

St. James's Place Capital plc

**Report & Accounts
2001**



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Company Registration Number 3183415

Financial Highlights

	Year Ended 31 December 2001	Year Ended 31 December 2000
	£'Million	£'Million
St. James's Place Capital		
Profit before exceptional items	80.2	95.9
Exceptional items	-	(13.2)
Pre-tax profit	80.2	82.7
Earnings per share	13.9 p	13.7 p
Net assets per share	118.8 p	107.9 p
Net assets per share (including unit trust on "embedded value" basis)	137.4 p	124.1 p
	£'Million	£'Million
St. James's Place Group		
Total underlying pre-tax profit	92.4	79.5
Life business basic pre-tax (before one-off items)	79.5	66.4
Unit trust pre-tax profit	10.4	6.7
New business (RP+1/10 th SP)	200.7	187.3
St. James's Place Partnership – number of partners	1,121	1,050
Assets under management	£6.3 billion	£5.7 billion

CHAIRMAN'S STATEMENT

Financial Results

The results for the Group's core business show pleasing growth in pre-tax profits of 16% (from £79.5 million in 2000 to £92.4 million in 2001), reflecting the growth in new business both this year and in previous years.

Life and Pensions: Pre-tax profits from the Group's life and pension business grew by 20% from £66.4 million to £79.5 million. These profits were affected by a number of items:

Investment Performance: Although (as will be indicated later in this statement) the Group's investment funds performed well relative to the markets, the fact that actual investment performance fell behind the assumptions implicit in the embedded value calculations impacted profits adversely by £10.3 million pre-tax.

Critical Illness: Following discussions with its reassurers, the Company has set aside £12.5 million pre-tax against future critical illness claims experience. Further details are given in note 9.

Expenses: During the year the Group renegotiated the fees it pays to its Third Party Administrators and also transferred Dublin staff to the newly established Italian joint venture Nascent. Both initiatives realised substantial reductions in costs, giving a benefit of £10.9 million pre-tax.

Unit trusts: Unit trust business pre-tax profits grew by 55% from £6.7 million to £10.4 million reflecting the very large growth in funds under management in recent years.

Wealth Management Services: After allowing for set-up costs and payments to Partners, the wealth management services described later broke even, which was a significantly more favourable outcome than had been anticipated for the first year of trading. While the main benefit from these services will be the ability of Partners to sell more core business to existing and new clients, we look forward to this business generating profits in future periods.

Participating Interests: LAHC shows a full year loss of £12.2 million pre-tax, although its accounts are dominated by one-off items, including the impact of the falling stock market. As reported in the notes to the Interim Statement, the loss for the year includes the effect of adopting a proposed change in accounting methodology which resulted in a deduction of £60.9 million. The major part of this amount represents SJPC's share of the present value of profits from future DSS contributions which is no longer taken into account in calculating SJPC's share of LAHC's embedded value. It will instead emerge as an addition to the profits of future years as these contributions are collected from the DSS. After stripping out the various one-off effects, SJPC's share of the underlying profits from the business would have been £18.9 million pre-tax. Full details are given in note 15.

Nascent: As announced in the Interim Statement in July 2001, the introduction of GS Capital Partners into this venture reduced our holding to just over 26%, which will ultimately reduce to just under 20% when allowing for the effect of shares held in an employee trust. The holding is treated as an investment and is not equity accounted (see note 16).

Despite continuing difficult conditions in the Italian market flowing from the falls in equity prices, Nascent Group has made further progress in establishing its presence. Starting the year 2001 with a sales force of 62, it now has a sales force of 258 (including insurance advisers), operating from 25 locations which cover most areas of the country. Investment sales for its first full year of operation totalled £101.2 million, of which £70.1 million were the Group's own products and £31.1 million those of other fund management firms.

CHAIRMAN'S STATEMENT continued

Accounting Basis: We continue to publish our results on an "embedded value" basis using conservative assumptions. The Directors believe this provides the most meaningful, consistent and appropriate measure of our performance. However, the accounting standards for insurance groups are in a state of transition and are likely to change in the short term, as a result of initiatives led by accounting standard setting boards and the industry.

The St. James's Place Partnership and New Business

2001: The Group continues to attract experienced high quality advisers. The size of the Partnership grew by 7% from 1,050 to 1,121 during the year.

It will be recalled that in the year 2000, the Group's total new business (on the standard industry measure) was 42% higher than for the previous year, much the greater part of which reflected a large increase in productivity per Partner. Against this background, as well as the difficult market conditions of the year, the 11% increase in total new business during 2001 should be regarded as highly satisfactory. Only 5% of this new business was Stakeholder pensions.

New life and pension sales increased by 15% in the year. The problems created by the second year of weak stock markets was underlined by the 21% fall in sales suffered by the unit trust industry as a whole, while our unit trust business was down only 8%.

The resilience of the Partnership was demonstrated by the fact that, even in these conditions and following the very large increase in productivity the previous year, productivity per Partner increased marginally during 2001.

2002: The unsettled markets in the current year continue to affect investment business. This is illustrated by the 41% fall in ISA/PEP sales for the industry for January 2002 reported by AUTIF.

The level of new business for St. James's Place in the opening weeks of the current year has been running at about 10% lower than in the corresponding period last year. This did not reflect a reduction in activity as the number of cases per Partner was the same as last year but rather a reduction in the average case size.

We have frequently referred to the strength that the Group derives from having its own distribution, the St. James's Place Partnership, which in turn has shown its ability to adapt to changing market conditions. However, this should not be judged over the short term. Our longer-term target remains a growth in new business of between 15% and 20% per annum and we believe that we are particularly well-positioned to benefit when market conditions improve.

Wealth Management Services

In my statement last year, I referred to the steps we were taking to introduce, through joint ventures, a range of additional financial services which would enable the members of the Partnership to position themselves as providers of a broadly-based wealth management service. Considerable progress was made during the year in introducing facilities for what is known in the Group as "the Wheel", with the Partnership as the hub and the range of services they can offer as the spokes.

The most important development of the year was the launch, at the end of June, of St. James's Place Bank, offering our own branded version of the Halifax Intelligent Finance suite of services. In the six months since then, 4,590 clients have joined the St. James's Place Bank through members of the Partnership. Mortgages taken out through the Bank in the period amounted to £221.6 million; when added to the mortgages taken out through our existing panel of providers, mortgages placed by the Partnership during the year exceeded £1 billion. Current and savings account balances totalled £128.9 million.

CHAIRMAN'S STATEMENT continued

The Portfolio Management Service, launched in March with Laing and Cruickshank and Morgan Stanley Quilters, produced portfolios of £67.6 million, while the Trust and Estates Planning Service, launched with two leading firms of solicitors, resulted in 221 completed cases, of which 21 involved properties exceeding £1 million.

Group Employee Benefits, launched in May through Swiss Life, produced life sums assured of £10.2 million, critical illness cover of £5 million and permanent health insurance of £2.2 million per annum.

Gross fees generated from these services before payments to Partners were £5 million.

We are particularly pleased that we have exceeded both our initial sales and financial targets in our entry into wealth management. This contrasts with the experience of many large financial groups that had announced ambitious plans in this field, involving the expenditure of large amounts of money, and then abandoned or cut back their operations during the course of the year.

The experience of these groups has led to a belief in some quarters that the concept of catering for the needs of the "mass affluent" is flawed. We believe, however, that our experience has validated the point made in this statement last year. Rather than, as the banks do, starting with a mere transactional relationship and expecting the customer either to develop a personal advisory relationship or to sort out his or her needs on the internet, we *start* with a trusting personal relationship between the client and the Partner, who then makes the much less difficult introduction to the banking and other services.

While we continue to give our clients on-line access to information on their investments, and indeed to enhance this service, we are committed to making our products available solely on an advisory basis through members of the Partnership. As the Partnership consists entirely of experienced financial advisers, who on average have been in the financial services industry for 14 years, we believe that we are particularly well placed to make major inroads into the market for wealth management.

A number of additional services will be added to the "Wheel". Projects that are under consideration for the coming year include a general insurance broking service, medical insurance and a corporate banking service. While the existing and new services can be expected to produce fees for the Partners and profits for the Group, the primary drive behind these developments is our belief that putting Partners in a position to offer a fuller range of services for their clients will lead to improved growth prospects for our core business, both by increasing the productivity of our existing Partners and by attracting more high quality advisers to join the Partnership.

In addition to catering for the needs of the mass affluent, we continue to see signs that the Partners are gaining the confidence of high net worth individuals and families who have until now tended to use only the services of traditional private banks.

Investing in Systems to Improve Service and Efficiency

In order to make the broadening range of services as seamless as possible, from the point of view of both clients and the Partners, we are investing some £6 million over the next year to develop an automated new business processing system and systems infrastructure.

The new systems infrastructure will underpin the various processes and systems we will use to support our wealth management requirements and reporting. This will enable us to deliver management summaries to clients across all the areas that make up the wheel: Building and preserving capital (lump sum and regular contribution investments); Managing cash and borrowings (banking and mortgage products); and Financial protection against risk (life and health risks and general insurance).

CHAIRMAN'S STATEMENT continued

We are aware that many of our competitors, including new entrants to the wealth management arena, have invested huge amounts in their support systems with little likelihood of a return on their investments within a reasonable timescale. We believe that our approach of realistic yet cautious investment in our systems and infrastructure, with a clear return on capital deployed, is the right strategy to adopt.

The St. James's Place Approach to Investment Management

Second in importance only to the unique quality of the Partnership, a key differentiator between St. James's Place and other financial services organisations is the St. James's Place Approach to Investment Management.

Investment management for both pension funds and individuals has come under scrutiny from a number of quarters, not least by the recent report of the Myners Review. Attention has been drawn to the tendency of investment institutions to shadow the stock indices or the funds of other investment institutions in the management of portfolios (the so-called "herd instinct") rather than to undertake genuinely active management.

From the start, our Group decided to adopt a radically different approach, by not employing any investment managers of our own and contracting out the investment management of all our funds to external investment management firms. This process has been further refined over the past three years through retaining independent investment consultants, Stamford Associates.

Our Investment Committee, of which I am Chairman, with the help of Stamford Associates, *selects* what we regard as the best available managers for our funds and thereafter continuously *monitors* the management of those funds. Where deemed appropriate, we *remove* any of the managers and select other managers to take over the investment of these funds; since the investor remains invested in the same fund, the change of manager is seamless from his or her point of view and there are no charges or tax consequences for the investor.

Our approach offers one other important advantage for our investors. While providing a wide range of specialised funds to meet differing objectives of our clients, we recommend that investors spread their money between our five Managed Funds for either life or pension business. As the managers of these five funds have been selected not merely on our assessment of their ability and skill but also to ensure a diversity of investment styles, an investment spread between the five Managed Funds gives investors very wide diversification of risk. This policy of encouraging investors to spread their money amongst the five Managed Funds also enables us to select managers who adopt a genuinely active investment approach so as to offer scope for significant added value.

While recognising that past performance is no guarantee of future performance, it is reassuring to be able to record (as indeed I have been able to record in previous years) that our approach has resulted in superior performance over the longer term.

An investor who spread his or her money equally between the three life or pension Managed Funds that have been in existence since we started business 10 years ago has enjoyed top quartile return relative to the average performance of funds in the market over the period, with the pension funds coming 4th out of 106 funds in the sector (source: Standard & Poor's Micropal).

Although investment performance should be assessed over the longer term, it is pleasing to note once again that most of our funds have performed well in the difficult conditions of the year 2001.

In the authoritative CAPS survey of pension funds, three of our five Managed Funds occupied 1st, 2nd and 10th place out of the 83 funds in the survey for the year 2001, with our GAM managed fund the only fund in the survey to show a positive return for the year.

CHAIRMAN'S STATEMENT continued

Particular mention should also be made of the pension Managed Fund looked after by Taube Hodson Stonex Partners which was ranked 2nd by CAPS over 3 years and 1st over 5 years and 10 years as well as receiving the Micropal Award for 1st place over 10 years in the UK Individual Pension Balances Managed Sector.

In addition six out of our eleven unit trusts were ranked by Micropal in the top quartile of their classes, with four more in the second quartile.

Polarisation

The proposals put forward by the Financial Services Authority in its recent consultation paper on Polarisation were more radical than had been expected in most quarters. While a great deal will depend on the results of the consultation and on the detailed wording of the rules that emerge, the broad lines of the new regime appear clear: that polarisation (the division of financial advisers into those tied to a single provider and "independents" who are free to sell the products of all providers) will be abolished, leaving it to improved disclosure requirements to accompany the provision to consumers of a range of choices. The paper also recommends that advisers should only be able to describe themselves as "independent" if they are remunerated by fees rather than commission.

We have long argued that allowing product providers such as us to make products of other companies available through their advisers would lead to a better service for consumers. We have indeed already followed this approach in areas not covered by the polarisation rules, such as the offering of Group Employee Benefits through Swiss Life, and this change in the regime will enable us to provide a significantly better service to our clients. We also believe that experienced financial advisers who decide to join a company will be all the more likely to choose to join the Partnership when St. James's Place is able to provide an even wider range of products and services.

Final Dividend

Subject to the approval of shareholders at the Annual General Meeting, a final dividend of 1.5p per share will be paid to shareholders on the register on 19th April 2002 making a total of 2.75p for the full year. This represents a 22% increase over 2000, when the total dividend was 2.25p per share.

Community Affairs

SJPC has long been committed to charitable giving and this year for the first time we have introduced a separate section in the report and accounts on the St. James's Place Foundation (the Group's charitable trust). This appears on pages 8 and 9.

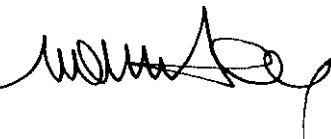
I am pleased to report that this year for the first time, Partners and employees (together with the Company's contribution) raised a total of over £1 million for the Foundation.

Partners and Staff

It is a pleasure to thank members of the St. James's Place Partnership and staff throughout SJPC for their continued efforts in making possible the ongoing success of the Group. The achievement of the Partnership is yet again, worthy of note; its record of increase in sales and its ability to diversify into new products is the clearest demonstration of the exceptional skill and commitment of its members.

I would also like to thank our staff in the Group's offices throughout the United Kingdom for their continued dedication.

Sir Mark Weinberg



28 February 2002

ST. JAMES'S PLACE FOUNDATION

The ethos of raising money within the working environment, for the benefit of the less fortunate members of society, plays an important role in the lives of those associated with St. James's Place.

From the outset, charitable giving has been a key part of the culture of the Company. Sir Mark Weinberg has a long association with the charitable world, being one of the co-founders of The PerCent Club (now part of Business in the Community), an organisation set up to encourage businesses to donate a percentage of their profits to charitable causes. In addition, the founder members of the Company knew, from their previous walks of life, how much satisfaction people within a company can obtain from putting something, whether time or money, back into the community. It is not surprising therefore that charitable trusts were established early on by both St. James's Place Capital plc and the J. Rothschild Assurance Group. These charitable trusts were merged in 1999 and in 2000 renamed the St. James's Place Foundation ("the Foundation").

How is the Foundation funded?

The Trustees ultimately retain responsibility for any actions taken by the Foundation. However, to assist them in their duties and to encourage involvement and ownership, a management committee made up of one representative from each regional office, together with representatives from the Company's head office, was established at the outset. This remains the position today, with each representative supported within their office by a group of people who assist in organising fund raising events.

Each of the Company's regional offices and each department within head office organise fundraising events. These range from raffles bringing in a few hundred pounds, to promises auctions and race evenings which can raise several thousands of pounds. Every social event is looked upon as an opportunity to raise funds for the Foundation. The Company's local and national suppliers are always happy to support the Foundation and are very generous when approached to provide a raffle prize.

In addition to group events, some individuals push themselves to the limit in an effort to raise as much sponsorship as possible from their contacts and clients. The challenges taken up include: the London Marathon, the New York Marathon, the Sahara Marathon, cycling through Death Valley in California, climbing Mt Kilimanjaro, trekking to Mt Everest base camp, climbing Mt Aconcagua, trekking along part of the Great Wall of China and parachute jumps.

The St. James's Place Foundation (and in its previous guise, The J. Rothschild Assurance Foundation) has since 1992 raised an increasing amount of funds year on year.

From 1992 until 1998, the Foundation was funded solely by members of staff and members of the St. James's Place Partnership through their support of such fundraising initiatives. In 1999, the shareholders of St. James's Place Capital agreed that, in future, the Company should match, pound for pound, all monies raised by the Foundation. In 2001, this has resulted in funds raised exceeding £1 million in one year for the first time.

2001 saw the Foundation's first national fundraising event, when teams from all the offices took part in the Three Peaks Challenge – climbing Ben Nevis, Scafell and Snowdon within 24 hours. This one event raised in excess of £200,000 (including the Company's matching).

Alongside these ad hoc fundraising initiatives, the Foundation has consistently promoted the benefits of Deeds of Covenant / Gift Aid and supported these by deductions from payroll and, in the case of Partners, deductions from their gross earnings. This has had two major benefits. Firstly, it provides regular monthly income to the Foundation; and secondly, the Foundation can reclaim the tax relief provided under the Deeds of Covenant / Gift Aid regimes.

ST. JAMES'S PLACE FOUNDATION continued

By the beginning of 2001, over 80% of the St. James's Place community of 1,500 people were making regular monthly donations to the Foundation, either through Deed of Covenant or Gift Aid, demonstrating the commitment to the Foundation throughout the Company at every level. Over £280,000 of the money raised in 2001 was as a result of these regular monthly donations.

A Common Goal

Supporting the Foundation's fundraising activities is a key corporate objective. The management team, from the top down, focus on this aspect of the Company's business, in much the same way as it does on other key objectives.

How Does The Foundation Award Grants?

The Foundation's management committee, in consultation with the rest of the community, establish a "theme" framework for awarding grants. For the last six years this "theme" has been "Cherishing the Children". Any charity that has a project in the UK that is for the direct benefit of mentally and / or physically disabled children, or those suffering from a life threatening or degenerative illness, can apply for a grant from the Foundation.

Over £1,360,000 has been given in grants since 1992.

In addition to the grants awarded under the "theme", and largely as a result of the additional monies available to the Foundation from the Company's "matching" policy, the Foundation has been able to enter into a four year, £500,000 commitment to Hope & Homes for Children, a UK based charity which provides family homes for children orphaned by war or disaster. The first tranche of £125,000 in 2000 provided eight homes in Ukraine; the second tranche has provided a similar number of homes in Belarus during 2001.

The Foundation has also just entered into an arrangement with the Variety Club of Great Britain whereby it will fund 21 Sunshine Coaches for children with disabilities at special schools / organisations located near to each of the Company's offices. It is hoped that a close and lasting relationship will be formed between the school / organisation and the members of the local offices.

The Foundation is proud of what has been achieved since its inception less than 10 years ago and looks forward to the challenge of sustaining and increasing its growth so that even more people may benefit from its success.

PRESIDENT AND BOARD OF DIRECTORS

President

Lord Stevenson of Coddendam CBE

Aged 56, is President of SJPC. He is also Chairman of HBOS plc and Pearson plc and is a non-executive Director of Manpower Inc. and The Economist Newspapers Limited.

The present Directors of the Company are:

Sir Mark Weinberg

Aged 70, is Chairman of St. James's Place Capital plc and Life Assurance Holding Corporation Limited. He is a member of the Compliance Committee of the SJPC Board and chairs the Investment Committee of the St. James's Place Group. He also chairs the Nomination Committee of the SJPC Board.

He was formerly Deputy Chairman of the Securities and Investments Board, the forerunner to the Financial Services Authority.

The Viscount Weir

Aged 68, is the senior independent non-executive Director and is Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees.

Lord Weir is Chairman of Balfour Beatty plc and of C P Ships Limited and a director of Canadian Pacific Railway Limited. He was formerly Chairman of the Weir Group plc and a director of The Bank of England, British Steel Corporation and other companies.

He is Chairman of the Trustees of the J. Rothschild Assurance plc Pension Scheme.

Charles Bailey

Aged 67, was appointed to the SJPC Board as an independent non-executive Director in September 1999, and is a member of the Remuneration, Audit and Compliance Committees. Formerly a partner of Price Waterhouse, he is also a director of RIT Capital Partners plc, of Antofagasta Holdings plc, a company with mining, banking and manufacturing interests in Chile and of Atrium Underwriting plc, a listed Integrated Lloyd's Vehicle.

David Bellamy

Aged 48, was appointed to the position of Managing Director on 1 January 2002, having previously fulfilled the role of Group Operations Director. He has worked in the insurance industry since 1973 and joined the Group in April 1991, prior to the launch of J. Rothschild Assurance plc. He was appointed to the board of J. Rothschild Assurance plc in 1993 and to the Board of SJPC in September 1997, with specific responsibilities for SJPC's operational facilities. He is a member of the Compliance Committee of the SJPC Board.

James Crosby

Aged 46, is a non-independent non-executive Director representing HBOS plc, appointed in June 2000. After joining the Halifax in 1994, he was appointed to the Halifax Board in 1996 and became Chief Executive on 1 January 1999. He was appointed as Chief Executive of HBOS plc on 10 September 2001 following the completion of the merger of Halifax and Bank of Scotland on that date. He was a director of J. Rothschild Assurance plc between 1991 and 1994 and is a Fellow of the Faculty of Actuaries.

Phil Hodkinson

Aged 43, was appointed to the SJPC Board as a non-independent non-executive Director on 21 February 2002 representing HBOS plc and is a member of the Audit Committee. He joined the Board of HBOS on 24 September 2001 and is Chief Executive of the Insurance and Investment Division. He joined HBOS from Zurich Financial Services where he ran its UK life business for a number of years, having joined Allied Dunbar in 1984. He has worked in the life industry throughout his career and is a Fellow of the Institute of Actuaries.

Anthony Loehnis CMG

Aged 66, is a non-independent non-executive Director of SJPC. He joined the then SJPC Board in July 1993 and is Chairman of the Compliance Committee and a member of the Investment Committee of the St. James's Place Group.

Directorships external to the Group include The Knox D'Arcy Trust Plc, Alpha Bank London Limited, Tokyo-Mitsubishi International plc, AGCO Corporation (USA) and UK-Japan 21st Century Group. Mr Loehnis was formerly a director of SG Warburg Group plc and was an executive director of the Bank of England.

Martin Moule

Aged 46, was appointed Finance Director of SJPC in December 1998. He has worked in life assurance since the mid 1970s and his experience includes a variety of roles in both the marketing and corporate areas of the life assurance and unit trust industries. He is a Fellow of the Institute of Actuaries.

Derek Netherton

Aged 57, is an independent non-executive Director of SJPC, appointed in May 1996. He is Chairman of the Audit Committee and a member of the Remuneration Committee. He is a non-executive Director of Life Assurance Holding Corporation Limited. His non-executive directorships outside the Group include Next PLC, Plantation & General Investments plc and Hiscox plc, and he is a member of the Supervisory Board of the Schroder Exempt Property Unit Trust. He is a Fellow of the Institute of Actuaries and was formerly a director of J. Henry Schroder & Co Limited.

John Newman

Aged 54, is the Sales Director of the Group with specific responsibilities for the production, growth and development of the St. James's Place Partnership. He has worked in the insurance industry since 1972 and joined the Group in September 1991. He was appointed to the Board of J. Rothschild Assurance plc in 1993 and to the Board of SJPC in September 1997. He is a member of the Compliance Committee of the SJPC Board. He recently announced his intention to retire from the Board of SJPC in 2003.

Michael Sorkin

Aged 58, was appointed to the SJPC Board as an independent non-executive Director in January 2002. He joined Hambros Bank in 1968 and was a Director of Hambros PLC between 1986 and 1999 and a Managing Director of S G Hambros from 1999 to 2001. He was recently appointed as Vice Chairman of Investment Banking at N M Rothschild Corporate Finance Limited. He is a non-executive Director of J Z Equity Partners Limited.

Jim Spowart

Aged 51, is a non-independent non-executive Director of SJPC representing HBOS plc. He was appointed to the Board of SJPC in June 2000 and is Chief Executive of Intelligent Finance, a division of the Halifax, having joined the Halifax in October 1999. In 1993 he helped set up and run Direct Line Financial Services, before moving on in 1997 to form Standard Life Bank and build it into a very successful direct banking operation. In recognition of his achievements in direct banking, he was installed as a Fellow of the Institute of Bankers in Scotland.

Mario d'Urso

Aged 62, is an independent non-executive Director of SJPC, appointed in March 1998. He is President of The Italy Fund Inc. and Mittel Capital Markets S.p.a. He is former Under-Secretary of Foreign Trade of the Dini Government and a former Senator of the Italian Republic.

Mike Wilson

Aged 58, is Chief Executive of SJPC, Chairman of St. James's Place Unit Trust Group Limited, Founder Director and Chief Executive of J. Rothschild Assurance plc and a member of the Compliance Committee of the SJPC Board. He has worked in the life assurance industry since 1963 and with Sir Mark Weinberg since 1968 and was formerly Chairman of the Mental Health Foundation.

DIRECTORS' REPORT

The Directors present their Report & Accounts of the Company for the year ended 31 December 2001.

RESULTS AND DIVIDENDS

The Company made profits after taxation of £59.2 million during the year ended 31 December 2001 (2000: £57.8 million).

An interim dividend of 1.25 pence per share (2000: 1 pence per share) was paid on 3 September 2001. The Board recommends payment of a final dividend of 1.5 pence per share (2000: 1.25 pence per share) on 17 May 2002 to shareholders on the register at the close of business on 19 April 2002.

The consolidated profit and loss account on pages 31 and 32 shows the profit for the year and the consolidated balance sheet on pages 33 and 34 shows the state of affairs of the Group at 31 December 2001.

STATUS OF COMPANY

The Company is registered as a public limited company under the Companies Act 1985.

ACTIVITIES

The Company is a financial services holding company with principal interests in wealth management including life assurance and unit trust management. A full review of the activities of the group is given in the Chairman's Statement on pages 3 to 7.

SUBSTANTIAL SHAREHOLDERS

The Directors are aware of the interests of the following companies in 3% or more of the ordinary issued share capital of the Company as at 28 February 2002:

- HBOS plc: 255,732,113 shares (60%)

DIRECTORS

The present Directors of the Company are listed on pages 10 and 11. On 1 January 2002 Michael Sorkin was appointed to the Board and as such will retire at the forthcoming Annual General Meeting and offer himself for re-election.

Lord Stevenson retired as a non-executive Director on 21 February 2002 and was appointed to the honorary position of President on the same date. Phil Hodgkinson was appointed to the Board on 21 February 2002 to replace Lord Stevenson and as such will retire at the forthcoming Annual General Meeting and offer himself for re-election.

Pursuant to the Articles of Association, all those Directors who were elected or last re-elected at or before the Annual General Meeting held in 1999 shall retire from office by rotation. The Directors retiring by rotation are Charles Bailey, Martin Moule, Derek Netherton, Sir Mark Weinberg and Lord Weir and they will all be seeking re-election. Sir Mark Weinberg attained the age of 70 in August 2001 and the Board is delighted that Sir Mark has confirmed his intention to work beyond this date and for as long as the Board feels appropriate. Sir Mark will seek re-election on an annual basis going forward. The articles of association of the Company disapply the provisions of s.293(7) of the Companies Act 1985 relating to special notice requirements for the re-election of Directors over the age of 70.

Details of all Directors service contracts are set out in the Remuneration Report on page 28.

DIRECTORS' REPORT continued

DIRECTORS' INTERESTS

The interests of the Directors in the share capital of the Company and in the share capital of HBOS plc, being the holding company, at 31 December 2001, and any changes between that date and the date of this Report, are given in the Remuneration Report on pages 20 to 29.

Except as stated in the Remuneration Report, no Director has, or has had during the year under review, any beneficial interest in any contract or arrangement with the Company or any of its subsidiaries as defined by the Companies Act 1985 or in the terms laid down in the London Stock Exchange Listing Agreement.

CREDITORS' PAYMENT POLICY

The payment of supplier invoices is made on the Company's behalf by St. James's Place Management Services Limited ("SJPMS"), a subsidiary company.

It is SJPMS's policy to pay creditors in accordance with the Confederation of British Industry Better Practice Payment Code on supplier payments. The Company's average number of days purchases outstanding in respect of trade creditors at 31 December 2001 was 26 days (2000: 34 days).

CHARITABLE DONATIONS AND POLITICAL CONTRIBUTIONS

As agreed by shareholders in 2000, the Group pays an amount to St. James's Place Foundation (a charitable trust) each year which matches donations received during the year by the Foundation on a pound for pound basis, up to a limit determined by the Directors from time to time. During the year ended 31 December 2001, the Group contributed £527,750 to St. James's Place Foundation. A list of charitable donations made by St. James's Place Foundation will be available at the Annual General Meeting, together with a report which outlines the basis on which priorities for donations have been established. The Group made no political donations during the year.

ECONOMIC MONETARY UNION

The Group has put in place the necessary systems to ensure that, to the extent that the euro affects its investments or its policy related business, it can conduct the transactions required.

The Group is currently reviewing its systems to assess the impact of the possible future adoption of the euro by the United Kingdom. The Directors believe that the total financial cost of preparation for the introduction of the euro will not be material to the Group.

DIRECTORS' REPORT continued

SOCIAL, ENVIRONMENTAL AND ETHICAL MATTERS

The Group recognises that it has a corporate responsibility towards the environment and has long recognised that it also has a role to play in community affairs. The Company is proud to be a founder member of the PerCent Club, and to support the St. James's Place Foundation, a charitable trust, which supports charities both within the UK and overseas. More details of both of these charitable activities can be found on pages 8 and 9.

The Group fully supports the ABI's Guidelines on Socially Responsible Investment. In relation to the Guidelines, the Group intends to consider the implementation of appropriate systems over the coming year and to provide regular updates on environmental performance in future reports.

The Company is pleased to be included in the FTSE4GoodIndex. This was designed by the FTSE as an index for socially responsible investment, with the aim of providing a series of benchmarks and tradable indices facilitating investment in companies with good records of corporate social responsibility.

EMPLOYEES

Full details of the number of employees within the Group as at 31 December 2001 and the costs related to those employees are shown in note 10 on page 46.

The Group has continued to focus on the development of staff as a key element within the business plan for the last twelve months. This has included the launch of a new performance model for head office staff, alongside a thorough review of our sales management structure.

Financial involvement in the Group is also a continuing focus. The Group operates an Inland Revenue approved Share Incentive Plan ("SIP") (formerly All Employee Share Option Plan) in which all UK based employees of the Group participate and an Inland Revenue approved Save As You Earn Scheme which is open to all UK based employees.

Underpinning all of the Group's personnel policies is a well established awareness of statutory and social responsibilities with regard to the employment of disabled staff, whether it be their recruitment or subsequent management. The Group's approach ensures that every effort is made to achieve continuity of employment in the event of employees becoming disabled. Similarly, best practice principles ensure that the Group's responsibilities are met as an equal opportunity employer.

AUDITORS

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



H. J. Gladman

Company Secretary
28 February 2002

CORPORATE GOVERNANCE REPORT

"The Company is committed to achieving high standards of Corporate Governance throughout the group and to integrity and high ethical standards in all of its business dealings".

BOARD OF DIRECTORS

The Board considers that it has complied throughout the financial period with the provisions set out in section one of the Combined Code, with the exception of provision A.3.2, which requires a majority of non-executive Directors to be independent. However, the Board actively sought to recruit an additional independent non-executive Director during the year and this position was corrected on 1 January 2002 with the appointment of Michael Sorkin as an additional independent non-executive Director. In line with the Combined Code, Mr Sorkin will be seeking election at the forthcoming Annual General Meeting.

The Group applies the provisions of the Combined Code through the Board and its Committees which meet regularly and have ready access to all relevant information required to enable effective, independent decision making. In the furtherance of their duties, members of the Board may also seek to take independent advice, if necessary, at the Group's expense.

The Board currently consists of 5 executive and 9 non-executive Directors.

The primary responsibilities of the Board are to:

- Determine the overall strategy of the Group;
- Ensure that the Group's operations are well managed and proper succession plans are in place;
- Implement appropriate Corporate Governance procedures;
- Periodically review the results and operations of the Group;
- Ensure that proper accounting records are maintained;
- Safeguard the assets of the Group from fraud and other significant risks; and
- Decide the Group's policy on charitable and political donations.

To aid the achievement of these objectives, a formal schedule of matters reserved for the Board, or any duly appointed committee, has been drawn up.

All Directors are required to submit themselves for re-election at regular intervals, and at least every 3 years.

It is the responsibility of the Chairman to ensure the continued effectiveness of the Board of Directors and he liaises with the Chief Executive to make recommendations to the Board on Group strategy. The Chief Executive's responsibility is to manage the Group and implement the strategies adopted by the Board.

CORPORATE GOVERNANCE REPORT continued

BOARD COMMITTEES

The Board has formally constituted Audit, Nomination and Remuneration Committees, all of which comply with the provisions of the Combined Code.

Details of membership of these Committees can be found on pages 10 and 11.

The Audit Committee, chaired by Derek Netherton, comprises three independent non-executive Directors and one non-independent non-executive Director, Phil Hodgkinson as an appointee of HBOS plc in accordance with the Relationship Agreement. The Audit Committee examines any matters relating to the financial affairs of the Group, including reviews of the company's annual accounts, internal control procedures, risk management processes, accounting policies and compliance with accounting standards. The Committee also considers the independence objectivity and cost effectiveness of the Group's auditors.

The Remuneration Committee comprises solely non-executive Directors, all of whom are independent. The Committee, chaired by the Viscount Weir, determines all aspects of the executive Directors' remuneration, as well as their terms and conditions of employment. The Remuneration Report is set out on pages 20 to 29.

Sir Mark Weinberg chairs the Nomination Committee which considers both appointments to the Board and the independence of any proposed new non-executive Directors.

In addition, a separate Compliance Committee exists, chaired by Anthony Loehnis, which is made up of executive and non-executive Directors to deal explicitly with regulatory risks and issues. The Committee's main responsibilities are:

- Reviewing the adequacy and effectiveness of the compliance policies and procedures of the Group;
- Monitoring the results of regulatory visits to the Group;
- Making recommendations for changes in compliance related practices or procedures; and
- Receiving reports on, and reviewing, the results of internal monitoring.

RELATIONSHIP WITH HBOS PLC

A company which has a controlling shareholder must be capable at all times of carrying out its business independently of such a shareholder and all transactions and relationships between the company and the controlling shareholder must be at arms length and on a normal commercial basis. To this end, the Company and Halifax Group plc entered into the Relationship Agreement to regulate the relationship between the two companies after the completion of the Partial Offer in June 2000. Following the merger of Halifax and Bank of Scotland on 10 September 2001, the Relationship Agreement is to be novated to HBOS plc.

The principal purpose of the Relationship Agreement is to ensure that the Company can operate independently of the HBOS group and to provide that the relationship between members of the HBOS group and the SJPC Group will be conducted on an arm's length basis. Under the Agreement, the HBOS group has power to appoint a number of directors to the Board. The number varies in relation to HBOS's shareholding in the company. At present, HBOS has exercised its right to appoint three non-executive directors.

CORPORATE GOVERNANCE REPORT continued

RELATIONSHIPS WITH SHAREHOLDERS

The Board maintains close relationships with institutional shareholders through dialogue and frequent meetings. In addition, there are regular meetings with our brokers, Cazenove and Co Limited, who facilitate meetings with other investors and their representatives.

The Company's Annual General Meeting is held in London where members of the relevant committees of the Board are available to discuss matters arising. Where possible, timing and location of the meeting is designed to encourage the participation of small shareholders.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are also required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that, in preparing the financial statements on pages 31 to 63, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

RISK MANAGEMENT

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. This includes financial, operational and compliance controls and risk management. The Directors are supported in this task by the maintenance of an appropriately staffed and qualified risk management function.

In establishing the system of internal control, the Directors have regard to materiality of relevant risk, the likelihood of a risk occurring and the cost of mitigating risk. It is therefore designed to manage, rather than eliminate, risk and as such can provide only reasonable and not absolute assurance against the risk of material misstatement or loss.

The Directors and senior managers of the Group are committed to maintaining a strong controls culture within all business areas and have established processes for evaluating and managing significant risks faced by the Group. This process has been in place for the year under review and up to, and including, the date of approval of the annual report and accounts.

CORPORATE GOVERNANCE REPORT continued

The process is reviewed by the Board and includes the following:

- During the year the Audit and Compliance Committees of the Board have:
 - reviewed and approved the internal audit and compliance department work plans;
 - considered reports from management, internal and external audit, compliance and external consultants on the system of internal control and any material control weaknesses or compliance failures; and
 - discussed with management the actions taken on problem areas identified in the reports received from internal audit, external audit or compliance.
- The Audit Committee reviews the effectiveness of the risk management process and any significant risk issues would be referred to the Board for consideration.
- The Chairmen of the Audit and Compliance Committees report significant matters arising from their respective Committees to the Board.
- The Group's senior management adopts a risk management process which identifies the key vulnerabilities and risks facing each business area and reports, via Internal Audit, to the Audit Committee on how these risks and vulnerabilities are being managed.
- Internal Audit adopt a risk based approach, with their work plans being derived from assessments of the key risks facing the business.
- The Group's senior management have clear defined responsibilities and accountabilities for managing specific areas of risk and these are documented in individual job descriptions. These are subject to frequent review to ensure that they remain aligned with all new business developments and any new or emerging risks.

In addition to these ongoing procedures, the Audit Committee, under instruction of the Board, conduct an annual review which considers the effectiveness of the Group's systems of internal control. This includes the nature and scope of the ongoing monitoring processes, including the internal audit function, and the potential impact on these processes as a result of any changes during the year to the Groups' risk profile.

Recognising the value of effective risk management, 2001 also saw the development of a new SJPC Group risk function culminating in the appointment of a Group Risk Director. This new function sits alongside and compliments the existing internal audit and compliance functions. This was implemented fully on 1 January 2002.

Financial Services and Markets Act 2000

At midnight on 30 November 2001 (N2 day), the Financial Services and Markets Act 2000 was introduced replacing the Financial Services Act 1986, at which point the FSA became the Group's primary regulator.

In the build up to N2, a significant Group-wide project was undertaken to assess the impact of the proposed changes to the regulatory environment and to ensure that appropriate processes and procedures were introduced to enable compliance with the requirements of the new regulatory regime.

CORPORATE GOVERNANCE REPORT continued

LIFE ASSURANCE HOLDING CORPORATION AND NASCENT GROUP SA

As detailed in the Chairman's statement on page 3, the Group has a participating interest in Life Assurance Holding Corporation (LAHC) and a non-participating investment in Nascent Group SA (Nascent).

Due to the limited nature of these interests, LAHC and Nascent have been specifically excluded from the scope of the Group's system of internal control.

The Group does, however, have representation on both the Board and Audit Committees of LAHC and Nascent. Based on reports submitted to these committees, the Group is not aware of any issues that would have a material impact upon the Group's continued commitment to high standards of corporate governance.

STATEMENT OF BUSINESS PRACTICE

Underpinning the Company's continued commitment to Corporate Governance, it has published a statement of business practice. This statement, in the form of a booklet entitled "Our Approach", is provided to all employees and Partners of the St. James's Place Partnership and covers areas such as:

- the Company's objectives;
- the Company's brand and how its integrity and value is maintained;
- the Company's corporate culture;
- the Company's management style;
- how the Company deals with clients and each other; and
- the Company's commitment to the St. James's Place Foundation, more details of which can be found on page 13.

Our business practice is based on the values of integrity, trust, openness, partnership and teamwork and is designed to guide individual and corporate actions, decisions and standards.

THE REMUNERATION REPORT

THE REMUNERATION COMMITTEE

The Remuneration Committee determines the remuneration packages of the executive Directors of the Company and J. Rothschild Assurance plc, including the overall supervision of the operation of the Executive Share Option and Bonus Schemes. Determination of the remuneration of the non-executive Directors, within the limits imposed by the Articles of Association, is the responsibility of the Board as a whole.

The Committee comprises The Viscount Weir as Chairman, Derek Netherton and Charles Bailey. The Company Secretary, Hugh Gladman, acts as Secretary to the Remuneration Committee.

REMUNERATION POLICY

In designing remuneration policy and packages the Remuneration Committee has regard to the provisions of Schedule A to the Combined Code and has followed Schedule B to the Combined Code in preparing this report.

The Committee aims to set executive remuneration at an appropriate level to attract, retain and motivate Directors of requisite calibre. To ensure that remuneration levels are competitive, without being excessive, the Remuneration Committee has access, as required, to professional advice and market data provided by Monks Partnership, remuneration consultants.

In the year under review, remuneration for executive Directors generally comprised salary, annual discretionary bonus including participation in the Directors' Deferred Bonus Scheme, Share Incentive Plan and Save As You Earn Scheme, pension contributions or payment in lieu, car and other benefits including healthcare schemes.

Salaries and other benefits are set within broad ranges around the median for similar positions in other life assurance groups of comparable size and operating structure, against which the performance and experience of each executive Director is reviewed annually. Other factors taken into account are the Company's own performance compared with competitors, pay and conditions throughout the Group and conditions in other companies of comparable size operating in other markets.

Bonus payments are made on the basis of Company performance as measured against targets set at the start of the year and agreed with the Remuneration Committee, together with an assessment of individual performance during the year. Bonus payments and other benefits are not pensionable.

As required by the Combined Code, the Board has considered whether the circumstances are such that shareholders should be invited to approve the remuneration policy set out in this report at the AGM. The Board has concluded that, in accordance with government proposals, it considers it appropriate to seek shareholder approval of the remuneration policy within the report and a resolution will be put to shareholders at the forthcoming AGM.

THE REMUNERATION REPORT continued

DIRECTORS' REMUNERATION

Total Directors' remuneration for the year ended 31 December 2001 is shown below, with comparative figures for the year ended 31 December 2000:

	Year ended 31 December 2001 £	Year ended 31 December 2000 £
Fees to non-executive Directors	190,000	182,500
Salaries to executive Directors	1,150,000	1,305,640
Bonus to executive Directors	237,500	1,104,000
Pension and death in service benefits	189,899	167,838
Other benefits	173,141	154,915
Total	<u>1,940,540</u>	<u>2,914,893</u>
Share option payments		<u>1,952,449</u>
		<u>4,867,342</u>

Note

- i) Details of share option payments which were paid during 2001 or due to be paid in subsequent periods, as a result of the acquisition of 60% of the Company by the Halifax Group plc in June 2000, were disclosed in the Report of the Remuneration Committee for 2000.

The total emoluments of the highest paid Director in the year were £586,185 (£957,571 for the year ended 31 December 2000 – excluding share option payments).

(i) Basic Salary, Benefits and Bonus

The Remuneration Committee carried out its formal benefits review on 30 January 2002. The Committee approved the bonuses (including deferred bonuses) payable to the executive Directors for the year to 31 December 2001 (as disclosed in the table on the next page) and reviewed the salary and bonus arrangements for 2001. Details of the approved salary and benefits are set out on page 28.

THE REMUNERATION REPORT continued

The remuneration paid to the Directors for the year ended 31 December 2001 is disclosed in the table below:

Name	Salaries and Fees £	Bonus £	Deferred Bonus £	Pension and Death in Service £	Other Benefits £	2001 Total Emoluments £	2000 Total Emoluments £
Charles Bailey	20,000	-	-	-	-	20,000	20,000
David Bellamy	180,000	22,500	22,500	27,000	22,969	274,969	406,523
Mario d'Urso	25,000	-	-	-	-	25,000	25,000
James Crosby	15,000	-	-	-	-	15,000	7,500
Anthony Loehnis	35,000	-	-	-	-	35,000	35,000
Martin Moule	180,000	22,500	22,500	27,000	26,578	278,578	412,637
Derek Netherton	35,000	-	-	-	-	35,000	35,000
John Newman	190,000	23,750	23,750	32,300	32,411	302,211	480,320
Jim Spowart	15,000	-	-	-	-	15,000	7,500
Lord Stevenson of Coddendam	25,000	-	-	-	-	25,000	12,500
Sir Mark Weinberg	200,000	-	-	43,599	64,998	308,597	256,013
The Viscount Weir	20,000	-	-	-	-	20,000	20,000
Mike Wilson	400,000	50,000	50,000	60,000	26,185	586,185	957,571

Notes:

- i) All of the above directors served on the Board of the Company for the whole of the reporting year.
- ii) Other benefits comprise entitlement to company car or cash equivalent, fuel, private health care and critical illness cover and are generally the amounts which are returned for taxation purposes.
- iii) Pension and death in service costs represent the amount contributed to each Director's money purchase arrangement or paid to the Director in lieu of pension contributions, and the cost of life assurance.
- iv) The fees in respect of the services of James Crosby, Jim Spowart and Lord Stevenson of Coddendam (since 1 July 2001) were paid directly to HBOS plc.
- v) Paul Bradshaw and Roy Nicolson who resigned as Directors in 2000, have been omitted from the table above. However, their remuneration has been included in the total figures for 2000 in the table on the previous page.

THE REMUNERATION REPORT continued

(ii) Share Incentives and other long term incentive schemes

Directors' Deferred Bonus Scheme

The Company adopted a deferred bonus scheme for executive Directors with effect from 2000. Under the scheme, the amount (if any) payable to an executive Director by way of discretionary bonus (as agreed by the Remuneration Committee at the end of each financial year) is matched by an equal amount, which is used to purchase shares in the Company to be held in an Employee Trust. The shares will vest after 3 years, with all entitlement to the award normally being lost should the executive Director cease to be employed by the Group prior to vesting taking place. The Remuneration Committee believe that the deferred bonus scheme is an effective incentive for the executive Directors, whilst at the same time offering strong retentive characteristics going forward.

Employee Share Option Schemes

All UK employees of the Group, including the executive Directors, are eligible to enter into a Save As You Earn contract, under which they were able to save up to £250 per month, and at the end of the 3 or 5 year savings period acquire shares in the Company at a price not less than 80 per cent of the market price at the date of the invitation to participate.

Details of the options held under the scheme and the equivalent predecessor scheme are as follows:

Director	Options held at 1 January 2001	Exercised in year	Granted in year	Options held at 31 December 2001	Exercise price	Date from which exercisable	Expiry date
David Bellamy	16,121	-	-	16,121	£1.07	1 Sept 2002	1 Mar 2003
Martin Moule	5,777	5,777	-	-	-	-	-
	1,041	-	-	1,041	£1.86	1 Dec 2002	1 Jun 2003
	-	-	2,299	2,299	£3.37	1 May 2004	1 Nov 2004
John Newman	16,121	-	-	16,121	£1.07	1 Sept 2002	1 Mar 2003
Mike Wilson	16,121	-	-	16,121	£1.07	1 Sept 2002	1 Mar 2003

Notes:

- i) Following the acquisition of 60% of the ordinary shares of the Company by the Halifax Group plc on 2 June 2000 all existing SAYE share options became Inland Revenue unapproved as a result of the acquisition. In connection with the acquisition it was agreed that the Company would pay the respective income tax liability that arises by way of compensation for the change in this tax status of the options.
- ii) On 1 March 2001, Martin Moule exercised options over 5,777 shares at an exercise price of £1.35 per share. The market price of the shares on 1 March 2001 was £4.33½.

Shareholders approved the establishment of an Inland Revenue approved Share Incentive Plan (SIP) (formerly known as an All-Employee Share Ownership Plan) at the AGM in 2000. The Directors launched the new plan during 2001 for all employees, including Directors, entitling them to a grant of "free shares" subject to the attainment by their relevant "business unit" of pre-set performance targets appropriate to each business unit. No Director became entitled to a grant of shares under the SIP rules in 2001.

THE REMUNERATION REPORT continued

Executive Share Option Scheme

Since 1997, the Company has operated a discretionary share option scheme for executive Directors and senior employees under which options are granted at market value, such options normally being first exercisable between 4 and 6 years from date of grant, subject to the achievement of certain individual and/or corporate targets relating to earnings growth. The performance condition which has been applied to all executive options under the 1997 option scheme is earnings growth of St. James's Place Holdings plc and its subsidiaries over a period of three consecutive years of at least RPI plus 5% per annum over the same period.

With the help of remuneration consultants, Monks Partnership, the Remuneration Committee reviewed the policy for the grant of executive options to the executive Directors in January 2002, taking into account revised guidelines issued by the ABI. The Committee decided to follow institutional guidelines and grant options to the executive Directors on an annual basis. Starting in March 2002, grants will be made to certain Directors of options to the value of 1.5 times salary at date of grant. It is intended that similar grants will be made to Directors in future years, subject to the discretion of the Committee to revise the level of grant, up or down, to reflect Group and/or individual performance and other relevant circumstances.

A resolution will be put to the shareholders at the forthcoming AGM to remove the 4 times salary limit on the value of executive options to subscribe for shares held by an optionholder at any one time and replace it with a limit on the value of subscription options granted to an individual in any one year of 2 times salary.

The Committee review the continuing suitability of the performance condition for executive options at least annually. In January 2002, the Committee reviewed the existing performance condition as applied to optionholders who are Directors, and determined that it should be amended in line with current ABI Guidelines. The new performance condition is that the Earnings Per Share of the Company and its subsidiaries (excluding interests in Life Assurance Holding Corporation and Nascent Group SA) have increased (in comparison with the 12 months immediately preceding the start of the period) over a performance period, fixed by the Committee and beginning no earlier than 1 January of the year in which the option is granted, of 3 consecutive years (which may be extended by the Committee to 4 or 5 consecutive years) by a percentage (equal to 5% for each year of the performance period) more than the rate of inflation as measured by the RPI (excluding mortgage interest) over the same period. The Committee considers that the revised condition creates a more demanding expectation of performance for executive Directors than before. This revised performance condition will be applied to options granted to executive Directors in March 2002 and beyond, until further review.

THE REMUNERATION REPORT continued

Executive Share Option Schemes (continued)

Details of the options held by Directors under the Company's executive scheme together with any outstanding options held under the previous scheme operated by St. James's Place Holdings plc and any movements during the year are as follows:

Director	Options held at 1 January 2001	Exercised in year	Options held at 31 December 2001	Exercise price	Date from which exercisable	Expiry date
David Bellamy	26,250	-	26,250	0.57p	20 Oct 2000	20 Oct 2003
	375,000	-	375,000	£1.33	1 Jul 2001 to 1 Jul 2003	13 Jul 2007
Anthony Loehnis	75,000	33,332	41,668	£1.57	1 April 2001	18 Dec 2007
Martin Moule	200,000	-	200,000	£1.49	1 Jan 2002 to 1 Jan 2004	8 Dec 2007
	100,000	-	100,000	£2.77½	1 Jan 2003 to 1 Jan 2005	18 Dec 2008
John Newman	375,000	-	375,000	£1.33	1 Jul 2001 to 1 Jul 2003	13 Jul 2007
Mike Wilson	450,000	-	450,000	£3.52½	11 Dec 2004 to 11 Dec 2005	11 Dec 2010

Notes:

- i) Following the acquisition of 60% of the ordinary shares of SJPC by the Halifax Group plc on 2 June 2000 certain existing Executive Share Option Scheme share options became Inland Revenue unapproved as a result of the acquisition. In connection with the acquisition it was agreed that the Company would pay the respective income tax liability that arises by way of compensation for the change in this tax status of the options.
- ii) The exercise price corresponds with the market price (as defined in the Scheme rules) on the date on which the options were granted. At 31 December 2001 the mid market price for SJPC shares was £3.50. The range of prices between 1 January 2001 and 31 December 2001 was between £2.52 and £4.74.
- iii) On 7 August 2001, Anthony Loehnis exercised options over 33,332 shares at an exercise price of £1.57 per share. The market price of the shares on 7 August 2001 was £4.07½.

Total gains made by the Directors on exercise of all aforementioned share schemes during the year was £100,741 (2000: £2,211,523). Of these amounts £Nil applies to the highest paid Director (2000: £Nil).

THE REMUNERATION REPORT continued

(iii) Share Interests

The interests of directors in the share capital of the Company as at beginning of the year and as at 31 December 2001 are given below:

Director	31 December 2001 Ordinary Shares of 15 pence each		1 January 2001 Ordinary Shares of 15 pence each	
	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Charles Bailey	2,490	-	-	-
David Bellamy	403,830	238,100	379,975	238,100
James Crosby	-	-	-	-
Senator Mario d'Urso	-	-	-	-
Anthony Loehnis	6,062	-	6,062	-
Martin Moule	31,823	-	2,191	-
Derek Netherton	-	-	-	-
John Newman	598,469	63,500	571,000	63,500
Jim Spowart	-	-	-	-
Lord Stevenson of Coddenham	-	120,000	-	120,000
Sir Mark Weinberg	3,233,488	-	4,233,488	-
The Viscount Weir	1,277	-	1,277	-
Mike Wilson	5,057,831	750,000	5,000,000	1,250,000

Notes:

- i) On 28 March 2001, shares were transferred to David Bellamy, Martin Moule, John Newman and Mike Wilson under the SJPC Deferred Bonus Scheme. The shares are held by SJPC on behalf of the Directors for a restricted period ending on 28 March 2004. The numbers of shares transferred were 23,855, 23,855, 27,469 and 57,831 respectively.

Between 31 December 2001 and 28 February 2002 there were no transactions in the Company's shares by Directors.

THE REMUNERATION REPORT continued

Following the merger of Halifax and Bank of Scotland in September 2001 shares in Halifax Group plc were replaced with shares in HBOS plc on a one for one basis. The Directors had no interests in the share capital of HBOS plc as at 31 December 2001 except for the beneficial interests given below:

	31 December 2001 Ordinary Shares of 25 pence each in HBOS plc	31 December 2000 Ordinary Shares of 20 pence each in Halifax Group plc
Director		
James Crosby	55,295	21,775
John Newman	417	417
Jim Spowart	19,206	9,999
Lord Stevenson of Coddanham	118,303	72,962
Mike Wilson	1,500	1,500

Between 31 December 2001 and 28 February 2002 there have been no transactions in shares of HBOS plc by Directors.

(iv) Pensions and Death in Service Benefits

Since August 1999, the provision of pension benefits for the executive Directors of the Company has generally been through employer contributions to the money purchase section of the Group's occupational personal scheme. During the financial year, the contribution rate for executive Directors was generally 15% of salary. Individual arrangements are also facilitated by the Committee, contributions to such arrangements being determined by personal circumstances and arrangements already in force on joining the Group.

The costs for pension and death in service arrangements for the individual executive Directors during the year ended 31 December 2001 are shown on page 22.

THE REMUNERATION REPORT continued

SERVICE AGREEMENTS

It is the Committee's policy that service agreements should not grant notice periods in excess of one year. The terms and conditions of the Directors' service agreements are reviewed regularly.

Sir Mark Weinberg's service agreement can be terminated, without specific provision for compensation for early termination by, inter alia, either party giving the other not less than twelve months written notice. Following an extension to the contract in December 2000, the agreement will continue for as long as the Board feels appropriate. The agreement, which requires Sir Mark Weinberg to devote 50% of his time to the affairs of SJPC, provides for an annual salary of £200,000 and benefits in kind, including life assurance, a salary supplement in lieu of pension provision, private health insurance and a company car together with a chauffeur.

Mike Wilson's service agreement can be terminated without specific provision for compensation for early termination by, inter alia, either party giving the other not less than twelve months written notice. Following an extension to the contract in December 2000, the agreement will automatically terminate on 31 December 2005 (or such later date as the parties shall agree) and provides for an annual salary of £450,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car together with a chauffeur.

David Bellamy's service agreement can be terminated without specific provision for compensation for early termination by, inter alia, either party giving the other not less than twelve months written notice. The agreement will automatically terminate on David Bellamy's 60th birthday and provides for an annual salary of £210,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

John Newman's service agreement can be terminated without specific provision for compensation for early termination by, inter alia, either party giving the other not less than twelve months written notice. The agreement will automatically terminate on John Newman's 60th birthday and provides for an annual salary of £200,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, a salary supplement in lieu of pension provision, private health insurance and a company car.

Martin Moule's service agreement can be terminated without specific provision for compensation for early termination by, inter alia, either party giving the other not less than twelve months written notice. The agreement will automatically terminate on Martin Moule's 60th birthday and provides for an annual salary of £195,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

THE REMUNERATION REPORT continued

NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive Directors is determined by the Board as a whole, within the limits set by the provisions of the Articles of Association.

The basic annual fee is £15,000 per annum, which the Board believe to be in line with current market practice. Additional fees are paid in respect of Board Committee or other responsibilities, as agreed by the Board. Set out below are the annual fees currently payable to the non-executive directors:

Director	Fee per annum £
Charles Bailey	20,000
James Crosby *	15,000
Mario d'Urso	25,000
Phil Hodgkinson*	15,000
Anthony Loehnis	35,000
Derek Netherton	35,000
Michael Sorkin	15,000
Jim Spowart *	15,000
The Viscount Weir	20,000

Notes:

- i) Fees to directors marked with * are payable directly to HBOS plc.

The non-executive Directors do not have service contracts or benefits in kind arrangements and do not participate in any of the Group's pension arrangements. The term of the appointment of the non-executive Directors has been amended to terminate on the date on which the non-executive Director is required to retire by rotation at which point the appointment will be reviewed.

TERMINATION PAYMENTS

When considering any question of termination payments, the Remuneration Committee would ensure that poor performance was not rewarded and, in determining the size of any award would take into account a number of factors including health, length of service, age, and the Director's duty to mitigate his own loss, with a broad aim to avoid rewarding poor performance while dealing fairly with cases where departure is due to other reasons, for example illness.

On behalf of the Board,
The Viscount Weir
Chairman, Remuneration Committee

28 February 2002

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ST. JAMES'S PLACE CAPITAL plc

We have audited the financial statements on pages 31 to 63.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 17, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 15 to 19 reflects the group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanation which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants and Registered Auditor

28 February 2002

London

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
LONG-TERM BUSINESS TECHNICAL ACCOUNT**

	Notes	Year Ended 31 December 2001 £' Million	Year Ended 31 December 2000 £' Million
Earned premiums, net of reinsurance			
Gross premiums written	2	1,308.5	1,135.0
Outwards reinsurance premiums		(26.7)	(22.9)
	2	<u>1,281.8</u>	<u>1,112.1</u>
Investment income	3	59.7	560.2
Other technical income		1.5	8.0
		<u>1,343.0</u>	<u>1,680.3</u>
Claims incurred, net of reinsurance			
Claims paid			
- Gross amount		(255.8)	(236.6)
- Reinsurers' share		19.7	18.6
		<u>(236.1)</u>	<u>(218.0)</u>
Change in the provision for claims			
- Gross amount		(0.8)	(5.1)
- Reinsurers' share		(0.2)	1.7
		<u>(1.0)</u>	<u>(3.4)</u>
	4	<u>(237.1)</u>	<u>(221.4)</u>
Changes in other technical provisions, net of reinsurance			
Long-term business provision			
- Gross amount		(34.3)	2.2
- Reinsurers' share		15.1	(1.3)
		<u>(19.2)</u>	<u>0.9</u>
Technical provisions for linked liabilities			
		(520.2)	(796.7)
Net operating expenses	5	(150.2)	(161.3)
Investment expenses and charges		(17.2)	(12.7)
Unrealised losses on investments		(407.2)	(452.4)
Tax attributable to the long-term business	6	(2.4)	(32.5)
		<u>(1,353.5)</u>	<u>(1,676.1)</u>
Balance on the long-term business technical account before the increase in value of long-term business in force			
		(10.5)	4.2
Increase in value of long-term business in force		<u>66.2</u>	<u>37.3</u>
Balance on the long-term business technical account		<u>55.7</u>	<u>41.5</u>

The notes and information on pages 37 to 63 form part of these accounts.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT**

	Notes	Year Ended 31 December 2001 £' Million	Restated Year Ended 31 December 2000 £' Million
Balance on the long-term business technical account		55.7	41.5
Tax credit attributable to balance on long-term business technical account		23.8	16.0
Shareholders' profit from long-term business		<u>79.5</u>	<u>57.5</u>
Investment income			
Income from participating interests	15	(12.2)	16.4
Income from other investments	7	6.2	7.3
Investment expenses and charges		(0.6)	(0.5)
Other income			
Income from unit trust operations	8	10.4	6.7
Other income		3.0	3.3
Other charges		(6.1)	(8.0)
Operating profit, being profit on ordinary activities before tax		80.2	82.7
Tax on profit on ordinary activities	6	(21.0)	(24.9)
Profit on ordinary activities after tax, being profit for the financial year		59.2	57.8
Dividends	11	(11.8)	(9.5)
Retained profit for the financial year	25	<u>47.4</u>	<u>48.3</u>
		Pence	Pence
Dividend per share	11	2.75	2.25
Earnings per share	12	13.9	13.7
Adjusted earnings per share	12	13.9	16.3
Diluted earning per share	12	13.1	13.1
Diluted adjusted earnings per share	12	13.1	15.7

In arriving at operating profit, unless otherwise stated, all amounts are in respect of continuing operations, in both the current and previous year.

In accordance with the amendment to FRS3 published in June 1999, no note of historical cost profits has been prepared as the Group's only material gains and losses on assets relate to the holding and disposal of investments.

The Company has no other recognised gains and losses during the current and previous year and therefore a separate statement of total recognised gains and losses has not been presented.

The notes and information on pages 37 to 63 form part of these accounts.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

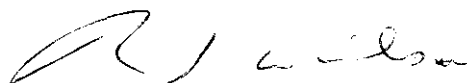
	Notes	2001 £' Million	2000 £' Million
ASSETS			
Investments			
Land and buildings	14	1.3	1.2
Investments in participating interests	15	88.4	96.9
Other financial investments	16		
Shares and other variable yield securities		13.8	6.6
Debt securities and other fixed income securities		44.8	37.3
Deposits with credit institutions		65.5	108.4
		<u>124.1</u>	<u>152.3</u>
		213.8	250.4
Value of long-term business in force	19	287.9	221.7
Assets held to cover linked liabilities	22	4,796.6	4,276.4
Reinsurers' share of technical provisions			
Long-term business provision		55.5	16.7
Claims outstanding		3.2	3.4
		<u>58.7</u>	<u>20.1</u>
Debtors			
Debtors arising out of direct insurance operations			
- due from policyholders		5.8	8.4
Other debtors		63.6	55.9
		<u>69.4</u>	<u>64.3</u>
Other assets			
Tangible assets	23	8.5	6.4
Cash at bank and in hand		47.4	51.4
		<u>55.9</u>	<u>57.8</u>
Prepayments and accrued income			
Deferred acquisition costs		55.0	37.3
Other prepayments and accrued income		59.1	41.4
		<u>114.1</u>	<u>78.7</u>
Total assets		<u>5,596.4</u>	<u>4,969.4</u>

The notes and information on pages 37 to 63 form part of these accounts.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

	Notes	2001 £' Million	2000 £' Million
LIABILITIES			
Capital and reserves			
Called up share capital	24	64.3	63.8
Share premium account	25	3.4	0.5
Shares to be issued	25	0.5	0.6
Other reserves	25	228.2	162.0
Profit and loss account	25	213.2	232.0
Equity shareholders' funds		509.6	458.9
Technical provisions			
Long-term business provision	18	107.5	73.2
Claims outstanding		13.4	12.6
		120.9	85.8
Technical provisions for linked liabilities		4,796.6	4,276.4
Provisions for other risks and charges	27	19.8	16.9
Creditors			
Creditors arising out of direct insurance operations		3.8	10.8
Amounts owed to credit institutions	28	14.6	10.8
Amounts due to reinsurers	17	23.7	-
Other creditors including taxation and social security	29	85.8	83.4
Proposed dividend	11	6.4	5.3
		134.3	110.3
Accruals and deferred income		15.2	21.1
Total liabilities		5,596.4	4,969.4

The financial statements on pages 32 to 64 were approved by the Board of Directors on 28 February 2002 and signed on its behalf by:


M. S. Wilson
Chief Executive


M. D. Moule
Finance Director

The notes and information on pages 37 to 63 form part of these accounts.

BALANCE SHEET OF THE PARENT COMPANY AT 31 DECEMBER

	Notes	2001 £' Million	2000 £' Million
Fixed Assets			
Investment in subsidiary undertakings	13	311.4	311.4
Current Assets			
Amounts owed by group undertakings		32.7	39.6
Other debtors		0.3	-
		33.0	39.6
Creditors: amounts falling due within one year			
Amounts owed to group undertakings		(219.0)	(218.4)
Proposed dividend	11	(6.4)	(5.3)
Other creditors		(0.6)	-
		(226.0)	(223.7)
Net current liabilities		(193.0)	(184.1)
Total assets less current liabilities		118.4	127.3
Capital and reserves			
Called up share capital	24	64.3	63.8
Share premium account	25	3.4	0.5
Shares to be issued	25	0.5	0.6
Profit and loss account	25	50.2	62.4
Equity shareholders' funds		118.4	127.3

The financial statements on pages 31 to 63 were approved by the Board of Directors on 28 February 2002 and signed on its behalf by:



M. S. Wilson
Chief Executive



M. D. Moule
Finance Director

The notes and information on pages 37 to 63 form part of these accounts.

**CONSOLIDATED CASH FLOW STATEMENT
(EXCLUDING POLICYHOLDER FUNDS)**

	Notes	Year Ended 31 December 2001 £' Million	Year Ended 31 December 2000 £' Million
Shareholders' net cash outflow from long-term business		(20.0)	-
Other operating cashflows attributable to shareholders		5.4	(3.2)
Net cash outflow from operating activities	31	<u>(14.6)</u>	<u>(3.2)</u>
Interest			
Interest received		5.2	6.9
Interest paid		<u>(0.6)</u>	<u>(0.5)</u>
		4.6	6.4
Taxation			
Corporation tax paid		(3.6)	(17.8)
Capital expenditure			
Purchase of tangible fixed assets		(5.4)	(3.8)
Sale of fixed assets		0.7	0.5
		<u>(4.7)</u>	<u>(3.3)</u>
Acquisitions and disposals			
Disposal of subsidiary undertaking		0.1	-
Cash disposed of with subsidiary		(0.1)	-
Investment in shares and other variable yield securities		<u>(6.9)</u>	<u>-</u>
		(6.9)	-
Equity dividends paid		(10.7)	(8.4)
Financing			
Repayment of loan		(7.0)	-
Issue of ordinary share capital		3.4	0.5
		<u>(3.6)</u>	<u>0.5</u>
Net cash outflow in the year		<u><u>(39.5)</u></u>	<u><u>(25.8)</u></u>
Net cash outflow was applied as follows:			
Decrease in cash holdings		(15.6)	(0.2)
Net portfolio investments			
Withdrawals from credit institutions		(23.9)	(25.6)
Net application of cash flows		<u><u>(39.5)</u></u>	<u><u>(25.8)</u></u>

The notes and information on pages 37 to 63 form part of these accounts.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the Company and its wholly owned life insurance and non insurance subsidiary undertakings, have been prepared in accordance with the provisions of section 255A of, and the special provisions relating to insurance groups of Schedule 9A to, the Companies Act 1985 and with applicable accounting standards.

The financial statements are prepared in accordance with applicable accounting standards and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 1998, other than the recognition of the present value of in-force long-term assurance business, which has been included as an additional asset in these financial statements. The Directors consider this provides a more meaningful, consistent and appropriate presentation for the shareholders and other users of the financial statements.

The Group adopted the elements of FRS 18 "Accounting Policies" which apply for the year ending 31 December 2001. The relevant disclosures are shown in notes 18 and 19.

The Company's financial statements have been prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985 adopting the exemption conferred by Section 230 of that Act of omitting the profit and loss account.

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 31 December each year. Participating interests are companies other than consolidated subsidiary undertakings in which the Group has 20% or more (but less than 50%) of the equity share capital for the long term and over which the Group is in a position to exercise a significant influence. Participating interests are accounted for using the equity method of accounting.

Profit recognition and value of long-term business in force

Profits from the long-term assurance business are determined on a basis which recognises as profit the statutory result arising in the period, determined by the subsidiary companies' Appointed Actuaries following their annual investigations, together with the change in the present value of future surpluses expected to emerge from the business currently in force. This is determined annually in consultation with independent actuaries.

The statutory result arising in the period is required to be adjusted under the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 for certain items, including the deferral of acquisition costs and movements in certain reserves, which are recognised in the long-term business technical account. The movement in the present value of future surpluses expected to emerge from the business currently in force is reported separately within the long-term business technical account as the "increase in value of long-term business in force". The value of long-term business in force included in the balance sheet is net of taxation and includes both acquired and self-generated business.

The movement in the present value of long-term business in force is initially calculated at the post-tax level and is grossed up on the basis that it will be taxed in the UK at the underlying rate of tax. The post tax movement in the present value of long-term business in force arising in the period is transferred to non-distributable reserves and is treated as non-distributable until such time as it emerges as part of the statutory result arising during subsequent years.

Notes to the Accounts continued

Premiums

Premiums are accounted for when due. Unit-linked premiums are credited to revenue when the associated liability is established. Reinsurance premiums are charged as they become payable.

Investment return

Investment return comprises investment income including dividends, interest, realised investment gains and losses, movements in unrealised investment gains and losses and related expenses. Dividends are included as investment income on the date that shares become quoted ex-dividend. Interest and expenses are included on an accruals basis. Realised investment gains and losses are calculated as the difference between net sales proceeds and the purchase price. Unrealised investment gains and losses represent the difference between the valuation of investments at the balance sheet date and their original cost or, if they have been previously valued, their valuation at the last balance sheet date. Net rental income is recorded when due.

Claims

Claims are charged to revenue when they become due for payment or, in the case of deaths, when notification of death is received. Recoveries from risk reassurances are included in the same period as the relevant claims.

Acquisition costs

Costs of acquiring new insurance contracts principally comprise commission and costs associated with policy issue and underwriting, which are not matched by policy charges. Such costs are amortised against margins in the future revenues of the insurance contracts, to the extent that the amounts are recoverable out of the margins. This deferred acquisition cost is included as an asset within the balance sheet. Movements in that asset are shown in acquisition expenses.

In all instances the deferred acquisition costs are calculated before tax with an appropriate charge or credit being made for deferred tax.

Investments

Investments held to cover linked long-term assurance liabilities are stated at their current value. Investments comprise listed securities, units in authorised unit trusts and OEICs, deposits and property.

Listed investments are included at mid-market value, units in unit trusts and OEICs are at published bid prices and deposits are included at cost. Land and buildings occupied by the Group for its own activities, which are depreciated over their useful economic lives, are stated at market value on a vacant possession basis for existing use. Unlisted investments are included at Directors' valuation.

All realised and unrealised gains and losses on investments held within the long-term business fund are dealt with in the technical account. Realised and unrealised gains and losses on other investments are included in profit before taxation in the non-technical account.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are valued at cost less any provision for impairment in value.

Notes to the Accounts continued

Long-term business provision and technical provisions

The long-term business provision is calculated on actuarial principles. The calculation is in accordance with statutory reporting for solvency and uses the gross premium method.

The provisions held for linked liabilities are the unit liabilities together with certain non-unit provisions.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental cost of acquisition. Depreciation is calculated so as to write off the cost, or value, of tangible fixed assets less their estimated residual values, over the expected useful economic lives as follows:

On a straight line basis:	% per annum
Computers	33½
Fixtures and fittings	20
Office equipment	20
Motor vehicles	25

Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

The transfer of the balance on the long-term business technical account to the non-technical account is grossed up by attributable tax, using the long-term effective rate.

Pensions

The SJPC group operates defined contribution personal pension plans for its employees the costs of which are charged in the year in which they arise.

There is also a UK occupational scheme with two sections, a defined benefit section (closed to new entrants) and a defined contribution section open to members who wish to participate in an Occupational Scheme rather than a Personal Pension Plan. The vast majority of benefits under the defined benefit section have been secured by the purchase of annuities (both immediate and deferred) from insurance companies. This left a surplus in the scheme which has been used to fund payments to the defined contribution section of the scheme. Pension costs met from surplus have not been charged, whereas other pension costs have been charged in the year in which they arise.

Notes to the Accounts continued

2. SEGMENTAL ANALYSIS

An analysis of premiums written, profit and the net assets of the Group's principal activities is set out below:

Premiums written

	Year Ended 31 December 2001 £' Million	Year Ended 31 December 2000 £' Million
Life Business		
Single premiums	812.1	779.0
Regular premiums	99.3	89.2
Reinsurances	-	-
- Risk	(13.0)	(11.3)
- Financial	(4.5)	(4.1)
	893.9	852.8
Pension Business		
Single premiums	245.0	133.1
Regular premiums	140.2	124.2
Reinsurances	-	-
- Risk	(1.5)	(1.7)
	383.7	255.6
Permanent health insurance		
Regular premiums	11.9	9.5
Reinsurances	-	-
- Risk	(7.7)	(5.8)
	4.2	3.7
	1,281.8	1,112.1
Gross premiums comprise:		
Individual business	1,254.1	1,043.1
Group contracts	54.4	91.9
Total gross premiums	1,308.5	1,135.0
Gross new annualised premiums comprise:		
Life - single premiums	812.1	779.0
Life - regular premiums	22.9	23.9
Pension - single premiums	245.0	133.1
Pension - regular premiums	36.5	36.4
Permanent health	4.3	1.6
	1,120.8	974.0

The insurance business written by the Group relates to only direct insurance that is principally sold in the UK. However, included in the above figures are total new business figures of £5.0 million (2000: £2.1 million) arising from the Group's Italian operation with Nascent, which are fully reassured to Nascent. The Irish life business written was £348.6 million (2000: £347.8 million)

Excluded from the above figures are total new business figures of £9.0 million (2000: £Nil) arising from sales of Stakeholder pensions through Clerical Medical by St. James's Place Partnership.

In addition to the new long-term business, the Group issued new single premium unit trust business of £313.3 million (2000: £341.6 million). The total new single premium business including unit trusts was £1,370.4 million (2000: £1,253.7 million).

Notes to the Accounts

2. SEGMENTAL ANALYSIS continued

Profit on ordinary activities

	Year Ended 31 December 2001 <u>£' Million</u>	Year Ended 31 December 2000 <u>£' Million</u>
St. James's Place Group		
Life business (before exceptionals)	79.5	66.4
Unit trust business	10.4	6.7
Other	2.5	6.4
	<u>92.4</u>	<u>79.5</u>
Participating interests		
LAHC	<u>(12.2)</u>	<u>16.4</u>
Profit before exceptional items	<u>80.2</u>	<u>95.9</u>
Exceptionals		
- Halifax transaction and re-branding costs	<u>-</u>	<u>(13.2)</u>
Profit on ordinary activities before taxation	<u>80.2</u>	<u>82.7</u>
Taxation		
Life business	(23.8)	(18.0)
Unit trust business	(3.1)	(2.0)
Other	2.2	(1.9)
LAHC	3.7	(4.9)
Exceptionals		
- Halifax transaction and re-branding costs	<u>-</u>	<u>1.9</u>
	<u>(21.0)</u>	<u>(24.9)</u>
Profit on ordinary activities after taxation	<u>59.2</u>	<u>57.8</u>

The life profit before tax is analysed as £54.0 million from the UK life business (2000: £46.1 million) and £25.5 million from the Irish life business (2000: £11.4 million).

The acquisition of 60% of the share capital of SJPC by Halifax Group plc was completed on 2 June 2000 and resulted in the occurrence of a number of one-off transaction and re-branding costs. In the prior year comparative figures, in addition to the £8.9 million charged in the technical account, a further £4.3 million was charged to the non-technical account giving total exceptional costs of £13.2 million. These exceptional items related wholly to continuing operations.

Notes to the Accounts continued

2. SEGMENTAL ANALYSIS continued

Net Assets

	Year Ended 31 December 2001	Year Ended 31 December 2000
	£' Million	£' Million
UK life business	320.5	281.6
Irish life business	46.7	32.7
LAHC (participating interest)	88.4	96.9
Unit trust	5.9	7.7
Other net assets	48.1	40.0
	509.6	458.9

The net asset value per share at 31 December 2001, calculated on the number of shares in issue at that date, was 118.8 pence (2000: 107.9 pence).

3. INVESTMENT INCOME

Technical account

	Year Ended 31 December 2001	Year Ended 31 December 2000
	£' