



ST. JAMES'S PLACE PLC

28 February 2013

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

STRONG FINANCIAL PERFORMANCE LEADS TO 33% DIVIDEND INCREASE

	2012	2011	Change
EEV new business profit (£m)	276.8	246.0	+13%
EEV operating profit (£m)	365.9	371.5	-1.5%
IFRS profit before shareholder tax (£m)	134.6	109.7	+23%
Cash result (£m)	91.7	67.0	+37%
Full year dividend (p)	10.64	8.0	+33%
EEV net asset value per share (p)	461.0	385.0	+20%

Highlights:

- Strong performance in EEV & IFRS profit
- Third successive year of 33% dividend growth
- Similar significant increase in dividend expected in 2013
- Record total single investments of £5.88 billion (2011: £5.2 billion) up 13%
- Net inflows of £3.35 billion (2011: £3.21 billion) supported by our 95% retention rate
- Total funds under management up 22% to £34.8 billion
- Partnership numbers at 1,788, up 8% (2011: 1,649)
- The Academy continues to attract new talent with 54 'apprentices' currently in the programme.

David Bellamy, Chief Executive, commented:

"I am very pleased to report another strong performance from St. James's Place in new business, profits and funds under management. The continuing growth and maturity in funds under management has, as expected, translated into strong growth in the cash result. Consequently we have been able to grow dividends by 33% in each of the last three years and have the confidence today to signal a similar significant increase for 2013.

Whilst we recognise that there is still economic uncertainty, everything we understand about our marketplace tells us that there has never been a greater need for high quality advice delivered by a trusted adviser, backed by a well respected company. The scale and strength of the company's adviser led approach to wealth management, twinned with a proven investment proposition, leaves St. James's Place both uniquely and well positioned to benefit from the long term demographic and market opportunities in wealth management.

We have good momentum across all aspects of the business and are therefore confident in our ability to continue our growth in line with our medium term objectives in 2013 and beyond."

Enquiries:

To see an interview with David Bellamy please visit our website www.sjp.co.uk and click on investor relations.

To download our new investor relations iPad app, please go to the iTunes store and search for SJP investor relations.

David Bellamy, CEO

Tel: 020 7514 1963

Andrew Croft, CFO

Tel: 020 7514 1963

Tulchan Communications

Tel: 020 7353 4200

John Sunnucks / Michelle
Clarke

CHAIRMAN'S STATEMENT

Another Strong Year

Despite the difficult economic environment we faced in 2012, St. James's Place has had another strong year. David and Andrew cover the performance in detail in their reports, but it is particularly pleasing to achieve record new business and funds under management in this difficult environment. This clearly demonstrates the strength and resilience of the St. James's Place business model.

A particular highlight is the increasing emergence of cash which has enabled the Board to grow the dividend in line with the 33% expectation we set last July at the time of our Interim announcement.

Corporate Governance

We strive to adopt the best practice in relation to Corporate Governance throughout the Group and in relation to the disclosures.

Shareholders will see in the Report and Accounts that the usual format of the Remuneration Report has changed this year as the Board has sought to be an early adopter of the Government's draft legislation relating to remuneration reporting. Where practical we have implemented a year early the various changes set out in the draft legislation, although as the old legislation has yet to be repealed, the remuneration report is considerably longer than in recent years. However, we hope that shareholders will appreciate the clarity of the revised format and the additional disclosures we have made.

We have also adopted early the changes recommended by the Financial Reporting Council relating to Audit Committee disclosures, more details of which will also be set out in the Report & Accounts.

Board Composition

Building on the changes made in 2011, we were delighted to welcome Patience Wheatcroft to the Board in April. Her substantial business and media experience has further strengthened the wide range of skills on the Board.

During 2013 we plan to continue our policy of gradually refreshing the Board by the appointment of additional Non-executive Directors, provided that suitable candidates can be identified by the Nomination Committee.

The Board and the Nomination Committee keep succession planning under regular review, with a view to ensuring that senior managers are being developed appropriately and we have the right skills around the table to drive forward the continued success of the Group.

Board Effectiveness Review

In 2012 we once again appointed Independent Audit to facilitate an evaluation of the effectiveness of the Board and its Committees, largely to review whether the various changes made in 2011 (following their last review) had achieved the objective of ensuring effective discussions around the Board table. The findings of Independent Audit were positive and further detail on the review process and findings will be found in the Report & Accounts.

The Future

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

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

Charles Gregson
Chairman

27 February 2013

CHIEF EXECUTIVE'S STATEMENT

2012 will be remembered for many different reasons, from the Diamond Jubilee to the Olympics and Paralympics and other sporting achievements, not to mention the amount of rain that fell.

From an investment perspective, low growth, low interest rates and modest, but persistent inflation once again dominated the major economies of the Eurozone and North America, and this pattern may well be repeated in 2013. Growth in the emerging and developing economies proved stronger, another trend that looks likely to continue in the coming year.

It was against this backdrop that I am pleased to report another year of strong growth further demonstrating the Group's continued resilience despite the market conditions.

We have continued to attract new investments, grow our funds under management, increase the size of the Partnership and their productivity, which in turn is driving strong growth in profits and dividends to shareholders.

New Business and Funds Under Management

The first six months of the year saw modest growth in new business whilst the second half of the year saw a significant pick up in activity, as investor confidence returned culminating in new business growth in the final quarter, on an annual premium equivalent basis ("APE"), of 46% resulting in the full year total APE being up 16%.

New single investment and pension business at £5.88 billion was 13% higher than 2011 and it is particularly pleasing to note that we continue to maintain strong retention of existing client funds which, combined with the new investments, resulted in a net inflow of £3.35 billion.

Total funds under management at 31 December 2012, at £34.8 billion, were 22% higher than the start of the year.

Financial Performance

The Chief Financial Officer's Report and Financial Review, which can be found on pages 8 to 36, provides a comprehensive presentation of the financial results and detail of the Group's performance for the year.

On an IFRS (International Financial Reporting Standard) basis, profit before shareholder tax increased to £134.6 million (2011: £109.7 million).

European Embedded Value operating profits were £365.9 million (2011: £371.5 million) reflecting good growth in new business and the performance of our funds under management, but without the benefit of the £38.1 million exceptionally strong experience variances that we saw in 2011.

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 on going confidence in the profile of the future cash emergence, we announced at the time of our 2011 full year results that shareholders could expect a similarly significant increase in the 2012 dividend.

I am therefore pleased to confirm the cash result was up 37% to £91.7 million and, in line with this statement, we are pleased to confirm the final dividend of 6.39 pence per share, up 33% as expected. Consequently the full year dividend is 10.64p also up 33% on 2011.

Furthermore, given our on going confidence in the profile of the cash emergence going forward, shareholders can expect a similarly significant increase in the 2013 dividend. Beyond that we fully intend to maintain our progressive dividend policy in line with the underlying performance of the business.

The final dividend for 2012, subject to approval of shareholders at our AGM, will be paid on 24 May to shareholders on the register at the close of business on 12 April and as with last year, a Dividend Reinvestment Plan (“DRP”) continues to be available for shareholders.

Clients

Access to some of the best fund managers in the world, delivering above average investment returns, together with trusted advice and reliable service are the essential elements of what we have to offer clients.

We measure our performance in these areas by tracking the retention rates of our funds under management and the amount of new investments and referrals we receive from existing clients. In addition, we commission regular surveys of our clients and seek feedback from them via questionnaires sent with our annual wealth accounts.

All of these initiatives provide us with a rich source of regular feedback and tell us that our proposition is valued by our clients.

Investment Management

One of the core elements of our business strategy is the distinctive way that we manage our clients’ wealth.

Despite the difficult economic environment, stock markets generally produced a solid year of growth, albeit after a short correction in the summer as concerns over a Greek exit from the Eurozone resurfaced and confidence in Spain’s ability to refinance its banking system wavered. Over the year as a whole, the FTSE 100 index returned around 6% in capital growth, 10% with dividends reinvested. Slightly higher growth was achieved in the wider All Share index and in some overseas equity markets.

Similarly, other asset classes gained ground in 2012 with corporate bonds proving to be one of the best performing asset classes. By contrast, the UK commercial property market remained relatively flat with income yields being partially offset by a weakening in capital values.

UK interest rates remain at historic lows and this continuing benign interest rate environment has a beneficial effect on UK wealth management as clients seek to explore opportunities for higher returns than available in bank deposit funds.

Against this background, the vagaries and unpredictability of markets serve as a constant reminder to clients of the need for advice and the importance of a broad diversification across asset classes, geographies and investment management styles. In this respect, the investment portfolios, launched last year, have proven to be 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.

Our clients now have access to over 30 high quality investment managers, chosen from across the world, to manage their funds, and we are confident that the strength and breadth of our fund offering provides an excellent platform upon which to continue to grow our funds under management in the coming years.

The St. James’s Place Partnership

We believe that we are uniquely positioned in the UK wealth management market because we have chosen to promote our services exclusively through our dedicated adviser team, the St James’s Place Partnership. Increasing the number of Partners and providing them with the tools and support to deliver high quality outcomes for clients are key drivers to our achieving our long term business growth objectives.

It is therefore very pleasing to report continued growth in the size of the Partnership this year, up 8% to 1,788 and the number of diploma qualified advisers and support staff now exceeds 2,000. All members of the Partnership achieved the higher professional qualification standards required by the Financial Services Authority under the Retail Distribution Review which came into effect on 31 December 2012.

Whilst we are confident that we can continue to attract established high quality advisers, February 2012 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 third cohort, bringing the total within the programme to 54. In addition we ran a parallel programme for the second generation of existing Partners, the sons and daughters of existing Partners, who aspire to join the business in due course. We anticipate that some of the Academy Partners will begin to graduate into the Partnership during the latter part of this year.

Partners and Employees

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

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

The St. James's Place Foundation

The St. James's Place Foundation has always been an important part of the Group's culture and we were delighted to celebrate the 20th anniversary of the Foundation in 2012 by raising the record sum of £5 million to help the good causes that the Foundation supports. This was very much a collective effort by the whole SJP community, including employees, Partners, suppliers and others connected to SJP. I would like to thank all of you for helping to raise such an impressive sum, which is particularly important in a year when surveys indicate that giving to charities has decreased by around 20% compared to 2011.

Outlook

Whilst we recognise that there is still economic uncertainty, everything we understand about our marketplace tells us that there has never been a greater need for high quality advice delivered by a trusted adviser, backed by a well respected company. The scale and strength of the company's adviser led approach to wealth management, twinned with a proven investment management proposition, leaves St. James's Place both uniquely and well positioned to benefit from the long term demographic and market opportunities in wealth management.

We have good momentum across all aspects of the business and are therefore confident in our ability to continue our growth in line with our medium term objectives in 2013 and beyond.

David Bellamy
Chief Executive

27 February 2013

CHIEF FINANCIAL OFFICER'S REPORT

Included as part of this statement is the usual detailed Financial Review on pages 12 to 36 which provides useful information to shareholders and investors.

Despite the continuing uncertain economic and stock market environment during the year, our financial performance in 2012 was strong across all key measures, continuing the positive trend we have seen in recent years.

David, in his CEO statement, has covered the £5.88 billion of new business, the record funds under management and the strong growth in the Partnership. In this statement I will comment on the other financial results.

Financial results

As shareholders are aware we report our results on both an IFRS and EEV basis as well as providing further detail on the cash emerging from the business. Further analysis on these measures is provided on pages 12 and 13.

The tables below show the five year record of the financial results under these measures starting with the IFRS basis.

Profit before shareholder tax on an IFRS basis

The Board regards the profit before shareholder tax as the best measure of the performance of the business on an IFRS basis, in any particular year.

As can be seen from the table below, profit on this measure was £134.6 million, up 23% over the prior year.

In recent years shareholders have seen a steady increase in this measure which mirrors the development of the cash result, commented on further below, and reflects the maturing of the business.

	Profit before shareholder tax
	£'Million
2012	134.6
2011	109.7
2010	84.2
2009	49.9
2008 (excluding one offs)	64.5

EEV result

The three key measures within the EEV results are the new business profit, the operating profit and the net asset value per share.

The new business profit was up 13% during the year and has grown in each of the years since 2008, doubling over the period. The growth in new business profit reflects increasing new business volumes, positive business mix and expense management.

The operating profit is impacted not only by the new business profit but also experience variances from the assumptions in the EEV calculation. Although there was once again a positive experience variance in the current year, the greater positive experience variance in the prior year meant the operating profit for the year has marginally declined.

The net asset value per share on an EEV basis at the end 2012 was 461.0 pence, some 20% higher than the start of the year and almost double the 2008 figure.

	New business Profit	Operating profit	Net asset value per share
	£'Million	£'Million	pence
2012	276.8	365.9	461.0
2011	246.0	371.5	385.0
2010	217.8	332.6	352.9
2009	155.4	228.9	284.5
2008	123.5	204.3	232.4

Cash result

The Group's cash income is dependent on the level of client funds and the level of asset values. Since much of our business does not generate net cash in the first six years, the level of income will also increase as a result of new business from six years ago becoming cash generative.

The first column in the table below shows how the cash arising from the in-force business has grown by 20% in the year.

Nearly a third of the funds under management are currently not generating any positive cash flow. Since they are expected to become cash generative once they reach the end of their sixth year they will support strong organic growth in the cash arising from the in-force in future.

Column 2 of the table shows the cash earnings that are 're-invested' in acquiring new business. The cost of this investment has remained relatively stable over the last five years notwithstanding the new business growth over the same period. Shareholders should receive a good return from this investment, with an expected internal rate of return of c. 22%.

The net effect of growing the cash arising from the in-force business whilst keeping the level of cash invested in new business relatively flat, is a growing net cash flow. This net cash result was up 37% in 2012 – a third successive year of significant growth.

	Cash arising on in-force business	Cash invested in acquiring new business	Net cash result
	£'Million	£'Million	£'Million
2012	152.2	(60.5)	91.7
2011	129.4	(62.4)	67.0
2010	109.7	(61.4)	48.3
2009	88.8	(65.3)	23.5
2008	91.4	(67.3)	24.1

Capital

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

The Group continues to be capitalised well in excess of regulatory solvency requirements, and the assets remain invested prudently in cash, AAA rated money market funds and UK government securities. The lack of significant balance sheet or market risk, together with this prudent investment policy has provided for a stable and increasingly resilient solvency position over recent years, despite the difficult financial and market environment. At the year end the total Group solvency net assets were £403.5 million, well in excess of the £57.8 million total Group solvency requirement.

Dividend

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

This combination means the cash available for corporate purposes and to return to shareholders is increasing, consequently the Board has been able to increase the dividend in each of the last five years.

As can be seen in the table below, the dividend was significantly increased by 33% in both 2010 and 2011. At the time of the interim results the board announced a third year of significant dividend growth and increased the 2012 interim dividend by 33%. Subject to shareholder approval at the AGM, the Board has resolved to also increase the 2012 final dividend by 33%.

I am also pleased to confirm that we expect to increase the 2013 dividend by a similar significant amount. Thereafter, we will continue with a progressive dividend policy by growing the dividend in line with the underlying performance of the business.

	Dividend per Share	Growth
	Pence	
31 December 2012	10.64	33%
31 December 2011	8.0	33%
31 December 2010	6.0	33%
31 December 2009	4.5	2.5%
31 December 2008	4.39	2.1%

Future developments

There are a number of tax and regulatory developments that have been implemented or are in the process of being implemented which will have an impact on the future financial results of the business. The actual impact will be dependent upon the level of future new business and stock markets, however, we currently expect to see little change to IFRS profit, a small reduction in the EEV new business profit (and operating profit) and earlier emergence of cash flows.

Further comment is included in the relevant sections of the Financial Review.

Concluding remarks

2012 has been another strong year of financial performance for the Group. This is particularly pleasing given the continuing difficult trading conditions that prevailed for the majority of the year.

The business is in good shape and has already benefitted from the positive stock market performance in the first two months of the year. As the business continues to mature we expect further growth in the profits and in particular an increased cash emergence which should translate to further growth in dividends.

Andrew Croft
Chief Financial Officer

27 February 2013

FINANCIAL REVIEW

The Financial Model

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

The level of income is dependent on the level of client funds and the level of asset values. In addition, since much of our business does not generate net cash in the first six years, the level of income will increase as a result of new business from six years ago becoming cash generative. This deferral of cash generation means the business always has six years' worth of funds "in the gestation period", and the IFRS profits and cash result are relatively insensitive to new business levels (see page 29).

Group expenditure is carefully managed with clear targets set for growth in establishment expenses in the year. Other expenses increase with business levels and are met from margins in the products (see page 33).

A small proportion of Group expenditure is required to support management of existing funds, but the majority of expenditure is investment in growing the Partnership and acquiring new funds. The resulting new business is expected to generate income for an average of 14 years, and is expected to provide a good return on the investment (see page 30).

In the early years of the business, most of the cash emerging from the existing business was re-invested in the acquisition of new business therefore limiting the level of the cash result and IFRS profit before shareholder tax. In recent years, the maturing of the business has resulted in strong growth in both the cash emergence and the IFRS result.

Given the high level of reinvestment of emerging IFRS profits and cash back into new business generation, neither approach provides a simple guide to the profits likely to emerge in the future or the total economic value of the business. However, consideration of the contribution to profits from just the in-force business does provide a good indication of the underlying value generated. It can also allow a useful reconciliation of these results to the EEV result, which presents our detailed, market consistent assessment (using industry agreed principles) of the economic value of our business.

Presentation of financial results

Management believes it is important for investors to appreciate not only the short term net income position of our business, but also the full, long-term potential. We therefore complement our statutory IFRS reporting 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. We also provide analysis of the sources of cash emergence in the year, which we refer to as the cash result.

These three measures, which are described in more detail below, 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.

The **IFRS result** is the approach required for statutory reporting purposes. The standards require that profits are recognised in line with the provision of services and therefore 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 and liabilities (known as DAC – Deferred Acquisition Costs and DIR – Deferred Income Reserve) and recognises the value of certain future cash flows, particularly deferred tax.

One point of note in the IFRS methodology is the requirement that the tax recognised in the accounts should include the tax incurred on behalf of policyholders in our UK life assurance company. Since the policyholder tax charge is unrelated to the performance of the business, management believes it is useful to provide additional disclosure of the **profit before shareholder tax**. This measure reflects the profit before tax

adjusted for tax paid on behalf of policyholders, which we believe provides the most useful measure of IFRS operating performance in the period.

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

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

Finally, 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 and which can be used by the Board in determining the proposed dividend payments to shareholders.

Since the cash result can be impacted by timing variances and capitalised impacts of changes in solvency requirements management believes it is also useful to present an **underlying cash result** excluding these effects. Neither of these cash result measures should be confused with the IFRS cash flow statement which is prepared in accordance with IAS 7 and disclosed on page 57.

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

SECTION 1: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Board regard the IFRS profit before shareholder tax as the best measure of the IFRS operating performance for the year. It provides a measure of performance which recognises the emergence of profits in line with the provision of services, and is comparable with other businesses. The detailed IFRS result is shown on pages 54 to 73 and is summarised in the table below.

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Profit before shareholder tax	134.6	109.7
Shareholder tax	(27.5)	(2.9)
IFRS profit after tax	107.1	106.8

An analysis of the movement in the profit before shareholder tax and shareholder tax is provided below.

Profit before shareholder tax

The profit before shareholder tax for the year was £134.6 million, up 23% on the prior year result of £109.7 million.

The key driver of the improved result was higher income from funds under management. During 2012, the average funds under management were more than £31.5 billion, and some 14% higher than the prior period.

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Life business	111.7	89.1
Unit Trust business	33.5	27.8
Distribution business	5.3	6.1
Other	(15.9)	(13.3)
Profit before shareholder tax	134.6	109.7

Life business

The Life business profit for the year was £111.7 million (2011: £89.1 million) which was 25% higher than the prior year. The principal contributor to this rise in profit was the higher income from funds under management in recent years.

Unit Trust business

The Unit Trust business profit for the year was £33.5 million (2011: £27.8 million) which was also higher than the same period last year. As above, the principal contributor to this rise in profit was the higher income from funds under management.

Distribution business

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

The Distribution business profit for the year was £5.3 million (2011: £6.1 million).

Other

Other operations contributed a loss of £15.9 million (2011: loss of £13.3 million). Included within this figure is the cost of expensing share options of £5.4 million for the current period (2011: £10.5 million). The additional loss in 2012 is made up of a number of items including increased cost of matching for the Foundation.

Shareholder tax

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Expected shareholder tax	(33.7)	(29.6)
Market related tax effects	(4.0)	20.3
Other tax adjustments	2.0	(0.6)
Corporation tax rate change	8.2	7.0
Actual shareholder tax	<u>(27.5)</u>	<u>(2.9)</u>
Expected shareholder tax rate	<u>25.0%</u>	<u>27.0%</u>
Actual shareholder tax rate	<u>20.4%</u>	<u>2.6%</u>

The **expected shareholder tax** principally reflects the current corporation tax rate applicable to profits in the year, 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. There has been a small change this year to reassign £5.1 million of expected tax effect as being market related, which we believe will give a more useful and consistent analysis going forward. More detail is included in Note 5 to this announcement.

The **market related tax effects** and **other tax adjustments** will typically be small. However, the lower investment markets in 2011 resulted in a large negative market related tax effect in that year.

The impact of the **corporation tax rate change** on deferred tax has reduced the tax charge in both years. The impact on shareholder tax in 2011 reflects a reduction of 2% in the corporation tax rate, from 27% to 25%. The impact in 2012 reflects a 2% reduction from 25% to 23% which will be the tax rate from April 2013.

The overall impact of all of the above effects is to increase the tax charge on an IFRS basis to £27.5 million (2011: £2.9 million).

IFRS profit after tax

The following additional analysis of the IFRS profit after tax result identifies the different contributions from the business in-force at the start of the year, and the new business added during the year. It starts from the cash result, which can be found on pages 26 to 28.

Year Ended 31 December 2012

	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Cash result	1	152.2	(60.5)	91.7
DIR amortisation	2	93.6	5.8	99.4
DAC amortisation	3	(74.7)	(5.8)	(80.5)
PVIF amortisation	4	(2.4)	-	(2.4)
DIR on new business	2	-	(155.9)	(155.9)
DAC on new business	3	-	155.0	155.0
Share options	5	(5.4)	-	(5.4)
IFRS deferred tax impacts	6	(8.3)	-	(8.3)
Other IFRS	7	5.3	-	5.3
Corporation tax rate change	8	8.2	-	8.2
IFRS profit after tax		168.5	(61.4)	107.1

Year Ended 31 December 2011

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

The IFRS profit after tax from the business in-force at the start of the year increased to £168.5 million (2011: £160.1 million). This reflects the increased cash result arising from the greater income from the higher funds under management. However this is largely offset by the increase in the effective tax rate, reflected in this analysis by the difference in contribution from deferred tax.

The loss associated with acquiring new business for the year was £61.4 million (2011: £53.3 million loss) and should be viewed as an investment for future profits. The increase in the cost of new business reflected higher expenses in the year, particularly development expenses and the increased cost of the FSCS levy.

In 2013 we expect to see some change in this breakdown of the IFRS profit after tax result, as a result of the introduction of the adviser charging rules. However the overall impact of the changes is expected to be small.

Notes

1. These figures are explained in the analysis of the post-tax cash result in Section 3.

2. DIR: IFRS requires any initial profit which arises on new business (either through an initial charge or surrender penalty) to be deferred at the outset and then amortised over the life of the associated product or the surrender penalty period. This required treatment gives rise to two adjustments to arrive at the IFRS result.

(a) The amortisation of the opening deferred income, which increases profit for the period, was £93.6 million (2011: £82.9 million) in the current year. The release in a particular year will depend upon the value of DIR at the start of the year and the remaining life of the policies to which the DIR relates or the remaining surrender penalty period.

In 2012 there was a modification to the outstanding surrender penalty position which increased the level of cash profits resulting in a £1.7 million reduction in the amortisation of the DIR in the year, from the expected level of £95.3 million. The expected release for 2013 is £113.8 million.

(b) The deferral of the initial profit associated with new business sales reduced the IFRS result by £155.9 million in 2012 (2011: £135.7 million). The deferral of profit in any particular year will be dependent upon the level of new business. In addition, the modification noted above has resulted in an increase in the DIR on new business in the year by nearly £8 million.

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. The treatment of these acquisition expenses gives rise to two adjustments in the IFRS result.

(a) The amortisation of the opening DAC, which reduces profit for the period, was £74.7 million (2011: £64.6 million) in the current year. The charge in a particular period will depend upon the value of the DAC at the start of the year and the remaining life of the policies to which the DAC relates. The expected amortisation charge for 2013 is £84.8 million.

(b) The deferral of the specific acquisition costs, which were incurred in the current period, increased IFRS profits by £155 million (2011: £144.8 million). The deferral of expenses in any particular year will be dependent upon the level of the acquisition costs which themselves will be determined by the level of new business.

4. PVIF: The IFRS balance sheet includes an asset representing purchased value of in-force (“PVIF”). This asset is amortised over the remaining life of the policies associated with this asset. The amortisation charge for the year was £2.4 million (2011: £2.8 million). The charge for 2013 is expected to be £2.5 million.

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

6. IFRS deferred tax: Under IFRS a deferred tax asset is established for future tax benefits that are expected to emerge. This is not recognised in the cash result. The significant change between the two years reflects the establishment of an additional tax asset in respect of “excess E” from the tax calculation for the life business in the prior year, and the utilisation of this asset in the current year. Both years also benefit from an expected small underlying positive contribution, also related to taxation in the life business.

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

8. Corporation tax rate change: the above adjustments are all shown net of deferred tax rates prevailing at the end of each year, and this £8.2 million (2011: £7.0 million) reflects the effect on the deferred tax assets and liabilities of the change in the tax rate from 25% to 23%.

Whilst the Board considers the profit before shareholder tax is the best measure of the performance of the business, the total IFRS result is presented, grossed up for the inclusion of tax incurred on behalf of policyholders, in the table below:

IFRS profit before tax

	Year Ended 31 December 2012	Year Ended * 31 December 2011
	£' Million	£' Million
IFRS profit / (loss) before tax	251.8	(20.1)
Policyholder tax	(117.2)	129.8
Profit before shareholder tax	134.6	109.7
Shareholder tax	(27.5)	(2.9)
IFRS profit after tax	107.1	106.8

*To more appropriately reflect the IFRS profit before tax figure, the 2011 policyholder tax has been re-presented to include a credit of £41.4 million in relation to the tax provision for tax deductions on deemed disposals of unit trust holdings which was previously treated as a movement in actuarial reserves. This has had the effect of reducing the prior year IFRS profit before tax by a corresponding £41.4 million. More information is given in Note 2 to this announcement.

In 2012 the **IFRS profit before tax** for the year was £251.8 million (2011: £20.1 million loss) with the principal contribution to the change being the movement in the policyholder tax from a £129.8 million credit in 2011 to a charge of £117.2 million in 2012.

The **policyholder tax** mainly reflects the UK tax paid or payable in the future within the life business at the policyholder tax rate of 20% and principally reflects the movement in the tax provision within the policyholder unit linked funds. At the previous reporting date, there were unrealised capital losses within the funds, against which a deferred tax asset was established. The increase in the stock markets over 2012 has reversed this position and as a result there are now unrealised gains in the funds, on which a deferred tax liability has been established. The movement between the reporting dates has resulted in a tax charge of £117.2 million.

By comparison, during 2011 stockmarkets and asset values decreased, which resulted in a tax credit of £129.8 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:

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Purchased value of in-force*	33.3	34.8
Deferred acquisition costs*	757.1	659.0
Deferred income*	(519.2)	(446.6)
Other IFRS net assets	87.8	88.9
Solvency net assets	403.5	342.2
	<hr/>	<hr/>
Total IFRS net assets	<u>762.5</u>	<u>678.3</u>
* net of deferred tax		
	Year Ended 31 December 2012	Year Ended 31 December 2011
	Pence	Pence
Net asset value per share	<u>150.4</u>	<u>137.5</u>

SECTION 2: EUROPEAN EMBEDDED VALUE (EEV)

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

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Life business	293.9	294.2
Unit trust business	82.6	84.5
Distribution	5.3	6.1
Other	(15.9)	(13.3)
EEV operating profit	365.9	371.5
Investment return variance	190.4	(180.4)
Economic assumption changes	(3.7)	(0.3)
EEV profit before tax	552.6	190.8
Tax	(114.5)	(42.5)
Corporation tax change	21.6	50.5
EEV profit after tax	459.7	198.8

Total EEV operating profit for the year, at £365.9 million, was slightly lower than the 2011 result of £371.5 million.

EEV operating profit

Life business

The Life business operating profit has marginally decreased to £293.9 million in the year (2011: £294.2 million) mainly due to the lower contribution from the experience variance in the year. A full analysis of the result is shown below:

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
New business contribution	208.9	182.5
Profit from existing business		
- unwind of the discount rate	76.9	72.7
- experience variance	6.9	39.4
- operating assumption change	(1.7)	(2.7)
Investment income	2.9	2.3
Life business EEV operating profit	<u>293.9</u>	<u>294.2</u>

The **new business contribution** for the year at £208.9 million (2011: £182.5 million) was over 14% higher than the prior year reflecting the higher volume of new business together with continued control over the growth in associated expenses.

The **unwind of the discount rate** was £76.9 million (2011: £72.7 million). The unwind is now calculated based on the opening discount rate.

The **experience variance** in the year was £6.9 million (2011: £39.4 million). Continued strong retention of funds under management made a positive contribution in both years, but the prior year also benefitted from negotiation of a lower level for administration costs compared with the level assumed in the embedded value calculation.

There was a small negative **operating assumption change** of £1.7 million, similar to the prior year (2011: £2.7 million negative variance).

The **investment income** for the year was £2.9 million (2011: £2.3 million) and reflects the assumed interest rate we earn on our free assets.

Unit Trust business

The Unit Trust operating profit was £82.6 million (2011: £84.5 million) and a full analysis of the result is shown below:

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
New business contribution	67.9	63.5
Profit from existing business		
- unwind of the discount rate	19.1	18.5
- experience variance	(2.3)	(1.3)
- operating assumption change	(2.6)	3.3
Investment income	0.5	0.5
Unit Trust business EEV operating profit	<u>82.6</u>	<u>84.5</u>

New business contribution at £67.9 million (2011: £63.5 million) was 7% higher than the prior year as a result of the new business growth in the period and control of growth in associated expenses.

The **unwind of the discount rate** was £19.1 million (2011: £18.5 million).

There was a small negative **experience variance** of £2.3 million (2011: £1.3 million negative variance) which is accounted for by a number of small positive and negative items in both years.

There was also a small negative **operating assumption change** of £2.6 million (2011: £3.3 million positive variance).

Distribution business and Other

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

Investment return variance

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

During 2012, world stock markets rose, with, for example, the MSCI £ world index increasing by some 10.7%. This was reflected in the investment return on our funds, which comfortably exceeded the assumed investment return. As a result there was a positive investment return variance of £190.4 million for the year.

In the prior year there was a negative investment variance of £180.4 million, reflecting falls in stock markets, and investment growth which was lower than that assumed in the embedded value projection for the year.

Economic assumption changes

There was a small negative variance of £3.7 million arising from changes in the economic basis adopted at the year end (2011: £0.3 million negative variance).

EEV profit before tax

The total EEV profit before tax for the year was £552.6 million (2011: £190.8 million). The most significant contributor to the increase was the change in investment return variance reflecting stronger actual investment returns in 2012 compared to 2011.

Tax

The tax charge at £114.5 million (2011: £42.5 million charge) was higher than 2011 reflecting the higher profit before tax.

Corporation tax rate change

At the last valuation, the EEV reflected a corporation tax rate of 25% in 2012, reducing over two years to a long-term rate of 23%. In the 2012 Budget the Chancellor reduced the rate of corporation tax applying from April 2012 to 24%, and in his Autumn Statement he announced further planned cuts to 23% from April 2013 and 21% from April 2014. The impact of adopting these changes has reduced the corporation tax charge by £21.6 million (2011: £50.5 million).

EEV profit after tax

The EEV profit after tax was £459.7 million (2011: £198.8 million). The principal reason for the variation is the change in investment return variance.

New Business Margin

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

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

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
Life business		
New business contribution (£' m)	208.9	182.5
APE (£' m)	594.8	505.4
Margin (%)	35.1	36.1
PVNBP (£' m)	4,424.4	4,023.2
Margin (%)	4.7	4.5
Unit Trust business		
New business contribution (£' m)	67.9	63.5
APE (£' m)	148.5	136.9
Margin (%)	45.7	46.4
PVNBP (£' m)	1,484.7	1,368.8
Margin (%)	4.6	4.6
Total business		
New business contribution (£' m)	276.8	246.0
APE (£' m)	743.3	642.3
Margin (%)	37.2	38.3
PVNBP (£' m)	5,909.1	5,392.0
Margin (%)	4.7	4.6

The Life business margin has increased from 4.5% to 4.7% on a PVNBP basis, reflecting not only growth in new business being greater than growth in expenses (the operational gearing), but also the impact of reduced Partner remuneration. This reduction in Partner remuneration reflects recent changes to equalise Partner remuneration between the Life and Unit Trust business, as noted in last year's Financial Commentary. However, on an APE basis the margin has reduced from 36.1% to 35.1%, which reflects not only the effects noted above, but also the greater proportion of lower margin non-manufactured business APE this year.

Having completed the changes to Partner remuneration on Unit Trust business in 2011, the Unit Trust margin has remained unchanged at 4.6% on a PVNBP basis and is broadly unchanged at 45.7% compared with 46.4% on an APE basis.

The combined margin has declined marginally on an APE basis, reflecting the greater proportion on non-manufactured business noted above, whilst there was a small increase in the overall PVNBP margin.

In addition to the new business profit arising in the 'manufacturing' companies, the Group also makes a profit or loss within the Distribution business. Allowing for the current year result of £5.3 million (2011: £6.1 million) increases the combined margin arising on new business to 4.8% (2011: 4.7%) on a PVNBP basis and to 38.0% (2011: 39.2%) on an APE basis.

Following the adoption of the new regulatory rules in respect of adviser charging there will be a small decline in the Life business margin in future years. This reflects a loss of tax relief on certain expenses within the UK life company's I-E tax computation.

Analysis of the European Embedded Value and Net Assets per Share

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Value of in-force		
- Life	1,549.3	1,251.5
- Unit Trust	383.5	305.8
Solvency net assets	<u>403.5</u>	<u>342.2</u>
Total embedded value	<u><u>2,336.3</u></u>	<u><u>1,899.5</u></u>
	Year Ended 31 December 2012	Year Ended 31 December 2011
	Pence	Pence
Net asset value per share	<u>461.0</u>	<u>385.0</u>

SECTION 3: CASH RESULT AND CAPITAL

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. The cash result is based on the IFRS result, but removes non-cash items such as DAC, DIR and deferred tax. It is also adjusted to reflect the regulatory solvency constraints on profits emerging from regulated companies such as our insurance businesses. The effect is a measure which more reflects the underlying cash emergence of the business, and which is available to pay dividends. An **underlying cash result** is also presented, stripping out the effects of timing variances and capitalised impacts of changes in solvency requirements.

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Underlying cash result	84.0	63.0
Variance	<u>7.7</u>	<u>4.0</u>
Cash result	<u><u>91.7</u></u>	<u><u>67.0</u></u>

In 2012, the **cash result** was £91.7 million (2011: £67.0 million) which was 37% higher than the prior year, principally from increased net income from funds under management. In both years there were positive variances and within these results the **underlying cash result** was £84.0 million (2011: £63.0 million) up 33%.

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

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

Year Ended 31 December 2012	Notes	In-Force	New Business	Total
		£' Million	£' Million	£' Million
Net annual management fee	1	231.1	22.2	253.3
Unwind of surrender penalties	2	<u>(85.5)</u>	<u>(10.7)</u>	<u>(96.2)</u>
Net income from funds under management		145.6	11.5	157.1
Margin arising from new business	3	-	13.3	13.3
Establishment expenses	4	(7.8)	(70.0)	(77.8)
Development expenses	5	-	(7.2)	(7.2)
FSA FSCS Fees	6	(0.9)	(8.1)	(9.0)
Shareholder interest (regulated companies)	7	2.4	-	2.4
Shareholder interest (non-regulated companies)	7	3.1	-	3.1
Miscellaneous	8	2.1	-	2.1
Underlying cash result		<u>144.5</u>	<u>(60.5)</u>	<u>84.0</u>
Variance	9	<u>7.7</u>	-	<u>7.7</u>
Cash result		<u><u>152.2</u></u>	<u><u>(60.5)</u></u>	<u><u>91.7</u></u>

Year Ended 31 December 2011	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Net annual management fee	1	196.4	19.5	215.9
Unwind of surrender penalties	2	(69.3)	(7.0)	(76.3)
Net income from funds under management		127.1	12.5	139.6
Margin arising from new business	3	-	(1.2)	(1.2)
Establishment expenses	4	(7.2)	(65.0)	(72.2)
Development expenses	5	-	(3.3)	(3.3)
FSA/FSCS fees	6	(0.6)	(5.4)	(6.0)
Shareholder interest (regulated companies)	7	2.9	-	2.9
Shareholder interest (non-regulated companies)	7	2.2	-	2.2
Miscellaneous	8	1.0	-	1.0
Underlying cash result		125.4	(62.4)	63.0
Variance	9	4.0	-	4.0
Cash result		129.4	(62.4)	67.0

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 the prior year.

1. The net annual management fee: This is the manufacturing margin the Group retains from the funds under management after payment of the associated costs (e.g. investment advisory fees and Partner remuneration). Broadly speaking the Group retains around 1% before tax (0.75% after tax) of funds under management.

The level of net annual management fee was some 17% higher than 2011. This increase is in line with the growth in funds under management which averaged £31.5 billion in 2012 compared to £27.7 billion in 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.

In addition, during 2012 we have modified the calculation of the outstanding surrender penalty position, resulting in an increase in the level of outstanding surrender penalty on the existing business. However this modification has resulted in a similar increase in the amount of the unwind of surrender penalties for 2012 compared to 2011.

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 2012 the reduction in initial Partner remuneration on Life business noted last year, combined with the modification noted above, has increased the margin arising from new business to £13.3 million (2011: £1.2 million negative variance).

4. Establishment expenses: These are the expenses of running the Group's infrastructure as shown in the table on page 33. In line with the rest of this table they are presented after allowance for tax. These expenses were 7.8% higher in the current year.
5. Development expenses: These represent the expenditure associated with significant developments in our investment proposition together with the costs associated with regulatory changes. The impact on the cash result in the year was £7.2 million (2011: £3.3 million).
6. FSA/ FSCS Fees: The fees payable to the FSA and the FSCS in the year was £9.0 million (2011: £6.0 million).
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 includes product charges from a closed book of protection business as well as income and expenses from other operations of the business. The contribution to the cash result increased slightly to £2.1 million (2011: £1.0 million)
9. Variance: This reflects variances in the cash result in a year due to the impact of actual experience (including economic assumptions changes and investment performance) on insurance reserves, as well as variances in the settlement of tax related liabilities between the policyholders (unit-linked funds), the shareholder and HMRC. In 2012 the variance also reflects £4.0 million from the modification to the calculation of the surrender penalty position noted above.

Following the adoption of the new regulatory rules on adviser charging the future cash flows on some new business will be recognised earlier. This should have a positive impact on the future cash result.

Return on In-Force business

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

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

In addition, a proportion of the new business has 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	<u>With surrender penalties</u> £' Billion
2007	1.6
2008	1.4
2009	1.6
2010	2.1
2011	2.2
2012	2.4
Total	<u><u>11.3</u></u>

The total business not yet contributing to the cash result is £11.3 billion* which is just about a third of the total funds under management at 31 December 2012. Once this business reaches the end of the surrender period the cash result will increase. For illustration purposes, if all the business was now at this level of maturity then the annual post-tax cash result (based on 0.75% post-tax earnings from funds under management) would be some £85 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 16, £60.5 million (2011: £62.4 million) of the cash arising from the in-force business has been re-invested in acquiring the new business during the year.

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
Post-tax investment in new business (£'Million)	(60.5)	(62.4)
Post-tax present value of expected future cash returns (£'Million)	278.8	253.5
Post-tax present value of expected profit from investment (£'Million)	218.3	191.1
Gross inflow of funds under management (£'Billion)	5.6	5.2
Investment as % of gross inflow*	1.1%	1.2%
New business margin (% of APE)	37.2%	38.3%
Cash payback period (years)	4	5
Internal rate of return (net of tax)	22.5%	20.6%

* The investment as a percentage of net inflow of funds under management was 1.8% compared with 1.9% for the prior year.

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

Capital Position

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

The Group continues to be capitalised well in excess of regulatory solvency requirements, and the assets are invested prudently in cash, AAA rated money market funds and UK government 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.

	<u>Life</u>	<u>Other</u>	<u>Other</u>	<u>Total</u>
	<u>£’Million</u>	<u>Regulated</u>	<u>£’Million</u>	<u>£’Million</u>
		<u>£’Million</u>	<u>£’Million</u>	<u>£’Million</u>
Solvency position				
Solvency net assets	199.1	29.4	175.0	403.5
Solvency requirement	43.8	14.0		
Solvency ratio	455%	210%		
Analysis of solvency net assets				
UK government gilts	84.3	-	-	84.3
AAA rated money market funds	232.7	45.7	43.2	321.6
Bank balances	99.9	47.5	35.1	182.5
Liquid assets	416.9	93.2	78.3	588.4
Fixed assets	-	-	3.5	3.5
Actuarial reserves	(84.3)	-	-	(84.3)
Other assets and liabilities	(133.5)	(63.8)	93.2	(104.1)
Solvency net assets	199.1	29.4	175.0	403.5
Reconciliation to IFRS net assets				
Solvency net assets	199.1	29.4	175.0	403.5
- Purchased VIF	33.3	-	-	33.3
- DAC and DIR	272.9	(35.0)	-	237.9
- Other	86.4	1.4	-	87.8
Total IFRS net assets	591.7	(4.2)	175.0	762.5

Included within the ‘other’ capital resources is an implied reserve that is being built up to cover one years’ dividend cost. At 31 December 2012 the amount set aside to date was £45 million compared to a full year dividend cost of £53.8 million.

Analysis of liquid assets

As noted in the table above the Group has liquid assets of £588.5 million and these amounts are held in UK Government backed debt, AAA rated money market funds and bank deposits. A further analysis of the holdings is provided below.

Holding Name	£'Million	£'Million
<i>UK government gilts</i>		
4.5% UK Treasury 07/03/2013	5.2	
8% UK Treasury 27/09/2013	7.0	
2.5% UK Treasury Index Linked 26/07/2016	12.2	
2.5% UK Treasury Index Linked 17/07/2024	18.3	
2% UK Treasury Index Linked 26/01/2035	21.8	
4.25% UK Treasury 07/12/2055	4.6	
3.5% War Loan	15.2	84.3
<i>AAA rated money market funds</i>		
BlackRock	60.6	
HSBC	60.7	
Insight	63.2	
Northern Trust	40.0	
RBS	57.1	
Scottish Widows	40.0	321.6
<i>Bank balances</i>		
UK banks*	181.0	
Others	1.5	182.5
		<u>588.4</u>

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

We are not intending to change our approach of investing in UK Government Gilts following the recent credit downgrade of the UK.

Solvency II

We are well advanced in our preparation for the adoption of the new EU Solvency II requirements, and to minimise unnecessary expense arising from the delayed implementation we are re-aligning our processes to reflect the expected new rules as far as possible. We expect to be able to manage any period of “dual running” with minimal cost. As noted previously, we don’t believe the Group will be adversely impacted by the new requirements and we expect to see a reduction in the total capital we are required to hold for regulatory purposes.

Share options maturity

At 31 December 2012 there were 12.5 million share options outstanding under the various share option schemes which, if exercised, will provide up to £34.0 million (2011: £49.1 million), of future capital for the Company.

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

Earliest date of exercise	Average exercise price £	Number of Share options outstanding Million	Potential Proceeds £' Million
Prior to 1 Jan 2013	2.73	10.9	29.8
Jan – Jun 2013	2.04	0.2	0.5
Jul – Dec 2013		-	-
Jan – Jun 2014	2.42	0.3	0.6
Jul – Dec 2014		-	-
Jan – Jun 2015	2.96	0.3	0.9
Jul – Dec 2015	2.75	0.8	2.2
		12.5	34.0

SECTION 4: OTHER MATTERS

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

Expenses

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

	Note	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
<i>Paid from policy margins</i>			
Partner remuneration	1	307.0	276.7
Investment expenses	1	89.4	92.5
Third party administration	1	32.6	33.5
		429.0	402.7
<i>Direct expenses</i>			
Other new business related costs	2	59.5	54.5
Establishment costs	3	102.4	95.0
Development costs	4	10.3	4.5
FSA/FSCS levy	5	12.0	8.0
Contribution from third party product sales	6	(21.4)	(13.5)
		162.8	148.5
		591.8	551.2

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.

The reduction in investment expenses in recent years reflects the consolidation of our investment approach resulting in a move towards our insurance business funds investing through our unit trusts. As a result, the investment expenses within those unit trusts that have been invested into by our insurance funds, are no longer explicitly reported, which results in a reduction in the reported investment expense in the year of change.

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 they are 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.

The growth in establishment expenses during the year was 7.8%, above our original expectations of 5% as a result of increased costs associated with the high level of Partner recruitment in the year.

4. Development costs represent the expenditure associated with a significant development in our investment proposition together with the costs associated with regulatory change.

The development expenses were £10.3 million during 2012 and we expect further costs in 2013 of £5.3 million.

5. The FSA / FSCS costs represent the fees payable to the FSA of £5.1 million (2011: £4.5 million) together with our required contribution to the Financial Services Compensation Scheme of £6.9 million (2011: £3.5 million).

6. Contribution from third party product sales reflects the net income received from wealth management sales of £0.9 million (2011: £3.5 million), sales of group pension products of £7.8 million (2011: £1.5 million) and sales through the Protection Panel of £12.7 million (2011: £8.5 million).

During the current year, £3.6 million of software development costs have been capitalised as an intangible asset in accordance with IAS 38. This asset will be amortised over the following four years.

Movement in funds under management

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Billion	£' Billion
Opening funds under management	28.5	27.0
New money invested	5.6	5.2
Investment return	3.0	(1.8)
	37.1	30.4
Regular withdrawals / maturities	(0.7)	(0.5)
Surrenders / part surrenders	(1.6)	(1.4)
Closing funds under management	34.8	28.5
Implied surrender rate as % of average funds under management	4.9%	5.2%
Net inflow of funds	3.35	3.21
Net inflow as % of opening funds under management	11.8%	11.9%

Shareholders will be pleased to note that the continued strong retention of funds under management, together with the level of new money invested, provides for **net inflow of funds** of £3.35 billion, slightly higher than the prior year. This net inflow represents 11.8% (2011: 11.9%) 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.

Analysis of funds under management

The following table provides an analysis of the funds under management at 31 December 2012 split by geography and asset type:

	FUM £'Billion	% of total
UK Equities	10.6	31%
North American Equities	4.6	13%
European Equities	4.1	12%
Asia & Pacific Equities	3.9	11%
Property	0.8	2%
Fixed Interest	5.0	14%
Alternative Investments	1.3	4%
Cash	3.2	9%
Other	1.3	4%
	<hr/>	<hr/>
Total	34.8	100%

RISK AND RISK MANAGEMENT

Introduction

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

Risk Management Framework

The Risk Management Framework enables the continuous identification and assessment of risks that may impact on the successful delivery of our Group business objectives.

Overseeing our Risk Management Framework is the Risk Committee. The Risk Committee is made up of Non-executive Board members responsible for ensuring that a culture of effective risk identification and management is fostered across the Group.

The Risk Committee is supported by a Risk Executive Committee and Risk Management team which are responsible for ensuring that an appropriate framework is in place and for the on-going development and co-ordination of risk management within SJP.

Each division of the Group is responsible for identifying, managing and reporting its risks as part of a quarterly process. Each risk is assessed by considering its potential impact and the probability of its occurrence. Impact assessments are made against financial and non-financial metrics. The Risk Management team support divisions in this activity.

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

Risk Appetite and Risk Policies

At the centre of our Risk Management Framework is the Risk Appetite Statement. In our Risk Appetite Statement, the Board clearly sets out risk 'boundaries' i.e. a specification of the types of risks the Group is willing to take and to what extent. The Statement is regularly reviewed and updated to ensure that it continues to outline the values which drive how the Group conducts itself. It also sets out how the Group operates in its chosen business and specifies appropriate metrics for monitoring compliance.

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

Risk Schedules and Key Risk Indicators

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

Principal Risks and Uncertainties

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

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Advice	Advice given by an individual Partner or authorised by the Group is deemed unsuitable leading to redress, costs, potential reputational damage and prospective/retrospective regulatory intervention.	Advice guidelines are agreed by technical specialists and reviewed by Group management. These guidelines are supported by Training and Accreditation arrangements with close compliance monitoring to ensure the advice guidelines are followed. Appropriate incentives exist to promote Partner compliance, whilst non-compliance is subject to censure and other sanctions. The Group also has appropriate professional indemnity insurance in place.
Distribution capability	The Group's distribution strength may be eroded due to an inability to recruit and retain Partners of the appropriate quality.	We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality and experienced Partners. All recruitment and retention activity is closely monitored. We are also continuing with the SJP Academy, overseen by a dedicated senior management team, to broaden our recruitment streams.
Ethos	Changes to the SJP ethos and culture adversely impact the continuing success of the business.	We have a range of strategic mechanisms in place including, for example, regular surveys and consultation groups, which enable us to monitor the sentiment of our staff and Partners, to identify any potential adverse impacts upon our culture and allow us to take action.
Investment Management Approach	Our approach to investment management may fail to deliver expected returns to clients of the Group.	We actively manage and monitor the performance of our investment managers through the Investment Committee which also makes use of a firm of professional advisers – Stamford Associates – to help them with this key task. At the same time, and to ensure clients can manage their risks as well, we offer a broad range of funds, which allows diversification and mitigates new business, persistency and market risks.

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Market Changes	A new entrant or competitor in the adviser-based wealth management market has an impact on the success of SJP's business.	We closely monitor competitor activity and the market place, for signs of any potential new entrants or threats, for example, a crowding of the high net worth market place if firms concentrate on wealthier clients. As noted above, we have a proven track record in Partner acquisition and retention, which we believe would make it difficult for a new entrant to challenge SJP's position. In addition, more established SJP Partners often have significant equity stakes in their practices and their ability to access these is structured to aid retention.
Outsourcing	The Group's dependence on outsourcing may come under threat should any of its key investment management or administration business partners decide to exit the market, significantly revise their strategy or fail.	We maintain close working relationships with our outsourced business partners to ensure we would have warning of any material change that would significantly impact our business model. All relationships are governed by formal agreements with notice periods and full exit management plans, and if required, strong alternative providers exist in the market. Business continuity arrangements of each outsourcer are continually tested and improved and scenario analysis carried out.
Regulatory, legislative and tax environment	That the Group could face a fine or regulatory censure from failure to comply with applicable regulations, or that changes in the wider regulatory, legislative or tax environment could have an adverse impact on the Group's business.	Our governance structures, management committees and compliance monitoring activities seek to ensure we remain compliant with regulation. Our active approach to maintaining an open and mutually beneficial relationship with our regulator provides intelligence to mitigate the risk of operating in a highly regulated sector. Membership of appropriate trade bodies can also provide information about proposed changes. The Group also engages the services of public relations and communications consultants.
Retail Distribution Review	Market adjustments following the implementation of the changes adversely impact the Group.	Although we have successfully implemented the changes required by the new rules, some uncertainty remains about how clients and the financial services market place will react in the medium to long term to the new regime. During the course of this year, any impact will become clearer, but we believe the strength of the client relationships, on which our business is built, should help mitigate any adverse effect.

Other Key Risks and Uncertainties

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

Financial risks

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Credit	The risk of loss due to a debtor's non-payment of a loan or other line of credit, including holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions.	The Group has adopted a risk averse approach to credit risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.
Liquidity	The risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.	The Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives. Generally, free assets are invested in cash or near cash assets and the Group's cash position and forecast are monitored on a monthly basis.
Market	The risk of loss due to the impact of movement in the value of equity or other assets markets.	The Group adopts a risk averse approach to market risk, with a stated solvency policy of not actively pursuing or accepting market risk except where necessary to support other objectives. Generally, free assets are invested in cash or near cash to minimise market movement impact. However, future profits are dependent on annual management charges which will vary with market movements.
Insurance	The risk that arises from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The Group assumes insurance risk by issuing insurance contracts under which it agrees to compensate the client if a specified future event occurs.	The Group has a medium appetite for insurance risk, only actively pursuing it where beneficial, or in support of strategic objectives. The Group insures mortality and morbidity risks but has no longevity risk as we have never written annuity business.

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Economic environment	A major and prolonged economic downturn, a Euro area country/countries default or stock market crash leads to a significant under-performance of the business plan.	We closely monitor the performance against our business plan, the behaviour of the markets and consumer confidence through the use of daily Management Information circulated to senior management. This should help us to identify early signals of the impact of a market decline, so that we can manage expenses and adjust strategy appropriately.

EUROPEAN EMBEDDED VALUE BASIS

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

CONSOLIDATED STATEMENT OF INCOME

	Year Ended 31 December 2012	Year Ended 31 December 2011
	<u>£' Million</u>	<u>£' Million</u>
Life business	293.9	294.2
Unit Trust business	82.6	84.5
Distribution business	5.3	6.1
Other	(15.9)	(13.3)
EEV operating profit	<u>365.9</u>	<u>371.5</u>
Investment return variances	190.4	(180.4)
Economic assumption changes	(3.7)	(0.3)
EEV profit before tax	<u>552.6</u>	<u>190.8</u>
Tax		
Life business	(89.5)	(34.5)
Unit Trust business	(28.9)	(9.9)
Distribution business	(1.3)	(1.6)
Other	5.2	3.5
Corporation tax rate change	21.6	50.5
	<u>(92.9)</u>	<u>8.0</u>
EEV profit after tax	<u><u>459.7</u></u>	<u><u>198.8</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Opening shareholders' equity on an EEV basis	1,899.5	1,715.5
EEV profit after tax for the year	459.7	198.8
Issue of share capital	19.3	13.4
Retained earnings credit in respect of share option charges	5.4	10.5
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust	0.1	-
Dividends paid	(45.3)	(35.1)
Consideration paid for own shares	(2.4)	(3.6)
Closing shareholders' equity on an EEV basis	2,336.3	1,899.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2012	31 December 2011
	£' Million	£' Million
Assets		
Intangible assets		
Deferred acquisition costs	971.6	865.1
Value of long-term business in-force		
- long-term insurance	1,223.6	950.2
- unit trusts	383.5	305.8
Computer software	11.7	8.4
Customer list	3.0	0.9
	2,593.4	2,130.4
Property & equipment	3.6	5.4
Deferred tax assets	190.9	248.5
Investment property	597.6	550.9
Investments	28,266.7	22,532.4
Reinsurance assets	38.6	39.0
Insurance and investment contract receivables	46.5	44.5
Income tax assets	85.2	41.3
Other receivables	508.4	530.2
Cash & cash equivalents	2,997.0	2,329.3
	2,997.0	2,329.3
Total assets	35,327.9	28,451.9
Liabilities		
Insurance contract liabilities	424.0	394.0
Other provisions	9.2	3.1
Financial liabilities	27,271.7	22,314.5
Deferred tax liabilities	259.1	207.3
Insurance and investment contract payables	24.9	29.9
Deferred income	616.5	536.9
Income tax liabilities	77.2	12.4
Other payables	434.2	376.4
Net asset value attributable to unit holders	3,874.8	2,677.9
	3,874.8	2,677.9
Total liabilities	32,991.6	26,552.4
Net assets	2,336.3	1,899.5
Shareholders' equity		
Share capital	76.0	74.0
Share premium	127.7	110.4
Treasury share reserve	(8.9)	(8.5)
Miscellaneous reserves	2.3	2.3
Retained earnings	2,139.2	1,721.3
	2,139.2	1,721.3
Total shareholders' equity on an EEV basis	2,336.3	1,899.5
	Pence	Pence
Net assets per share	461.0	385.0

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

I. BASIS OF PREPARATION

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

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

II. METHODOLOGY

(a) Covered business

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

(b) Calculation of EEV on existing business

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

(c) Allowance for risk

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

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

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

(d) Non-market risk

Best estimate assumptions have been established based on available information and when used within the market consistent calculations provide the primary evaluation of the impact of non-market risk. However, some non-market operational risks are not symmetric, with adverse experience having a higher impact on the EEV than favourable experience. Allowance has been made for this by increasing the risk discount rate by 0.8% (2011: 0.8%).

(e) The risk discount rate

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

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

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

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

(f) Cost of required capital

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

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

(g) New business

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

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

(h) Operating profit

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

(i) Tax

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

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

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

III. ASSUMPTIONS

(a) Economic assumptions

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
Risk free rate	1.8%	2.0%
Inflation rate	2.5%	2.7%
Risk discount rate (net of tax)	4.9%	5.1%
Future investment returns:		
- Gilts	1.8%	2.0%
- Equities	4.8%	5.0%
- Unit linked funds		
- Capital growth	1.2%	1.4%
- Dividend income	2.9%	2.9%
- Total	4.1%	4.3%
Expense inflation	3.4%	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.

(b) Experience assumptions

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

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

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

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

(c) Tax

The EEV result has been calculated allowing for tax and has been grossed up to a pre-tax level for presentation in the profit and loss account. The corporation tax rate used for this grossing up is 21.3% (2011: 22.2%) for UK life and pensions business, 12.5% (2011: 12.5%) for Irish life and pensions business and 21.7% (2011: 23.4%) for unit trust business. Future tax has been determined assuming a continuation of the current tax legislation. The reduction in tax rates for UK business reflects both the changes in tax rate enacted in the year, and also the further 2% reduction to which the government has committed in future years.

IV. COMPONENTS OF EEV PROFIT

(a) Life business

	Note	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
New business contribution	1	208.9	182.5
Profit from existing business			
Unwind of discount rate		76.9	72.7
Experience variances		6.9	39.4
Operating assumption changes		(1.7)	(2.7)
Investment income		2.9	2.3
EEV operating profit		293.9	294.2
Investment return variances		139.5	(141.2)
Economic assumption changes		(3.5)	2.7
EEV profit before tax		429.9	155.7
Tax		(89.5)	(34.5)
Corporation tax rate change		14.7	37.6
EEV profit after tax		355.1	158.8

Note 1: New business contribution after tax is £165.2 million (2011: £142.5 million)

(b) Unit Trust business

	Note	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
New business contribution	1	67.9	63.5
Profit from existing business			
Unwind of discount rate		19.1	18.5
Experience variances		(2.3)	(1.3)
Operating assumption changes		(2.6)	3.3
Investment income		0.5	0.5
EEV operating profit		82.6	84.5
Investment return variances		50.9	(39.2)
Economic assumption changes		(0.2)	(3.0)
EEV profit before tax		133.3	42.3
Tax		(28.9)	(9.9)
Corporation tax rate change		6.9	12.9
EEV profit after tax		111.3	45.3

Note 1: New business contribution after tax is £53.1 million (2011: £48.7 million)

(c) Combined Life and Unit Trust business

	Note	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
New business contribution	1	276.8	246.0
Profit from existing business:			
Unwind of discount rate		96.0	91.2
Experience variances		4.6	38.1
Operating assumption changes		(4.3)	0.6
Investment income		3.4	2.8
EEV operating profit		376.5	378.7
Investment return variances		190.4	(180.4)
Economic assumption changes		(3.7)	(0.3)
EEV profit before tax		563.2	198.0
Tax		(118.4)	(44.4)
Corporation tax rate change		21.6	50.5
EEV profit after tax		466.4	204.1

Note 1: New business contribution after tax is £218.3 million (2011: £191.2 million).

(d) Detailed analysis

In order to better explain the movement in capital flows, the components of the EEV profit for the year ended 31 December 2012 are shown separately between the movement in IFRS net assets and the present value of the in-force business (VIF) in the table below. All figures are shown net of tax.

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(67.8)	286.1	218.3
Profit from existing business	160.3	(160.3)	-
Unwind of discount rate	-	75.8	75.8
Experience variances	17.3	(9.4)	7.9
Operating assumption changes	1.0	(4.4)	(3.4)
Investment return	2.8	-	2.8
Investment return variances	10.4	139.7	150.1
Economic assumption changes	(6.6)	3.5	(3.1)
Miscellaneous	(10.3)	-	(10.3)
Corporation tax rate change	-	21.6	21.6
EEV profit after tax	107.1	352.6	459.7

The comparative figures for 2011 are as follows:

	Movement in IFRS Net Assets	Movement in VIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(65.8)	256.9	191.1
Profit from existing business	154.5	(154.5)	-
Unwind of discount rate	-	71.1	71.1
Experience variances	38.8	(6.8)	32.0
Operating assumption changes	2.1	(1.6)	0.5
Investment return	2.2	-	2.2
Investment return variances	(13.2)	(128.4)	(141.6)
Economic assumption changes	(4.9)	4.8	(0.1)
Miscellaneous	(6.9)	-	(6.9)
Corporation tax rate change	-	50.5	50.5
EEV profit after tax	106.8	92.0	198.8

V. EEV SENSITIVITIES

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

	Notes	Change in new business contribution		Change in European Embedded Value
		<u>Pre-tax</u> £' Million	<u>Post-tax</u> £' Million	<u>Post-tax</u> £' Million
Value at 31 December 2012		276.8	218.3	2,336.3
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(1.9)	(1.6)	(2.9)
10% reduction in withdrawal rates	2	25.5	20.1	117.2
10% reduction in expenses		4.9	3.9	27.4
10% reduction in market value of equity assets	3	-	-	(219.4)
5% reduction in mortality and morbidity	4	-	-	(1.1)
100bp increase in equity expected returns	5	-	-	-
100bp increase in assumed inflation	6	(4.8)	(3.8)	(20.9)

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

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

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

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

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

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

	Change in new business Contribution		Change in European Embedded Value
	Pre-tax	Post-tax	Post-tax
	<u>£' Million</u>	<u>£' Million</u>	<u>£' Million</u>
100bp reduction in risk discount rate	37.2	29.3	162.9

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

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

	Year Ended 31 December 2012 <u>£' Million</u>	Year Ended 31 December 2011 <u>£' Million</u>
IFRS profit before tax	251.8	(20.1)*
Movement in life value of in-force and policyholder tax	201.0	196.4*
Movement in unit trust value of in-force	99.8	14.5
EEV profit before tax	552.6	190.8
	<u>31 December 2012 £' Million</u>	<u>31 December 2011 £' Million</u>
IFRS net assets	762.5	678.3
Less: acquired value of in-force	(43.2)	(46.4)
Add: deferred tax on acquired value of in-force	9.9	11.6
Add: life value of in-force	1,223.6	950.2
Add: unit trust value of in-force	383.5	305.8
EEV net assets	2,336.3	1,899.5

* These figures have been re-presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings. More information is given in Note 2 to this announcement.

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

	31 December 2012	31 December 2011
	<u>£' Million</u>	<u>£' Million</u>
Life company estimated free assets	155.7	122.3
Estimated required life company solvency capital	43.8	43.4
Other subsidiaries, consolidation and IFRS adjustments	563.0	512.6
IFRS net assets	<u>762.5</u>	<u>678.3</u>
	31 December 2012	31 December 2011
	<u>£' Million</u>	<u>£' Million</u>
Life company estimated free assets at 1 January	122.3	102.1
Investment in new business	(64.4)	(71.2)
Profit from existing business	120.8	108.5
Dividends paid	(25.0)	(15.0)
Investment return	2.4	1.8
Movement in required solvency capital	(0.4)	(3.9)
Life company estimated free assets at 31 December	<u>155.7</u>	<u>122.3</u>

**CONSOLIDATED ACCOUNTS ON
INTERNATIONAL FINANCIAL REPORTING STANDARDS BASIS**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Insurance premium income		66.1	73.4
Less premiums ceded to reinsurers		(26.9)	(29.7)
Net insurance premium income		<u>39.2</u>	<u>43.7</u>
Fee and commission income		643.1	524.9
Investment return		3,407.7	(1,117.1)
Other operating income		1.2	1.6
Net income	4	<u>4,091.2</u>	<u>(546.9)</u>
Policy claims and benefits			
- Gross amount		(52.6)	(58.1)
- Reinsurers' share		21.0	23.1
Net policyholder claims and benefits incurred		<u>(31.6)</u>	<u>(35.0)</u>
Change in insurance contract liabilities			
- Gross amount		(30.0)	23.9
- Reinsurers' share		(0.4)	0.4
Net change in insurance contract liabilities		<u>(30.4)</u>	<u>24.3</u>
Investment contract benefits		(3,246.2)	1,029.3*
Fees, commission and other acquisition costs		(409.0)	(369.3)
Administration expenses		(119.0)	(118.7)
Other operating expenses		(3.2)	(3.8)
		<u>(531.2)</u>	<u>(491.8)</u>
Profit / (loss) before tax	2, 4	<u>251.8</u>	<u>(20.1)*</u>
Tax attributable to policyholders' returns	2, 5	<u>(117.2)</u>	<u>129.8*</u>
Profit before tax attributable to shareholders' returns		134.6	109.7
Total tax (expense) / credit	2, 5	(144.7)	126.9*
Less: tax attributable to policyholders' returns	2, 5	117.2	(129.8)*
Tax attributable to shareholders' returns	5	(27.5)	(2.9)
Profit and total comprehensive income for the year		<u>107.1</u>	<u>106.8</u>
		Pence	Pence
Basic earnings per share	6	21.5	21.9
Diluted earnings per share	6	21.2	21.2

*These figures have been re-presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings. There is no impact on the profit before tax attributable to shareholders' returns, the profit attributable to the shareholders of the company or earnings per share. More information is given in Note 2 to this announcement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Treasury Shares Reserve	Retained Earnings	Miscellaneous Reserves	Total
	£' Million	£' Million	£' Million	£' Million	£' Million	£' Million
At 1 January 2011	72.9	98.1	(8.2)	421.2	2.3	586.3
Profit and total comprehensive income for the year				106.8		106.8
- Dividends				(35.1)		(35.1)
- Issue of share capital						
- Scrip dividend	0.2	3.3				3.5
- Exercise of options	0.9	9.0				9.9
Consideration paid for own shares			(3.6)			(3.6)
Own shares vesting charge			3.3	(3.3)		-
Retained earnings credit in respect of share option charges				10.5		10.5
At 31 December 2011	74.0	110.4	(8.5)	500.1	2.3	678.3
Profit and total comprehensive income for the year				107.1		107.1
- Dividends				(45.3)		(45.3)
- Issue of share capital						
- Exercise of options	2.0	17.3				19.3
Consideration paid for own shares			(2.4)			(2.4)
Own shares vesting charge			2.0	(2.0)		-
Retained earnings credit in respect of share option charges				5.4		5.4
Retained earnings credit in respect of proceeds from exercise of share options held in trust				0.1		0.1
At 31 December 2012	76.0	127.7	(8.9)	565.4	2.3	762.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2012 <u>£' Million</u>	31 December 2011 <u>£' Million</u>
Assets			
Intangible assets			
- Deferred acquisition costs		971.6	865.1
- Acquired value of in force business		43.2	46.4
- Computer software		11.7	8.4
- Customer list		3.0	0.9
		<u>1,029.5</u>	<u>920.8</u>
Property & equipment		3.6	5.4
Deferred tax assets		190.9	248.5
Investment property		597.6	550.9
Investments			
- Equities		18,991.6	15,743.4
- Fixed income securities		5,079.9	3,758.1
- Investment in Collective Investment Schemes		4,109.1	3,002.7
- Derivative Financial Instruments		86.1	28.2
Reinsurance assets		38.6	39.0
Insurance and investment contract receivables		46.5	44.5
Income tax assets		85.2	41.3
Other receivables		508.4	530.2
Cash & cash equivalents		2,997.0	2,329.3
Total assets		<u>33,764.0</u>	<u>27,242.3</u>
Liabilities			
Insurance contract liabilities	8	424.0	394.0
Other provisions	9	9.2	3.1
Financial liabilities			
- Investment contracts		27,147.4	22,227.3
- Borrowings		70.7	43.8
- Derivative Financial Instruments		53.6	43.4
Deferred tax liabilities		269.0	218.9
Insurance and investment contract payables		24.9	29.9
Deferred income		616.5	536.9
Income tax liabilities		77.2	12.4
Other payables		434.2	376.4
Net asset value attributable to unit holders		3,874.8	2,677.9
Total liabilities		<u>33,001.5</u>	<u>26,564.0</u>
Net assets		<u>762.5</u>	<u>678.3</u>
Shareholders' equity			
Share capital	10	76.0	74.0
Share premium		127.7	110.4
Treasury shares reserve		(8.9)	(8.5)
Miscellaneous reserves		2.3	2.3
Retained earnings		565.4	500.1
Total shareholders' equity		<u>762.5</u>	<u>678.3</u>
		<u>Pence</u>	<u>Pence</u>
Net assets per share		<u>150.4</u>	<u>137.5</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Cash flows from operating activities		
Profit / (loss) before tax for the period	251.8	(20.1)*
Adjustments for:		
Depreciation	2.3	2.6
Impairment losses	0.4	0.1
Amortisation of acquired value of in-force business	3.2	3.8
Amortisation of computer software and customer list	0.6	0.3
Fair value gains on non-operating investments	-	(0.3)
Share based payment charge	5.4	10.5
Changes in operating assets and liabilities		
Increase in deferred acquisition costs	(106.5)	(109.4)
Increase in investment property	(46.7)	(153.1)
Increase in investments	(5,734.3)	(1,195.6)
Decrease / (increase) in reinsurance assets	0.4	(0.4)
Increase in insurance and investment contract receivables	(2.0)	(30.3)
(Increase) / decrease in other receivables	(12.3)	6.1
Increase / (decrease) in insurance contract liabilities	30.0	(23.9)
Increase / (decrease) in provisions	6.1	(0.5)
Increase in financial liabilities (excluding borrowings)	4,930.3	1,099.9*
Decrease in insurance and investment contract payables	(5.0)	(14.7)
Increase in deferred income	79.6	67.3
Increase / (decrease) in other payables	57.8	(57.2)
Increase in net assets attributable to unit holders	1,196.9	733.0
Cash generated from operating activities	658.0	318.1
Income taxes received / (paid)	18.0	(25.6)
Net cash from operating activities	676.0	292.5
Cash flows from investing activities		
Acquisition of property & equipment	(0.9)	(1.4)
Acquisition of intangible assets	(6.0)	(7.5)
Proceeds from sale of property & equipment	-	1.2
Net cash from investing activities	(6.9)	(7.7)
Cash flows from financing activities		
Proceeds from the issue of share capital	19.3	9.9
Consideration paid for own shares	(2.4)	(3.6)
Proceeds from exercise of options over shares held in trust	0.1	-
Additional borrowings	70.0	30.0
Repayment of borrowings	(43.1)	(2.1)
Dividends paid	(45.3)	(31.6)
Net cash from financing activities	(1.4)	2.6
Net increase in cash & cash equivalents	667.7	287.4
Cash & cash equivalents at 1 January	2,329.3	2,042.0
Effect of exchange rate fluctuations on cash held	-	(0.1)
Cash & cash equivalents at 31 December	2,997.0	2,329.3

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

*These figures have been re-presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings. There is no impact on the net increase in cash & cash equivalents. More information is given in Note 2 to this announcement.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. BASIS OF PREPARATION

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”).

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (“adopted IFRSs”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and those parts of the Companies Act 2006 that are applicable when reporting under IFRS.

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

2. OTHER ACCOUNTING POLICIES

The other accounting policies used by the Group in preparing the results are consistent with those applied in preparing the statutory accounts for the year ended 31 December 2011 with exception of the following matter:

Re-presentation of tax deductions on deemed disposals of unit trust holdings

In prior years the provision for tax deductions on deemed disposals of unit trust holdings has been shown as an actuarial reserve within 'Financial liabilities - investment contracts' with the movement in that provision being shown within investment contract benefits. The presentation of this provision has been changed in the current year to more appropriately reflect its nature with the provision being presented within 'Deferred tax liabilities' and the movements in the provision being reported as tax attributable to policyholders' returns within the tax charge.

The consolidated statement of comprehensive income for the year ended 31 December 2011 has been re-presented to reflect this change with the credit for 'Investment contract benefits' and profit before tax being reduced by £41.4 million and the tax credit attributable to policyholders' returns and the overall tax credit being increased by £41.4 million. The profit before tax attributable to shareholders' returns, the profit attributable to the shareholders of the company and earnings per share are unaffected by this presentation change. The impact of this change in presentation on the consolidated statement of financial position at 31 December 2011 would not have been material and so this statement has not been re-presented. The impact of this change on the consolidated statement of financial position at 1 January 2011 was to increase deferred tax liabilities by £41.4 million to £265.7 million with a corresponding reduction in 'Financial liabilities - investment contracts' to £21,150.5 million. The change has no impact on the total assets, liabilities or equity at 1 January 2011 and therefore the directors do not consider it necessary to include a re-presented consolidated statement of financial position at that date.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements

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

Estimates

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

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

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

Measurement of insurance contract liabilities

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

- The lapse assumption, which is set prudently based on an investigation of experience during the year.
- The level of expenses, which is based on actual expenses in 2012 and expected long term rates.
- The mortality and morbidity rates, which are based on the results of an investigation of experience during the year.
- The assumed rate of investment return, which is based on current gilt yields.

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

Acquisition expenses

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

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

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

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

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

Acquired in-force business

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

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

Valuing capital losses in unit funds

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

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

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

4. SEGMENT REPORTING

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

1. Life business – offering pensions, protection and investment products through the Group's life assurance subsidiaries;
2. Unit Trust business – offering unit trust investment products, including ISAs, through the St. James's Place Unit Trust Group;
3. Distribution business – the distribution network for the St. James's Place life and unit trust products as well as financial products such as annuities, mortgages and stakeholder pensions, from third party providers.

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

4. Other – all other group activities.

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

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

Segment Income

Annual Premium Equivalents (“APE”)

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

	Year Ended 31 December 2012 £' Million	Year Ended 31 December 2011 £' Million
Life business	488.7	447.1
Unit Trust business	148.5	136.9
Distribution business	106.1	58.3
Other business	-	-
Total APE	743.3	642.3
Restatement to reconcile to IFRS basis		
Life business		
Exclude investment business APE	(486.0)	(443.0)
Difference between insurance business APE and premium receivable	63.4	69.4
Less insurance premium income ceded to reinsurers	(26.9)	(29.7)
Fee income (management fees)	498.2	394.0
Net movement on deferred income	(43.5)	(30.6)
Investment income (primarily in unit linked funds)	3,016.5	(992.0)
Unit Trust business		
Exclude unit trust APE	(148.5)	(136.9)
Fee income (dealing profit and management fees)	166.3	151.7
Net movement on deferred income	(36.1)	(36.7)
Investment income	0.3	0.5
Distribution business		
Exclude distribution APE	(106.1)	(58.3)
Fee and commission income receivable	58.0	43.5
Other investment income	0.8	0.3
Other business		
Income receivable	0.2	2.9
Investment income on third party holdings in consolidated unit trusts	386.3	(128.8)
Other investment income	3.8	2.9
Other operating income	1.2	1.6
Total adjustments	3,347.9	(1,189.2)
Net income - IFRS	4,091.2	(546.9)

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

Segment Profit

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

EEV Operating Profit

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Life business	293.9	294.2
Unit Trust business	82.6	84.5
Distribution business	5.3	6.1
Other business	(15.9)	(13.3)
EEV operating profit	365.9	371.5
Investment return variance	190.4	(180.4)
Economic assumption changes	(3.7)	(0.3)
EEV profit before tax	552.6	190.8
Adjustments to IFRS basis		
Movement in life value of in-force and policyholder tax	(201.0)	(196.4)*
Movement in unit trust value of in-force	(99.8)	(14.5)
IFRS profit before tax	251.8	(20.1)*

*These figures have been re-presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings. More information is given in Note 2 to this announcement.

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Cash result		
Life business	59.4	34.3
Unit Trust business	33.6	28.3
Distribution business	4.0	5.4
Other business	(5.3)	(1.0)
Cash result after tax	91.7	67.0
IFRS adjustments (after tax)		
Share option expense	(5.4)	(10.5)
Deferred acquisition costs (DAC)	82.4	82.4
Deferred income (DIR)	(63.8)	(54.1)
Acquired value of in-force (PVIF)	(2.5)	(2.9)
Sterling reserves	5.6	2.6
IFRS tax adjustments	(0.9)	22.3
IFRS shareholder profit after tax	107.1	106.8
Shareholder tax	27.5	2.9
IFRS profit before shareholder tax	134.6	109.7
Policyholder tax	117.2	(129.8)*
IFRS profit before tax	251.8	(20.1)*
	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
IFRS segment result		
Life business		
- shareholder	111.7	89.1
- policyholder tax gross up	117.2	(129.8)*
Unit Trust business	33.5	27.8
Distribution business	5.3	6.1
Other business	(15.9)	(13.3)
IFRS profit before tax	251.8	(20.1)*

*These figures have been re-presented to more appropriately reflect the tax provision for tax deductions on deemed disposals of unit trust holdings. More information is given in Note 2 to this announcement.

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Shareholder interest income	5.6	4.6
Depreciation	2.3	2.6

Segment Assets

Funds under Management (“FUM”)

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

	31 December 2012	31 December 2011
	£’ Million	£’ Million
Life business	27,300.0	22,500.0
Unit Trust business	7,500.0	6,000.0
Total FUM	34,800.0	28,500.0
Exclude third party holdings in non-consolidated unit trusts	(3,508.2)	(3,360.5)
Add balance sheet liabilities in unit linked funds	486.3	267.9
Adjustments for other balance sheet assets excluded from FUM		
DAC	971.6	865.1
PVIF	43.2	46.4
Computer software	11.7	8.4
Goodwill	3.0	0.9
Property & equipment	3.6	5.4
Deferred tax assets	190.9	248.5
Fixed income securities	84.3	80.0
Collective investment schemes	322.4	208.6
Reinsurance assets	38.6	39.0
Insurance and investment contract receivables	46.5	44.5
Income tax assets	85.2	41.3
Other receivables	193.1	236.3
Other receivables eliminated on consolidation	(186.7)	-
Cash & cash equivalents	182.5	46.5
Other adjustments	(4.0)	(36.0)
Total adjustments	(1,036.0)	(1,257.7)
Total assets	33,764.0	27,242.3

5. INCOME TAXES

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Policyholder tax		
Overseas withholding taxes	5.2	12.9
Deferred tax on unrelieved expenses		
- Current year charge / (credit)	7.9	(19.4)
Deferred tax in respect of gains and losses in unit linked funds	94.5	(119.2)*
UK corporation tax		
- Current year charge	10.2	4.4
- Adjustment in respect of prior year	(0.6)	(8.5)
Total policyholder tax charge / (credit) for the year	117.2	(129.8)
Shareholder tax		
UK corporation tax		
- Current year charge	20.8	-
- Adjustment in respect of prior year	(0.7)	(0.2)
Overseas taxes		
- Current year charge	2.4	1.5
- Adjustment in respect of prior year	(0.3)	0.1
	22.2	1.4
Deferred tax on pension business losses		
- Current year charge	-	2.9
- Adjustment in respect of prior year	-	(0.4)
Deferred tax charge on other items		
- Current year charge	15.2	6.0
- Adjustment in respect of prior year	(1.7)	-
Change in tax rate		
- Current year	(8.2)	(7.2)
- Adjustment in respect of prior year	-	0.2
Total shareholder tax charge for the year	27.5	2.9

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

The change in the corporation tax rate from 25% to 23% effective from 1 April 2013 enacted in the Finance Act 2012 has been incorporated into the deferred tax balances and is quantified in the reconciliation of the tax charge below and on pages 66 and 67.

In addition to the changes in rates of corporation tax disclosed above, a further reduction to the UK corporation tax rate to 21% was announced in the December 2012 Autumn Statement to be effective from 1 April 2014. This further change had not been substantively enacted at the balance sheet date, and therefore, is not included in these financial statements. The estimate effect of the further reduction in rate is to reduce net deferred tax liabilities by £8 million.

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£' Million	£' Million
Reconciliation of tax charge		
Profit / (loss) before tax	251.8	(20.1)*
Tax at 24.5% (2011: 26.5%)	61.7	(5.3)
Effects of:		
Deferred tax on unrelieved expenses current year	-	(19.4)
Overseas withholding tax in unit linked funds	6.1	10.5
Deferred tax in respect of unit linked funds	47.9	(85.6)*
Shareholder deduction for policyholder tax	38.2	3.2
Difference due to Life Insurance tax regime (Shareholder FII)	-	(17.3)
Policyholder tax rate differential	2.1	3.2
Adjustment in respect of prior year	(2.6)	(7.7)
Change in tax rate	(8.2)	(7.0)
Other adjustments	(0.5)	(1.5)
Total tax charge / (credit) for the year	144.7	(126.9)

The policyholder tax rate differential relates to the effect of the difference between the shareholder tax rate of 24.5% (2011: 26.5%) and the policyholder tax rate of 20%.

* These figures have been re-presented to more appropriately reflect the nature of the tax provision for tax deductions on deemed disposals of unit trust holdings and to record the movement in the tax attributable to policyholders' returns within the tax charge. More information is given in Note 2 to this announcement.

Reconciliation of tax charge	Year Ended 31 December 2012		Year Ended 31 December 2011	
	£'Million		£'Million	
Profit / (loss) before tax	251.8		(20.1)*	
Tax attributable to policyholders' returns**	(117.2)		129.8*	
Profit before tax attributable to shareholders' returns	134.6		109.7	
Shareholder tax charge at corporate tax rate of 24.5% (2011: 26.5%)	33.0	24.5%	29.1	26.5%
Adjustments:				
<u>Tax regime differences</u>				
Difference due to Life Insurance tax regime (Deferred Income Reserve)	2.1		3.2	
Difference due to overseas subsidiaries	(1.4)		(2.7)	
	0.7	0.5%	0.5	0.5%
<u>Market related</u>				
Difference due to Life Insurance tax regime (deferral of E)	-		(5.1)	
Difference due to Life Insurance tax regime (UCG)	4.0		2.1	
Difference due to Life Insurance tax regime (Shareholder FII)	-		(17.3)	
	4.0	3.0%	(20.3)	(18.5%)
<u>Other</u>				
Adjustment in respect of prior year	(2.6)		(1.3)	
Other	0.6		1.9	
	(2.0)	(1.5%)	0.6	0.5%
<u>Change in tax rate</u>	(8.2)	(6.3%)	(7.0)	(6.4%)
Shareholder tax charge	27.5	20.4%	2.9	2.6%
Policyholder tax charge / (credit)	117.2		(129.8)*	
Total tax charge / (credit) for the period	144.7		(126.9)*	

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

6. EARNINGS PER SHARE

	Year Ended 31 December 2012		Year Ended 31 December 2011	
	Pence		Pence	
Basic earnings per share	21.5		21.9	
Diluted earnings per share	21.2		21.2	

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

	Year Ended 31 December 2012 <u>£' Million</u>	Year Ended 31 December 2011 <u>£' Million</u>
Earnings		
Profit after tax <i>(for both basic and diluted EPS)</i>	107.1	106.8
Adjustments	<u>-</u>	<u>-</u>
Adjusted profit <i>(for both basic and diluted EPS)</i>	<u>107.1</u>	<u>106.8</u>
Weighted average number of shares		
Weighted average number of ordinary shares in issue <i>(for basic EPS)</i>	497.7	487.6
Adjustments for outstanding share options	<u>8.5</u>	<u>16.1</u>
Weighted average number of ordinary shares <i>(for diluted EPS)</i>	<u>506.2</u>	<u>503.7</u>

7. DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2012 <u>Pence per Share</u>	Year Ended 31 December 2011 <u>Pence per Share</u>	Year Ended 31 December 2012 <u>£' Million</u>	Year Ended 31 December 2011 <u>£' Million</u>
Final dividend in respect of previous financial year	4.80	3.975	23.9	19.4
Interim dividend in respect of current financial year	<u>4.25</u>	<u>3.200</u>	<u>21.4</u>	<u>15.7</u>
Total dividends	<u>9.05</u>	<u>7.175</u>	<u>45.3</u>	<u>35.1</u>

The Directors have recommended a final dividend of 6.39 pence per share (2011: 4.8 pence). This amounts to £32.4 million (2011: £23.7 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 24 May 2013 to those shareholders on the register as at 12 April 2013.

8. INSURANCE CONTRACT LIABILITIES

	<u>2012</u>	<u>2011</u>
	£' Million	£' Million
Balance at 1 January	394.0	417.9
Movement in unit linked liabilities	28.7	(36.5)
Movement in non-unit linked liabilities		
- New business	(0.3)	0.5
- Existing business	3.6	(0.3)
- Other assumption changes	0.8	9.1
- Experience variance	(2.8)	3.3
	<u>1.3</u>	<u>12.6</u>
Total movement in non-unit linked liabilities		
	<u>1.3</u>	<u>12.6</u>
Balance at 31 December	<u>424.0</u>	<u>394.0</u>
Unit linked	336.5	307.8
Non-unit linked	87.5	86.2
	<u>424.0</u>	<u>394.0</u>
Current	89.5	82.9
Non-current	334.5	311.1
	<u>424.0</u>	<u>394.0</u>

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

Assumptions used in the calculation of liabilities

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

<u>Assumption</u>	<u>Description</u>															
Interest rate	The valuation interest rate is calculated by reference to the long term gilt yield at 31 December 2012 and the specific gilts backing the liabilities. The specific rates used are between 1.3% and 2.5% depending on the tax regime (1.5% and 2.6% at 31 December 2011).															
Mortality	Mortality is based on Company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. There has been no change since 2006.															
Morbidity - Critical Illness	Morbidity is based on Company experience. There has been no change during 2012. Sample annual rates per £ for a male non-smoker are: <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Age</u></th> <th colspan="2" style="text-align: center;"><u>Rate</u></th> </tr> <tr> <th></th> <th style="text-align: center;"><u>2012</u></th> <th style="text-align: center;"><u>2011</u></th> </tr> </thead> <tbody> <tr> <td>25</td> <td style="text-align: center;">0.000760</td> <td style="text-align: center;">0.000760</td> </tr> <tr> <td>35</td> <td style="text-align: center;">0.001334</td> <td style="text-align: center;">0.001334</td> </tr> <tr> <td>45</td> <td style="text-align: center;">0.003189</td> <td style="text-align: center;">0.003189</td> </tr> </tbody> </table>	<u>Age</u>	<u>Rate</u>			<u>2012</u>	<u>2011</u>	25	0.000760	0.000760	35	0.001334	0.001334	45	0.003189	0.003189
<u>Age</u>	<u>Rate</u>															
	<u>2012</u>	<u>2011</u>														
25	0.000760	0.000760														
35	0.001334	0.001334														
45	0.003189	0.003189														
Morbidity - Permanent Health Insurance	Morbidity is based on Company experience. There has been no change during 2012. Sample annual rates per £ income benefit p.a. for a male non-smoker are: <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Age</u></th> <th colspan="2" style="text-align: center;"><u>Rate</u></th> </tr> <tr> <th></th> <th style="text-align: center;"><u>2012</u></th> <th style="text-align: center;"><u>2011</u></th> </tr> </thead> <tbody> <tr> <td>25</td> <td style="text-align: center;">0.00548</td> <td style="text-align: center;">0.00548</td> </tr> <tr> <td>35</td> <td style="text-align: center;">0.01447</td> <td style="text-align: center;">0.01447</td> </tr> <tr> <td>45</td> <td style="text-align: center;">0.03138</td> <td style="text-align: center;">0.03138</td> </tr> </tbody> </table>	<u>Age</u>	<u>Rate</u>			<u>2012</u>	<u>2011</u>	25	0.00548	0.00548	35	0.01447	0.01447	45	0.03138	0.03138
<u>Age</u>	<u>Rate</u>															
	<u>2012</u>	<u>2011</u>														
25	0.00548	0.00548														
35	0.01447	0.01447														
45	0.03138	0.03138														
Expenses	Contract liabilities are calculated allowing for the actual costs of administration of the business. The assumption has been amended to allow for changes to the underlying administration costs. <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Product</u></th> <th colspan="2" style="text-align: center;"><u>Annual Cost</u></th> </tr> <tr> <th></th> <th style="text-align: center;"><u>2012</u></th> <th style="text-align: center;"><u>2011</u></th> </tr> </thead> <tbody> <tr> <td>Protection business</td> <td style="text-align: center;">£34.30</td> <td style="text-align: center;">£34.50</td> </tr> </tbody> </table>	<u>Product</u>	<u>Annual Cost</u>			<u>2012</u>	<u>2011</u>	Protection business	£34.30	£34.50						
<u>Product</u>	<u>Annual Cost</u>															
	<u>2012</u>	<u>2011</u>														
Protection business	£34.30	£34.50														
Persistency	Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2012. Sample annual lapse rates are: <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>2011 & 2012</u></th> <th colspan="3" style="text-align: center;"><u>Lapses</u></th> </tr> <tr> <th></th> <th style="text-align: center;"><u>Year 1</u></th> <th style="text-align: center;"><u>Year 5</u></th> <th style="text-align: center;"><u>Year 10</u></th> </tr> </thead> <tbody> <tr> <td>Protection business</td> <td style="text-align: center;">7%</td> <td style="text-align: center;">9%</td> <td style="text-align: center;">8%</td> </tr> </tbody> </table>	<u>2011 & 2012</u>	<u>Lapses</u>				<u>Year 1</u>	<u>Year 5</u>	<u>Year 10</u>	Protection business	7%	9%	8%			
<u>2011 & 2012</u>	<u>Lapses</u>															
	<u>Year 1</u>	<u>Year 5</u>	<u>Year 10</u>													
Protection business	7%	9%	8%													

Sensitivity analysis

The table below sets out the sensitivity of the profit on insurance business and net assets to changes in key assumptions. The levels of sensitivity tested are consistent with those proposed in the EEV principles and reflect reasonably possible levels of change in the assumptions. The analysis reflects the change in the variable / assumption shown while all other variables / assumptions are left unchanged. In practice variables / assumptions may change at the same time, as some may be correlated (for example, an increase in interest rates may also result in an increase in expenses if the increase reflects higher inflation). It should also be noted that in some instances sensitivities are non-linear. The sensitivity % has been applied to proportion the assumption e.g. application of a 10% sensitivity to a withdrawal assumption of 8% will reduce it to 7.2%.

Sensitivity analysis	Change in	Change in	Change in	Change in	
	assumption	profit	profit	net assets	
	%	before tax 2012	before tax 2011	2012	
		£' Million	£' Million	£' Million	£' Million
Withdrawal rates	-10%	(4.7)	(5.1)	(3.8)	(4.1)
Expense assumptions	-10%	1.3	1.4	1.1	1.2
Mortality / morbidity	-5%	(2.9)	0.9	(2.3)	0.8

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

9. OTHER PROVISIONS AND CONTINGENT LIABILITIES

	Endowments	Office Restructuring	Other Provisions	Total
	£' Million	£' Million	£' Million	£' Million
At 1 January 2012	0.3	2.8	-	3.1
Reclassification from insurance and investment contract payables	-	-	7.3	7.3
Utilised/released during the year	(0.1)	(2.4)	(1.7)	(4.2)
Additional provisions	0.3	0.6	2.1	3.0
At 31 December 2012	0.5	1.0	7.7	9.2
Current	-	0.3	5.0	5.3
Non-current	0.5	0.7	2.7	3.9
	0.5	1.0	7.7	9.2

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

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

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.

As more fully set out in the summary of principal risks and uncertainties on pages 38 to 39, the Group could in the course of its business be subject to legal proceedings and/or regulatory activity. Should any such material circumstance arise, a provision would be established based on the Board's best estimate of the amount required to settle the obligation. While there can be no assurances, the Directors do not believe, based upon information currently available to them, there is any such activity that would have a material adverse effect on the Group's financial position.

10. SHARE CAPITAL

	<u>Number of Ordinary Shares</u>	<u>Share Capital £' Million</u>
At 1 January 2011	486,149,186	72.9
- Scrip dividend	1,107,415	0.2
- Exercise of options	<u>6,166,150</u>	<u>0.9</u>
At 31 December 2011	493,422,751	74.0
- Exercise of options	<u>13,408,396</u>	<u>2.0</u>
At 31 December 2012	<u>506,831,147</u>	<u>76.0</u>

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.

Included in the issued share capital are 3,052,273 (2011: 3,048,030) shares held in the Treasury Shares Reserve with a nominal value of £0.5 million (2011: £0.5 million).

11. RELATED PARTY TRANSACTIONS

The Company and the Group have entered into related party transactions with Lloyds Banking Group plc (“LBG”), various subsidiaries of LBG and the Directors of the Company and the Group. LBG, which owns 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 year:

- Commission of £0.8 million (2011: £0.8 million) was receivable from the sale of banking services for St. James’s Place Bank (a division of Halifax plc).
- Commission of £1.1 million (2011: £1.1 million) was receivable from the sale of pensions offered by Scottish Widows.
- Commission of £0.9 million (2011: £0.9 million) was receivable from the sale of Halifax, Cheltenham & Gloucester, Bank of Scotland, Birmingham Midshires, Scottish Widows and The Mortgage Business mortgages.
- Commission of £0.5 million (2011: £1.0 million) was receivable from Bank of Scotland Annuity Service.
- Commission of £37,000 (2011: £22,000) was receivable from Bank of Scotland in respect of corporate banking income in 2012.
- During the year, deposits were placed with Bank of Scotland and Lloyds TSB on normal commercial terms. At 31 December 2012 these deposits amounted to £54.7 million (2011: £21.8 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 £89.6 million (2011: £87.7 million).
- Amounts lent by the Bank of Scotland to the Group totalled £0.8 million (2011: £0.8 million).
- Tax fees of £27,000 (2011: £21,500) in respect of annual tax compliance and ad-hoc tax advice were charged by LBG plc to certain unit trusts.
- Fees of £26,250 (2011: £26,250) were payable to LBG in respect of the services of non-executive St. James’s Place Board Directors.
- The Group has an arm’s length contract with Prudential (which owns 5.53% of the share capital) to provide administrative services.
- In respect of the non-consolidated St. James’s Place managed unit trusts that are held as investments in the St. James’s Place life and pension funds, there was income recognised of £154.0 million (2011: £18.8 million expense) and the total value of transactions with those non-consolidated unit trusts was £650.9 million (2011: £668.6 million). Net management fees receivable from these unit trusts amounted to £56.2 million (2011: £62.4 million). The value of the investment into the non-consolidated unit trusts at 31 December 2012 was £1,404.1 million (2011: £925.5 million).

12. NON STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company’s statutory accounts for the years ended 31 December 2012 or 2011, but is derived from those accounts. Statutory accounts for 2011 have been delivered to the registrar of companies, and those for 2012 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

13. ANNUAL REPORT

The Company’s annual report and accounts for the year ended 31 December 2012 is expected to be posted to shareholders by 12 April 2013. Copies of both this announcement and the annual report and accounts will be available to the public at the Company’s registered office at St. James’s Place House, 1 Tetbury Road, Cirencester GL7 1FP and through the Company’s website at www.sjp.co.uk.

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

The Directors confirm to the best of their knowledge that:

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

On behalf of the Board

David Bellamy
Chief Executive

Andrew Croft
Chief Financial Officer

27 February 2013