6%
- Excellent progress on the new regulatory qualification requirement with 80% of advisers at Diploma level and a further 11% within one or two exams

David Bellamy, Chief Executive, commented:

"I am pleased to report another record year for St. James's Place in terms of new business, operating profits and funds under management as we celebrate our 20th anniversary. This performance, in market conditions that were far from helpful, is a testament to the strength of the Partnership and the breadth of our investment proposition. I'm particularly pleased with the £3.3 billion net inflows of funds which took funds under management to £28.5 billion at the year end.

The combination of growth in funds under management and their increasing maturity drive future cash flows, which is why we have been able to grow dividends by 33% in each of the last two years and have the confidence today to signal a similarly significant increase for 2012.

New business so far in this quarter is running at the same level as the final quarter of 2011 whilst funds under management have grown to £29.5 billion at the end of January. For the year as a whole, with a stronger Partnership and investment proposition, we have a good platform for further growth in new business and remain confident of continuing to achieve our 15%+ per annum targets over the longer term."

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CHAIRMAN'S STATEMENT

This is my first statement to shareholders since I assumed the Chair of the Board at the start of 2012 and I would like to start by saying how delighted and privileged I am to be Chairman of St. James's Place plc – one of the pre-eminent wealth management companies in the UK.

My second task must be to thank Mike Wilson, on behalf of shareholders and the St. James's Place community for his Chairmanship over the last seven years. Along with Sir Mark Weinberg, Mike founded the Group twenty years ago, and so it is entirely fitting that he is appointed Joint Life President alongside Sir Mark. Mike has made an invaluable contribution to St. James's Place during the last twenty years and I'm delighted that he will continue to be involved with the Group as an adviser to the St. James's Place Academy and as the Chairman of the St. James's Place Foundation.

As Chairman I am responsible for ensuring that the Board operates effectively. During the year, the outgoing Chairman Mike Wilson and I undertook a number of actions to enhance further the governance structure and thereby improve the Board's effectiveness. These included:

Succession Planning

After many years' service on the Board, Derek Netherton and Michael Sorkin retired from the Board at the end of the year and I would like to thank both of them on behalf of the Board and shareholders for their wise counsel and support during their tenure as Non-executive Directors.

During 2011, two new independent Non–executive Directors joined the Board, Vivian Bazalgette and Iain Cornish. Vivian succeeded Sir Mark Weinberg as Chairman of the Investment Committee in July 2011 and Iain's appointment in October brought deeper levels of financial services experience to the table, as well as ensuring continuity of financial expertise on the Audit Committee. Both Vivian and Iain bring a wealth of relevant experience to St. James's Place and they are already making a valuable contribution to the Group.

At this year's AGM, Roger Walsom will be stepping down after nearly seven years on the Board and we thank him for his excellent contribution also. In anticipation of this, I am delighted to inform shareholders that we will be appointing Baroness (Patience) Wheatcroft as an independent Non-executive Director in April. Patience has substantial business, board and media experience, so will further strengthen the wide range of skills on the Board.

Board Effectiveness Review

In 2011, we appointed Independent Audit to facilitate an evaluation of the effectiveness of the Board and its Committees. Independent Audit conducted interviews with all Board members, various members of the senior management team and a number of advisers, following which they prepared a report and led a Board discussion regarding their observations. It was particularly useful to gain the external perspective provided by Independent Audit and a number of actions to improve the Board's effectiveness have already been implemented.

Developments in Corporate Governance

We continue to monitor the changes to the corporate governance landscape. We were early adopters of the annual re-election requirement of the UK Corporate Governance Code. We also reviewed the recommendations of the Davies Report on diversity.

The Future

Looking ahead, some of my priorities include making sure we bed in the various recommendations made during the Board evaluation process and planning the continued development of talent within the Group to ensure we have the right skills around the table to drive forward the continued success of the Group.

Turning to the business, the overall results were once again very strong with good growth in all the key performance indicators, as David covers in his report. Despite a challenging economic environment, St James's Place has continued to grow with funds under management, the size of the Partnership and operating profits all rising over the year. Particularly encouraging for shareholders is the ongoing increase in the emergence of cash, up 39%, which together with our confidence in the outlook for the business, enables the Board to fulfil its commitment of a significant increase in the full year dividend of 33%.

Looking forward, having established the Group as a well respected and trusted provider of good quality advice and wealth management services in recent years, we now need to build on that success in the years ahead. Critical to that is the continued development and growth of the Partnership and the Group's investment proposition, whilst remaining focused on our core business principles, and the values and culture that have stood the Group in such good stead thus far.

I look forward to working with the Board in achieving these aspirations.

Charles Gregson
Chairman

21 February 2012

CHIEF EXECUTIVE'S STATEMENT

Last year, I began my statement with the words "In spite of an uncertain economic environment, 2010 proved to be an extremely good year for St. James's Place." 2011 saw the economic uncertainty continue, as the problems of the Eurozone took centre stage and stock markets exhibited considerable volatility in the second half of the year. Despite these challenges, our results in 2011 were again very good, and demonstrated another robust performance across all aspects of the business.

I will cover the results in more detail below, but before doing so, I wanted to take this opportunity to remind shareholders of the key principles which underpin our business.

Business Strategy

The Group's strategy is to attract new clients and new funds under management by providing face to face wealth management advice, based on client's individual needs and circumstances, through our dedicated advisers, the St. James's Place Partnership. Our advisers monitor and review clients' financial needs over time, adapting advice where necessary in order to ensure that recommendations remain appropriate. By focusing on getting this right, we retain both the client relationship and the funds under management for the long term.

Our business is centred on the UK, attracting clients from the mass affluent and, increasingly, the high net worth markets. And whilst the road to recovery for the UK economy remains challenging, the need for trusted financial advice is greater than ever.

We aim to grow the business by increasing funds under management through a combination of attracting new clients and new funds (new business), maintaining strong retention of existing funds under management and driving investment growth.

Since we founded the business in 1992, we have become recognised and respected as a trusted provider of good quality advice and wealth management services. Today, as we celebrate our 20th Anniversary, we manage over £28 billion of client investments for over 300,000 clients.

Measured in terms of funds under management, the business has doubled over the last five years as well as in the five years preceding that, a rate of growth which we believe we can repeat in the next five years, subject of course to the vagaries of the market. We believe that the strength of relationship between our Partners and our clients, together with our approach to investment management, leaves us uniquely positioned to continue to succeed in the wealth management market.

New Business and Funds Under Management

Turning to 2011's performance, total new funds invested were up 10% to a record £5.2 billion (2010: £4.7 billion) whilst new business measured on an Annual Premium Equivalent ("APE") basis at £642.3 million (2010: £581.8 million) was also up 10%.

Of equal importance to growing new funds under management is retaining existing client funds, and our retention experience in this regard remains very strong, resulting in a net inflow of funds for the year of £3.3 billion (2010: £3.0 billion).

Total funds under management at 31 December 2011 were £28.5 billion (2010: £27.0 billion) an increase of 6% over the year.

Financial Performance

The financial commentary on pages 10 to 31 provides an explanation of the presentation of the financial results and detail of the Group financial performance for the year.

We have achieved strong growth in all of the key profit measures as highlighted below.

IFRS (International Financial Reporting Standards) profit before shareholder tax increased during the year by 30% to £109.7 million (2010: £84.2 million) with the key driver to growth being the annual management fees resulting from the increased funds under management and the growing maturity of the business.

The EEV (European Embedded Value) operating profit at £371.5 million (2010: £332.6 million) was up 12% over the year as a result of the profit from new business, better than expected retention rates and lower ongoing administration costs.

The cash result which ultimately determines the dividend was up 39% to £67.0 million (2010: £48.3 million) reflecting the increasing maturity of funds under management.

Dividend

The main sources of income for the Group are the fees charged for advising on and managing client investments.

In the early years after taking on a client, the fees earned are used to finance the acquisition costs of the business and in helping to grow our distribution arm, the St. James's Place Partnership. Thereafter, cash flows through to the bottom line.

Indeed, the combination of the longer term nature of the business and the strong growth in new funds under management in recent years is now providing an increasing level of cash flow, over and above the cash needed for reinvestment, such that we are able to progressively grow the dividend return for shareholders.

Last year, this enabled us to announce a rebasing of the dividend over two years which resulted in a 33% increase in the 2010 full year dividend with the stated intention for a similarly significant increase in 2011.

Despite the stock market volatility seen in the second half of last year, the growth in cash earnings remained strong and the Board has therefore resolved to increase the full year dividend by 33%. Given our ongoing confidence in the profile of the cash emergence going forward shareholders can expect a similarly significant increase in the 2012 dividend, for the third consecutive year. Beyond that we hope to progressively grow the dividend in line with the underlying growth of the business.

Subject to the approval of shareholders at the Annual General Meeting, the Board proposes to increase the final dividend by 21% to 4.8 pence per share. This provides for a full year dividend of 8.0 pence per share (2010: 6.0 pence per share) up 33%, to be paid on 16 May 2012 to shareholders on the register at the close of business on 30 March 2012.

As announced in our Interim results, there will be no longer be a scrip dividend alternative but there will be a Dividend Reinvestment Plan ('DRP') available for shareholders.

Key Business Drivers

Underpinning our business results and central to achieving our medium term goals are three principal objectives. Firstly, we aim to continue the development of the Partnership both in terms of the numbers of Partners and their professionalism, year on year. Secondly, we must continue to look after our clients and meet, if not exceed, their expectations and aspirations. Thirdly, we need to ensure we continue to provide Partners and clients with the breadth in our investment proposition and the support and services necessary to enhance Partner and client relationships and grow our business.

The next few sections cover progress in these areas.

The St. James's Place Partnership

The size of the Partnership increased during the year to 1,649, growth of over 6% and in line with our stated long term objective. Over the last five years the Partnership has grown by almost 500, representing compound growth over the period in excess of 7% pa.

The market place for advisers continues to be very active at the moment and we are confident we can continue to attract the appropriate number and quality of new Partner businesses to St. James's Place. We anticipate that a small number of existing Partners will retire earlier than previously expected this year, in advance of the changes brought about by the Retail Distribution Review and consequently we expect the 2012 net growth in the Partnership to be slightly lower than recent years.

During the year, the progress made by the Partnership to achieve the new regulatory qualifications has been outstanding, with over 4,500 exams taken in 2011 resulting in over 80% of advisers achieving the Diploma qualification, and a further 11% within one or two exams.

Whilst we expect to see our main source of new advisers come from the existing market, we have proceeded to launch the second phase of the St. James's Place Academy with an investment of some £2 to 2.5 million in 2012. This initiative aims to help 'grow our own advisers' to supplement our recruitment efforts in the medium to long term. The first 'in-take' of 16 individuals following the re-launch joined the academy in January.

Our Clients

Building and maintaining long term relationships with clients is core to our business strategy and we achieve this primarily through the St. James's Place Partnership. Our Partners recognise that no one client's objectives or circumstances are the same as another. The relationships between Partners and clients endure because they are founded on mutual respect and trust, with the emphasis on building and maintaining a long term relationship. The large majority of clients choose to continue the working relationship with their Partner indefinitely, appreciating a source of trusted advice as their financial needs evolve over the years.

The success of our approach can be seen from the fact that over 90% of new investments is estimated to come from existing clients or from referrals and introductions from them and once invested, clients tend to stay invested with a retention figure of 95% excluding regular withdrawals and maturities.

The strength of these relationships is also underscored through our annual client survey, conducted by Ledbury Research, where we consistently outperform the market place on all core satisfaction metrics. Nonetheless, as in previous years, where our clients tell us that there are areas we need to improve, we will take on board the feedback and take strides to improve the client experience.

During 2012, we are looking to further enhance our client offering by again broadening our investment proposition, as detailed below, whilst at the same time developing a more bespoke Private Client service offering to include access to alternative investment offerings.

Investment Management

At the heart of the proposition to our clients is our investment management approach.

Regular readers of these reports will be familiar with the approach and will know that we believe no one institution has a monopoly on investment talent and hence we seek to find the very best investment managers from across the globe. Indeed, we have no 'in-house' investment managers.

Instead, through our Investment Committee, aided by the respected independent investment research consultants Stamford Associates, we seek to select, monitor, and if necessary change, fund managers on behalf of all of our clients.

The Investment Committee meets regularly throughout the year to review performance. If a change in the market calls for the addition of a new manager, the Committee will select one. Equally, if the Committee loses confidence in the ability of an existing manager, it will replace them.

We remain committed to monitoring and reviewing all of our fund managers to ensure we generate good returns for clients over the medium term.

New Fund Managers and Fund Manager Changes

At the beginning of 2011, we launched a range of 'model' or 'example portfolios' incorporating four growth portfolios, ranging from conservative to adventurous, and three income portfolios catering for immediate income needs through to a deferred income portfolio. These have proved to be very helpful to both Partners and clients.

During the second half of 2011, we launched a new Global Equity Fund which included the introduction of three new investment managers; New York based Tweedy, Browne Company, Sands Capital Management operating from Virginia and London based Majedie Asset Management.

In February 2012, we added two new funds to our range, a new multi-asset proposition managed by Pacific Investment Management Company (PIMCO) based in Newport Beach, California and a Global Equity Income Fund managed by Paul Boyne and Doug McGraw of Invesco Perpetual.

We also took this opportunity to extend our range of example portfolios by adding a defensive portfolio and, as part of this, an Index Linked Gilt fund managed by BlackRock.

In April this year, we will appoint Ken Buntrock of Loomis Sayles, based in Boston, to manage our Investment Grade Corporate Bond fund. At the same time we will hand over the running of the UK Growth fund to Majedie Asset Management.

Having significantly broadened our fund range over the last couple of years, we are now able to offer our clients a range of funds managed by over 30 leading fund managers from across the globe.

St. James's Place Foundation

As shareholders will know, 'giving back' and helping those less fortunate than ourselves is one of our principal beliefs and forms part of the very fabric of St. James's Place. The St. James's Place Foundation is our own charitable company and each year we set out to raise money for the Foundation in all manner of forms of sponsored events.

As well as these and many other fund raising events, over 80% of our community contribute to the Foundation on a regular monthly basis. It was very pleasing to see this recognised by the Government, with St. James's Place used as an example in last year's White Paper on Giving.

In 2011, we raised £3.1 million (2010: £2.8 million) which is a fantastic achievement and enabled us to help many charities during the year at a time when the charitable sector has been suffering funding cuts and hardship in the wake of the economic downturn.

The support we provide for the charitable sector and the engagement we have within our own community wouldn't be possible without the generous support of the Company, who on behalf of shareholders, match £1 for £1 everything that our Partners and staff raise, so can I take this opportunity to thank shareholders on behalf of our community and the charities they support.

The Community

In addition to our charitable ethos we also have a responsibility to help build strong and healthy communities in the areas where our business operates. We do this by supporting a number of local initiatives.

For the last three years we have also been supporting the Loughborough University Elite Swimming Programme with a view to this year's London Olympics. We're delighted that our support has helped and wish all the swimmers involved in the programme the best of luck at the forthcoming London Olympics.

Partners and Employees

Finally on behalf of the Board and shareholders, I would like to thank all of the members of the St. James's Place Partnership, all of our employees and the staff in our administration centres for their exceptional commitment, dedication and enthusiasm without which this strong set of results would not have been achieved.

Outlook

The growth in Partner numbers, the addition of new investment funds and the progress made in achieving the new regulatory qualification levels all bode well for the future. Consequently, while mindful of the difficult economic conditions that persist, we have a good platform for further growth in new business in 2012 and we remain confident of achieving our medium term growth objectives.

David Bellamy
Chief Executive

21 February 2012

FINANCIAL COMMENTARY

2011 has been a good year for the business, particularly so considering the difficult economic environment and the uncertainty caused by the developing Euro crisis. On the back of the 10% increase in new business, we are reporting a strong operating performance and growth in all key profit measures. Of particular note is the continuing growth in the cash emergence as the business matures.

THE FINANCIAL MODEL

As described in the Chief Executive's statement, the Group's strategy is to attract and retain retail funds under management. We then receive an annual management fee for as long as we retain the funds. As has been noted elsewhere, our retention of funds is strong due to the strength of the client relationship, and so our business is long term in nature, both from a client perspective and with regards to the income that is generated.

The annual management fee is the principal source of income for the Group. We use this to meet the overheads of the business and to pay a dividend to shareholders, but we also invest in growing the Partnership and acquiring new funds under management. Currently, a large proportion of the income generated in a year is re-invested in growing the business. The new business generated is expected to earn income for an average period of 14 years, and should provide a good return on the investment.

This cost associated with the investment in new business means the net income is correspondingly reduced, although the new funds under management added are expected to generate future returns. Management believes it is important for investors to appreciate not only the short term net income position, but also the full, long-term potential income of the business. We therefore complement our IFRS disclosure with additional disclosure on an embedded value basis (using EEV principles). This measure assesses the discounted value of all future cash flows and we believe it better reflects the full economic value of the performance of the business.

Ultimately, the business model is set to generate cash in the long term and growth in the income over the long term will ensure we are able to pay a growing dividend to shareholders. In other words, the embedded value profit we report in one year should materialise in IFRS and other measures in future years.

PRESENTATION OF FINANCIAL RESULTS

Because of the nature of the income flows of the business we present additional disclosure on an embedded value basis to complement the statutory IFRS results. Furthermore, we also provide analysis of the sources of cash emergence in the year which we refer to as the cash result. These three measures provide investors with different perspectives on the performance of the business in a particular year. We believe the additional disclosure will assist them in making their own assessment of the value of the business.

This section provides a summary of the different methods and the insight each offers:

The **IFRS result** is the approach required for statutory reporting purposes. The effect of the method is that profits are recognised in line with the provision of services and therefore are broadly in line with the cash emergence from a contract. However, for long term business it seeks to spread some of the initial cashflows over the whole duration of the contract through the use of intangible assets (known as DAC – Deferred Acquisition Costs and DIR – Deferred Income Reserve). It also recognises the value of certain future cashflows, particularly deferred tax. Since reporting of the IFRS result is a statutory requirement, it provides a measure of performance used for comparison across all companies.

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

The **cash result** measure has been developed with the aim of assisting investors seeking to understand the sources of cash emergence. It is based on IFRS, but removes non-cash items such as DAC, DIR and deferred tax. It is also adjusted to reflect the regulatory solvency constraints on profits emerging from regulated companies such as our insurance businesses. The effect is to create a measure which more reflects the underlying cash generated by the business. This should not be confused with the IFRS cash flow statement which is prepared in accordance with IAS 7 and disclosed on page 57.

Sections 1-3 below 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 the key reporting measure for satisfying the statutory reporting requirements and provides a measure of performance which recognises the emergence of profits in line with the provision of services, and is comparable with other businesses.

The IFRS result is presented both before and after tax. However, because the Group includes a UK life assurance company, the business incurs tax on behalf of policyholders as well as shareholders. The tax charge therefore includes both policyholder and shareholder tax, and the IFRS profit before tax result is reported gross of both taxes.

Since the policyholder tax charge is unrelated to the performance of the business, management believes it is useful to provide additional disclosure on the **profit before shareholder tax**. This measure is reported after adjusting for tax paid on behalf of policyholders and we believe provides the most useful measure of IFRS operating performance in the period.

The detailed IFRS result is shown on pages 54 to 73.

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Profit before tax	21.3	161.9
Policyholder tax	88.4	(77.7)
Profit before shareholder tax	109.7	84.2
Shareholder tax	(2.9)	(29.2)
Shareholder profit after tax	106.8	55.0

Profit before tax

The profit before tax for the year was £21.3 million (2010: £161.9 million). The profit before tax is reported gross of policyholder tax as well as shareholder tax. The gross up for policyholder tax has moved significantly between the periods. As a result the principal contribution to the change in profit before tax in the year is the change in the policyholder tax from a £77.7 million charge in 2010 to a credit of £88.4 million in 2011.

Policyholder tax

Policyholder tax mainly reflects the UK tax paid or payable in the future within the life business at the policyholder tax rate of 20%. Most of this tax arises on the £9.8 billion of policyholders' investment in the unit-linked life funds. The tax charge also reflects small amounts of other withholding tax incurred.

The policyholder tax principally reflects the movement in the tax provision within the policyholder unit linked funds. At the previous reporting date, there were unrealised capital gains within the funds, against which a deferred tax liability was established. As a result of the reduction in the stock market over 2011, the position has reversed and at the end of 2011 there was an unrealised loss in the funds, on which a deferred tax asset has been established. The market movement between the reporting dates has therefore resulted in a tax credit of £88.4 million.

By comparison, during 2010, there was an increase in stock markets, which resulted in a positive tax charge of £77.7 million.

Profit before shareholder tax

Adding back the movement in the policyholder tax, the profit before shareholder tax for the year was £109.7 million, up 30% on the prior year result of £84.2 million.

The key driver of the improved result was higher income from funds under management. During 2011, the average funds under management were more than £27.7 billion, and some 15% higher than the prior period.

A breakdown of the profit before shareholder tax by segment is provided in the following table:

	Year Ended 31 December 2011 £' Million	Year Ended 31 December 2010 £' Million
Life business	89.1	72.8
Unit Trust business	27.8	17.3
Distribution business	6.1	5.8
Other	(13.3)	(11.7)
Profit before shareholder tax	109.7	84.2

Life business

The Life business profit for the year was £89.1 million (2010: £72.8 million) which was 22% higher than the prior year.

The principal contributor to this rise in profit was the higher income from funds, reflecting the growth in funds under management in recent years.

Unit Trust business

The Unit Trust business profit for the year was £27.8 million (2010: £17.3 million) which was also higher than the same period last year.

As above, the principal contributor to this rise in profit was the higher income from funds, reflecting the strong growth in funds under management in recent years. In addition the profit in 2010 was negatively impacted by a £3.5 million levy from the Financial Services Compensation Scheme.

Distribution business

The impact of distribution activity is separately identified from 'Other' operations. St. James's Place is a vertically integrated firm, allowing it to benefit from synergies of combined management of funds and distribution. Whilst the management of funds lies at the core of our profit, a further margin will arise from the distribution activity, depending upon the level of new business and expenses.

An increase in the income from new business activity resulted in a small change in the profit before tax generated by the distribution business in the year, increasing to £6.1 million (2010: £5.8 million).

Other

Other operations contributed a loss of £13.3 million (2010: loss of £11.7 million). Included within this figure is the cost of expensing share options of £10.5 million for the current period (2010: £8.2 million). The balance is made up of a number of small positive and negative items.

Shareholder tax

The actual tax rate in each of the periods is impacted by stock market related timing differences and one off events such as the change in corporation tax rate. Therefore, to assist shareholders, the table below provides a high level analysis of shareholder tax, and a more detailed analysis is included in Note 5 to this announcement.

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Expected shareholder tax	24.5	24.8
Market related tax effects	(15.2)	1.0
Other tax adjustments	0.6	7.0
Corporation tax rate change	(7.0)	(3.6)
Actual shareholder tax	2.9	29.2
Expected shareholder tax rate	22.3%	29.4%
Actual shareholder tax rate	2.6%	34.7%

The **expected shareholder tax** principally reflects the current corporation tax rate applicable and will vary from year to year depending upon the emergence of profit between the different tax regimes which apply to the St. James's Place Group companies. More detail is included in Note 5 to this announcement.

During 2011 the stock market declined, resulting in investment losses within the life business and this **market related tax effect** has reduced the current year tax charge by £15.2 million.

The **other tax adjustments** will typically be small although in the prior year the higher adjustment was impacted by a release of a deferred tax asset associated with the pension business.

The impact of the **corporation tax rate change** on deferred tax assets and liabilities has reduced the tax charge in both years. The impact on shareholder tax in 2010 reflects a reduction of 1% in the corporation tax rate, from 28% to 27%. The impact in 2011 reflects a 2% reduction from 27% to 25% which will be the tax rate from April 2012.

The overall impact of these effects is to reduce the tax charge on an IFRS basis to £2.9 million (2010: £29.2 million).

Shareholder profit after tax

To assist in the understanding of the shareholder profit after tax, the tables and commentary below provide a further analysis of the result. These tables and commentary are presented by first starting with the cash result which is set out on pages 21 to 24.

