



ST. JAMES'S PLACE  
WEALTH MANAGEMENT

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ST. JAMES'S PLACE PLC  
HALF YEAR REPORT  
2012

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## Contents

- 1 Summary Half Year Results
- 2 St. James's Place Wealth Management New Business Figures

### **Interim Management Report**

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- 6 Chief Executive's Statement
- 9 Financial Commentary
- 33 Principal Risks and Uncertainties

### **European Embedded Value ('EEV') Basis**

---

- 35 EEV Consolidated Statement of Income
- 36 EEV Consolidated Statement of Changes in Equity
- 37 EEV Consolidated Statement of Financial Position
- 38 Notes to the EEV Basis Results
- 45 Independent Auditors' Review Report

### **International Financial Reporting Standards ('IFRS') Basis**

---

- 47 IFRS Condensed Consolidated Statement of Comprehensive Income
- 48 IFRS Condensed Consolidated Statement of Changes in Equity
- 49 IFRS Condensed Consolidated Statement of Financial Position
- 50 IFRS Condensed Consolidated Statement of Cash Flows
- 51 Notes to the IFRS Basis Financial Statements
- 64 Independent Auditors' Review Report
- 66 Responsibility Statement of the Directors

### **Other Information**

---

- 68 How to Contact Us
- 69 Financial Calendar
- 70 Advisers

# Summary Half Year Results

## Interim Dividend (pence per share)

Increase of  
**33%**

2012 4.25

2011 3.2

## IFRS Net Assets per Share (pence)

Increase of  
**11%**

2012 141.7

2011 127.4

## EEV Net Assets per Share (pence)

Increase of  
**9%**

2012 414.6

2011 379.6

## Funds under management

2012: £30.9 billion

2011: £29.1 billion

## IFRS profit before shareholder tax

2012: £58.9 million

2011: £55.3 million

## Net inflow of funds under management

2012: £1.51 billion

2011: £1.65 billion

## EEV new business profit

2012: £120.6 million

2011: £127.7 million

## Total single premiums

2012: £2.76 billion

2011: £2.73 billion

## EEV operating profit

2012: £167.8 million

2011: £183.6 million

## Partnership numbers

2012: 1,702

2011: 1,601

## Cash result

2012: £44.9 million

2011: £30.8 million

# St. James's Place Wealth Management

## New Business Figures

For the Six Months to 30 June 2012

### TOTAL LONG-TERM SAVINGS

|  | Unaudited 3 Months to 30 June |              |            | Unaudited 6 Months to 30 June |                |             |
|--|-------------------------------|--------------|------------|-------------------------------|----------------|-------------|
|  | 2012                          | 2011         | Change     | 2012                          | 2011           | Change      |
|  | £' Million                    | £' Million   | %          | £' Million                    | £' Million     | %           |
| <b>New Premiums</b>                                  |                               |              |            |                               |                |             |
| <b>New Regular Premiums</b>                          |                               |              |            |                               |                |             |
| – Investment   | 2.3                           | –            | –          | 2.3                           | –              | –           |
| – Pensions   | 43.9                          | 30.2         | 45%        | 66.0                          | 53.5           | 23%         |
| – Protection   | 4.9                           | 4.2          | 17%        | 9.9                           | 8.8            | 13%         |
|  | <b>51.1</b>                   | <b>34.4</b>  | <b>49%</b> | <b>78.2</b>                   | <b>62.3</b>    | <b>26%</b>  |
| <b>New Single Premiums</b>                           |                               |              |            |                               |                |             |
| – Investment   | 471.4                         | 509.0        | (7%)       | 881.3                         | 1,027.0        | (14%)       |
| – Pensions   | 558.5                         | 479.5        | 16%        | 1,080.1                       | 889.5          | 21%         |
|  | <b>1,029.9</b>                | <b>988.5</b> | <b>4%</b>  | <b>1,961.4</b>                | <b>1,916.5</b> | <b>2%</b>   |
| <b>Unit Trust Sales</b><br>(including PEPs and ISAs) | <b>471.2</b>                  | <b>456.6</b> | <b>3%</b>  | <b>795.4</b>                  | <b>816.9</b>   | <b>(3%)</b> |

|   | Unaudited 3 Months to 30 June |              |            | Unaudited 6 Months to 30 June |              |           |
|---|-------------------------------|--------------|------------|-------------------------------|--------------|-----------|
|   | 2012                          | 2011         | Change     | 2012                          | 2011         | Change    |
|   | £' Million                    | £' Million   | %          | £' Million                    | £' Million   | %         |
| <b>New Business ('APE')</b><br>(RP + 1/10TH SP) |                               |              |            |                               |              |           |
| <b>Investment</b>                               | <b>96.6</b>                   | 96.6         | 0%         | <b>170.0</b>                  | 184.4        | (8%)      |
| <b>Pensions</b>                                 | <b>99.8</b>                   | 78.1         | 28%        | <b>174.0</b>                  | 142.4        | 22%       |
| <b>Protection</b>                               | <b>4.9</b>                    | 4.2          | 17%        | <b>9.9</b>                    | 8.8          | 13%       |
| <b>Total</b>                                    | <b>201.3</b>                  | <b>178.9</b> | <b>13%</b> | <b>353.9</b>                  | <b>335.6</b> | <b>5%</b> |

# St. James's Place Wealth Management

## New Business Figures

For the Six Months to 30 June 2012

### MANUFACTURED LONG-TERM SAVINGS

|  | Unaudited 3 Months to 30 June |              |             | Unaudited 6 Months to 30 June |                |             |
|--|-------------------------------|--------------|-------------|-------------------------------|----------------|-------------|
|  | 2012                          | 2011         | Change      | 2012                          | 2011           | Change      |
|  | £' Million                    | £' Million   | %           | £' Million                    | £' Million     | %           |
| <b>New Premiums</b>                                  |                               |              |             |                               |                |             |
| <b>New Regular Premiums</b>                          |                               |              |             |                               |                |             |
| – Investment   | 2.3                           | –            | –           | 2.3                           | –              | –           |
| – Pensions   | 22.2                          | 26.2         | (15%)       | 40.0                          | 44.5           | (10%)       |
| – Protection   | 0.7                           | 1.1          | (36%)       | 1.4                           | 2.4            | (42%)       |
|  | <b>25.2</b>                   | <b>27.3</b>  | <b>(8%)</b> | <b>43.7</b>                   | <b>46.9</b>    | <b>(7%)</b> |
| <b>New Single Premiums</b>                           |                               |              |             |                               |                |             |
| – Investment   | 446.8                         | 492.0        | (9%)        | 838.2                         | 998.2          | (16%)       |
| – Pensions   | 466.6                         | 449.1        | 4%          | 932.6                         | 826.1          | 13%         |
|  | <b>913.4</b>                  | <b>941.1</b> | <b>(3%)</b> | <b>1,770.8</b>                | <b>1,824.3</b> | <b>(3%)</b> |
| <b>Unit Trust Sales</b><br>(including PEPs and ISAs) | <b>471.2</b>                  | <b>456.6</b> | <b>3%</b>   | <b>795.4</b>                  | <b>816.9</b>   | <b>(3%)</b> |

|   | Unaudited 3 Months to 30 June |              |             | Unaudited 6 Months to 30 June |              |             |
|---|-------------------------------|--------------|-------------|-------------------------------|--------------|-------------|
|   | 2012                          | 2011         | Change      | 2012                          | 2011         | Change      |
|   | £' Million                    | £' Million   | %           | £' Million                    | £' Million   | %           |
| <b>New Business ('APE')</b><br>(RP + 1/10TH SP) |                               |              |             |                               |              |             |
| Investment                                      | 94.1                          | 94.9         | (1%)        | 165.7                         | 181.5        | (9%)        |
| Pensions  | 68.9                          | 71.1         | (3%)        | 133.3                         | 127.1        | 5%          |
| Protection                                      | 0.7                           | 1.1          | (36%)       | 1.4                           | 2.4          | (42%)       |
| <b>Total</b>                                    | <b>163.7</b>                  | <b>167.1</b> | <b>(2%)</b> | <b>300.4</b>                  | <b>311.0</b> | <b>(3%)</b> |
| <b>% of total new business</b>                  | <b>81%</b>                    | <b>93%</b>   |             | <b>85%</b>                    | <b>93%</b>   |             |

# St. James's Place Wealth Management

## New Business Figures

For the Six Months to 30 June 2012

### MANUFACTURED LONG-TERM SAVINGS

#### For the three months:

- Investment premiums of £24.6 million (2011: £17.0 million), amounting to £2.5 million (2011: £1.7 million) on an APE basis.
- Pension single premiums of £91.9 million (2011: £30.4 million) and regular premiums of £21.7 million (2011: £4.0 million), amounting to £30.9 million (2011: £7.0 million) on an APE basis.
- Protection business of £4.2 million regular premiums (2011: £3.1 million).
- Total new business, on an APE basis, of £37.6 million (2011: £11.8 million).

#### For the six months:

- Investment premiums of £43.1 million (2011: £28.7 million), amounting to £4.3 million (2011: £2.9 million) on an APE basis.
- Pension single premiums of £147.5 million (2011: £63.4 million) and regular premiums of £26.0 million (2011: £9.0 million), amounting to £40.7 million (2011: £15.3 million) on an APE basis.
- Protection business of £8.5 million regular premiums (2011: £6.4 million).
- Total new business, on an APE basis, of £53.5 million (2011: £24.6 million).

# Interim Management Report



# Interim Management Report

## Chief Executive's Statement

Despite markets continuing to be driven by economic uncertainty during the first six months of the year, I am pleased to report that St. James's Place has once again performed strongly.

We have continued to attract new investments, grow funds under management, increase the size of the Partnership and report strong profits, enabling us to significantly increase the dividend to shareholders.

### **NEW BUSINESS AND FUNDS UNDER MANAGEMENT**

New business, on an annual premium equivalent basis ('APE'), was up 13% in the second quarter, and was our highest ever quarter. Over the first six months, total APE was up 5%.

New single investment and pension business at £2.76 billion was 1% higher than the same period last year. It is particularly pleasing to note that we continue to maintain strong retention of existing client funds which, combined with the new business, resulted in a net inflow of £1.51 billion.

Total funds under management at 30 June 2012, at £30.9 billion, were 8% higher than the start of the year.

### **FINANCIAL PERFORMANCE**

As usual the Financial Commentary, which can be found on pages 9 to 32, provides a comprehensive explanation of the presentation of the financial results and detail of the Group's performance for the half year.

At a high level, IFRS (International Financial Reporting Standards) profit before shareholder tax increased during the period by 7% to £58.9 million (2011: £55.3 million), whilst the European Embedded Value operating profit was £167.8 million compared with £183.6 million for the same period last year, reflecting the low interest rate environment. However, total EEV profit for the period was £220.5 million compared with £182.6 million.

### **DIVIDEND**

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

Shareholders have seen a 33% dividend rise in each of the last two years and, given our ongoing confidence in the profile of the future cash emergence, we announced at the time of our full year results that shareholders could expect a similarly significant increase in the 2012 dividend.

I am therefore pleased to report the cash result, was up 46% to £44.9 million and in line with this statement, we are pleased to announce a 33% increase in the interim dividend to 4.25 pence per share. We expect the final dividend to be similarly increased.

The dividend will be paid on 19 September to shareholders on the register at the close of business on 24 August.

A Dividend Reinvestment Plan ('DRP') continues to be available for shareholders.



## **INVESTMENT MANAGEMENT**

Global investment markets started the year with a far more optimistic tone, but continuing uncertainty over the refinancing of debt in a number of European countries as well as the pace of the global economic recovery, resulted in the first six months producing little growth in the major market indices.

The vagaries and unpredictability of current markets are a constant reminder of the importance of achieving broad diversification across asset classes, geographies and investment management styles. In this respect, the investment portfolios, launched last year, are proving a useful starting point for discussions between our Partners and their clients about how they can create the right strategy to mitigate risk and achieve financial security.

We now have over 30 high quality investment managers to manage our clients' funds and we remain confident that the breadth of our fund offering provides an excellent platform to continue to grow our funds under management in the coming years.

## **THE ST. JAMES'S PLACE PARTNERSHIP**

During the first six months we continued to attract high quality advisers to the Partnership, with the size of the Partnership increasing by 3.2% to 1,702.

Whilst we are confident that we can continue to attract established high quality advisers, February saw the re-launch of our Academy programme. We are extremely pleased with the quality of the individuals that we have been able to attract so far. We have just completed the initial training of our second cohort, bringing the total within the programme to 36 so far this year. Later this year we will be running a parallel programme around our third intake for the second generation of our Partners, the sons and daughters. We anticipate that the Academy will begin to graduate into the Partnership during the latter part of next year.

During the first six months the professional development programme continued and 91% of our Partner population have qualified at Diploma level, as required by our regulator. The majority of the remainder require one or two exams and we are confident that, apart from the small number who intend to retire, the Partnership will be qualified by the end of the year.

## **PARTNERS AND EMPLOYEES**

The continued growth in our business and profits in the last six months is due in no small part to the hard work and dedication of our Partners, their staff and our employees.

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

**OUTLOOK**

We continue to attract new funds from both new and existing clients who value the advice offered by the Partners, the breadth of the investment proposition and the quality of service.

I believe that our strategy of focusing on the provision of face to face advice and the breadth of our client offering leaves us well placed to continue to grow the business in line with the previously stated growth objectives over the medium to long-term.



**David Bellamy**  
*Chief Executive Officer*  
25 July 2012

## Interim Management Report

# Financial Commentary

The first six months of 2012 has been a good period for the business, especially so considering the difficult economic environment and the uncertainty caused by the continuing Euro crisis.

Given this environment, we are reporting a strong operating performance for the first half of the year. Of particular note is the continuing growth in the cash emergence as the business matures, which has enabled us to increase the interim dividend by 33%.

### **THE FINANCIAL MODEL**

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. 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, around half 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.

The 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 cash flows 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 cash flows, 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 cash flow’ valuation. Our embedded value is based on the EEV principles, which were set out as an industry standard by the Chief Financial Officers (‘CFO’) Forum in 2004.

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 50.

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. It is also 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 47 to 63.

Interim Management Report  
**Financial Commentary** continued

|                                      | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--------------------------------------|--|--------------------------------------|---|
|                                      | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| <b>Profit before tax</b>             | <b>85.0</b>                                    | 59.1                                 | 21.3                                      |
| Policyholder tax                     | <b>(26.1)</b>                                  | (3.8)                                | 88.4                                      |
| <b>Profit before shareholder tax</b> | <b>58.9</b>                                    | 55.3                                 | 109.7                                     |
| Shareholder tax                      | <b>(12.8)</b>                                  | (7.7)                                | (2.9)                                     |
| <b>Shareholder profit after tax</b>  | <b>46.1</b>                                    | 47.6                                 | 106.8                                     |

#### Profit before Tax

The profit before tax for the six months was £85.0 million (2011: £59.1 million). The profit before tax is reported gross of policyholder tax as well as shareholder tax.