Year Ended 31 December 2011

	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Cash result	1	129.4	(62.4)	67.0
DIR amortisation	2	82.9	5.4	88.3
DAC amortisation	3	(64.6)	(5.4)	(70.0)
PVIF amortisation	4	(2.8)	-	(2.8)
DIR on new business	2	-	(135.7)	(135.7)
DAC on new business	3	-	144.8	144.8
Share options	5	(10.5)	-	(10.5)
IFRS deferred tax impacts	6	16.4	-	16.4
Other IFRS	7	2.3	-	2.3
Corporation tax rate change	8	7.0	-	7.0
Shareholder profit after tax		**160.1**	**(53.3)**	**106.8**

Year Ended 31 December 2010

	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Cash result	1	109.7	(61.4)	48.3
DIR amortisation	2	71.0	5.2	76.2
DAC amortisation	3	(55.2)	(5.2)	(60.4)
PVIF amortisation	4	(2.9)	-	(2.9)
DIR on new business	2	-	(124.9)	(124.9)
DAC on new business	3	-	137.9	137.9
Share options	5	(8.2)	-	(8.2)
IFRS deferred tax impacts	6	(8.0)	-	(8.0)
Other IFRS	7	(6.6)	-	(6.6)
Corporation tax rate change	8	3.6	-	3.6
Shareholder profit after tax		**103.4**	**(48.4)**	**55.0**

The profit after tax has increased by 94% from £55.0 million to £106.8 million. This reflects the higher underlying cash result but also a significant increase in deferred tax. Within the result, the post-tax profit from the in-force business at the start of the year increased to £160.1 million (2010: £103.4 million).

The loss associated with acquiring new business for the year was £53.3 million (2010: £48.4 million) and should be viewed as an investment for future profits. These profits will arise in future years as net annual management fees, less the amortisation of the associated deferred acquisition cost ("DAC") and deferred income ("DIR").

Notes

1. These figures are explained in the analysis of the post-tax cash result 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 increases profit for the period, was £82.9 million (2010: £71.0 million) in the current year. 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 2012 is £95.3 million.

(b) The deferral of the initial profit associated with new business sales in the period. In 2011, the deferred profit reduced the IFRS result by £135.7 million (2010: £124.9 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 reduces profit for the period, was £64.6 million (2010: £55.2 million) in the current year. The charge in a particular period 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 2012 is £74.4 million.

(b) The deferral of the specific acquisition costs, which were incurred in the current period, increased IFRS profits by £144.8 million (2010: £137.9 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. PVIF: The IFRS balance sheet includes an asset representing purchased value of in-force ("PVIF"). This asset is amortised over the remaining life of the policies associated with this asset. The amortisation charge for the year was £2.8 million (2010: £2.9 million). The charge for 2012 is expected to be £2.4 million.

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

6. IFRS deferred tax: Under IFRS a deferred tax asset is established for future tax benefits that are expected to emerge. This is not recognised in the cash result. In 2011, this figure was significantly higher than normal due to the establishment of an additional tax asset in respect of "excess E" arising in the tax calculation for the life business.

7. Other IFRS: This item reflects a number of other adjustments from the cash result. For instance, the cash result reflects the regulatory solvency requirement to hold prudent actuarial reserves, but these are not held in the IFRS result. Therefore movements in these reserves (generally related to movements in the stock markets) will impact the cash result but are reversed in the IFRS. There will be a small impact, either positive or negative, depending upon stock market movements, in future years.

8. Corporation tax rate change: the above adjustments are all shown net of deferred tax rates prevailing at the end of each year, and this £7.0 million (2010: £3.6 million) reflects the effect on the deferred tax assets of the change in the tax rate from 27% to 25%.

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 2011	Year Ended 31 December 2010
	£' Million	£' Million
Purchased value of in-force*	34.8	36.7
Deferred acquisition costs*	659.0	563.1
Deferred income*	(446.6)	(385.0)
Other IFRS net assets	88.9	75.9
Solvency net assets	342.2	295.6
Total IFRS net assets	678.3	586.3

* net of deferred tax

	Year Ended 31 December 2011	Year Ended 31 December 2010
	Pence	Pence
Net asset value per share	137.5	120.6

SECTION 2: EUROPEAN EMBEDDED VALUE (EEV)

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

The table below and accompanying notes summarise the profit before tax of the combined business. The detailed result is shown on pages 42 to 53.

Total operating profit for the year, at £371.5 million, was 12% higher than the 2010 result of £332.6 million.

The main contributors to this improved result were higher profits from new business and a strong positive experience variance in the life business.

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Life business	294.2	256.8
Unit Trust business	84.5	81.7
Distribution business	6.1	5.8
Other	(13.3)	(11.7)
EEV operating profit	371.5	332.6
Investment return variance	(180.4)	117.6
Economic assumption changes	(0.3)	4.8
EEV profit before tax	190.8	455.0
Tax	(42.5)	(120.1)
Corporation tax rate change	50.5	17.7
EEV profit after tax	198.8	352.6

Life business EEV operating profit

The life business operating profit has increased to £294.2 million in the year (2010: £256.8 million) and a full analysis of the result is shown below:

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
New business contribution	182.5	157.9
Profit from existing business		
- unwind of the discount rate	72.7	74.0
- experience variance	39.4	24.8
- operating assumption change	(2.7)	(3.4)
Investment income	2.3	3.5
Life business EEV operating profit	294.2	256.8

The **new business contribution** for the year at £182.5 million (2010: £157.9 million) was over 15% higher than the prior year reflecting the higher volume of new business together with continued control over the growth in associated expenses.

The **unwind of the discount rate** was £72.7 million (2010: £74.0 million). The unwind is calculated by applying the year end discount rate to the opening value of in force (the value placed on the future cash flows of the business). As the discount rate is set by reference to the yield on a 10 year UK government gilt, the risk free rate, the 1.6% reduction in this yield during 2011 has resulted in a corresponding reduction in the discount rate.

Although, as usual, we have calculated the unwind using the discount rate at the end of the period we will change our approach going forwards so that the unwind is calculated using the opening discount rate. We believe this change will assist investors in forecasting our future results, and also bring our methodology in line with that used by other life companies.

Had the opening discount rate been used for the calculation then the unwind would have been £22.1 million higher (2010: £6.5 million higher) with a matching offset in the investment variance.

The combined **experience variance** in the year was a positive £39.4 million (2010: £24.8 million positive variance). A key contributor to the positive variance in both years was the continued strong retention of funds under management whilst the current year also recognised the benefit of a lower level of actual administration costs compared with the costs assumed in the embedded value calculation.

There was a small negative **operating assumption change** of £2.7 million, similar to the prior year (2010: £3.4 million negative variance).

The **investment income** for the year was £2.3 million (2010: £3.5 million) and reflects the assumed interest rate we earn on our free assets.

Unit Trust business EEV operating profit

The unit trust operating profit was £84.5 million (2010: £81.7 million) and a full analysis of the result is shown below:

	Year Ended 31 December 2011 £' Million	Year Ended 31 December 2010 £' Million
New business contribution	63.5	59.9
Profit from existing business		
- unwind of the discount rate	18.5	19.5
- experience variance	(1.3)	1.6
- operating assumption change	3.3	-
Investment income	0.5	0.7
Unit Trust business EEV operating profit	84.5	81.7

New business contribution at £63.5 million (2010: £59.9 million) was 6% higher than the prior year as a result of the new business growth in the period and control of growth in associated expenses.

The **unwind of the discount rate** was £18.5 million (2010: £19.5 million). As noted above in the analysis of the Life business result, the reduction reflects the change in the discount rate, which in turn is derived from the fall in yields on 10 year UK Government gilt yields.

Had the figure been calculated using the opening discount rate then the unwind would have been £5.7 million higher (2010: £1.7 million higher).

There was a small negative **experience variance** of £1.3 million (2010: £1.6 million positive variance) which is accounted for by a number of small positive and negative items in both years.

There was a small positive **operating assumption change** of £3.3 million (2010: £nil) reflecting an assumption of lower future maintenance expenses.

Distribution business and Other operating profit

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

Investment return variance

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

During 2011, world stock markets fell, with, for example, the MSCI £ world index decreasing by some 4.8%. The actual investment return on our funds during the year was negative, in line with the falls in world stock markets, and therefore it was lower than the assumed growth. Consequently there was a negative investment return variance of £180.4 million for the year.

In the prior year there was a positive investment variance of £117.6 million, reflecting investment growth which was higher than that assumed in the embedded value projection for the year.

Economic assumption changes

There was a small £0.3 million loss arising from changes in the economic basis adopted at the year end (2010: £4.8 million profit).

EEV profit before tax

The total profit before tax for the year was £190.8 million (2010: £455.0 million). The most significant contributor to the reduction was the change in investment return experience.

Tax

The tax charge at £42.5 million (2010: £120.1 million charge) was lower than 2010 reflecting both the lower profit before tax and the lower corporation tax rates in future.

Corporation tax rate change

The 2011 Finance Act reduced the corporation tax rate from 27% to 26% from April 2011 and 25% from April 2012. The Government also re-affirmed its intention to make further cuts of 1% in each of the next two years.

Reflecting the commitment of the Government to these future changes, the embedded value now reflects both the enacted 2% reduction in corporation tax and the additional 2% of future proposed reductions.

The post-tax impact of adopting these changes has reduced the current year corporation tax charge by £50.5 million.

EEV profit after tax

The profit after tax was £198.8 million (2010: £352.6 million). The principal reason for the variation is the change in investment return variance.

New Business Margin

The insurance sector uses both Annual Premium Equivalent (APE) and Present Value of New Business Premium (PVNBP) measures to disclose new business performance.

APE is calculated as the sum of regular premiums plus 1/10th 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, which is calculated as the new business contribution, analysed in the previous section, divided by the relevant new business measure. This is presented as both a percentage of APE and PVNBP.

	Year Ended 31 December 2011	Year Ended 31 December 2010
Life business		
New business contribution (£' m)	182.5	157.9
APE (£'m)	505.4	457.2
Margin (%)	36.1	34.5
PVNBP (£'m)	4,023.2	3,697.1
Margin (%)	4.5	4.3
Unit Trust business		
New business contribution (£' m)	63.5	59.9
APE (£'m)	136.9	124.6
New business margin (%)	46.4	48.1
PVNBP (£'m)	1,368.8	1,246.2
Margin (%)	4.6	4.8
Total business		
New business contribution (£' m)	246.0	217.8
APE (£'m)	642.3	581.8
New business margin (%)	38.3	37.4
PVNBP (£'m)	5,392.0	4,943.3
Margin (%)	4.6	4.4

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

The life new business margin on a PVNBP basis, increased from 4.3% to 4.5%, whilst on an APE basis, the margin increased from 34.5% to 36.1%. The increase in margin reflects not only the growth in new business being greater than the growth in expenses (the operational gearing), but also the impact of reduced Partner remuneration. This reduction reflects recent changes to equalise Partner remuneration between the life and unit trust business, as indicated in last year's Financial Commentary, and results in an offsetting fall in the unit trust business margin as noted below. There will be a further reduction in life business remuneration in 2012 which is likely to result in a further increase in the margin.

As noted above, the unit trust new business margin has reduced from 4.8% to 4.6% on a PVNBP basis and from 48.1% to 46.4% on an APE basis due to the impact of changes to equalise Partner remuneration. In respect of the unit trust business there are no further changes in remuneration anticipated in 2012 and therefore no further reduction in margin from this effect.

In addition to the new business profit arising in the 'manufacturing' companies the Group also makes a profit or loss within the Distribution business. Including the Distribution profit of £6.1 million (2010: £5.8 million), the combined margin arising on new business would be 4.7% (2010: 4.5%) on a PVNBP basis and 39.3% (2010: 38.4%) on an APE basis.

Analysis of the European Embedded Value and Net Assets per Share

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

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Value of in-force		
- Life	1,251.5	1,131.2
- Unit Trust	305.8	288.7
Solvency net assets	342.2	295.6
Total embedded value	1,899.5	1,715.5

	Year Ended 31 December 2011	Year Ended 31 December 2010
	Pence	Pence
Net asset value per share	385.0	352.9

SECTION 3: CASH RESULT AND CAPITAL

Cash result

In addition to presenting the financial performance on the IFRS and EEV basis, we also provide an analysis of the sources of cash emergence in the year which we refer to as the cash result. This result is a key determinant used by the Board in determining the proposed dividend payments to shareholders.

The cash result is based on the IFRS result, but removes non-cash items such as DAC, DIR and deferred tax. It is also adjusted to reflect the regulatory solvency constraints on profits emerging from regulated companies such as our insurance businesses. The effect is a measure which more reflects the underlying cash emergence of the business, and which is available to pay dividends.

The cash result is a combination of the cash emerging from the business in force at the start of the year less the investment made to acquire new business during the period. Currently, a large proportion of the cash generated in a year from in-force business is re-invested in growing the business. However, as the business model matures, the strain of new business acquisition should reduce as a proportion of the total income, resulting in growth in the cash result.

As this cash result can be impacted by timing variances and capitalised impacts of changes in solvency requirements the table below includes an 'underlying cash result' stripping out these effects.

In 2011, the cash result was £67.0 million (2010: £48.3 million) which was 39% higher than the prior year. In both years there were timing and other variances and so, within these results, the underlying cash result was £63.0 million (2010: £40.9 million) up 54%.

The tables and commentary below provide an indicative analysis of the cash result.

Year Ended 31 December 2011	**Note**	**Arising from business in-force at 1 January 2011**	**Investment in new business during year**	**Total**
		£'Million	**£'Million**	**£'Million**
Net annual management fee	1	196.4	19.5	215.9
Unwind of surrender penalties	2	(69.3)	(7.0)	(76.3)
Net income from funds under management		127.1	12.5	139.6
Margin arising from new business	3	-	(1.2)	(1.2)
Establishment expenses	4	(7.2)	(65.0)	(72.2)
Development expenses	5	-	(3.3)	(3.3)
FSA/ FSCS Fees	6	(0.6)	(5.4)	(6.0)
Shareholder interest (regulated companies)	7	2.9	-	2.9
Shareholder interest (non-regulated companies)	7	2.2	-	2.2
Miscellaneous	8	1.0	-	1.0
Underlying cash result		125.4	(62.4)	63.0
Variance	9	4.0	-	4.0
Post-tax cash result		129.4	(62.4)	67.0

Year Ended 31 December 2010	**Note**	**Arising from business in-force at 1 January 2010**	**Investment in new business during year**	**Total**
		£'Million	**£'Million**	**£'Million**
Net annual management fee	1	159.5	18.4	177.9
Unwind of surrender penalties	2	(56.5)	(6.5)	(63.0)
Net income from funds under management		103.0	11.9	114.9
Margin arising from new business	3	-	(2.6)	(2.6)
Establishment expenses	4	(6.6)	(59.8)	(66.4)
Development expenses	5	-	(4.2)	(4.2)
FSA/FSCS fees	6	(0.7)	(6.7)	(7.4)
Shareholder interest (regulated companies)	7	1.9	-	1.9
Shareholder interest (non-regulated companies)	7	1.4	-	1.4
Miscellaneous	8	3.3	-	3.3
Underlying cash result		102.3	(61.4)	40.9
Variance	9	7.4	-	7.4
Post-tax cash result		109.7	(61.4)	48.3

The commentary below provides an explanation of the movement for the year.

Notes

Since all numbers are expressed after tax, they are impacted by the prevailing tax rate for each year. In 2011 the tax rate has reduced by 2% compared to the prior year.

1. The net annual management fee: This is the manufacturing margin the Group retains from the funds under management after payment of the associated costs (e.g. investment advisory fees and Partner remuneration). Broadly speaking the Group retains around 1% before tax (0.7% after tax) of funds under management.

   The level of net annual management fee was some 21% higher than 2010. This increase is in line with the growth in funds under management which averaged £27.7 billion in 2011 compared to £24.2 billion in 2010.

2. Unwind of surrender penalties: This relates to the reserving methodology applied to the surrender penalties within the charging structure of the single premium life bonds and pensions. At the outset of the product 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 cost which offsets the annual management fee above.

   Like the net annual management fee, the unwind of surrender penalties has increased due to growth in funds under management. However, the increase has been partly offset by the fact that the funds under management added six years ago have completed the surrender penalty period.

   In addition, the increase in the minimum pension age from 50 to 55 from March 2010 means this treatment can be applied to more of our pension business. As a result there has been an increase in the amount of the unwind of surrender penalties for 2011 compared to 2010, which now reflects a full year impact compared with 9 months in 2010.

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

   The negative margin on new business represents the upfront net cash outflow from a certain category of pension new business where we are unable to apply surrender penalties. The increase in the minimum pension age from 50 to 55 referred to above has reduced the proportion of this business.

   The margin has also increased as a result of a reduction in initial Partner remuneration on Life business, introduced as part of the changes to equalise Partner remuneration.

4. Establishment expenses: These are the expenses of running the Group's infrastructure as shown in the table on page 28. In line with the rest of this table they are presented after allowance for tax.

   These expenses were 5.8% higher in the current year. Since the analysis is presented after tax the increase reflects not just the 5.8% increase in these expenses but also the 2% reduction in corporation tax rate

5. Development expenses: these represent the expenditure associated with a significant development in our investment proposition together with the costs associated with training the Partnership towards full diploma qualification over the next couple of years.

6. FSA/ FSCS Fees: This relates to the fees payable to the FSA and the FSCS for the year.

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

   The interest received is at a similar level to the prior year and reflects the low prevailing interest rates we obtain on the free assets.

8. Miscellaneous: This represents the cash flow of the business not covered in any of the other categories. It will include miscellaneous product charges and the income and expenses included within the other operations of the business.

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

Return on in-force business

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

The vast majority of the return relates to the net income from funds under management (annual management fees less the unwind of the surrender penalty). Looking forward, funds under management at the start of 2012 are £28.5 billion. If we were to repeat the net inflows of £3.3 billion achieved in 2011 and if stock markets remained flat, then the average funds under management for 2012 would be £30.1 billion – some 9% higher than the same figure for 2011. This growth would then feed through into an increase in the return on the in-force business.

In addition, a proportion of the new business has a surrender penalty which unwinds during the first six years, meaning that this business does not contribute to the cash result until year seven. The table below provides an estimated breakdown of the single premium business over the last six years where these surrender penalties apply. These premiums are not yet generating income within the cash result.

Year	**With surrender penalties**
	£' Billion
2006	1.3
2007	1.6
2008	1.4
2009	1.6
2010	2.1
2011	2.2
Total	10.2

The total business not yet contributing to the cash result is £10.2 billion* or just over a third of the total funds under management at 31 December 2011. Once this business reaches the end of the surrender period the cash result will increase. For illustration purposes, if all the business was now at this level of maturity then the annual post-tax cash result (based on 0.7% post-tax earnings from funds under management) would be some £71.3 million higher*.

*ignores stock market movements and outflows since the date of original client investment

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

Return on investment in new business

As noted in the table on page 22, £62.4 million (2010: £61.4 million) of the cash arising from the in-force business has been re-invested in acquiring the new business during the year.

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

	Year Ended 31 December 2011	Year Ended 31 December 2010
Post-tax investment in new business (£'Million)	(62.4)	(61.4)
Post-tax present value of expected future cash returns (£'Million)	253.5	222.7
Post-tax present value of expected profit from investment (£'Million)	191.1	161.3
Gross inflow of funds under management (£'Billion)	5.2	4.7
Investment as % of gross inflow*	1.2%	1.3%
New business margin (% of APE)	38.3%	37.4%
Cash payback period (years)	5	5
Internal rate of return (net of tax)	20.6%	19.6%

* The investment as a percentage of net inflow of funds under management was 1.9% compared with 2.0% for the prior year.

The cost of this re-investment to acquire new business is not expected to increase significantly and therefore the proportion of cash generated from the in-force business available to pay dividends to shareholders is expected to expand.

Capital Position

The capital position of the Group, calculated on the regulatory basis ("solvency net assets") and allowing for the regulatory solvency requirement, is shown in the table below.

The Group continues to be well capitalised in excess of the solvency requirements and the assets remain prudently managed – being predominantly in cash, AAA money market funds and government backed securities.

Comparison with previous valuations would show that the Group solvency position has remained stable despite market volatility, reflecting the low 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	165.4	31.3	145.5	342.2
Solvency requirement	41.9	11.9		
Solvency ratio	395%	263%		
Analysis of solvency net assets				
UK government gilts	80.1	-	-	80.1
AAA rated money market funds	138.1	36.0	33.7	207.8
Bank balances	(32.9)	32.9	46.5	46.5
Liquid assets	185.3	68.9	80.2	334.4
Fixed assets	-	-	5.4	5.4
Actuarial reserves	(31.1)	-	-	(31.1)
Other assets and liabilities	11.2	(37.6)	59.9	33.5
Solvency net assets	165.4	31.3	145.5	342.2
Reconciliation to IFRS net assets				
Solvency net assets	165.4	31.3	145.5	342.2
- Purchased VIF	34.8	-	-	34.8
- DAC and DIR	238.3	(25.9)	-	212.4
- Other	88.9	-	-	88.9
Total IFRS net assets	527.4	5.4	145.5	678.3

Included within the 'other' capital resources is an implied reserve that is being built up to cover one years' dividend cost. At 31 December 2011 the amount set aside to date was £30.0 million compared to a full year dividend cost of £40.0 million.

Analysis of liquid assets

As noted in the table above the Group has liquid assets of £334.4 million and these amounts are held in Government backed debt, AAA rated money market funds and bank deposits. A further analysis of the holdings is provided below.

Holding Name	£'Million	£'Million
UK government gilts		
5.25% UK Treasury 07/06/2012	7.1	
2.5% UK Treasury Index Linked 26/07/2016	12.1	
2.5% UK Treasury Index Linked 17/07/2024	17.9	
2% UK Treasury Index Linked 26/01/2035	22.2	
4.25% UK Treasury 07/12/2055	4.7	
3.5% War Loan	16.1	80.1
AAA rated money market funds		
BlackRock	49.5	
HSBC	23.1	
Insight	57.5	
Invesco AIM	20.2	
RBS	50.5	
Santander	7.0	207.8
Bank balances		
UK banks*	43.1	
Santander	2.5	
Others	0.9	46.5
		334.4

* HSBC, Barclays, Lloyds TSB, Bank of Scotland, RBS and NatWest

Solvency II

We continue to prepare for the adoption of the new EU Solvency II requirements. Based on the proposed rules, the Group will not be adversely impacted by these new requirements and we expect to see a reduction in the total capital we are required to hold for regulatory purposes.

Share options maturity

At 31 December 2011 there were 20.9 million share options outstanding under the various share option schemes which, if exercised, will provide up to £49.1 million (2010: £59.2 million), of future capital for the Company.

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

Earliest date of exercise	Average exercise price	Number of Share options outstanding	Potential Proceeds
	£	Million	£' Million
Prior to 1 Jan 2012	2.42	18.9	45.7
Jan – Jun 2012	1.50	1.4	2.2
Jul – Dec 2012		-	-
Jan – Jun 2013	2.04	0.3	0.5
Jul – Dec 2013		-	-
Jan – Jun 2014	2.42	0.3	0.7
		20.9	49.1

There are also 3.2 million options outstanding under the Partner performance share plan exercisable at the 15p nominal share price, which could result in a further £0.5 million of proceeds by the end of 2013.

SECTION 4: OTHER MATTERS

The final section of this commentary covers a number of additional areas that will be of interest to shareholders.

Expenses

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

	Note	**Year Ended 31 December 2011**	Year Ended 31 December 2010
		£' Million	£' Million
Paid from policy margins			
Partner remuneration	1	276.7	247.9
Investment expenses	1	92.5	87.7
Third party administration	1	33.5	33.4
		402.7	369.0
Direct expenses			
Other new business related costs	2	54.5	49.5
Establishment costs	3	95.0	89.8
Development costs	4	4.5	5.7
FSA/FSCS levy	5	8.0	10.3
Contribution from third party product sales	6	(13.5)	(13.8)
		148.5	141.5
		551.2	510.5

The growth in establishment expenses during the year was 5.8%, slightly above our original expectations of 5%. In 2012 we expect establishment expenses to grow by 5%, and in addition we will be investing c.£3.0 million in re-launching the St. James's Place Academy and other initiatives.

The development expenses were £4.5 million during the year and we expect a further cost in 2012 of £5 to 6 million.

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.

   During 2011 we negotiated a reduction in the tariff payable to a number of the outsourced providers and consequently the relevant cost for the year was at a similar level to 2010, despite the higher level of new business and the growing in-force business

2. The other new business related costs, such as sales force incentivisation, vary with the level of sales – determined on our internal measure. As production rises or falls these costs will move in the corresponding direction.

3. Establishment costs are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term, although subject to inflationary increases. These costs will increase as the infrastructure expands to manage the higher number of existing clients and the growth in the Partnership.

4. Development costs represent the expenditure associated with a significant development in our investment proposition together with the costs associated with training the Partnership towards their diploma qualifications over the next couple of years.

5. The FSA / FSCS costs represent the fees payable to the FSA of £4.5 million (2010: £4.1 million) together with our required contribution to the Financial Services Compensation Scheme of £3.5 million (2010: £6.2 million).

6. Contribution from third party product sales reflects the net income received from wealth management sales of £3.5 million (2010: £4.2 million), sales of stakeholder products of £1.5 million (2010: £1.0 million) and sales through the Protection Panel of £8.5 million (2010: £8.6 million).

During the current year £6.6 million of software development costs have been capitalised as an intangible asset in accordance with IAS 38. This asset will be amortised over the following four years.

Life taxation changes

The taxation rules for life assurance companies are expected to change from 1 January 2013. The main change is to move the basis of assessment of corporation tax from the regulatory return to the IFRS result. Based on the proposed rules, the Group will not be adversely impacted by these new requirements, although the timing of settlement of tax may be advanced marginally.

Movement in funds under management

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

	Year Ended 31 December 2011 £' Billion	Year Ended 31 December 2010 £'Billion
Opening funds under management	27.0	21.4
New money invested	5.2	4.7
Investment return	(1.8)	2.6
	30.4	28.7
Regular withdrawals / maturities	(0.5)	(0.5)
Surrenders / part surrenders	(1.4)	(1.2)
Closing funds under management	28.5	27.0
Implied surrender rate as % of average funds under management	5.2%	5.0%
Net inflow of funds	3.3	3.0
Net inflow as % of opening funds under management	12.2%	14.0%

Shareholders will be pleased to note that the continued strong retention of funds under management, together with the level of new money invested, provides for net fund inflow of £3.3 billion. This is 10% higher than the £3.0 billion for last year.

This net inflow represents 12.2% (2010: 14.0%) of opening funds under management and can be viewed as the organic growth in funds.

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

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

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

Surrenders and part surrenders are those amounts where clients have chosen to withdraw money from their plan. Surrenders are assumed to occur in the calculation of the embedded value new business profit based on actual experience, updated on an annual basis, by plan duration and the age of the client.

The implied surrender rate shown in the table above is very much a simple average and reflects only recent experience. Whilst it could be compared with the long-term assumptions underlying the calculation of the embedded value, it should not be assumed that small movements in this rate will result in a change to the long term embedded value assumptions.

Concluding remarks

As I commented at the start of this statement, 2011 has seen a strong operating performance with an increase in all key profit measures. The performance is particularly pleasing given the difficult trading conditions in the second half of the year as the Euro crisis unfolded and stock markets became very volatile.

Looking forward, we believe the business has demonstrated its resilience to difficult trading conditions over the last few years, and as the business matures we expect further growth in the cash result.

Andrew Croft
Chief Financial Officer

21 February 2012

RISK AND RISK MANAGEMENT

Introduction

The mechanisms for identifying, assessing, managing and monitoring risks are an integral part of the management processes of the Group. Understanding the risks we face, and managing them appropriately, enables effective decision-making, contributes to our competitive advantage, helps us to achieve our business objectives and protects the interests of our various stakeholders.

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 Risk
- Insurance Risk
- Operational Risk

Risk Appetite Statement

The Board is ultimately responsible for setting the framework within which risk is managed at St. James's Place ("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 significant emerging or topical risk.

Some examples of activities that our Risk Appetite Statement currently explicitly prohibits 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 a captive arrangement
- 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 each of the main areas of risk that the Group faces. When analysing risk, we use these categories to help improve understanding of our exposure.

During 2011 we have continued to run scenario and reverse stress test analysis within the Group to inform our risk appetite and risk limits.

The Risk Committee and 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 such as preparing for the implementation of Solvency II, developments to the FSA's corporate governance requirements, and consolidation, reporting and, where appropriate, escalation of risk related management information.

The Risk Committee is also supported in its oversight of risk by the Audit Committee which periodically reviews the Risk Schedules and the SJP UK Individual Capital Assessment. This support helps to ensure that there is sufficient independent challenge in relation to the identification, measurement and management of our risks.

Risk Management Framework

The risk management framework enables the continual identification and assessment of risks that may impact on the successful delivery of our Group business objectives. Changing business conditions and the decisions taken by the Board in running business operations may alter the status of risks identified and also assist in the identification of new risks. The risk assessment process supports this ongoing identification and assessment of risk.

Corporate Risk Schedules and quarterly Key Risk Indicator reports are produced to facilitate the monitoring of risks by the Risk Committee and Board. The Risk Management and Finance functions also monitor risk capital on a regular basis and report on financial risk through the Individual Capital Assessment process and stress, reverse stress and scenario testing processes.

An annual risk management review is conducted by the Risk Management Function which provides an overview of group risk experience during the year and an opinion on the continued appropriateness of the risk management framework. This report is submitted to the Risk Committee for review and any changes required are approved on behalf of the Board.

This continual process for identifying, evaluating and managing the significant risks faced by the Group has been in place for the year under review and up to the date of approval of the annual report and accounts. The process is regularly reviewed by Risk Committee on behalf of the Board and accords with the Guidance for Directors on the UK Corporate Governance Code.

Principal Risks and Uncertainties

At the time of preparing this report, there are a number of principal risks and uncertainties that are inherent within both the Group's business model and the market in which we operate. These principal risks and uncertainties, and the high level controls and processes through which we aim to mitigate them, are as follows:

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 and experienced Partners. All recruitment and retention activity is closely monitored. We have also re-started the SJP Academy, overseen by a dedicated senior management team, to broaden our recruitment streams.
Advice	Advice given by an individual Partner or authorised by the Group is deemed unsuitable leading to redress, costs and potential reputational 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. The Group also has adequate professional indemnity cover in place.
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. Our fund range was broadened further during 2011 to help better mitigate sales, persistency and market risks by increasing diversification.
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 significantly 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 developed 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 market place, for signs of any potential new entrants or threats, for example, RDR causing crowding of the high net worth market place as firms concentrate on more profitable income streams. 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.
Regulatory, legislative and tax environment	Changes in the wider regulatory environment, supervisory approach or legislative and tax environments could 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. Membership of appropriate trade bodies also provides intelligence on the nature and possible effect of proposed changes. The Group has also engaged the services of public relations and communications consultants Cicero, Tulchan And Broadgate Mainland.
Retail Distribution Review	Changes arising from the Retail Distribution Review, particularly in relation to professionalism and adviser charging, adversely impact the Group.	The Group is ahead of target on plans to move the Partnership towards achieving Diploma status by the December 2012 deadline. Good progress is also being made on implementing our approach to the new adviser charging regime, and we have been actively engaged with the FSA throughout 2011. A further risk for advice providers is that clients will be able to "switch-off" payment for ongoing advice. This will have little direct impact on the business, although it could affect our Partners. However, the strength of client relationships, on which our business is built, will mitigate this effect.
Lloyds Banking Group (LBG)	The uncertainty surrounding continued Lloyds Banking Group ownership in terms of business strategy and rationalisation within the combined group has the potential for substantial impact upon SJP's business.	The LBG's CEO strategic review findings were reported to the market on 30 June 2011 and we still do not expect an imminent change in the LBG holding or relationship. Good communication is maintained with the LBG Board.

Eurozone failure	The impact of one or more Euro area countries defaulting or being forced to exit is uncertain and could adversely impact the Group.	In relation to any shareholder asset exposure, our internal Treasury function constantly monitors the credit ratings of our significant counterparties and assets, and our exposure to sovereign debt. However, the risk can extend more widely and the Group has engaged in a process of identification, analysis and management of the heightened Eurozone risk. In practice we do not believe we are directly exposed to a material extent, as we do not actively pursue credit risk.

Other Key Risks and Uncertainties

In addition to the principal risks and uncertainties mentioned above there are other key risks and uncertainties that are inherent within the business and markets in which we operate. At the time of preparing this report the other key risks and uncertainties facing the business, and the high level controls and processes through which we aim to mitigate these risks, are as detailed below under the relevant risk categories.

Strategic Risk

Risk	Description	Management
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 mechanisms in place including, for example, regular 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 under-performance of our business plan.	We closely monitor the achievement of our business plan, the performance of the markets and consumer confidence through the use of daily Management Information circulated to senior management. This helps to identify early signals of a market decline, so that we can manage expenses and strategy appropriately, as developed in our scenario planning. We currently monitor the potential crystallisation of operational, market and credit risks resulting from a prolonged collapse in consumer confidence or economic and financial problems in the Eurozone to ensure our exposure is minimised.

Market Risk

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

The Group seeks to manage market risk by undertaking unit linked business, whereby the client bears the market risk in the search for investment return. 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. An associated reduction in investment returns could also result in the deferral of tax relief on UK life business expenses. Indirectly, a reduction in market levels could also be associated with a reduction in the volume of new business sales. The Group accepts the risk associated with variations in the level of future profits arising from market risk.

Management of Market Risk

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

Risk	Description	Management
Client liabilities	As a result of a reduction in equity values, the Group may be unable to meet client liabilities.	This risk is substantially mitigated by the Group's strategic focus on unit-linked business, by not providing guarantees to clients on policy values and by the matching of assets and liabilities.
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 the deferral of cash benefit of tax relief on expenses.	The tax position is monitored closely, in particular the size and sources of relevant income streams.
Retention	Loss of future profit due to more clients than anticipated withdrawing their funds, particularly as a result of poor performance in the financial markets.	Retention is closely monitored and unexpected experience is investigated. Retention has remained consistently high throughout the period, despite the challenging economic environment and volatility, and, at the time of writing this report, remains at its long term level of 95%
New Business	Poor performance in the financial markets in absolute terms, and relative to inflation, leads to existing and future clients rejecting investment in longer term assets	The benefit of longer term equity investment in a range of riskier financial assets 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 is taken account of by the group in its activities.

Credit Risk

Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit. Credit risk also arises from holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions.

The Group has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

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

Management of Credit Risk

The table below summarises the main credit risks to which the business is exposed and the methods by which the Group seeks to mitigate them. Detail of exposure is included in the Financial Commentary.

Risk	Description	Management
Shareholders' assets	Loss of assets	Shareholder funds are invested in AAA rated unitised money market funds and deposits with approved banks. The Group has no direct exposure to holdings of sovereign debt of Portugal, Italy, Ireland, Greece or Spain. 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	These liabilities are matched by fixed interest securities with minimum AAA credit ratings; maximum counterparty limits for such holdings 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 and advances	Inability of Partners to repay loans or advances from SJP	Loans and advances are managed in line with the Group's secured lending policy. All loans are secured on the future renewals income stream expected from a Partner's portfolio and loan advances vary in relation to the projected future income of the relevant Partner. Outstanding balances are regularly reviewed, assessed on a conservative basis and support is provided to help Partners manage their business appropriately. Appropriate provision is made where there is objective evidence of impairment.

Liquidity Risk

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives. The Group is subject to minimal liquidity risk since, in relation to shareholder assets, it maintains a good level of highly rated liquid assets to meet its liabilities, and does not rely on recourse to the market. Additional detail is provided on these assets in the Financial Commentary. Policyholder liabilities are also typically invested in liquid assets. However, where a fund is exposed to liquidity risk, the fund management will include processes for managing loss of liquidity, including the possibility of deferral of dealing.

Currency Risk

The Group is not subject to any significant currency risk since all material shareholder 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 as we have never written any annuity business.

The Group has a medium appetite for insurance risk, only actively pursuing it 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 the operation of 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 related Risk

The table below summarises the main insurance risks to which the Group's 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	The Group ceased writing new protection business in April 2011. 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.
Retention	Loss of future profit due to more clients than anticipated withdrawing their funds.	Retention is closely monitored and unexpected experience is investigated. Retention has remained consistently high throughout the period, despite the challenging economic environment and volatility, and, at the time of writing this report, remains at its long term level of 95%

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 prudential risks described above, including in particular retail conduct risks arising from the regulatory environment within which the Group operates. The Group has a medium appetite for operational risk, only accepting it 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 (which includes the new offences introduced by the Bribery Act), business protection, human resources, outsourcing, purchasing, communications and legal contracts and obligations
- Brand value degradation
- Product development process failure
- Advice, sales management and distribution
- Financial processes including financial reporting and taxation
- External events and developments affecting the Group's markets and operations

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's appetite for this risk category 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 types of risk as described in the SJP Risk Management Framework document.

Management of Operational Risk

In addition to the operational risks identified in the principal risks and uncertainties disclosed at the start of this section of the report and accounts, there is one further key operational risk to which the business is exposed. The table below summarises this risk and the methods by which the Group seeks to mitigate it.

Risk	Description	Management
Regulatory censure	That the Group could face a fine or regulatory censure should it fail to comply with applicable regulations.	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.

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 2011	Year Ended 31 December 2010
	£' Million	£' Million
Life business	294.2	256.8
Unit Trust business	84.5	81.7
Distribution business	6.1	5.8
Other	(13.3)	(11.7)
EEV operating profit	371.5	332.6
Investment return variances	(180.4)	117.6
Economic assumption changes	(0.3)	4.8
EEV profit before tax	190.8	455.0
Tax		
Life business	(34.5)	(87.9)
Unit Trust business	(9.9)	(31.8)
Distribution business	(1.6)	(1.8)
Other	3.5	1.4
Corporation tax rate change	50.5	17.7
	8.0	(102.4)
EEV profit after tax	198.8	352.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Opening shareholders' equity on an EEV basis	**1,715.5**	**1,371.4**
EEV profit after tax for the year	198.8	352.6
Issue of share capital	13.4	8.2
Retained earnings credit in respect of share option charges	10.5	8.2
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust	-	0.1
Dividends paid	(35.1)	(22.6)
Consideration paid for own shares	(3.6)	(2.4)
Closing shareholders' equity on an EEV basis	**1,899.5**	**1,715.5**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2011	31 December 2010
	£' Million	£' Million
Assets		
Intangible assets		
Deferred acquisition costs	865.1	755.7
Value of long-term business in-force		
- long-term insurance	950.2	877.2
- unit trusts	305.8	288.7
Computer software	8.4	2.1
Customer list	0.9	-
	2,130.4	1,923.7
Property & equipment	5.4	7.7
Deferred tax assets	248.5	158.2
Investment property	550.9	397.8
Investments	22,532.4	21,336.8
Reinsurance assets	39.0	38.6
Insurance and investment contract receivables	44.5	14.2
Income tax assets	41.3	37.0
Other receivables	530.2	547.1
Cash & cash equivalents	2,329.3	2,042.0
Total assets	**28,451.9**	**26,503.1**
Liabilities		
Insurance contract liabilities	394.0	417.9
Other provisions	3.1	3.6
Financial liabilities	22,314.5	21,228.2
Deferred tax liabilities	207.3	210.8
Insurance and investment contract payables	29.9	44.6
Deferred income	536.9	469.6
Income tax liabilities	12.4	34.4
Other payables	376.4	433.6
Net asset value attributable to unit holders	2,677.9	1,944.9
Total liabilities	**26,552.4**	**24,787.6**
Net assets	**1,899.5**	**1,715.5**
Shareholders' equity		
Share capital	74.0	72.9
Share premium	110.4	98.1
Treasury share reserve	(8.5)	(8.2)
Miscellaneous reserves	2.3	2.3
Retained earnings	1,721.3	1,550.4
Total shareholders' equity on an EEV basis	**1,899.5**	**1,715.5**
	Pence	Pence
Net assets per share	385.0	352.9

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

I. BASIS OF PREPARATION

The supplementary information on pages 42 to 53 shows the Group's results as measured on a European Embedded Value (EEV) basis. This includes results for the life, pension and investment business, including unit trust business. The valuation is undertaken on a basis determined in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum, a group of chief financial officers from 19 major European insurers as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 (together "the EEV Principles"). The treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis. The EEV basis recognises the long-term nature of the emergence of shareholder cash returns by reflecting the net present value of expected future cash flows.

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

II. METHODOLOGY

(a) Covered business

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

(b) Calculation of EEV on existing business

Profit from existing business comprises the expected return on the value of in-force business at the start of the year plus the impact of any changes in the assumptions regarding future operating experience, plus changes in reserving basis (other than economic assumption changes), plus profits and losses caused by differences between the actual experience for the 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
- 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% (2010: 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) Operating profit

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

(i) Tax

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

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

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

III. ASSUMPTIONS

(a) Economic Assumptions

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

	Year Ended 31 December 2011	Year Ended 31 December 2010
Risk free rate	2.0%	3.6%
Inflation rate	2.7%	3.2%
Risk discount rate (net of tax)	5.1%	6.7%
Future investment returns:		
- Gilts	2.0%	3.6%
- Equities	5.0%	6.6%
- Unit linked funds		
- Capital growth	1.4%	2.9%
- Dividend income	2.9%	3.0%
- Total	4.3%	5.9%
Expense inflation	3.5%	3.9%

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) Tax

The EEV result has been calculated allowing for tax and has been grossed up to a pre-tax level for presentation in the profit and loss account. The corporation tax rate used for this grossing up is 22.2% (2010: 26%) for UK life and pensions business, 12.5% (2010: 12.5%) for Irish life and pensions business and 23.4% (2010: 28%) for unit trust business. Future tax has been determined assuming a continuation of the current tax legislation. The reduction in tax rates for UK business reflects both the changes in tax rate enacted in the year, and also the further 2% reduction to which the government has committed in future years.

IV. COMPONENTS OF EEV PROFIT

(a) Life Business

	Note	Year Ended 31 December 2011	Year Ended 31 December 2010
		£' Million	£' Million
New business contribution	1	182.5	157.9
Profit from existing business			
Unwind of discount rate	2	72.7	74.0
Experience variances		39.4	24.8
Operating assumption changes		(2.7)	(3.4)
Investment income		2.3	3.5
EEV operating profit		**294.2**	**256.8**
Investment return variances		(141.2)	84.9
Economic assumption changes		2.7	5.8
EEV profit before tax		**155.7**	**347.5**
Tax		(34.5)	(87.9)
Corporation tax rate change		37.6	13.8
EEV profit after tax		**158.8**	**273.4**

Note 1: New business contribution after tax is £142.5 million (2010: £118.2 million)
Note 2: The unwind is calculated by applying the year end discount rate to the opening value of in force (the value placed on the future cash flows of the business). The discount rate is set by reference to the yield on a 10 year UK government gilt – the risk free rate. The 1.6% reduction in this yield during 2011 has resulted in a corresponding reduction in the discount rate

Had the opening discount rate been used for the calculation, the unwind would have been £22.1 million higher (2010: £6.5 million higher), with a matching offset in the investment variance.

As noted in the Financial Commentary, the approach will change going forwards so that the unwind is calculated using the opening discount rate.

(b) Unit Trust Business

	Note	Year Ended 31 December 2011	Year Ended 31 December 2010
		£' Million	£' Million
New business contribution	1	63.5	59.9
Profit from existing business			
Unwind of discount rate	2	18.5	19.5
Experience variances		(1.3)	1.6
Operating assumption changes		3.3	-
Investment income		0.5	0.7
EEV operating profit		**84.5**	**81.7**
Investment return variances		(39.2)	32.7
Economic assumption changes		(3.0)	(1.0)
EEV profit before tax		**42.3**	**113.4**
Tax		(9.9)	(31.8)
Corporation tax rate change		12.9	3.9
EEV profit after tax		**45.3**	**85.5**

Note 1: New business contribution after tax is £48.7 million (2010: £43.1 million)
Note 2: Had the unwind been calculated using the opening discount rate, it would have been £5.7 million higher (2010: £1.7 million higher).

(c) Combined Life and Unit Trust Business

	Note	Year Ended 31 December 2011	Year Ended 31 December 2010
		£' Million	£' Million
New business contribution	1	246.0	217.8
Profit from existing business:			
Unwind of discount rate	2	91.2	93.5
Experience variances		38.1	26.4
Operating assumption changes		0.6	(3.4)
Investment income		2.8	4.2
EEV operating profit		**378.7**	**338.5**
Investment return variances		(180.4)	117.6
Economic assumption changes		(0.3)	4.8
EEV profit before tax		**198.0**	**460.9**
Tax		(44.4)	(119.7)
Corporation tax rate change		50.5	17.7
EEV profit after tax		**204.1**	**358.9**

Note 1: New business contribution after tax is £191.2 million (2010: £161.3 million).
Note 2: Had the unwind been calculated using the opening discount rate, it would have been £27.8 million higher (2010: £8.2 million higher).

(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 2011 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	(65.8)	256.9	191.1
Profit from existing business	154.5	(154.5)	-
Unwind of discount rate	-	71.1	71.1
Experience variances	38.8	(6.8)	32.0
Operating assumption changes	2.1	(1.6)	0.5
Investment return	2.2	-	2.2
Investment return variances	(13.2)	(128.4)	(141.6)
Economic assumption changes	(4.9)	4.8	(0.1)
Miscellaneous	(6.9)	-	(6.9)
Corporation tax rate change	-	50.5	50.5
EEV profit after tax	**106.8**	**92.0**	**198.8**

The comparative figures for 2010 are as follows:

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(61.9)	223.2	161.3
Profit from existing business	124.9	(124.9)	-
Unwind of discount rate	-	69.5	69.5
Experience variances	(4.9)	24.3	19.4
Operating assumption changes	(2.0)	(0.9)	(2.9)
Investment return	3.2	-	3.2
Investment return variances	4.0	83.1	87.1
Economic assumption changes	(2.0)	5.6	3.6
Miscellaneous	(6.3)	-	(6.3)
Corporation tax rate change	-	17.7	17.7
EEV profit after tax	**55.0**	**297.6**	**352.6**

V. EEV SENSITIVITIES

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

	Notes	Change in new business contribution		Change in European Embedded Value
		Pre-tax	Post-tax	Post-tax
		£' Million	£' Million	£' Million
Value at 31 December 2011		**246.0**	**191.2**	**1,899.5**
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(1.9)	(1.6)	4.6
10% reduction in withdrawal rates	2	23.6	18.4	93.0
10% reduction in expenses		5.0	3.9	25.0
10% reduction in market value of equity assets	3	-	-	(175.8)
5% reduction in mortality and morbidity	4	-	-	1.0
100bp increase in equity expected returns	5	-	-	-
100bp increase in assumed inflation	6	(4.5)	(3.5)	(15.7)

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

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

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

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

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

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

	Change in new business Contribution		Change in European Embedded Value
	Pre-tax	Post-tax	Post-tax
	£' Million	£' Million	£' Million
100bp reduction in risk discount rate	34.7	27.0	132.1

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 2011	Year Ended 31 December 2010
	£' Million	£' Million
IFRS profit before tax	**21.3**	**161.9**
Movement in life value of in-force	155.0	197.0
Movement in unit trust value of in-force	14.5	96.1
EEV profit before tax	**190.8**	**455.0**

	31 December 2011	31 December 2010
	£' Million	£' Million
IFRS net assets	**678.3**	**586.3**
Less: acquired value of in-force	(46.4)	(50.2)
Add: deferred tax on acquired value of in-force	11.6	13.5
Add: life value of in-force	950.2	877.2
Add: unit trust value of in-force	305.8	288.7
EEV net assets	**1,899.5**	**1,715.5**

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

	31 December 2011	31 December 2010
	£' Million	£' Million
Life company estimated free assets	**122.3**	**102.1**
Estimated required life company solvency capital	43.4	39.5
Other subsidiaries, consolidation and IFRS adjustments	512.6	444.7
IFRS net assets	**678.3**	**586.3**

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Life company estimated free assets at 1 January	**102.1**	**82.2**
Investment in new business	(71.2)	(69.5)
Profit from existing business	108.5	96.0
Dividends paid	(15.0)	(10.0)
Investment return	1.8	2.7
Movement in required solvency capital	(3.9)	0.7
Life company estimated free assets at 31 December	**122.3**	**102.1**

CONSOLIDATED ACCOUNTS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS BASIS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year Ended 31 December 2011 £' Million	Year Ended 31 December 2010 £' Million
Insurance premium income		73.4	78.5
Less premiums ceded to reinsurers		(29.7)	(28.5)
Net insurance premium income		43.7	50.0
Fee and commission income		524.9	455.0
Investment return		(1,117.1)	2,626.7
Other operating income		1.6	1.4
Net income	4	(546.9)	3,133.1
Policy claims and benefits			
- Gross amount		(58.1)	(61.2)
- Reinsurers' share		23.1	20.8
Net policyholder claims and benefits incurred		(35.0)	(40.4)
Change in insurance contract liabilities			
- Gross amount		23.9	(29.8)
- Reinsurers' share		0.4	1.8
Net change in insurance contract liabilities		24.3	(28.0)
Investment contract benefits		1,070.7	(2,462.7)
Fees, commission and other acquisition costs		(369.3)	(320.0)
Administration expenses		(118.7)	(116.2)
Other operating expenses		(3.8)	(3.9)
		(491.8)	(440.1)
Profit before tax	4	21.3	161.9
Tax attributable to policyholders' returns	5	88.4	(77.7)
Profit before tax attributable to shareholders' returns		109.7	84.2
Total tax credit / (expense)	5	85.5	(106.9)
Less: tax attributable to policyholders' returns	5	(88.4)	77.7
Tax attributable to shareholders' returns	5	(2.9)	(29.2)
Profit and total comprehensive income for the year		**106.8**	**55.0**
		Pence	Pence
Basic earnings per share	6	21.9	11.4
Diluted earnings per share	6	21.2	11.2

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 2010	72.3	90.5	(7.7)	382.4	2.3	539.8
Profit and total comprehensive income for the year				55.0		55.0
- Dividends				(22.6)		(22.6)
- Issue of share capital						
- Scrip dividend	0.1	1.9				2.0
- Exercise of options	0.5	5.7				6.2
Consideration paid for own shares			(2.4)			(2.4)
Own shares vesting charge			1.9	(1.9)		-
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust				0.1		0.1
Retained earnings credit in respect of share option charges				8.2		8.2
At 31 December 2010	72.9	98.1	(8.2)	421.2	2.3	586.3
Profit and total comprehensive income for the year				106.8		106.8
- Dividends				(35.1)		(35.1)
- Issue of share capital						
- Scrip dividend	0.2	3.3				3.5
- Exercise of options	0.9	9.0				9.9
Consideration paid for own shares			(3.6)			(3.6)
Own shares vesting charge			3.3	(3.3)		-
Retained earnings credit in respect of share option charges				10.5		10.5
At 31 December 2011	**74.0**	**110.4**	**(8.5)**	**500.1**	**2.3**	**678.3**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2011	31 December 2010
		£' Million	£' Million
Assets			
Intangible assets			
- Deferred acquisition costs		865.1	755.7
- Acquired value of in force business		46.4	50.2
- Computer software		8.4	2.1
- Customer list		0.9	-
		920.8	808.0
Property & equipment		5.4	7.7
Deferred tax assets		248.5	158.2
Investment property		550.9	397.8
Investments			
- Equities		15,743.4	15,835.7
- Fixed income securities		3,758.1	2,939.1
- Investment in Collective Investment Schemes		3,002.7	2,558.5
- Derivative Financial Instruments		28.2	3.5
Reinsurance assets		39.0	38.6
Insurance and investment contract receivables		44.5	14.2
Income tax assets		41.3	37.0
Other receivables		530.2	547.1
Cash & cash equivalents		2,329.3	2,042.0
Total assets		**27,242.3**	**25,387.4**
Liabilities			
Insurance contract liabilities	8	394.0	417.9
Other provisions	9	3.1	3.6
Financial liabilities			
- Investment contracts		22,227.3	21,191.9
- Borrowings		43.8	15.9
- Derivative Financial Instruments		43.4	20.4
Deferred tax liabilities		218.9	224.3
Insurance and investment contract payables		29.9	44.6
Deferred income		536.9	469.6
Income tax liabilities		12.4	34.4
Other payables		376.4	433.6
Net asset value attributable to unit holders		2,677.9	1,944.9
Total liabilities		**26,564.0**	**24,801.1**
Net assets		**678.3**	**586.3**
Shareholders' equity			
Share capital	10	74.0	72.9
Share premium		110.4	98.1
Treasury shares reserve		(8.5)	(8.2)
Miscellaneous reserves		2.3	2.3
Retained earnings		500.1	421.2
Total shareholders' equity		**678.3**	**586.3**
		Pence	Pence
Net assets per share		137.5	120.6

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Cash flows from operating activities		
Profit before tax for the period	21.3	161.9
Adjustments for:		
Depreciation	2.6	3.6
Impairment losses	0.1	0.5
Amortisation of acquired value of in-force business	3.8	3.9
Amortisation of computer software	0.3	-
Fair value gains on non-operating investments	(0.3)	-
Share based payment charge	10.5	8.2
Changes in operating assets and liabilities		
Increase in deferred acquisition costs	(109.4)	(113.3)
(Increase) / decrease in investment property	(153.1)	3.9
Increase in investments	(1,195.6)	(4,952.6)
Increase in reassurance assets	(0.4)	(1.8)
(Increase) / decrease in insurance and investment contract receivables	(30.3)	3.2
Decrease / (increase) in other receivables	6.1	(357.3)
(Decrease) / increase in insurance contract liabilities	(23.9)	29.8
Decrease in provisions	(0.5)	(1.2)
Increase in financial liabilities (excluding borrowings)	1,058.5	4,234.2
(Decrease) / increase in insurance and investment contract payables	(14.7)	23.1
Increase in deferred income	67.3	68.5
(Decrease) / increase in other payables	(57.2)	291.2
Increase in net assets attributable to unit holders	733.0	943.2
Cash generated from operations	**318.1**	**349.0**
Income taxes (paid) / received	(25.6)	5.1
Net cash from operating activities	**292.5**	**354.1**
Cash flows from investing activities		
Acquisition of property & equipment	(1.4)	(1.4)
Acquisition of intangible assets	(7.5)	(2.1)
Proceeds from sale of property & equipment	1.2	-
Net cash from investing activities	**(7.7)**	**(3.5)**
Cash flows from financing activities		
Proceeds from the issue of share capital	9.9	6.2
Consideration paid for own shares	(3.6)	(2.4)
Proceeds from exercise of options over shares held in trust	-	0.1
Additional borrowings	30.0	15.8
Repayment of borrowings	(2.1)	(2.5)
Dividends paid	(31.6)	(20.6)
Net cash from financing activities	**2.6**	**(3.4)**
Net increase in cash & cash equivalents	**287.4**	**347.2**
Cash & cash equivalents at 1 January	2,042.0	1,711.1
Effect of exchange rate fluctuations on cash held	(0.1)	(16.3)
Cash & cash equivalents at 31 December	**2,329.3**	**2,042.0**

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") and interpretation issued by the International Financial Reporting Interpretations Committee ("IFRIC") and those parts of the Companies Act 2006 that are applicable when reporting under IFRS.

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 2010 with the exception of the following new policy for recognising Customer List as an intangible asset:

Customer list is recognised as an intangible asset and represents the value of future commission income streams following the acquisition of financial services' businesses and is amortised over four years as the income stream is realised. Customer list is stated at cost less amortisation and any recognised impairment loss. The carrying value is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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.
- 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 statement of comprehensive income of the Group are:

- The lapse assumption, which is set prudently based on an investigation of experience during the year.
- The level of expenses, which is based on actual expenses in 2011 and expected long term rates.
- The mortality and morbidity rates, which are based on the results of an investigation of experience during the year.
- The assumed rate of investment return, which is based on current gilt 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

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group's reportable segments under IFRS 8 are therefore as follows:

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

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

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

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

4. Other – all other group activities.

Separate geographical segmental information is not presented since the Group does not segment its business geographically, 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 2011 £' Million	Year Ended 31 December 2010 £' Million
Life business	447.1	405.9
Unit Trust business	136.9	124.6
Distribution business	58.3	51.3
Other business	-	-
Total APE	**642.3**	**581.8**
Restatement to reconcile to IFRS basis		
Life business		
Exclude investment business APE	(443.0)	(400.7)
Difference between insurance business APE and premium receivable	69.4	73.3
Less insurance premium income ceded to reinsurers	(29.7)	(28.5)
Fee income (management fees)	394.0	353.0
Net movement on deferred income	(30.6)	(33.2)
Investment income (primarily in unit linked funds)	(992.0)	2,428.9
Unit Trust business		
Exclude unit trust APE	(136.9)	(124.6)
Fee income (dealing profit and management fees)	151.7	128.3
Net movement on deferred income	(36.7)	(35.3)
Investment income	0.5	0.3
Distribution business		
Exclude distribution APE	(58.3)	(51.3)
Fee and commission income receivable	43.5	38.8
Other investment income	0.3	-
Other business		
Income receivable	2.9	3.4
Investment income on third party holdings in consolidated unit trusts	(128.8)	195.8
Other investment income	2.9	1.7
Other operating income	1.6	1.4
Total adjustments	(1,189.2)	2,551.3
Net income - IFRS	**(546.9)**	**3,133.1**

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

Segment Profit
Three separate measures of profit are monitored on a monthly basis by the chief operating decision maker. These are European Embedded Value ("EEV"), IFRS (both pre-tax) and the post-tax cash result.

EEV Operating Profit

EEV operating profit 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. A reconciliation of EEV operating profit to IFRS profit before tax is shown below.

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Life business	294.2	256.8
Unit Trust business	84.5	81.7
Distribution business	6.1	5.8
Other business	(13.3)	(11.7)
EEV operating profit	**371.5**	**332.6**
Investment return variance	(180.4)	117.6
Economic assumption changes	(0.3)	4.8
EEV profit before tax	190.8	455.0
Adjustments to IFRS basis		
Movement in life value of in-force	(155.0)	(197.0)
Movement in unit trust value of in-force	(14.5)	(96.1)
IFRS profit before tax	**21.3**	**161.9**

Cash result	Year Ended 31 December 2011 £' Million	Year Ended 31 December 2010 £' Million
Life business	34.3	27.5
Unit Trust business	28.3	18.3
Distribution business	5.4	4.9
Other business	(1.0)	(2.4)
Cash result after tax	**67.0**	**48.3**
IFRS adjustments (after tax)		
Share option expense	(10.5)	(8.2)
Deferred acquisition costs (DAC)	82.4	83.6
Deferred income (DIR)	(54.1)	(54.6)
Acquired value of in-force (PVIF)	(2.9)	(2.9)
Sterling reserves	2.6	(6.5)
IFRS tax adjustments	22.3	(4.7)
IFRS shareholder profit after tax	106.8	55.0
Shareholder tax	2.9	29.2
IFRS profit before shareholder tax	109.7	84.2
Policyholder tax	(88.4)	77.7
IFRS profit before tax	**21.3**	**161.9**

IFRS segment result	Year Ended 31 December 2011 £' Million	Year Ended 31 December 2010 £' Million
Life business		
- shareholder	89.1	72.8
- policyholder tax gross up	(88.4)	77.7
Unit Trust business	27.8	17.3
Distribution business	6.1	5.8
Other business	(13.3)	(11.7)
IFRS profit before tax	**21.3**	**161.9**

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

	Year Ended 31 December 2011 £'Million	Year Ended 31 December 2010 £'Million
Shareholder interest income	4.6	3.0
Depreciation	2.6	3.6

Segment Assets
Funds under Management ("FUM")

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

	31 December 2011 £' Million	31 December 2010 £' Million
Life business	22,500.0	21,500.0
Unit trust business	6,000.0	5,500.0
Total FUM	**28,500.0**	**27,000.0**
Exclude third party holdings in non-consolidated unit trusts	(3,360.5)	(3,584.8)
Add balance sheet liabilities in unit linked funds	267.9	268.3
Adjustments for other balance sheet assets excluded from FUM		
DAC	865.1	755.7
PVIF	46.4	50.2
Computer software	8.4	2.1
Goodwill	0.9	-
Property & equipment	5.4	7.7
Deferred tax assets	248.5	158.2
Fixed income securities	80.0	60.7
Collective investment schemes	208.6	240.2
Reinsurance assets	39.0	38.6
Insurance and investment contract receivables	44.5	14.2
Income tax assets	41.3	37.0
Other receivables	236.3	236.1
Cash & cash equivalents	46.5	84.8
Other adjustments	(36.0)	18.4
Total adjustments	**(1,257.7)**	**(1,612.6)**
Total assets	**27,242.3**	**25,387.4**

5. INCOME TAXES

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Policyholder tax		
Overseas withholding taxes	12.9	13.5
Deferred tax on unrelieved expenses		
- Current year credit	(19.4)	(8.6)
Deferred tax on unrealised gains and losses in unit linked funds	(77.8)	57.5
UK corporation tax		
- Current year charge	4.4	13.9
- Adjustment in respect of prior year	(8.5)	1.4
Total policyholder tax (credit)/charge for the year	**(88.4)**	**77.7**
Shareholder tax		
UK corporation tax		
- Current year charge	-	12.0
- Prior year charge	(0.2)	(0.7)
Overseas taxes		
- Current year charge	1.5	1.5
- Prior year charge	0.1	-
	1.4	12.8
Deferred tax on pension business losses		
- Current year charge	2.9	5.5
- Adjustment in respect of prior year	(0.4)	0.6
Deferred tax charge on other items		
- Current year charge	6.0	14.6
Change in tax rate		
- Current year	(7.2)	(4.3)
- Adjustment in respect of prior year	0.2	-
Total shareholder tax charge for the year	**2.9**	**29.2**

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

The change in the corporation tax rate from 27% to 25% effective from 1 April 2012 enacted in the Finance Act 2011 has been incorporated into the deferred tax balances and is quantified in the reconciliation of the tax charge on page 66.

In addition to the changes in rates of corporation tax disclosed above, a number of further changes to the UK corporation tax system were announced in the March 2011 UK Budget Statement. Further reductions to the main rate are proposed to reduce the main rate of corporation tax by 1% per year to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date, and therefore, are not included in the financial statements.

	Year Ended 31 December 2011 £' Million	Year Ended 31 December 2010 £' Million
Reconciliation of tax charge		
Profit before tax	21.3	161.9
Tax at 26.5% (2010: 28%)	5.6	45.3
Effects of:		
Deferred tax on unrelieved expenses current year	(19.4)	(4.5)
Overseas withholding tax in unit linked funds	10.5	6.7
Deferred tax in respect of unit linked funds	(55.1)	44.2
Shareholder deduction for policyholder tax	3.2	10.0
Dividends not subject to tax under life company rules	(17.3)	-
Policyholder tax rate differential	3.2	9.3
Prior year items	(7.7)	2.1
Change in tax rate	(7.0)	(3.3)
Other adjustments	(1.5)	(2.9)
Total tax (credit) / charge for the year	**(85.5)**	**106.9**

The policyholder tax rate differential relates to the effect of the difference between the shareholder tax rate of 26.5% (2010: 28%) and the policyholder tax rate of 20%.

Reconciliation of tax charge	Year Ended 31 December 2011 £'Million		Year Ended 31 December 2010 £'Million	
Profit before tax	21.3		161.9	
Tax attributable to policyholders' returns*	88.4		(77.7)	
Profit before tax attributable to shareholders' returns	109.7		84.2	
Shareholder tax charge at corporate tax rate of 26.5% (2010: 28.0%)	29.1	26.5%	23.6	28.0%
Adjustments:				
Tax regime differences				
Difference due to Life Insurance tax regime (deferral of E)	(5.1)		(2.4)	
Difference due to Life Insurance tax regime (Deferred Income Reserve)	3.2		3.9	
Difference due to overseas subsidiaries	(2.7)		(0.3)	
	(4.6)	(4.2%)	1.2	1.4%
Market related				
Difference due to Life Insurance tax regime (UCG)	2.1		2.7	
Difference due to Life Insurance tax regime (Shareholder FII)	(17.3)		(1.7)	
	(15.2)	(13.9%)	1.0	1.2%
Other				
Difference due to Life Insurance tax regime (Pension losses)	-		5.5	
Prior year adjustments	(1.3)		-	
Other	1.9		1.3	
	0.6	0.5%	6.8	8.1%
Change in tax rate	(7.0)	(6.4%)	(3.4)	(4.0%)
Shareholder tax charge	2.9	2.6%	29.2	34.7%
Policyholder tax (credit) / charge	(88.4)		77.7	
Total tax (credit) / charge for the period	(85.5)		106.9	

* Profit before tax attributable to policyholder returns is equal to the policyholder tax charge

6. EARNINGS PER SHARE

	Year Ended 31 December 2011 Pence	Year Ended 31 December 2010 Pence
Basic earnings per share	21.9	11.4
Diluted earnings per share	21.2	11.2

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

	Year Ended 31 December 2011	Year Ended 31 December 2010
	£' Million	£' Million
Earnings		
Profit after tax (*for both basic and diluted EPS*)	106.8	55.0
Adjustments	-	-
Adjusted profit (*for both basic and diluted EPS*)	106.8	55.0
Weighted average number of shares		
Weighted average number of ordinary shares in issue *(for basic EPS)*	487.6	481.5
Adjustments for outstanding share options	16.1	8.9
Weighted average number of ordinary shares *(for diluted EPS)*	503.7	490.4

7. DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2011	Year Ended 31 December 2010	Year Ended 31 December 2011	Year Ended 31 December 2010
	Pence per Share	Pence per Share	£' Million	£' Million
Final dividend in respect of previous financial year	3.975	2.660	19.4	12.8
Interim dividend in respect of current financial year	3.200	2.025	15.7	9.8
Total	**7.175**	**4.685**	**35.1**	**22.6**

The Directors have recommended a final dividend of 4.8 pence per share (2010: 3.975 pence). This amounts to £23.7 million (2010: £19.4 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 16 May 2012 to those shareholders on the register as at 30 March 2012.

8. INSURANCE CONTRACT LIABILITIES

	2011	2010
	£' Million	£' Million
Balance at 1 January	417.9	388.1
Movement in unit linked liabilities	(36.5)	22.5
Movement in non-unit linked liabilities		
- New business	0.5	1.1
- Existing business	(0.3)	0.4
- Other assumption changes	9.1	8.2
- Experience variance	3.3	(2.4)
Total movement in non-unit linked liabilities	12.6	7.3
Balance at 31 December	**394.0**	**417.9**
Unit linked	307.8	344.3
Non-unit linked	86.2	73.6
	394.0	417.9
Current	82.9	71.3
Non-current	311.1	346.6
	394.0	417.9

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 2011 and the specific gilts backing the liabilities. The specific rates used are between 1.5% and 2.6% depending on the tax regime (2.7% and 3.9% at 31 December 2010).
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. There has been no change during 2011. Sample annual rates per £ for a male non-smoker are:

Age	Rate 2011	Rate 2010
25	0.000760	0.000760
35	0.001334	0.001334
45	0.003189	0.003189

Assumption	Description
Morbidity - Permanent Health Insurance	Morbidity is based on Company experience. There has been no change during 2011. Sample annual rates per £ income benefit p.a. for a male non-smoker are:

Age	Rate 2011	Rate 2010
25	0.00548	0.00548
35	0.01447	0.01447
45	0.03138	0.03138

Assumption	Description
Expenses	Contract liabilities are calculated allowing for the actual costs of administration of the business. The assumption has been amended to allow for changes to the underlying administration costs.

Product	Annual Cost 2011	Annual Cost 2010
Protection business	£34.50	£35.43

Assumption	Description
Persistency	Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2011. Sample annual lapse rates are:

2010 & 2011	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 changes in key assumptions. The levels of sensitivity tested are consistent with those proposed in the EEV principles and reflect reasonably possible levels of change in the 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. The sensitivity % has been applied to proportion the assumption e.g. application of a 10% sensitivity to a withdrawal assumption of 8% will reduce it to 7.2%.

Sensitivity analysis	Change in assumption	Change in profit before tax 2011	Change in profit before tax 2010	Change in net assets 2011	Change in net assets 2010
	%	£' Million	£' Million	£' Million	£' Million
Withdrawal rates	-10%	(5.1)	(4.5)	(4.1)	(3.5)
Expense assumptions	-10%	1.4	1.7	1.2	1.4
Mortality / morbidity	-5%	0.9	0.7	0.8	0.5

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 2011	**0.3**	**2.9**	**0.4**	**3.6**
Utilised/released during the year	(0.1)	(0.1)	(0.4)	(0.6)
Additional provisions	0.1	-	-	0.1
At 31 December 2011	**0.3**	**2.8**	-	**3.1**
Current	-	0.9	-	0.9
Non-current	0.3	1.9	-	2.2
	0.3	2.8	-	3.1

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.

10. SHARE CAPITAL

	Number of Ordinary Shares	Share Capital
		£' Million
At 1 January 2010	482,031,787	72.3
- Scrip dividend	782,813	0.1
- Exercise of options	3,334,586	0.5
At 31 December 2010	**486,149,186**	**72.9**
- Scrip dividend	1,107,415	0.2
- Exercise of options	6,166,150	0.9
At 31 December 2011	**493,422,751**	**74.0**

The total authorised number of ordinary shares is 605 million (2010: 605 million), with a par value of 15 pence per share (2010: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,048,030 (2010: 3,038,633) shares held in the Treasury Shares Reserve with a nominal value of £0.5 million (2010: £0.5 million).

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 £0.8 million (2010: £0.7 million) was receivable from the sale of banking services for St. James's Place Bank (a division of Halifax plc).
- Commission of £1.1 million (2010: £0.7 million) was receivable from the sale of pensions offered by Scottish Widows.
- Commission of £0.9 million (2010: £1.4 million) was receivable from the sale of Halifax, Cheltenham & Gloucester, Bank of Scotland, Birmingham Midshires, Scottish Widows and The Mortgage Business mortgages.
- Commission of £1.0 million (2010: £0.9 million) was receivable from Bank of Scotland Annuity Service.
- Commission of £22,000 (2010: £6,000) was receivable from Bank of Scotland in respect of corporate banking income in 2011.
- During the year, deposits were placed with Bank of Scotland on normal commercial terms. At 31 December 2011 these deposits amounted to £21.8 million (2010: £55.6 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 £87.7 million (2010: £84.9 million).
- Amounts lent by the Bank of Scotland to the Group totalled £0.8 million (2010: £0.8 million).
- Fees of £2.2 million (2010: £1.9 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 2011 was £nil (2010: £0.3 million).
- Tax fees of £21,500 (2010: £24,557) in respect of annual tax compliance and ad-hoc tax advice were charged by LBG plc to certain unit trusts.
- Fees of £26,250 (2010: £50,000) were payable to LBG in respect of the services of non-executive St. James's Place Board Directors.

- The Group has an arm's length contract with Prudential (which owns 5.69% of the share capital) to provide administrative services.
- In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there was an expense recognised of £18.8 million (2010: £41.5 million income) and the total value of transactions with those non-consolidated unit trusts was £668.6 million (2010: £124.5 million). Net management fees receivable from these unit trusts amounted to £62.4 million (2010: £55.3 million). The value of the investment into the non-consolidated unit trusts at 31 December 2011 was £925.5 million (2010: £392.6 million).

12. NON STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2011 or 2010, but is derived from those accounts. Statutory accounts for 2010 have been delivered to the registrar of companies, and those for 2011 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 2011 is expected to be posted to shareholders by 4 April 2012. Copies of both this announcement and the annual report and accounts will be available to the public at the Company's registered office at St. James's Place House, 1 Tetbury Road, Cirencester GL7 1FP and through the Company's website at www.sjp.co.uk.

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

The Directors confirm to the best of their knowledge that:

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

On behalf of the Board

David Bellamy
Chief Executive

Andrew Croft
Chief Financial Officer

21 February 2012