#### Policyholder Tax

The policyholder tax charge or credit in a particular reporting period reflects the movement in the tax paid or payable by the policyholder unit-linked life funds and will be principally influenced by the level of investment gains or losses. During 2012, as the stock markets have increased, the unit-linked life funds have higher investment gains and consequently there was a resulting policyholder tax charge of £26.1 million. In the prior year there was a policyholder tax charge of £3.8 million.

#### Profit before Shareholder Tax

The profit before shareholder tax for the six months to 30 June 2012 was £58.9 million, up 7% on the prior period result of £55.3 million.

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

|                                      | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--------------------------------------|--|--------------------------------------|---|
|                                      | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| Life business                        | <b>52.6</b>                                    | 49.1                                 | 89.1                                      |
| Unit Trust business                  | <b>13.1</b>                                    | 14.4                                 | 27.8                                      |
| Distribution business                | <b>2.0</b>                                     | –                                    | 6.1                                       |
| Other                                | <b>(8.8)</b>                                   | (8.2)                                | (13.3)                                    |
| <b>Profit before shareholder tax</b> | <b>58.9</b>                                    | 55.3                                 | 109.7                                     |

# Interim Management Report

## Financial Commentary continued

### *Life Business*

The Life business profit for the six months to 30 June 2012 was £52.6 million (2011: £49.1 million) which was 7% higher than the prior year. The underlying increase in funds under management, as disclosed later in the cash result section, has been partially offset by the impact of IFRS adjustments.

### *Unit Trust Business*

The Unit Trust business profit for the six months was £13.1 million (2011: £14.4 million). As with the Life business, the underlying increase in income from funds under management has been offset by the impact of IFRS adjustments.

### *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.

There has been a small increase in the profit before tax generated by the distribution business in the first half of the year, increasing to £2.0 million (2011: £nil).

### *Other*

Other operations contributed a loss of £8.8 million (2011: loss of £8.2 million). Included within this figure is the cost of expensing share options of £3.4 million for the current period (2011: £5.9 million). The balance includes the developments in respect of the Retail Distribution Review and other initiatives such as the St. James's Place Academy.

## 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 4 to the condensed half year financial statements.

|                               | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|-------------------------------|--|--------------------------------------|---|
|                               | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| Expected shareholder tax      | <b>13.7</b>                                    | 15.0                                 | 24.5                                      |
| Market related tax effects    | <b>3.1</b>                                     | (2.5)                                | (15.2)                                    |
| Other tax adjustments         | <b>(0.3)</b>                                   | (1.0)                                | 0.6                                       |
| Corporation tax rate change   | <b>(3.7)</b>                                   | (3.8)                                | (7.0)                                     |
| Actual shareholder tax        | <b>12.8</b>                                    | 7.7                                  | 2.9                                       |
| Expected shareholder tax rate | <b>23.3%</b>                                   | 27.0%                                | 22.3%                                     |
| Actual shareholder tax rate   | <b>21.7%</b>                                   | 13.9%                                | 2.6%                                      |

# Interim Management Report

## Financial Commentary continued

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 4 to the condensed half year financial statements.

Investment gains in 2012 reversed some of the investment losses experienced in the second half of 2011. As a result there was a reversal of some of the **market related tax effect** in 2011, resulting in an increase in the current period tax charge by £3.1 million.

The **other tax adjustments** will typically be small.

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 2011 reflects a reduction of 1% in the corporation tax rate, from 27% to 26%. The impact in 2012 also reflects a further 1% reduction from 25% to 24% which was the tax rate from April 2012.

The overall impact of these effects is to reduce the tax charge on an IFRS basis from £13.7 million to £12.8 million (2011: from £15.0 million to £7.7 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 22 to 24.

| Six Months Ended 30 June 2012       | Notes | In-Force<br>£ Million | New Business<br>£ Million | Total<br>£ Million |
|-------------------------------------|-------|-----------------------|---------------------------|--------------------|
| Cash result                         | 1     | 78.7                  | (33.8)                    | 44.9               |
| DIR amortisation                    | 2     | 47.7                  | 2.7                       | 50.4               |
| DAC amortisation                    | 3     | (37.3)                | (2.7)                     | (40.0)             |
| PVIF amortisation                   | 4     | (1.2)                 | –                         | (1.2)              |
| DIR on new business                 | 2     | –                     | (67.4)                    | (67.4)             |
| DAC on new business                 | 3     | –                     | 70.0                      | 70.0               |
| Share options                       | 5     | (3.4)                 | –                         | (3.4)              |
| IFRS deferred tax impacts           | 6     | (10.1)                | –                         | (10.1)             |
| Other IFRS                          | 7     | (0.8)                 | –                         | (0.8)              |
| Corporation tax rate change         | 8     | 3.7                   | –                         | 3.7                |
| <b>Shareholder profit after tax</b> |       | <b>77.3</b>           | <b>(31.2)</b>             | <b>46.1</b>        |

# Interim Management Report

## Financial Commentary continued

| Six Months Ended 30 June 2011       | Notes | In-Force    | New Business  | Total       |
|-------------------------------------|-------|-------------|---------------|-------------|
|                                     |       | £' Million  | £' Million    | £' Million  |
| Cash result                         | 1     | 64.8        | (34.0)        | 30.8        |
| DIR amortisation                    | 2     | 40.7        | 2.6           | 43.3        |
| DAC amortisation                    | 3     | (31.5)      | (2.6)         | (34.1)      |
| PVIF amortisation                   | 4     | (1.4)       | –             | (1.4)       |
| DIR on new business                 | 2     | –           | (69.5)        | (69.5)      |
| DAC on new business                 | 3     | –           | 75.9          | 75.9        |
| Share options                       | 5     | (5.9)       | –             | (5.9)       |
| IFRS deferred tax impacts           | 6     | 4.6         | –             | 4.6         |
| Other IFRS                          | 7     | 0.1         | –             | 0.1         |
| Corporation tax rate change         | 8     | 3.8         | –             | 3.8         |
| <b>Shareholder profit after tax</b> |       | <b>75.2</b> | <b>(27.6)</b> | <b>47.6</b> |

| Twelve Months 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          |
| <b>Shareholder profit after tax</b>  |       | <b>160.1</b> | <b>(53.3)</b> | <b>106.8</b> |

The profit after tax arising in the six months to 30 June 2012 has decreased by 3% from £47.6 million to £46.1 million. This reflects the higher underlying cash result but is offset by a decrease in deferred tax. Within the result, the post-tax profit from the in-force business at the start of the period increased to £77.3 million (2011: £75.2 million).

The loss associated with acquiring new business during the six months was £31.2 million (2011: £27.6 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.



# Interim Management Report

## Financial Commentary continued

- (a) The amortisation of the opening deferred income, which increases profit for the period, was £47.7 million (2011: £40.7 million) in the first six months. 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 the full year is £95.3 million.
- (b) The deferral of the initial profit associated with new business sales in the period, which in the first six months reduced the IFRS result by £67.4 million (2011: £69.5 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 £37.3 million (2011: £31.5 million) in the first six months. 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 the full year is £74.4 million.
- (b) The deferral of the specific acquisition costs, which were incurred in the first six months of the year, increased IFRS profits by £70.0 million (2011: £75.9 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.
- In addition the level of initial Partner Remuneration on a certain category of business was reduced at the start of the year thus reducing the amount of acquisition cost to be deferred.
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 first six months was £1.2 million (2011: £1.4 million). The charge for the full year 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. At the last valuation an additional tax asset in respect of 'excess E' was established. Much of this excess E has been utilised in the half year increasing the write-down of the deferred tax asset to £10.1 million.
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 reporting period. In the 2012 Budget there was an immediate 1% reduction in the Corporation tax rate from 25% to 24%. This has resulted in a change in the value of the deferred tax assets and liabilities with a net positive impact on the IFRS result of £3.7 million (2011: £3.8 million). On 3 July 2012 the Finance Bill enacted a further 1% reduction in the Corporation tax rate and this change will be adopted in the full year numbers. This will have a further positive impact on the IFRS result of some £3.6 million.

### Analysis of IFRS Assets and Net Assets per Share

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

|                              | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|------------------------------|--|--------------------------------------|---|
|                              | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| Purchased value of in-force* | <b>34.1</b>                                    | 35.7                                 | 34.8                                      |
| Deferred acquisition costs*  | <b>699.8</b>                                   | 615.0                                | 659.0                                     |
| Deferred income*             | <b>(471.0)</b>                                 | (418.0)                              | (446.6)                                   |
| Other IFRS net assets        | <b>79.4</b>                                    | 78.7                                 | 88.9                                      |
| Solvency net assets          | <b>368.2</b>                                   | 314.5                                | 342.2                                     |
| <b>Total IFRS net assets</b> | <b>710.5</b>                                   | 625.9                                | 678.3                                     |

\* Net of deferred tax.

Interim Management Report  
**Financial Commentary** continued

|                           | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|---------------------------|--|--------------------------------------|---|
|                           | <b>Pence</b>                                   | Pence                                | Pence                                     |
| Net asset value per share | <b>141.7</b>                                   | 127.4                                | 137.5                                     |

## 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 35 to 44.

Total operating profit for the first six months of the year, at £167.8 million, was lower than the comparable 2011 result of £183.6 million.

|                              | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|------------------------------|--|--------------------------------------|---|
|                              | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| Life business                | <b>132.4</b>                                   | 139.9                                | 294.2                                     |
| Unit Trust business          | <b>42.2</b>                                    | 51.9                                 | 84.5                                      |
| Distribution business        | <b>2.0</b>                                     | –                                    | 6.1                                       |
| Other                        | <b>(8.8)</b>                                   | (8.2)                                | (13.3)                                    |
| <b>EEV operating profit</b>  | <b>167.8</b>                                   | 183.6                                | 371.5                                     |
| Investment return variance   | <b>54.9</b>                                    | 0.9                                  | (180.4)                                   |
| Economic assumption changes  | <b>(2.2)</b>                                   | (1.9)                                | (0.3)                                     |
| <b>EEV profit before tax</b> | <b>220.5</b>                                   | 182.6                                | 190.8                                     |
| Tax                          | <b>(46.8)</b>                                  | (43.4)                               | (42.5)                                    |
| Corporation tax rate change  | <b>18.7</b>                                    | 17.8                                 | 50.5                                      |
| <b>EEV profit after tax</b>  | <b>192.4</b>                                   | 157.0                                | 198.8                                     |

# Interim Management Report

## Financial Commentary continued

### *Life Business EEV Operating Profit*

The life business operating profit has decreased to £132.4 million (2011: £139.9 million) and a full analysis of the result is shown below:

|   | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|---|--|--------------------------------------|---|
|   | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| New business contribution                 | <b>87.5</b>                                    | 91.6                                 | 182.5                                     |
| Profit from existing business             |  |                                      |   |
| – unwind of the discount rate             | <b>39.2</b>                                    | 46.6                                 | 72.7                                      |
| – experience variance                     | <b>4.5</b>                                     | (0.2)                                | 39.4                                      |
| – operating assumption change             | –  | –                                    | (2.7)                                     |
| Investment income                         | <b>1.2</b>                                     | 1.9                                  | 2.3                                       |
| <b>Life business EEV operating profit</b> | <b>132.4</b>                                   | 139.9                                | 294.2                                     |

The **new business contribution** for the six months at £87.5 million (2011: £91.6 million) was some 4% lower than the prior year reflecting the lower new business whilst expenses increased marginally.

The **unwind of the discount rate** for the six months was £39.2 million (2011: £46.6 million). The unwind is calculated by applying the 'discount rate' to the opening value of in force (the value placed on the future cash flows of the business) whilst the discount rate is set by reference to the yield on a 10 year UK government gilt, the risk free rate.

The reduction in the unwind in the current year, despite the higher opening value of in force, reflects a reduction in the 10 year UK gilt yield (and therefore the discount rate) between the two reporting periods.

As indicated in last year's Financial Commentary, we have changed our approach this year so that the unwind is now calculated using the opening discount rate. We believe that this change assists investors in forecasting our future results, and also brings our methodology in line with that used by other life companies.

Had the opening discount rate been used for the period to 30 June 2011, then the unwind would have been £0.7 million higher (31 December 2011: £22.1 million higher), with a matching offset in the investment variance.

The combined **experience variance** in the six month period was a positive £4.5 million (2011: £0.2 million negative variance). Key contributors to the positive variance in the current year were the continued strong retention of funds under management together with a lower increase in the actual administration expense than assumed in the embedded value calculation.

The **investment income** for the six months was £1.2 million (2011: £1.9 million) and reflects the assumed interest rate we earn on our free assets.

# Interim Management Report

## Financial Commentary continued

### *Unit Trust Business EEV Operating Profit*

The unit trust operating profit was £42.2 million (2011: £51.9 million) and a full analysis of the result is shown below:

|   | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|---|--|--------------------------------------|---|
|   | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| New business contribution                       | <b>33.1</b>                                    | 36.1                                 | 63.5                                      |
| Profit from existing business                   |  |                                      |   |
| – unwind of the discount rate                   | <b>9.7</b>                                     | 12.5                                 | 18.5                                      |
| – experience variance                           | <b>(0.8)</b>                                   | 3.0                                  | (1.3)                                     |
| – operating assumption change                   | –  | –                                    | 3.3                                       |
| Investment income                               | <b>0.2</b>                                     | 0.3                                  | 0.5                                       |
| <b>Unit Trust business EEV operating profit</b> | <b>42.2</b>                                    | 51.9                                 | 84.5                                      |

**New business contribution** at £33.1 million (2011: £36.1 million) was 8% lower than the prior period as a result of the lower new business in the period and higher expenses.

The **unwind of the discount rate** was £9.7 million (2011: £12.5 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 gilts. As regards the change in approach, had the opening discount rate been used for the period to 30 June 2011, then the unwind would have been £0.2 million higher, with a matching offset in the investment variance.

There was a small negative **experience variance** of £0.8 million (2011: £3.0 million positive variance) which is accounted for by a number of small positive and negative items in both years.

### *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 the first half of 2012, world stock markets have advanced with, for example, the MSCI £ world index increasing by some 3.5%. Therefore the actual investment return on our funds during the period was higher than the assumed growth and consequently there was a positive investment return variance of £54.9 million for the period.

## Interim Management Report

# Financial Commentary continued

In the comparative period there was a small positive investment variance of £0.9 million, reflecting investment return in line with that assumed in the embedded value projection.

### *Economic Assumption Changes*

There was a small £2.2 million loss arising from changes in the economic basis adopted at the period end (2011: £1.9 million loss).

### *EEV Profit before Tax*

The total profit before tax for the six months was £220.5 million (2011: £182.6 million).

### *Tax*

The tax charge at £46.8 million (2011: £43.4 million) was higher than 2011 reflecting both the higher profit before tax and the lower corporation tax rates in future.

### *Corporation Tax Rate Change*

A further 1% reduction in the Corporation tax rate was announced in the 2012 Budget which has resulted in a reduction in the future expected tax cost of £18.7 million. This reduction has been shown as a negative tax charge.

### *EEV Profit after Tax*

The profit after tax was £192.4 million (2011: £157.0 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.

# Interim Management Report

## Financial Commentary continued

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.

|  | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--|--|--------------------------------------|---|
| <b>Life business</b>                   |  |                                      |   |
| New business contribution (£' Million) | <b>87.5</b>                                    | 91.6                                 | 182.5                                     |
| Manufactured APE (£' Million)          | <b>220.8</b>                                   | 229.3                                | 447.1                                     |
| Margin                                 | <b>39.6%</b>                                   | 39.9%                                | 40.8%                                     |
| Total APE (£' Million)                 | <b>274.4</b>                                   | 253.9                                | 505.4                                     |
| Margin                                 | <b>31.9%</b>                                   | 36.1%                                | 36.1%                                     |
| PVNBP (£' Million)                     | <b>1,991.2</b>                                 | 2,061.1                              | 4,023.2                                   |
| Margin                                 | <b>4.4%</b>                                    | 4.4%                                 | 4.5%                                      |
| <b>Unit Trust business</b>             |  |                                      |   |
| New business contribution (£' Million) | <b>33.1</b>                                    | 36.1                                 | 63.5                                      |
| APE (£' Million)                       | <b>79.6</b>                                    | 81.7                                 | 136.9                                     |
| Margin                                 | <b>41.6%</b>                                   | 44.1%                                | 46.4%                                     |
| PVNBP (£' Million)                     | <b>795.4</b>                                   | 816.9                                | 1,368.8                                   |
| Margin                                 | <b>4.2%</b>                                    | 4.4%                                 | 4.6%                                      |
| <b>Total business</b>                  |  |                                      |   |
| New business contribution (£' Million) | <b>120.6</b>                                   | 127.7                                | 246.0                                     |
| Manufactured APE (£' Million)          | <b>300.4</b>                                   | 311.0                                | 584.0                                     |
| Margin                                 | <b>40.1%</b>                                   | 41.1%                                | 42.1%                                     |
| Total APE (£' Million)                 | <b>353.9</b>                                   | 335.6                                | 642.3                                     |
| Margin                                 | <b>34.1%</b>                                   | 38.1%                                | 38.3%                                     |
| PVNBP (£' Million)                     | <b>2,786.6</b>                                 | 2,878.0                              | 5,392.0                                   |
| Margin                                 | <b>4.3%</b>                                    | 4.4%                                 | 4.6%                                      |

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

### *Life Margin*

The manufactured new business margin on both an APE and PVNBP basis has remained relatively static.

# Interim Management Report

## Financial Commentary continued

At the start of 2011 the Partner initial remuneration on life business was reduced from 3.6% to 3.3% and at the start of 2012 there was a further reduction from 3.3% to 3.0%. This was part of a two year equalisation of Partner remuneration ahead of the Retail Distribution Review coming into force. There was an offsetting increase in the on-going Partner remuneration on unit trust business implemented in April 2011 as one step.

Therefore, there has been a positive impact on the margin as a result of the reduction in the initial Partner remuneration from the start of this year. However, this has been offset by a negative impact on the margin from the lower new business, a less favourable business mix (more pensions) and slightly higher overhead expenses.

The total new business margin on an APE basis has reduced from 36.1% to 31.9% as a result of the higher proportion of non-manufactured business in the first six months of the current year.

### *Unit Trust Margin*

The unit trust margin in the first six months is lower than the same period last year on both an APE and PVNBP basis.

The reduction reflects not only the lower new business and slightly higher overhead expenses but also the increase in on-going Partner remuneration referred to above. As this change was implemented with effect from April 2011, the comparative new business profit only reflects three months of the impact of this change.

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 £2.0 million (2011: £nil), the combined margin arising on new business would be 4.4% (2011: 4.4%) on a PVNBP basis, 40.8% (2011: 41.1%) when just considering the manufactured APE and 34.7% (2011: 38.1%) for the total APE margin including non-manufactured business.

### **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:

|                                  | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|----------------------------------|--|--------------------------------------|---|
|                                  | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| Value of in-force                |  |                                      |   |
| – Life                           | <b>1,374.3</b>                                 | 1,231.8                              | 1,251.5                                   |
| – Unit Trust                     | <b>335.5</b>                                   | 318.2                                | 305.8                                     |
| Solvency net assets              | <b>368.2</b>                                   | 314.5                                | 342.2                                     |
| <b>Total embedded value</b>      | <b>2,078.0</b>                                 | 1,864.5                              | 1,899.5                                   |
|                                  |  |                                      |   |
|                                  | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|                                  | <b>Pence</b>                                   | Pence                                | Pence                                     |
| <b>Net asset value per share</b> | <b>414.6</b>                                   | 379.6                                | 385.0                                     |

### 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 result is a measure which more reflects the underlying cash emergence from 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, around half of the cash generated in a year from in-force business is re-invested in growing the business. As the business model matures, the strain of new business acquisition reduces as a proportion of the total income and the cash result increases.

During the first six months of the year, the cash result was £44.9 million (2011: £30.8 million) which was 46% higher than the prior period. In both periods there were timing and other variances and so, within these results, the underlying cash result was £41.9 million (2011: £28.0 million) up 50%.

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

| Six Months Ended 30 June 2012                  | Note | Arising from<br>business<br>in-force at<br>1 January<br>2012<br>£ Million | Investment in<br>new business<br>during period<br>£ Million | Total<br>£ Million |
|--|------|---|---|--------------------|
| Net annual management fee                      | 1    | 112.6   | 5.3   | 117.9              |
| Unwind of surrender penalties                  | 2    | (40.6)  | (1.7)   | (42.3)             |
| Net income from funds under management         |      | 72.0  | 3.6   | 75.6               |
| Margin arising from new business               | 3    | –   | 3.1   | 3.1                |
| Establishment expenses                         | 4    | (3.8)   | (34.0)  | (37.8)             |
| Development expenses                           | 5    | –   | (2.7)   | (2.7)              |
| FSA/FSCS Fees                                  | 6    | (0.4)   | (3.8)   | (4.2)              |
| Shareholder interest (regulated companies)     | 7    | 1.1   | –   | 1.1                |
| Shareholder interest (non-regulated companies) | 7    | 1.4   | –   | 1.4                |
| Miscellaneous                                  | 8    | 5.4   | –   | 5.4                |
| Underlying cash result                         |      | 75.7  | (33.8)  | 41.9               |
| Variance                                       | 9    | 3.0   | –   | 3.0                |
| Post-tax cash result                           |      | 78.7  | (33.8)  | 44.9               |



Interim Management Report  
**Financial Commentary** continued

| Six Months Ended 30 June 2011                  | Note | Arising from<br>business<br>in-force at<br>1 January<br>2011<br>£' Million | Investment in<br>new business<br>during period<br>£' Million | Total<br>£' Million |
|--|------|--|--|---------------------|
| Net annual management fee                      | 1    | 102.3  | 5.4  | 107.7               |
| Unwind of surrender penalties                  | 2    | (36.8)   | (1.7)  | (38.5)              |
| Net income from funds under management         |      | 65.5   | 3.7  | 69.2                |
| Margin arising from new business               | 3    | –  | (0.6)  | (0.6)               |
| Establishment expenses                         | 4    | (3.6)  | (32.6)   | (36.2)              |
| Development expenses                           | 5    | –  | (2.2)  | (2.2)               |
| FSA/FSCS Fees                                  | 6    | (0.3)  | (2.3)  | (2.6)               |
| Shareholder interest (regulated companies)     | 7    | 1.4  | –  | 1.4                 |
| Shareholder interest (non-regulated companies) | 7    | 1.0  | –  | 1.0                 |
| Miscellaneous                                  | 8    | (2.0)  | –  | (2.0)               |
| Underlying cash result                         |      | 62.0   | (34.0)   | 28.0                |
| Variance                                       | 9    | 2.8  | –  | 2.8                 |
| Post-tax cash result                           |      | 64.8   | (34.0)   | 30.8                |

| Twelve Months Ended 31 December 2011           | Note | Arising from<br>business<br>in-force at<br>1 January<br>2011<br>£' Million | Investment in<br>new business<br>during period<br>£' Million | Total<br>£' 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                |

# Interim Management Report

## Financial Commentary continued

The commentary below provides an explanation of the movement for the six months.

### Notes

Since all numbers are expressed after tax, they are impacted by the prevailing tax rate for each year. In 2012 the tax rate has reduced by 2% compared to that used for the prior period.

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 (0.75% after tax) of funds under management.

The level of net annual management fee was some 9% higher than the same period in 2011. This increase is in line with the growth in funds under management which averaged nearly £30 billion in the first six months of 2012 compared to £28 billion in the same period of 2011.

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.

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. In prior years there has been a negative margin from new business. However in the current year there was a positive impact, which reflects a reduction in initial Partner remuneration on Life business. This was introduced as part of the changes to equalise Partner remuneration, which have taken place over the last two years.
4. Establishment expenses: These are the expenses of running the Group's infrastructure as shown in the table on page 29. In line with the rest of this table they are presented after allowance for tax. These expenses were 4% higher in the current period. Since the analysis is presented after tax the increase also reflects the differing tax rates between the two reporting periods.
5. Development costs represent the expenditure associated with a significant development in our investment proposition, the costs associated with training the Partnership towards their diploma qualifications over the next couple of years and the investment in re-launching the St. James's Place Academy and other initiatives.
6. FSA/FSCS Fees: This relates to the fees payable to the FSA and the FSCS for the period.
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. The increase reflects a number of positives and negatives including a refund of administration expenses from 2011, which was confirmed in 2012.
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. During the period the Group was able to utilise tax relief on expenses which had previously been deferred. This resulted in a positive tax variance, which is dependent on market conditions and will reverse, possibly in the next period. In order to mitigate this large and volatile impact, an additional actuarial reserve was established of £10.1 million (2011: £nil), which is reflected in the cash result. Had no reserve been made then the total variance would have been £13.1 million, and the post-tax cash result would have been £55.0 million.

### 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.

# Interim Management Report

## Financial Commentary continued

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) and as funds under management increase then so does the income.

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         | 0.6                      |
| 2007         | 1.6                      |
| 2008         | 1.4                      |
| 2009         | 1.6                      |
| 2010         | 2.1                      |
| 2011         | 2.2                      |
| 2012         | 1.1                      |
| <b>Total</b> | <b>10.6</b>              |

The total business not yet contributing to the cash result is £10.6 billion\* or just over a third of the total funds under management at 30 June 2012. Once this business reaches the end of the surrender period the cash result will increase. For illustrative purposes, if all the business was now at this level of maturity then the annual post-tax cash result (based on 0.75% post-tax earnings from funds under management) would be some £80 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, £33.8 million (2011: £34.0 million) of the cash arising from the in-force business has been re-invested in acquiring the new business during the six month period.

# Interim Management Report

## Financial Commentary continued

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:

|  | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--|--|--------------------------------------|---|
|  | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| Post-tax investment in new business (£' Million)                       | <b>(33.8)</b>                                  | (34.0)                               | (62.4)                                    |
| Post-tax present value of expected future cash returns (£' Million)    | <b>128.5</b>                                   | 130.9                                | 253.5                                     |
| Post-tax present value of expected profit from investment (£' Million) | <b>94.8</b>                                    | 96.9                                 | 191.1                                     |
| Gross inflow of funds under management (£' Billion)                    | <b>2.7</b>                                     | 2.7                                  | 5.2                                       |
| Investment as % of gross inflow*                                       | <b>1.3%</b>                                    | 1.3%                                 | 1.2%                                      |
| New business margin (% of manufactured APE)                            | <b>40.1%</b>                                   | 41.1%                                | 42.1%                                     |
| Cash payback period (years)  | <b>5</b>                                       | 4                                    | 5   |
| Internal rate of return (net of tax)                                   | <b>21.0%</b>                                   | 23.6%                                | 20.6%                                     |

\* The investment as a percentage of net inflow of funds under management was 2.2% compared with 2.0% for the comparative period and 1.9% for the complete 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 as at 30 June 2012.

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.

Interim Management Report  
**Financial Commentary** continued

|  | Life       | Other<br>Regulated | Other      | Total      |
|--|------------|--------------------|------------|------------|
|  | £' Million | £' Million         | £' Million | £' Million |
| <b>Solvency position</b>                 |            |                    |            |            |
| Solvency net assets                      | 171.1      | 29.6               | 167.5      | 368.2      |
| Solvency requirement                     | 44.3       | 13.2               |            |            |
| Solvency ratio                           | 386%       | 224%               |            |            |
| <b>Analysis of solvency net assets</b>   |            |                    |            |            |
| UK government gilts                      | 80.0       | –                  | –          | 80.0       |
| AAA rated money market funds             | 193.3      | 31.9               | 35.9       | 261.1      |
| Bank balances                            | (16.4)     | 42.9               | 27.9       | 54.4       |
| Liquid assets                            | 256.9      | 74.8               | 63.8       | 395.5      |
| Fixed assets                             | –          | –                  | 4.9        | 4.9        |
| Actuarial reserves                       | (43.8)     | –                  | –          | (43.8)     |
| Other assets and liabilities             | (42.0)     | (45.2)             | 98.8       | 11.6       |
| Solvency net assets                      | 171.1      | 29.6               | 167.5      | 368.2      |
| <b>Reconciliation to IFRS net assets</b> |            |                    |            |            |
| Solvency net assets                      | 171.1      | 29.6               | 167.5      | 368.2      |
| – Purchased VIF                          | 34.1       | –                  | –          | 34.1       |
| – DAC and DIR                            | 260.7      | (31.9)             | –          | 228.8      |
| – Other                                  | 78.1       | 1.3                | –          | 79.4       |
| Total IFRS net assets                    | 544.0      | (1.0)              | 167.5      | 710.5      |

Included within the 'other' capital resources is an implied reserve that is being built up to cover one years' dividend cost. At 30 June 2012 the amount set aside to date was £35.0 million compared to a full year dividend cost in 2011 of £39.6 million.

# Interim Management Report

## Financial Commentary continued

### Analysis of Liquid Assets

As noted in the table above the Group has liquid assets of £395.5 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   |
|--|------------|--------------|
| <b>UK government gilts</b>               |            |              |
| 8% UK Treasury 27/09/2013                | 7.1        |              |
| 2.5% UK Treasury Index Linked 26/07/2016 | 12.1       |              |
| 2.5% UK Treasury Index Linked 17/07/2024 | 18.0       |              |
| 2% UK Treasury Index Linked 26/01/2035   | 21.9       |              |
| 4.25% UK Treasury 07/12/2055             | 4.7        |              |
| 3.5% War Loan                            | 16.2       | 80.0         |
| <b>AAA rated money market funds</b>      |            |              |
| BlackRock                                | 69.2       |              |
| HSBC                                     | 56.4       |              |
| Insight                                  | 67.1       |              |
| RBS                                      | 68.4       | 261.1        |
| <b>Bank balances</b>                     |            |              |
| UK banks*                                | 51.3       |              |
| Others                                   | 3.1        | 54.4         |
|  |            | <b>395.5</b> |

\* HSBC, Barclays, Santander (UK), 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 30 June 2012 there were 17.7 million share options outstanding under the various share option schemes which, if exercised, will provide up to £44.1 million (2011: £53.7 million), of future capital for the Company.

Interim Management Report  
**Financial Commentary** continued

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 Dec 2012         | 2.48                   | 16.3                                | 40.5               |
| 2013                      | 2.04                   | 0.3                                 | 0.5                |
| 2014                      | 2.42                   | 0.3                                 | 0.7                |
| 2015                      | 2.96                   | 0.8                                 | 2.4                |
|                           |                        | 17.7                                | 44.1               |

#### 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 | 6 Months Ended 30 June 2012<br>£' Million | 6 Months Ended 30 June 2011<br>£' Million | 12 Months Ended 31 December 2011<br>£' Million |
|---|------|---|---|--|
| <b>Paid from policy margins</b>             |      |   |   |  |
| Partner remuneration                        | 1    | 141.5                                     | 136.0                                     | 276.7  |
| Investment expenses                         | 1    | 43.4                                      | 48.1                                      | 92.5   |
| Third party administration                  | 1    | 13.7                                      | 16.0                                      | 33.5   |
|   |      | 198.6                                     | 200.1                                     | 402.7  |
| <b>Direct expenses</b>                      |      |   |   |  |
| Other new business related costs            | 2    | 27.7                                      | 27.6                                      | 54.5   |
| Establishment costs                         | 3    | 49.6                                      | 47.6                                      | 95.0   |
| Development costs                           | 4    | 4.0                                       | 2.9                                       | 4.5  |
| FSA/FSCS levy                               | 5    | 5.6                                       | 3.4                                       | 8.0  |
| Contribution from third party product sales | 6    | (9.5)                                     | (5.2)                                     | (13.5)   |
|   |      | 77.4                                      | 76.3                                      | 148.5  |
|   |      | 276.0                                     | 276.4                                     | 551.2  |

## Interim Management Report

# Financial Commentary continued

In the full year 2011 Financial Commentary, I indicated that establishment expenses were expected to grow by 5% in 2012. At the half year establishment expenses growth was 4.2% and we now hope to limit the full year growth to less than 5%.

I also commented in the full year Financial Commentary that we would be investing some £3.0 million in re-launching the St. James's Place Academy and other initiatives. At the half year stage we have incurred £1.7 million of this investment and this is included in the above table within development costs. Total development costs for the year, including the aforementioned investment of £3.0 million are expected to be £8–9 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 current year costs are lower than last year and this will be the case for the full year.
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, the costs associated with training the Partnership towards their diploma qualifications and the associated administration systems developments, investment in re-launching the St. James's Place Academy, and other initiatives.
5. The FSA/FSCS costs represent the fees payable to the FSA of £2.5 million (2011: £2.4 million) together with our required contribution to the Financial Services Compensation Scheme of £3.1 million (2011: £1.0 million).
6. Contribution from third party product sales reflects the net income received from wealth management sales of £4.2 million (2011: £1.6 million), sales of stakeholder products of £0.5 million (2011: £0.5 million) and sales through the Protection Panel of £4.8 million (2011: £3.1 million).

During 2012, £1.9 million of software development costs were 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.



# Interim Management Report

## Financial Commentary continued

### Analysis of Funds Under Management

The following table provides an analysis of the funds under management at 30 June 2012 split by geographic and asset type.

|                         | FUM<br>£' Billion | % of total  |
|-------------------------|-------------------|-------------|
| UK Equities             | 9.4               | 30%         |
| European Equities       | 3.5               | 11%         |
| North American Equities | 4.3               | 14%         |
| Asia & Pacific Equities | 3.6               | 12%         |
| Property                | 0.8               | 3%          |
| Fixed Interest          | 4.4               | 14%         |
| Alternative Investments | 1.1               | 4%          |
| Cash                    | 2.5               | 8%          |
| Other                   | 1.3               | 4%          |
| <b>Total</b>            | <b>30.9</b>       | <b>100%</b> |

### Movement in Funds Under Management

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

|   | *6 Months<br>Ended<br>30 June<br>2012<br>£' Billion | *6 Months<br>Ended<br>30 June<br>2011<br>£' Billion | 12 Months<br>Ended<br>31 December<br>2011<br>£' Billion |
|---|---|---|---|
| Opening funds under management                                | 28.5  | 27.0  | 27.0  |
| New money invested  | 2.7   | 2.7   | 5.2   |
| Investment return   | 0.9   | 0.4   | (1.8)   |
|   | <b>32.1</b>   | <b>30.1</b>   | <b>30.4</b>   |
| Regular withdrawals/maturities                                | (0.4)   | (0.3)   | (0.5)   |
| Surrenders/part surrenders                                    | (0.8)   | (0.7)   | (1.4)   |
| <b>Closing funds under management</b>                         | <b>30.9</b>   | <b>29.1</b>   | <b>28.5</b>   |
| Implied surrender rate as % of average funds under management | 5.2%  | 5.0%  | 5.2%  |
| Net inflow of funds   | 1.51  | 1.65  | 3.3   |
| Net inflow as % of opening funds under management             | 5.3%  | 6.3%  | 12.2%   |

\* Annualised figures.

## Interim Management Report

# Financial Commentary continued

Shareholders will be pleased to note that the continued strong retention of funds under management, together with the level of new money invested, provides for a further net fund inflow of £1.51 billion (2011: £1.65 billion).

This net inflow represents 5.3% (2011: 6.3%) 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.

### **Related Party Transactions**

The related party transactions during the first six month period are set out in Note 14 to the condensed half year statements.

### **Concluding Remarks**

As I commented at the start of this statement, the first six months of 2012 has been a good period for the business with a strong operating performance.

The business continues to demonstrate its resilience to difficult trading conditions and importantly funds under management are growing. Looking forward we expect the cash result to grow year on year which is positive for future dividend growth.



### **Andrew Croft**

*Chief Financial Officer*

25 July 2012

## Principal Risks and Uncertainties

A comprehensive review of the principal risks and uncertainties facing the business, and the Group's approach to managing these risks and uncertainties, are outlined on pages 28 to 36 of the 2011 Annual Report and Accounts under the Risk and Risk Management section. These principal risks and uncertainties have not changed materially since the 2011 Annual Report and Accounts. A summary of those principal key risks and uncertainties which could impact the Group for the remainder of the current financial year are outlined below.

| <b>Risk/uncertainty</b>                            | <b>Description</b>  |
|--|---|
| <i>Distribution capability</i>                     | The Group's distribution strength is eroded due to an inability to recruit and retain Partners of the appropriate quality.  |
| <i>Investment management approach</i>              | Our approach to investment management fails to deliver expected returns to clients of the Group.  |
| <i>Outsourcing</i>                                 | The Group's dependence on outsourcing comes under threat because any of its key investment management or administration business partners decide to exit the market, significantly revise their strategy or fail. |
| <i>Competitor activity</i>                         | A major and successful new entrant to the adviser-based wealth management market has an impact on the success of SJP's business.  |
| <i>Advice</i>                                      | Advice given by an individual Partner or authorised by the Group is deemed unsuitable leading to regulatory censure, redress costs and potential reputational damage.   |
| <i>Retail distribution review</i>                  | Changes arising from the Retail Distribution Review, particularly in relation to professionalism and adviser charging, adversely impact the Group.  |
| <i>Regulatory, legislative and tax environment</i> | Changes in the wider regulatory environment, supervisory approach or legislative and tax environments have an adverse impact on the Group's business.   |
| <i>Eurozone failure</i>                            | The impact of one or more Euro area countries defaulting or being forced to exit is uncertain and could adversely impact the Group.   |

# European Embedded Value ('EEV') Basis



## European Embedded Value ('EEV') Basis

# Consolidated Statement of Income

The following 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.

|   | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|---|--------------------------------------|--------------------------------------|---|
|   | £' Million                           | £' Million                           | £' Million                                |
| Life business                                       | 132.4                                | 139.9                                | 294.2                                     |
| Unit Trust business                                 | 42.2                                 | 51.9                                 | 84.5                                      |
| Distribution business                               | 2.0                                  | –                                    | 6.1                                       |
| Other   | (8.8)                                | (8.2)                                | (13.3)                                    |
| <b>Operating profit</b>                             | <b>167.8</b>                         | <b>183.6</b>                         | <b>371.5</b>                              |
| Investment return variances                         | 54.9                                 | 0.9                                  | (180.4)                                   |
| Economic assumption changes                         | (2.2)                                | (1.9)                                | (0.3)                                     |
| <b>EEV profit on ordinary activities before tax</b> | <b>220.5</b>                         | <b>182.6</b>                         | <b>190.8</b>                              |
| <b>Tax</b>  |                                      |                                      |   |
| Life business                                       | (36.6)                               | (32.1)                               | (34.5)                                    |
| Unit Trust business                                 | (12.0)                               | (13.8)                               | (9.9)                                     |
| Distribution business                               | (0.6)                                | (0.1)                                | (1.6)                                     |
| Other   | 2.4                                  | 2.6                                  | 3.5                                       |
| Corporation tax rate change                         | 18.7                                 | 17.8                                 | 50.5                                      |
|   | (28.1)                               | (25.6)                               | 8.0                                       |
| <b>EEV profit on ordinary activities after tax</b>  | <b>192.4</b>                         | <b>157.0</b>                         | <b>198.8</b>                              |
| <b>Dividends</b>                                    | <b>23.9</b>                          | <b>19.4</b>                          | <b>35.1</b>                               |
|   | Pence                                | Pence                                | Pence                                     |
| <b>Basic earnings per share</b>                     | <b>39.0</b>                          | <b>32.4</b>                          | <b>40.8</b>                               |
| <b>Diluted earnings per share</b>                   | <b>38.5</b>                          | <b>31.6</b>                          | <b>39.5</b>                               |
| <b>Operating profit basic earnings per share</b>    | <b>26.8</b>                          | <b>28.9</b>                          | <b>59.5</b>                               |
| <b>Operating profit diluted earnings per share</b>  | <b>26.4</b>                          | <b>28.2</b>                          | <b>57.6</b>                               |

## Consolidated Statement of Changes in Equity

|   | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|---|--|--------------------------------------|---|
|   | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| <b>Opening equity shareholders' funds on an EEV basis</b>   | <b>1,899.5</b>                                 | 1,715.5                              | 1,715.5                                   |
| Post-tax profit for the period                              | <b>192.4</b>                                   | 157.0                                | 198.8                                     |
| Issue of share capital                                      | <b>9.0</b>                                     | 9.0                                  | 13.4                                      |
| Dividends paid  | <b>(23.9)</b>                                  | (19.4)                               | (35.1)                                    |
| Retained earnings credit in respect of share option charges | <b>3.4</b>                                     | 5.9                                  | 10.5                                      |
| Consideration paid for own shares                           | <b>(2.4)</b>                                   | (3.5)                                | (3.6)                                     |
| <b>Closing equity shareholders' funds on an EEV basis</b>   | <b>2,078.0</b>                                 | 1,864.5                              | 1,899.5                                   |

## Consolidated Statement of Financial Position

|   | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|---|-----------------|-----------------|---------------------|
|   | £ Million       | £ Million       | £ Million           |
| <b>Assets</b>                                 |                 |                 |                     |
| Intangible assets                             |                 |                 |                     |
| – Deferred acquisition costs                  | 908.7           | 816.1           | 865.1               |
| – Value of long-term business in-force        |                 |                 |                     |
| – long-term insurance                         | 1,066.0         | 956.1           | 950.2               |
| – unit trusts                                 | 335.5           | 318.2           | 305.8               |
| – Computer software                           | 10.2            | 3.7             | 8.4                 |
| – Customer list                               | 0.7             | –               | 0.9                 |
|   | 2,321.1         | 2,094.1         | 2,130.4             |
| Property and equipment                        | 4.9             | 5.8             | 5.4                 |
| Deferred tax assets                           | 214.8           | 166.7           | 248.5               |
| Investment property                           | 552.1           | 464.0           | 550.9               |
| Investments                                   | 24,639.8        | 23,084.9        | 22,532.4            |
| Reinsurance assets                            | 38.1            | 38.2            | 39.0                |
| Insurance and investment contract receivables | 40.5            | 36.4            | 44.5                |
| Income tax assets                             | 28.3            | 14.2            | 41.3                |
| Other receivables                             | 590.4           | 515.6           | 530.2               |
| Cash and cash equivalents                     | 2,602.5         | 2,306.5         | 2,329.3             |
| <b>Total assets</b>                           | <b>31,032.5</b> | <b>28,726.4</b> | <b>28,451.9</b>     |
| <b>Liabilities</b>                            |                 |                 |                     |
| Insurance contract liability provisions       | 398.5           | 417.8           | 394.0               |
| Other provisions                              | 10.6            | 3.5             | 3.1                 |
| Financial liabilities                         | 24,156.1        | 22,780.2        | 22,314.5            |
| Deferred tax liabilities                      | 209.5           | 210.2           | 207.3               |
| Insurance and investment contract payables    | 22.3            | 45.5            | 29.9                |
| Deferred income                               | 562.7           | 506.4           | 536.9               |
| Income tax liabilities                        | 43.0            | 32.7            | 12.4                |
| Other payables                                | 379.0           | 396.5           | 376.4               |
| Net asset value attributable to unit holders  | 3,172.8         | 2,469.1         | 2,677.9             |
| <b>Total liabilities</b>                      | <b>28,954.5</b> | <b>26,861.9</b> | <b>26,552.4</b>     |
| <b>Net assets</b>                             | <b>2,078.0</b>  | <b>1,864.5</b>  | <b>1,899.5</b>      |
| <b>Shareholders' equity</b>                   |                 |                 |                     |
| Share capital                                 | 75.2            | 73.7            | 74.0                |
| Share premium                                 | 118.2           | 106.3           | 110.4               |
| Treasury shares reserve                       | (9.2)           | (8.5)           | (8.5)               |
| Miscellaneous reserves                        | 2.3             | 2.3             | 2.3                 |
| Retained earnings                             | 1,891.5         | 1,690.7         | 1,721.3             |
| <b>Total shareholders' equity</b>             | <b>2,078.0</b>  | <b>1,864.5</b>  | <b>1,899.5</b>      |
|   | Pence           | Pence           | Pence               |
| <b>Net assets per share</b>                   | <b>414.6</b>    | <b>379.6</b>    | <b>385.0</b>        |

# Notes to the EEV Basis Results

## I. BASIS OF PREPARATION

The interim supplementary information on pages 35 to 44 shows the Group's results for the six months ended 30 June 2012 as measured on a European Embedded Value ('EEV') basis. For interim reporting purposes the disclosure has been reduced from that which would be required under the EEV Principles. The results of the life, pension and investment business, including unit trust business, undertaken by the Group are measured 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 in October 2005 (together 'the EEV Principles'), with the exception of:

- **New Life Tax Regime**

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. This valuation has been prepared assuming the continuation of the basis of assessment in place at 30 June 2012.

- **New Business**

Consistent with prior reporting periods, 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 treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis.

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

## II. METHODOLOGY AND ASSUMPTIONS

As indicated in last year's Financial Commentary, we have changed our approach this year so that the unwind of the risk discount rate is now calculated using the opening discount rate. We believe that this change assists investors in forecasting our future results, and also brings our methodology in line with that used by other life companies.

The methodology used to derive the European Embedded Values at June 2012 is otherwise unchanged from that used at the end of 2011 (and also from that used at June 2011) and is set out in detail on pages 137 and 138 of the 2011 Annual Report and Accounts.

Apart from the assumptions set out below, there have been no changes to assumptions from those used at the end of 2011 and set out in detail on pages 138 and 139 of the 2011 Annual Report and Accounts.



# Notes to the EEV Basis Results continued

## II. METHODOLOGY AND ASSUMPTIONS continued

### Economic Assumptions

The principal economic assumptions used within the cash flows at 30 June 2012 are set out below.

|                                 | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|---------------------------------|-----------------|-----------------|---------------------|
| Risk free rate                  | 1.8%            | 3.5%            | 2.0%                |
| Inflation rate                  | 2.5%            | 3.3%            | 2.7%                |
| Risk discount rate (net of tax) | 4.9%            | 6.6%            | 5.1%                |
| Future investment returns:      |                 |                 |                     |
| – Gilts                         | 1.8%            | 3.5%            | 2.0%                |
| – Equities                      | 4.8%            | 6.5%            | 5.0%                |
| – Unit-linked funds:            |                 |                 |                     |
| – Capital growth                | 1.2%            | 2.9%            | 1.4%                |
| – Dividend income               | 2.9%            | 2.9%            | 2.9%                |
| – Total                         | 4.1%            | 5.8%            | 4.3%                |
| Expense inflation               | 3.3%            | 4.0%            | 3.5%                |

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.

## Notes to the EEV Basis Results continued

### III. COMPONENTS OF LIFE AND UNIT TRUST EEV PROFIT

#### Life business

|                                    | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|------------------------------------|--------------------------------------|--------------------------------------|---|
|                                    | £' Million                           | £' Million                           | £' Million                                |
| New business contribution          | 87.5                                 | 91.6                                 | 182.5                                     |
| Profit from existing business      |                                      |                                      |   |
| – Unwind of discount rate          | 39.2                                 | 46.6                                 | 72.7                                      |
| – Experience variances             | 4.5                                  | (0.2)                                | 39.4                                      |
| – Operating assumption changes     | –                                    | –                                    | (2.7)                                     |
| Investment income                  | 1.2                                  | 1.9                                  | 2.3                                       |
| <b>Operating profit before tax</b> | <b>132.4</b>                         | <b>139.9</b>                         | <b>294.2</b>                              |
| Investment return variances        | 43.5                                 | (0.4)                                | (141.2)                                   |
| Economic assumption changes        | (2.0)                                | (1.7)                                | 2.7                                       |
| <b>Profit before tax</b>           | <b>173.9</b>                         | <b>137.8</b>                         | <b>155.7</b>                              |
| Attributed tax                     | (36.6)                               | (32.1)                               | (34.5)                                    |
| Corporation tax rate charge        | 14.8                                 | 13.9                                 | 37.6                                      |
| <b>Profit after tax</b>            | <b>152.1</b>                         | <b>119.6</b>                         | <b>158.8</b>                              |

New business contribution after tax is £69.1 million (30 June 2011: £70.2 million).

The unwind figures at June 2011 and December 2011 were calculated by applying the period end discount rate to the opening value of in-force. Had the opening discount rate been used for the calculation at June 2011 then the unwind would have been £0.7 million higher (December 2011: £22.1 million higher) with a matching offset in the investment variance.

## Notes to the EEV Basis Results continued

### III. COMPONENTS OF LIFE AND UNIT TRUST EEV PROFIT continued

#### Unit Trust business

|                                    | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|------------------------------------|--------------------------------------|--------------------------------------|---|
|                                    | £' Million                           | £' Million                           | £' Million                                |
| New business contribution          | 33.1                                 | 36.1                                 | 63.5                                      |
| Profit from existing business      |                                      |                                      |   |
| – Unwind of discount rate          | 9.7                                  | 12.5                                 | 18.5                                      |
| – Experience variances             | (0.8)                                | 3.0                                  | (1.3)                                     |
| – Operating assumption changes     | –                                    | –                                    | 3.3                                       |
| Investment income                  | 0.2                                  | 0.3                                  | 0.5                                       |
| <b>Operating profit before tax</b> | <b>42.2</b>                          | <b>51.9</b>                          | <b>84.5</b>                               |
| Investment return variances        | 11.4                                 | 1.3                                  | (39.2)                                    |
| Economic assumption changes        | (0.2)                                | (0.2)                                | (3.0)                                     |
| <b>Profit before tax</b>           | <b>53.4</b>                          | <b>53.0</b>                          | <b>42.3</b>                               |
| Attributed tax                     | (12.0)                               | (13.8)                               | (9.9)                                     |
| Corporation tax rate charge        | 3.9                                  | 3.9                                  | 12.9                                      |
| <b>Profit after tax</b>            | <b>45.3</b>                          | <b>43.1</b>                          | <b>45.3</b>                               |

New business contribution after tax is £25.7 million (30 June 2011: £26.7 million).

The unwind figures at June 2011 and December 2011 were calculated by applying the period end discount rate to the opening value of in-force. Had the opening discount rate been used for the calculation at June 2011 then the unwind would have been £0.2 million higher (December 2011: £5.7 million higher) with a matching offset in the investment variance.

## Notes to the EEV Basis Results continued

### III. COMPONENTS OF LIFE AND UNIT TRUST EEV PROFIT continued Combined Life and Unit Trust business

|                                    | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|------------------------------------|--------------------------------------|--------------------------------------|---|
|                                    | £' Million                           | £' Million                           | £' Million                                |
| New business contribution          | 120.6                                | 127.7                                | 246.0                                     |
| Profit from existing business      |                                      |                                      |   |
| – Unwind of discount rate          | 48.9                                 | 59.1                                 | 91.2                                      |
| – Experience variances             | 3.7                                  | 2.8                                  | 38.1                                      |
| – Operating assumption changes     | –                                    | –                                    | 0.6                                       |
| Investment income                  | 1.4                                  | 2.2                                  | 2.8                                       |
| <b>Operating profit before tax</b> | <b>174.6</b>                         | <b>191.8</b>                         | <b>378.7</b>                              |
| Investment return variances        | 54.9                                 | 0.9                                  | (180.4)                                   |
| Economic assumption changes        | (2.2)                                | (1.9)                                | (0.3)                                     |
| <b>Profit before tax</b>           | <b>227.3</b>                         | <b>190.8</b>                         | <b>198.0</b>                              |
| Attributed tax                     | (48.6)                               | (45.9)                               | (44.4)                                    |
| Corporation tax rate charge        | 18.7                                 | 17.8                                 | 50.5                                      |
| <b>Profit after tax</b>            | <b>197.4</b>                         | <b>162.7</b>                         | <b>204.1</b>                              |

New business contribution after tax is £94.8 million (30 June 2011: £96.9 million).

The unwind figures at June 2011 and December 2011 were calculated by applying the period end discount rate to the opening value of in-force. Had the opening discount rate been used for the calculation at June 2011 then the unwind would have been £0.9 million higher (December 2011: £27.8 million higher) with a matching offset in the investment variance.

## Notes to the EEV Basis Results continued

### IV. SENSITIVITIES

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

|  | Note | Change in new business contribution |             | Change in European Embedded Value |
|--|------|-------------------------------------|-------------|-----------------------------------|
|  |      | Pre-tax                             | Post-tax    | Post-tax                          |
|  |      | £ Million                           | £ Million   | £ Million                         |
| <b>Value at 30 June 2012</b>   |      | <b>120.6</b>                        | <b>94.8</b> | <b>2,078.0</b>                    |
| 100bp reduction in risk free rates, with corresponding change in fixed interest asset values | 1    | (1.1)                               | (0.9)       | 0.2                               |
| 10% reduction in withdrawal rates  |      | 11.5                                | 9.1         | 102.8                             |
| 10% reduction in expenses  |      | 2.6                                 | 2.0         | 26.5                              |
| 10% reduction in market value of equity assets   | 2    | –                                   | –           | (194.6)                           |
| 5% reduction in mortality and morbidity  | 3    | –                                   | –           | 1.1                               |
| 100bp increase in equity expected returns  | 4    | –                                   | –           | –                                 |
| 100bp increase in assumed inflation  | 5    | (2.3)                               | (1.8)       | (16.5)                            |

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

Note 2: For the purposes of this required sensitivity all unit-linked funds are assumed to be invested in equities. The actual mix of assets varies and in recent years the proportion invested directly in UK and overseas equities has exceeded 70%.

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

Note 4: As a market consistent approach is used, equity expected returns only affect the derived discount rates and not the embedded value or contribution to profit from new business.

Note 5: 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                         |
| <b>100bp reduction in risk discount rate</b> | <b>16.6</b>                         | <b>13.1</b> | <b>145.3</b>                      |

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

## Notes to the EEV Basis Results continued

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

|   | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|---|--------------------------------------|--------------------------------------|---|
|   | £' Million                           | £' Million                           | £' Million                                |
| <b>IFRS profit before tax</b>                   | <b>85.0</b>                          | 59.1                                 | 21.3                                      |
| Movement in life value of in-force              | 95.3                                 | 84.9                                 | 155.0                                     |
| Movement in unit trust value of in-force        | 40.2                                 | 38.6                                 | 14.5                                      |
| <b>Total EEV profit before tax</b>              | <b>220.5</b>                         | 182.6                                | 190.8                                     |
|   | 30 June<br>2012                      | 30 June<br>2011                      | 31 December<br>2011                       |
|   | £' Million                           | £' Million                           | £' Million                                |
| <b>IFRS net assets</b>                          | <b>710.5</b>                         | 625.9                                | 678.3                                     |
| Less: acquired value of in-force                | (44.8)                               | (48.3)                               | (46.4)                                    |
| Add: deferred tax on acquired value of in-force | 10.8                                 | 12.6                                 | 11.6                                      |
| Add: life value of in-force                     | 1,066.0                              | 956.1                                | 950.2                                     |
| Add: unit trust value of in-force               | 335.5                                | 318.2                                | 305.8                                     |
| <b>EEV net assets</b>                           | <b>2,078.0</b>                       | 1,864.5                              | 1,899.5                                   |

# Independent Review Report by PricewaterhouseCoopers to St. James's Place plc – European Embedded Value

## INTRODUCTION

We have been engaged by the Company to review the interim supplementary information in the half year report for the six months ended 30 June 2012, which comprises the Consolidated Statement of Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Financial Position as at 30 June 2012 and related notes prepared on the European Embedded Value ('EEV') basis on pages 35 to 44. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the interim supplementary information.

## DIRECTORS' RESPONSIBILITIES

The half year report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim supplementary information in accordance with the EEV basis set out in note I.

## OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the interim supplementary information in the half year report based on our review. This report, including the conclusion, has been prepared for, and only for, the Company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of supplementary financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim supplementary information in the half year report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with the EEV basis set out in note I.

## PricewaterhouseCoopers LLP

*Chartered Accountants*

Bristol

25 July 2012

Notes:

- (a) The interim supplementary information is published on the website of St. James's Place plc, [www.sjp.co.uk](http://www.sjp.co.uk). The maintenance and integrity of the St. James's Place plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the half year report since it was initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

# International Financial Reporting Standards ('IFRS') Basis





## Condensed Consolidated Statement of Comprehensive Income

|  | Note | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--|------|--------------------------------------|--------------------------------------|---|
|  |      | £' Million                           | £' Million                           | £' Million                                |
| Insurance premium income                                       |      | 32.0                                 | 34.9                                 | 73.4                                      |
| Less premiums ceded to reinsurers                              |      | (12.8)                               | (14.0)                               | (29.7)                                    |
| <b>Net insurance premium income</b>                            |      | <b>19.2</b>                          | <b>20.9</b>                          | <b>43.7</b>                               |
| Fee and commission income                                      |      | 299.8                                | 263.0                                | 524.9                                     |
| Other investment return  |      | 1,172.1                              | 637.1                                | (1,117.1)                                 |
| Other operating income   |      | 0.8                                  | 0.8                                  | 1.6                                       |
| <b>Net income</b>  | 3    | <b>1,491.9</b>                       | <b>921.8</b>                         | <b>(546.9)</b>                            |
| Policy claims and benefits                                     |      |                                      |                                      |   |
| – Gross amount   |      | (24.5)                               | (28.3)                               | (58.1)                                    |
| – Reinsurers' share  |      | 11.0                                 | 9.9                                  | 23.1                                      |
| <b>Net policyholder claims and benefits incurred</b>           |      | <b>(13.5)</b>                        | <b>(18.4)</b>                        | <b>(35.0)</b>                             |
| Change in insurance contract liabilities                       |      |                                      |                                      |   |
| – Gross amount   |      | (4.5)                                | 0.1                                  | 23.9                                      |
| – Reinsurers' share  |      | (0.9)                                | (0.4)                                | 0.4                                       |
| <b>Net change in insurance contract liabilities</b>            |      | <b>(5.4)</b>                         | <b>(0.3)</b>                         | <b>24.3</b>                               |
| <b>Net change in investment contract benefits</b>              |      | <b>(1,133.7)</b>                     | <b>(602.4)</b>                       | <b>1,070.7</b>                            |
| Fees, commission and other acquisition costs                   |      | (196.1)                              | (179.0)                              | (369.3)                                   |
| Administration expenses  |      | (56.6)                               | (60.7)                               | (118.7)                                   |
| Other operating expenses                                       |      | (1.6)                                | (1.9)                                | (3.8)                                     |
|  |      | (254.3)                              | (241.6)                              | (491.8)                                   |
| <b>Profit before tax</b>                                       | 3    | <b>85.0</b>                          | <b>59.1</b>                          | <b>21.3</b>                               |
| Tax attributable to policyholders' returns                     | 4    | (26.1)                               | (3.8)                                | 88.4                                      |
| <b>Profit before tax attributable to shareholders' returns</b> |      | <b>58.9</b>                          | <b>55.3</b>                          | <b>109.7</b>                              |
| Total tax credit/(expense)                                     |      | (38.9)                               | (11.5)                               | 85.5                                      |
| Less: tax attributable to policyholders' returns               | 4    | 26.1                                 | 3.8                                  | (88.4)                                    |
| Tax attributable to shareholders' returns                      | 4    | (12.8)                               | (7.7)                                | (2.9)                                     |
| <b>Profit and total comprehensive income for the period</b>    | 3    | <b>46.1</b>                          | <b>47.6</b>                          | <b>106.8</b>                              |
|  |      | Pence                                | Pence                                | Pence                                     |
| <b>Basic earnings per share</b>                                | 5    | <b>9.4</b>                           | <b>9.8</b>                           | <b>21.9</b>                               |
| <b>Diluted earnings per share</b>                              | 5    | <b>9.2</b>                           | <b>9.6</b>                           | <b>21.2</b>                               |

## Condensed Consolidated Statement of Changes in Equity

|   | Note | Share<br>Capital | Share<br>Premium | Treasury<br>Shares<br>Reserve | Retained<br>Earnings | Miscellaneous<br>Reserves | Total        |
|---|------|------------------|------------------|-------------------------------|----------------------|---------------------------|--------------|
|   |      | £' Million       | £' Million       | £' Million                    | £' Million           | £' Million                | £' Million   |
| At 31 December 2010                                   |      | 72.9             | 98.1             | (8.2)                         | 421.2                | 2.3                       | 586.3        |
| Total comprehensive income for the period             |      |                  |                  |                               | 47.6                 |                           | 47.6         |
| Dividends paid  | 6    |                  |                  |                               | (19.4)               |                           | (19.4)       |
| Issue of share capital                                |      |                  |                  |                               |                      |                           |              |
| – Scrip dividend                                      |      | 0.2              | 2.9              |                               |                      |                           | 3.1          |
| – Exercise of options                                 |      | 0.6              | 5.3              |                               |                      |                           | 5.9          |
| Consideration paid for own shares                     |      |                  |                  | (3.5)                         |                      |                           | (3.5)        |
| Own shares vesting charge                             |      |                  |                  | 3.2                           | (3.2)                |                           | –            |
| P&L reserve credit in respect of share option charges |      |                  |                  |                               | 5.9                  |                           | 5.9          |
| <b>At 30 June 2011</b>                                |      | <b>73.7</b>      | <b>106.3</b>     | <b>(8.5)</b>                  | <b>452.1</b>         | <b>2.3</b>                | <b>625.9</b> |
| At 31 December 2011                                   |      | 74.0             | 110.4            | (8.5)                         | 500.1                | 2.3                       | 678.3        |
| Total comprehensive income for the period             |      |                  |                  |                               | 46.1                 |                           | 46.1         |
| Dividends paid  | 6    |                  |                  |                               | (23.9)               |                           | (23.9)       |
| Issue of share capital                                |      |                  |                  |                               |                      |                           |              |
| – Scrip dividend                                      |      |                  |                  |                               |                      |                           |              |
| – Exercise of options                                 |      | 1.2              | 7.8              |                               |                      |                           | 9.0          |
| Consideration paid for own shares                     |      |                  |                  | (2.4)                         |                      |                           | (2.4)        |
| Own shares vesting charge                             |      |                  |                  | 1.7                           | (1.7)                |                           | –            |
| P&L reserve credit in respect of share option charges |      |                  |                  |                               | 3.4                  |                           | 3.4          |
| <b>At 30 June 2012</b>                                |      | <b>75.2</b>      | <b>118.2</b>     | <b>(9.2)</b>                  | <b>524.0</b>         | <b>2.3</b>                | <b>710.5</b> |

Miscellaneous reserves represent other non-distributable reserves.

## Condensed Consolidated Statement of Financial Position

|   | Note | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|---|------|-----------------|-----------------|---------------------|
|   |      | £' Million      | £' Million      | £' Million          |
| <b>Assets</b>                                 |      |                 |                 |                     |
| Intangible assets                             |      |                 |                 |                     |
| – Deferred acquisition costs                  | 8    | 908.7           | 816.1           | 865.1               |
| – Acquired value of in-force business         |      | 44.8            | 48.3            | 46.4                |
| – Computer software                           |      | 10.2            | 3.7             | 8.4                 |
| – Customer list                               |      | 0.7             | –               | 0.9                 |
|   |      | 964.4           | 868.1           | 920.8               |
| Property and equipment                        |      | 4.9             | 5.8             | 5.4                 |
| Deferred tax assets                           | 9    | 214.8           | 166.7           | 248.5               |
| Investment property                           |      | 552.1           | 464.0           | 550.9               |
| Investments                                   |      |                 |                 |                     |
| – Equities                                    |      | 16,640.3        | 17,069.8        | 15,743.4            |
| – Fixed income securities                     |      | 4,189.4         | 3,432.4         | 3,758.1             |
| – Investment in Collective Investment Schemes |      | 3,782.6         | 2,567.4         | 3,002.7             |
| – Derivative financial instruments            |      | 27.5            | 15.3            | 28.2                |
| Reinsurance assets                            |      | 38.1            | 38.2            | 39.0                |
| Insurance and investment contract receivables |      | 40.5            | 36.4            | 44.5                |
| Income tax assets                             |      | 28.3            | 14.2            | 41.3                |
| Other receivables                             |      | 590.4           | 515.6           | 530.2               |
| Cash and cash equivalents                     |      | 2,602.5         | 2,306.5         | 2,329.3             |
| <b>Total assets</b>                           | 3    | <b>29,675.8</b> | 27,500.4        | 27,242.3            |
| <b>Liabilities</b>                            |      |                 |                 |                     |
| Insurance contract liabilities                |      | 398.5           | 417.8           | 394.0               |
| Other provisions                              | 10   | 10.6            | 3.5             | 3.1                 |
| Financial liabilities                         |      |                 |                 |                     |
| – Investment contracts                        |      | 24,085.8        | 22,707.2        | 22,227.3            |
| – Borrowings                                  |      | 41.8            | 30.8            | 43.8                |
| – Derivative financial instruments            |      | 28.5            | 42.2            | 43.4                |
| Deferred tax liabilities                      | 11   | 220.3           | 222.8           | 218.9               |
| Insurance and investment contract payables    |      | 22.3            | 45.5            | 29.9                |
| Deferred income                               | 12   | 562.7           | 506.4           | 536.9               |
| Income tax liabilities                        |      | 43.0            | 32.7            | 12.4                |
| Other payables                                |      | 379.0           | 396.5           | 376.4               |
| Net asset value attributable to unit holders  |      | 3,172.8         | 2,469.1         | 2,677.9             |
| <b>Total liabilities</b>                      |      | <b>28,965.3</b> | 26,874.5        | 26,564.0            |
| <b>Net assets</b>                             |      | <b>710.5</b>    | 625.9           | 678.3               |
| <b>Shareholders' equity</b>                   |      |                 |                 |                     |
| Share capital                                 | 13   | 75.2            | 73.7            | 74.0                |
| Share premium                                 |      | 118.2           | 106.3           | 110.4               |
| Treasury shares reserves                      |      | (9.2)           | (8.5)           | (8.5)               |
| Miscellaneous reserves                        |      | 2.3             | 2.3             | 2.3                 |
| Retained earnings                             |      | 524.0           | 452.1           | 500.1               |
| <b>Total shareholders' equity</b>             |      | <b>710.5</b>    | 625.9           | 678.3               |
|   |      | Pence           | Pence           | Pence               |
| <b>Net assets per share</b>                   |      | <b>141.7</b>    | 127.4           | 137.5               |

## Condensed Consolidated Statement of Cash Flows

|  | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--|--------------------------------------|--------------------------------------|---|
|  | £' Million                           | £' Million                           | £' Million                                |
| <b>Cash flows from operating activities</b>                          |                                      |                                      |   |
| Profit before tax for the period                                     | 85.0                                 | 59.1                                 | 21.3                                      |
| Adjustments for:   |                                      |                                      |   |
| Depreciation   | 1.2                                  | 1.4                                  | 2.6                                       |
| Impairment losses  | –                                    | 0.1                                  | 0.1                                       |
| Amortisation of acquired value of in-force business                  | 1.6                                  | 1.9                                  | 3.8                                       |
| Amortisation of computer software                                    | –                                    | –                                    | 0.3                                       |
| Fair value gains on non-operating investments                        | 0.2                                  | (0.3)                                | (0.3)                                     |
| Share-based payment charge   | 3.4                                  | 5.9                                  | 10.5                                      |
| <b>Changes in operating assets and liabilities</b>                   |                                      |                                      |   |
| Increase in deferred acquisition costs                               | (43.6)                               | (60.4)                               | (109.4)                                   |
| Increase in investment property                                      | (1.2)                                | (66.2)                               | (153.1)                                   |
| Increase in investments  | (2,107.4)                            | (1,748.1)                            | (1,195.6)                                 |
| Decrease/(increase) reinsurance assets                               | 0.9                                  | 0.4                                  | (0.4)                                     |
| Decrease/(increase) in insurance and investment contract receivables | 4.0                                  | (22.2)                               | (30.3)                                    |
| (Increase)/decrease in other receivables                             | (27.7)                               | 41.1                                 | 6.1                                       |
| Increase/(decrease) in insurance contract liability provisions       | 4.5                                  | (0.1)                                | (23.9)                                    |
| Increase/(decrease) in provisions                                    | 7.5                                  | (0.1)                                | (0.5)                                     |
| Increase in financial liabilities (excluding borrowings)             | 1,843.6                              | 1,536.4                              | 1,058.5                                   |
| (Decrease)/increase in insurance and investment contract payables    | (7.6)                                | 0.9                                  | (14.7)                                    |
| Increase in deferred income  | 25.8                                 | 36.8                                 | 67.3                                      |
| Increase/(decrease) in other payables                                | 2.6                                  | (37.2)                               | (57.2)                                    |
| Increase in net assets attributable to unit holders                  | 494.9                                | 524.2                                | 733.0                                     |
| <b>Cash generated from operations</b>                                | 287.7                                | 273.6                                | 318.1                                     |
| Income taxes (paid)/received   | 7.7                                  | (9.9)                                | (25.6)                                    |
| <b>Net cash generated from operating activities</b>                  | 295.4                                | 263.7                                | 292.5                                     |
| <b>Cash flows from investing activities</b>                          |                                      |                                      |   |
| Acquisition of property and equipment                                | (0.8)                                | (0.4)                                | (1.4)                                     |
| Acquisition of intangible assets                                     | (1.8)                                | (1.6)                                | (7.5)                                     |
| Proceeds from sale of plant and equipment                            | –                                    | 1.2                                  | 1.2                                       |
| <b>Net cash used in investing activities</b>                         | (2.6)                                | (0.8)                                | (7.7)                                     |
| <b>Cash flows from financing activities</b>                          |                                      |                                      |   |
| Proceeds from the issue of share capital                             | 8.7                                  | 5.8                                  | 9.9                                       |
| Consideration paid for own shares                                    | (2.4)                                | (3.5)                                | (3.6)                                     |
| Proceeds from exercise of options over shares held in trust          | –                                    | –                                    | –   |
| Additional borrowings  | 11.0                                 | 30.0                                 | 30.0                                      |
| Repayment of borrowings  | (13.0)                               | (15.1)                               | (2.1)                                     |
| Dividends paid   | (23.9)                               | (16.3)                               | (31.6)                                    |
| <b>Net cash (used in)/generated from financing activities</b>        | (19.6)                               | 0.9                                  | 2.6                                       |
| Net increase in cash and cash equivalents                            | 273.2                                | 263.8                                | 287.4                                     |
| Cash and cash equivalents at beginning of period                     | 2,329.3                              | 2,042.0                              | 2,042.0                                   |
| Effect of exchange rate fluctuations                                 | –                                    | 0.7                                  | (0.1)                                     |
| <b>Cash and cash equivalents at end of period</b>                    | 2,602.5                              | 2,306.5                              | 2,329.3                                   |

# Notes to the IFRS Basis Financial Statements

## 1. BASIS OF PREPARATION

This condensed set of consolidated half year financial statements for the six months ended 30 June 2012, which comprise the half year financial statements of St. James's Place plc (the 'Company') and its subsidiaries (together referred to as the 'Group'), has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and should be read in conjunction with the full year 2011 Annual Report and Accounts.

### Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Interim Statement on pages 6 to 8. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Commentary on pages 9 to 32.

As shown on page 27 of the Financial Commentary, the Group's capital position is strong and well in excess of regulatory requirements. The long-term nature of the business results in considerable positive cash flows, arising from existing business. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

As required by the Disclosure and Transparency Rules of the Financial Services Authority, this condensed set of financial statements has been prepared applying the accounting policies and standards that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2011. These were prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee.

The following new and amended standards, which the Group have adopted as of 1 January 2012, have not had any material impact on the Group's reported results:

IAS 12 Amendment – Income Taxes  
IAS 34 Amendment – Interim Financial Reporting

As at 30 June 2012, the following standards and interpretation, which are relevant to the Group but have not been applied in the financial statements, were in issue but not yet effective:

IAS 1 Amendment – Presentation of Financial Statements  
IAS 19 Employee Benefits  
IAS 27 Separate Financial Statements  
IAS 27 Revised – Separate Financial Statements  
IAS 32 Amendment – Financial Instruments: Presentation  
IFRS 7 Amendment – Financial Instruments: Disclosure  
IFRS 9 Amendment – Financial Instruments  
IFRS 10 Consolidated Financial Statements  
IFRS 12 Disclosures of Interests in Other Entities  
IFRS 13 Fair Value Measurement

The adoption of the above standards and interpretation is not expected to have any material impact on the Group's results reported within the financial statements other than requiring additional disclosure or alternative presentation.

### 3 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.
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.

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 commission payable by the life business and unit trust business to the distribution business.

# Notes to the IFRS Basis Financial Statements continued

## 3 SEGMENT REPORTING continued

### 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.

|   | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|---|--------------------------------------|--------------------------------------|---|
|   | £ Million                            | £ Million                            | £ Million                                 |
| Life business   | 220.8                                | 229.3                                | 447.1                                     |
| Unit Trust business   | 79.6                                 | 81.7                                 | 136.9                                     |
| Distribution business   | 53.5                                 | 24.6                                 | 58.3                                      |
| Other business  | —                                    | —                                    | —   |
| <b>Total APE</b>  | <b>353.9</b>                         | <b>335.6</b>                         | <b>642.3</b>                              |
| <b>Adjustments to IFRS basis</b>                                      |                                      |                                      |   |
| <b>Life business</b>  |                                      |                                      |   |
| Exclude investment business APE                                       | (219.4)                              | (226.9)                              | (443.0)                                   |
| Difference between insurance business APE and premium receivable      | 30.6                                 | 32.5                                 | 69.4                                      |
| Less insurance premium income ceded to reinsurers                     | (12.8)                               | (14.0)                               | (29.7)                                    |
| Fee income (management fees)  | 218.7                                | 201.4                                | 394.0                                     |
| Net movement on deferred income                                       | (7.5)                                | (15.4)                               | (30.6)                                    |
| Investment income (primarily in unit-linked funds)                    | 1,044.4                              | 613.7                                | (992.0)                                   |
| <b>Unit Trust business</b>  |                                      |                                      |   |
| Exclude unit trust APE  | (79.6)                               | (81.7)                               | (136.9)                                   |
| Fee income (dealing profit and management fees)                       | 80.7                                 | 78.5                                 | 151.7                                     |
| Net movement on deferred income                                       | (18.3)                               | (21.4)                               | (36.7)                                    |
| Investment income   | 0.2                                  | 0.2                                  | 0.5                                       |
| <b>Distribution business</b>  |                                      |                                      |   |
| Exclude distribution APE  | (53.5)                               | (24.6)                               | (58.3)                                    |
| Fee and commission income receivable                                  | 26.0                                 | 18.0                                 | 43.5                                      |
| Other investment income   | 0.7                                  | —                                    | 0.3                                       |
| <b>Other business</b>   |                                      |                                      |   |
| Income receivable   | 0.1                                  | 1.9                                  | 2.9                                       |
| Investment income on third party holdings in consolidated unit trusts | 125.1                                | 21.5                                 | (128.8)                                   |
| Other investment income   | 1.8                                  | 1.7                                  | 2.9                                       |
| Other operating income  | 0.8                                  | 0.8                                  | 1.6                                       |
| <b>Total adjustments</b>  | <b>1,138.0</b>                       | <b>586.2</b>                         | <b>(1,189.2)</b>                          |
| <b>Net income</b>   | <b>1,491.9</b>                       | <b>921.8</b>                         | <b>(546.9)</b>                            |

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

# Notes to the IFRS Basis Financial Statements continued

## 3 SEGMENT REPORTING continued

### Segment Profit

#### *European Embedded Value ('EEV') Operating Profit before Tax*

EEV operating profit before tax is monitored on a monthly basis by the chief operating decision maker. The components of the EEV operating profit are included in more detail in the EEV basis results section on pages 35 to 44.

|  | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--|--|--------------------------------------|---|
|  | <b>£ Million</b>                               | £ Million                            | £ Million                                 |
| Life business                            | <b>132.4</b>                                   | 139.9                                | 294.2                                     |
| Unit Trust business                      | <b>42.2</b>                                    | 51.9                                 | 84.5                                      |
| Distribution business                    | <b>2.0</b>                                     | —                                    | 6.1                                       |
| Other business                           | <b>(8.8)</b>                                   | (8.2)                                | (13.3)                                    |
| <b>EEV operating profit before tax</b>   | <b>167.8</b>                                   | 183.6                                | 371.5                                     |
| Investment return variance               | <b>54.9</b>                                    | 0.9                                  | (180.4)                                   |
| Economic assumption changes              | <b>(2.2)</b>                                   | (1.9)                                | (0.3)                                     |
| <b>EEV profit before tax</b>             | <b>220.5</b>                                   | 182.6                                | 190.8                                     |
| Adjustments to IFRS basis:               |  |                                      |   |
| Movement in life value of in-force       | <b>(95.2)</b>                                  | (84.9)                               | (155.0)                                   |
| Movement in unit trust value of in-force | <b>(40.3)</b>                                  | (38.6)                               | (14.5)                                    |
| <b>IFRS profit before tax</b>            | <b>85.0</b>                                    | 59.1                                 | 21.3                                      |



# Notes to the IFRS Basis Financial Statements continued

## 3 SEGMENT REPORTING continued

### *Cash result*

|   | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|---|--------------------------------------|--------------------------------------|---|
|   | £' Million                           | £' Million                           | £' Million                                |
| Life business                           | 30.0                                 | 17.7                                 | 34.3                                      |
| Unit Trust business                     | 15.5                                 | 13.6                                 | 28.3                                      |
| Distribution business                   | 1.4                                  | –                                    | 5.4                                       |
| Other business                          | (2.0)                                | (0.5)                                | (1.0)                                     |
| <b>Cash result after tax</b>            | <b>44.9</b>                          | <b>30.8</b>                          | <b>67.0</b>                               |
| <b>IFRS adjustments (after tax)</b>     |                                      |                                      |   |
| Share option expense                    | (3.4)                                | (5.9)                                | (10.5)                                    |
| Deferred acquisition costs ('DAC')      | 32.6                                 | 45.0                                 | 82.4                                      |
| Deferred income ('DIR')                 | (19.7)                               | (29.2)                               | (54.1)                                    |
| Acquired value of in-force ('PVIF')     | (1.2)                                | (1.4)                                | (2.9)                                     |
| Sterling reserves                       | (0.6)                                | 0.3                                  | 2.6                                       |
| IFRS tax adjustments                    | (6.5)                                | 8.0                                  | 22.3                                      |
| <b>IFRS profit after tax</b>            | <b>46.1</b>                          | <b>47.6</b>                          | <b>106.8</b>                              |
| Shareholder tax charge                  | 12.8                                 | 7.7                                  | 2.9                                       |
| <b>IFRS operating profit before tax</b> | <b>58.9</b>                          | <b>55.3</b>                          | <b>109.7</b>                              |
| Policyholder tax charge/(credit)        | 26.1                                 | 3.8                                  | (88.4)                                    |
| <b>IFRS profit before tax</b>           | <b>85.0</b>                          | <b>59.1</b>                          | <b>21.3</b>                               |

### *IFRS segment result*

|                             | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|-----------------------------|--------------------------------------|--------------------------------------|---|
|                             | £' Million                           | £' Million                           | £' Million                                |
| Life business               |                                      |                                      |   |
| – shareholder               | 52.6                                 | 49.1                                 | 89.1                                      |
| – policyholder tax gross up | 26.1                                 | 3.8                                  | (88.4)                                    |
| Unit Trust business         | 13.1                                 | 14.4                                 | 27.8                                      |
| Distribution business       | 2.0                                  | –                                    | 6.1                                       |
| Other business              | (8.8)                                | (8.2)                                | (13.3)                                    |
| <b>Profit before tax</b>    | <b>85.0</b>                          | <b>59.1</b>                          | <b>21.3</b>                               |

# Notes to the IFRS Basis Financial Statements continued

## 3 SEGMENT REPORTING continued

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

|                 | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|-----------------|--------------------------------------|--------------------------------------|---|
|                 | £' Million                           | £' Million                           | £' Million                                |
| Interest income | 2.6                                  | 2.1                                  | 4.6                                       |
| Depreciation    | 1.2                                  | 1.4                                  | 2.6                                       |

### Segment Assets

#### *Funds under Management ('FUM')*

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

|  | 30 June<br>2012  | 30 June<br>2011 | 31 December<br>2011 |
|--|------------------|-----------------|---------------------|
|  | £' Million       | £' Million      | £' Million          |
| Life business  | 24,340.0         | 23,000.0        | 22,500.0            |
| Unit Trust business  | 6,560.0          | 6,100.0         | 6,000.0             |
| <b>Total FUM</b>   | <b>30,900.0</b>  | 29,100.0        | 28,500.0            |
| Exclude external holdings in non-consolidated unit trusts    | <b>(3,418.3)</b> | (3,657.4)       | (3,360.5)           |
| Add balance sheet liabilities in unit-linked funds           | 271.7            | 265.2           | 267.9               |
| Adjustments for other balance sheet assets excluded from FUM |                  |                 |                     |
| DAC  | 908.7            | 816.1           | 865.1               |
| PVIF   | 44.8             | 48.3            | 46.4                |
| Computer software  | 10.2             | 3.7             | 8.4                 |
| Goodwill   | 0.8              | –               | 0.9                 |
| Property and equipment                                       | 4.9              | 5.8             | 5.4                 |
| Deferred tax assets  | 214.8            | 166.7           | 248.5               |
| Fixed income securities                                      | 80.0             | 62.4            | 80.0                |
| Collective investment schemes                                | 266.8            | 227.3           | 208.6               |
| Reinsurance assets   | 38.1             | 38.2            | 39.0                |
| Insurance and investment contract receivables                | 40.5             | 36.4            | 44.5                |
| Income tax assets  | 28.3             | 14.2            | 41.3                |
| Other receivables  | 248.6            | 226.9           | 236.3               |
| Cash and cash equivalents                                    | 49.4             | 126.3           | 46.5                |
| Other adjustments  | (13.5)           | 20.3            | (36.0)              |
| <b>Total adjustments</b>                                     | <b>(1,224.2)</b> | (1,599.6)       | (1,257.7)           |
| <b>Total assets</b>  | <b>29,675.8</b>  | 27,500.4        | 27,242.3            |

# Notes to the IFRS Basis Financial Statements continued

## 4. INCOME TAXES

|  | 6 Months<br>Ended<br>30 June<br>2012 | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--|--------------------------------------|--------------------------------------|---|
|  | £' Million                           | £' Million                           | £' Million                                |
| <b>Policyholder tax</b>  |                                      |                                      |   |
| Overseas withholding tax   | 1.9                                  | 9.3                                  | 12.9                                      |
| Deferred tax on unrelieved expenses                                      |                                      |                                      |   |
| – Current year credit  | (1.4)                                | (3.4)                                | (19.4)                                    |
| – Adjustment in respect of prior year                                    | 0.2                                  | –                                    | –   |
| Deferred tax on unrealised gains and capital losses in unit-linked funds | 25.5                                 | (9.2)                                | (77.8)                                    |
| UK corporation tax   |                                      |                                      |   |
| – Current year charge  | –                                    | 7.8                                  | 4.4                                       |
| – Adjustment in respect of prior year                                    | (0.1)                                | (0.7)                                | (8.5)                                     |
| <b>Total policyholder tax charge/(credit) for the period</b>             | <b>26.1</b>                          | <b>3.8</b>                           | <b>(88.4)</b>                             |
| <b>Shareholder tax</b>   |                                      |                                      |   |
| UK corporation tax   |                                      |                                      |   |
| – Current year charge  | 1.0                                  | 4.8                                  | –   |
| – Adjustment in respect of prior year                                    | (0.4)                                | 0.1                                  | (0.2)                                     |
| Overseas taxes   |                                      |                                      |   |
| – Current year charge  | 1.6                                  | 0.8                                  | 1.5                                       |
| – Adjustment in respect of prior year                                    | (0.2)                                | (0.5)                                | 0.1                                       |
|  | 2.0                                  | 5.2                                  | 1.4                                       |
| Deferred tax on unrelieved expenses                                      | 10.6                                 | –                                    | –   |
| Deferred tax on pensions business losses                                 |                                      |                                      |   |
| – Current year charge  | –                                    | –                                    | 2.9                                       |
| – Adjustment in respect of prior year                                    | –                                    | –                                    | (0.4)                                     |
| Deferred tax charge on other items                                       |                                      |                                      |   |
| – Current year charge  | 5.0                                  | 6.9                                  | 6.0                                       |
| – Adjustment in respect of prior year                                    | (1.1)                                | (0.6)                                | –   |
| Change in tax rate   |                                      |                                      |   |
| – Current year   | (3.9)                                | (3.8)                                | (7.2)                                     |
| – Adjustment in respect of prior year                                    | 0.2                                  | –                                    | 0.2                                       |
| <b>Total shareholder tax charge for the period</b>                       | <b>12.8</b>                          | <b>7.7</b>                           | <b>2.9</b>                                |

The change in the corporation tax rate from 25% to 24% from 1 April 2012 enacted in the Finance Act 2012, which has taken effect under the Provisional Collection of Taxes Act 1968, has been incorporated into the deferred tax balances.

# Notes to the IFRS Basis Financial Statements continued

## 4. INCOME TAXES continued

### Reconciliation of tax charge

|  | 6 Months<br>Ended<br>30 June<br>2012 |        | 6 Months<br>Ended<br>30 June<br>2011 |        | 12 Months<br>Ended<br>31 December<br>2011 |         |
|--|--------------------------------------|--------|--------------------------------------|--------|---|---------|
|  | £' Million                           |        | £' Million                           |        | £' Million                                |         |
| Profit before tax  | 85.0                                 |        | 59.1                                 |        | 21.3                                      |         |
| Tax attributable to policyholders' returns*                              | (26.1)                               |        | (3.8)                                |        | 88.4                                      |         |
| Profit before tax attributable to shareholders' returns                  | 58.9                                 |        | 55.3                                 |        | 109.7                                     |         |
| Shareholder tax charge at corporate tax rate of 24.5%<br>(2011: 26.5%)   | 14.4                                 | 24.5%  | 14.7                                 | 26.5%  | 29.1                                      | 26.5%   |
| <b>Adjustments:</b>  |                                      |        |                                      |        |   |         |
| <b>Tax regime differences</b>  |                                      |        |                                      |        |   |         |
| Difference due to Life Insurance tax regime<br>(Deferral of E)           | (0.3)                                |        | (0.9)                                |        | (5.1)                                     |         |
| Difference due to Life Insurance tax regime<br>(Deferred Income Reserve) | 0.5                                  |        | 1.7                                  |        | 3.2                                       |         |
| Difference due to overseas subsidiaries                                  | (0.9)                                |        | (0.5)                                |        | (2.7)                                     |         |
|  | (0.7)                                | (1.2%) | 0.3                                  | 0.5%   | (4.6)                                     | (4.2%)  |
| <b>Market related</b>  |                                      |        |                                      |        |   |         |
| Difference due to Life Insurance tax regime (UCG)                        | 0.3                                  |        | –                                    |        | 2.1                                       |         |
| Difference due to Life Insurance tax regime<br>(I-E Restriction)         | 4.1                                  |        | –                                    |        | –   |         |
| Difference due to Life Insurance tax regime<br>(Shareholder FII)         | (1.3)                                |        | (2.5)                                |        | (17.3)                                    |         |
|  | 3.1                                  | 5.3%   | (2.5)                                | (4.5%) | (15.2)                                    | (13.9%) |
| <b>Other</b>   |                                      |        |                                      |        |   |         |
| Difference due to Life Insurance tax regime<br>(Pension losses)          | –                                    |        | –                                    |        | –   |         |
| Prior year adjustments   | (1.6)                                |        | –                                    |        | (1.3)                                     |         |
| Other  | 1.3                                  |        | (1.0)                                |        | 1.9                                       |         |
|  | (0.3)                                | (0.5%) | (1.0)                                | (1.8%) | 0.6                                       | 0.5%    |
| Change in tax rate   | (3.7)                                | (6.3%) | (3.8)                                | (6.9%) | (7.0)                                     | (6.4%)  |
| <b>Shareholder tax charge</b>  | 12.8                                 | 21.7%  | 7.7                                  | 13.9%  | 2.9                                       | 2.6%    |
| <b>Policyholder tax charge</b>   | 26.1                                 |        | 3.8                                  |        | (88.4)                                    |         |
| <b>Total tax charge/(credit) for the period</b>                          | 38.9                                 |        | 11.5                                 |        | (85.5)                                    |         |

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

# Notes to the IFRS Basis Financial Statements continued

## 5. EARNINGS PER SHARE ('EPS')

|                            | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|----------------------------|--|--------------------------------------|---|
|                            | <b>Pence</b>                                   | Pence                                | Pence                                     |
| Basic earnings per share   | <b>9.4</b>                                     | 9.8                                  | 21.9                                      |
| Diluted earnings per share | <b>9.2</b>                                     | 9.6                                  | 21.2                                      |

The calculation of diluted earnings per share is based on the following figures:

|  | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--|--|--------------------------------------|---|
|  | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| <b>Earnings</b>  |  |                                      |   |
| Profit after tax ( <i>for both basic and diluted EPS</i> )                   | <b>46.1</b>                                    | 47.6                                 | 106.8                                     |
| <b>Weighted average number of shares</b>                                     |  |                                      |   |
| Weighted average number of ordinary shares in issue ( <i>for basic EPS</i> ) | <b>492.9m</b>                                  | 485.2m                               | 487.6m                                    |
| Adjustments for outstanding share options                                    | <b>7.5m</b>                                    | 11.4m                                | 16.1m                                     |
| Weighted average number of ordinary shares ( <i>for diluted EPS</i> )        | <b>500.4m</b>                                  | 496.6m                               | 503.7m                                    |

## 6. DIVIDENDS

The following dividends have been paid by the Company:

|  | <b>6 Months<br/>Ended<br/>30 June<br/>2012</b> | 6 Months<br>Ended<br>30 June<br>2011 | 12 Months<br>Ended<br>31 December<br>2011 |
|--|--|--------------------------------------|---|
|  | <b>£' Million</b>                              | £' Million                           | £' Million                                |
| 2010 final dividend – 3.975 pence per ordinary share   | –  | 19.4                                 | 19.4                                      |
| 2011 interim dividend – 3.200 pence per ordinary share | –  | –                                    | 15.7                                      |
| 2011 final dividend – 4.800 pence per ordinary share   | <b>23.9</b>                                    | –                                    | –   |
| <b>Total dividends paid</b>                            | <b>23.9</b>                                    | 19.4                                 | 35.1                                      |

The Directors have resolved to pay an interim dividend of 4.25 pence per share (2011: 3.2 pence). This amounts to £21.3 million (2011: £15.7 million) and will be paid on 19 September 2012 to shareholders on the register at 24 August 2012.

## 7. ASSETS HELD TO COVER LINKED LIABILITIES AND THIRD PARTY HOLDINGS IN UNIT TRUSTS

Included within the balance sheet are the following assets and liabilities which represent the net assets held to cover linked liabilities and those attributable to third party holdings in unit trusts ('UTMI'). The difference between these assets and liabilities and those shown in the consolidated balance sheet represents assets and liabilities held outside the unit-linked funds and the UTMI.

|  | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|--|-----------------|-----------------|---------------------|
|  | £' Million      | £' Million      | £' Million          |
| <b>Assets</b>                                      |                 |                 |                     |
| Investment property                                | 552.1           | 464.0           | 550.9               |
| Investments  |                 |                 |                     |
| – Equities   | 16,580.3        | 17,069.8        | 15,743.4            |
| – Fixed income securities                          | 4,109.4         | 3,370.0         | 3,678.1             |
| – Investment in Collective Investment Schemes      | 3,515.8         | 2,340.1         | 2,794.1             |
| – Currency forwards                                | 11.2            | 7.4             | 13.6                |
| – Contract for differences                         | 16.3            | 7.9             | 14.6                |
| Other receivables                                  | 341.8           | 288.7           | 293.9               |
| Cash and cash equivalents                          | 2,553.1         | 2,180.2         | 2,282.8             |
| <b>Total assets</b>                                | <b>27,680.0</b> | <b>25,728.1</b> | <b>25,371.4</b>     |
| <b>Liabilities</b>                                 |                 |                 |                     |
| Financial liabilities                              |                 |                 |                     |
| – Currency forwards                                | 10.9            | 31.5            | 23.3                |
| – Contract for differences                         | 17.6            | 10.7            | 20.1                |
| Other payables                                     | 243.3           | 223.0           | 224.5               |
| <b>Total liabilities</b>                           | <b>271.8</b>    | <b>265.2</b>    | <b>267.9</b>        |
| <b>Net assets held to cover linked liabilities</b> | <b>27,408.2</b> | <b>25,462.9</b> | <b>25,103.5</b>     |

## 8. DEFERRED ACQUISITION COSTS

|   | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|---|-----------------|-----------------|---------------------|
|   | £' Million      | £' Million      | £' Million          |
| Life business – insurance DAC           | 16.0            | 18.8            | 17.4                |
| Life business – investment DAC          | 704.2           | 627.5           | 670.0               |
| Unit Trust business – investment DAC    | 188.5           | 169.8           | 177.7               |
| <b>Total deferred acquisition costs</b> | <b>908.7</b>    | <b>816.1</b>    | <b>865.1</b>        |

Amortisation of deferred acquisition costs is charged within the fees, commission and other acquisition costs line in the statement of comprehensive income.

# Notes to the IFRS Basis Financial Statements continued

## 9. DEFERRED TAX ASSETS

|   | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|---|-----------------|-----------------|---------------------|
|   | £' Million      | £' Million      | £' Million          |
| Life business – unrelieved expenses                     | 74.4            | 67.7            | 83.8                |
| Life business – net capital losses in unit-linked funds | 36.7            | –               | 62.2                |
| Life business – pension business                        | 5.6             | 1.9             | 4.7                 |
| Life business – deferred income                         | 36.4            | 37.2            | 37.2                |
| Unit Trust business – deferred income                   | 55.3            | 51.2            | 53.1                |
| Other   | 6.4             | 8.7             | 7.5                 |
| <b>Total deferred tax assets</b>                        | <b>214.8</b>    | <b>166.7</b>    | <b>248.5</b>        |

## 10. OTHER PROVISIONS

|  | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|--|-----------------|-----------------|---------------------|
|  | £' Million      | £' Million      | £' Million          |
| At beginning of period   | 3.1             | 3.6             | 3.6                 |
| Reclassification from Insurance and Investment Contract Payables | 7.3             | –               | –                   |
| Movement in the period   | 0.2             | (0.1)           | (0.5)               |
| <b>At end of period</b>  | <b>10.6</b>     | <b>3.5</b>      | <b>3.1</b>          |

Other provisions at 30 June 2012 consist of £2.8 million (31 December 2011: £2.8 million) to meet obligations arising as a result of the closure of offices and £0.5 million (31 December 2011: £0.3 million) in respect of the policyholder costs of redress for endowment business. In addition, a reserve in respect of self insured liabilities of £7.3 million has been reclassified as Other Provisions (previously in Insurance and Investment Contract Payables) as a result of changes to the Group's insurance arrangement.

## 11. DEFERRED TAX LIABILITIES

|  | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|--|-----------------|-----------------|---------------------|
|  | £' Million      | £' Million      | £' Million          |
| On deferred acquisition costs          | 208.9           | 201.1           | 206.1               |
| On acquired value of in-force business | 10.7            | 12.6            | 11.6                |
| Within unit-linked funds               | –               | 6.4             | –                   |
| Other                                  | 0.7             | 2.7             | 1.2                 |
| <b>Total deferred tax liabilities</b>  | <b>220.3</b>    | <b>222.8</b>    | <b>218.9</b>        |

## 12. DEFERRED INCOME

|                              | 30 June<br>2012 | 30 June<br>2011 | 31 December<br>2011 |
|------------------------------|-----------------|-----------------|---------------------|
|                              | £' Million      | £' Million      | £' Million          |
| Life business                | 332.2           | 309.5           | 324.7               |
| Unit Trust business          | 230.5           | 196.9           | 212.2               |
| <b>Total deferred income</b> | <b>562.7</b>    | <b>506.4</b>    | <b>536.9</b>        |

# Notes to the IFRS Basis Financial Statements continued

## 13. SHARE CAPITAL

|                        | Number             | Nominal Value<br>£' Million |
|------------------------|--------------------|-----------------------------|
| At 30 June 2011        | 491,195,616        | 73.7                        |
| Issue of shares        | 2,227,135          | 0.3                         |
| At 31 December 2011    | 493,422,751        | 74.0                        |
| Issue of shares        | 7,841,650          | 1.2                         |
| <b>At 30 June 2012</b> | <b>501,264,401</b> | <b>75.2</b>                 |

The total authorised number of ordinary shares is 605 million (2011: 605 million), with a par value of 15 pence per share (2011: 15 pence per share). All issued shares are fully paid.

## 14. 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 57% 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 period:

- Commission of £1.1 million (2011: £2.2 million) was receivable in relation to the sale of various products and services offered by LBG companies.
- During the year, deposits were placed with LBG companies on normal commercial terms. At 30 June 2012 these deposits amounted to £89.9 million (2011: £35.7 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 £84.9 million (2011: £82.1 million).
- Amounts lent by the Bank of Scotland to the Group totalled £0.8 million (2011: £0.8 million).
- Fees of £23,927 (2011: £1,434,000) 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 30 June 2012 was £1,242 (2011: £803,000).
- Fees of £13,125 (2011: £13,125) were payable to LBG in respect of the services of Non-executive St. James's Place Board Directors.
- St. James's Place Board Directors have been included in a directors' and officers' insurance policy negotiated on a Group basis by LBG.

### Transactions with St. James's Place unit trusts

In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there was income recognised of £42.2 million (2011: income £5.9 million) and the total value of transactions with those non-consolidated unit trusts was £279.4 million (2011: £165.6 million). Net management fees receivable from these unit trusts amounted to £28.8 million (2011: £31.5 million). The value of the investment into the non-consolidated unit trusts at 30 June 2012 was £1,142.9 million (2011: £546.6 million).



## **15. POST BALANCE SHEET EVENTS**

The Government's Budget on 21 March 2012 set out plans to reduce the rate of corporation tax from 24% to 23% for the 2013/2014 tax year. This reduction was 'substantively enacted' on 3 July and would have a positive impact on the IFRS post tax result at 30 June 2012 of £3.6 million had it been substantively enacted by 30 June 2012.

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.

There have been no other material events subsequent to the end of the interim period that have not been reflected in the interim financial statements.

## **16. STATUTORY ACCOUNTS**

The financial information shown in this publication is unaudited and does not constitute statutory accounts. The comparative figures for the financial year ended 31 December 2011 are not the Company's statutory accounts for the financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies.

The report of the auditors was unqualified and did not include a reference to any matter to which the auditors drew attention to, by way of emphasis without qualifying their report, and did not contain a statement under section 498 of the Companies Act 2006.

## **17. APPROVAL OF HALF YEAR REPORT**

These condensed consolidated half year financial statements were approved by the Board of Directors on 25 July 2012.

# Independent Review Report by PricewaterhouseCoopers LLP to St. James's Place plc

## **INTRODUCTION**

We have been engaged by the Company to review the condensed set of financial statements in the half year report for the six months ended 30 June 2012, which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and related notes. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## **DIRECTORS' RESPONSIBILITIES**

The half year report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2 the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half year report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

## **OUR RESPONSIBILITY**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half year report based on our review. This report, including the conclusion, has been prepared for, and only for, the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **SCOPE OF REVIEW**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# Independent Review Report by PricewaterhouseCoopers LLP to St. James's Place plc continued

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

## PricewaterhouseCoopers LLP

*Chartered Accountants*

25 July 2012

Bristol

### Notes:

- (a) The maintenance and integrity of the St. James's Place plc website, [www.sjp.co.uk](http://www.sjp.co.uk), is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Responsibility Statement of the Directors in Respect of the Half Year Financial Report

The Directors confirm that this consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

The Directors of St. James's Place plc are listed in the St. James's Place plc Annual Report for 31 December 2011. A list of current Directors is maintained on the St. James's Place plc website: [www.sjp.co.uk](http://www.sjp.co.uk).

By order of the Board:



**D Bellamy**

*Chief Executive Officer*  
25 July 2012



**A Croft**

*Chief Financial Officer*  
25 July 2012

## Other Information



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# Financial Calendar

|  |                   |
|--|-------------------|
| Ex-dividend date for interim dividend                          | 22 August 2012    |
| Record date for final dividend                                 | 24 August 2012    |
| Latest date for receipt of Dividend Reinvestment Plan mandates | 29 August 2012    |
| Payment date for interim dividend                              | 19 September 2012 |
| Announcement of third quarter new business                     | 31 October 2012   |
| Announcement of fourth quarter new business                    | 24 January 2013   |
| Preliminary announcement                                       | 28 February 2013  |

# Advisers

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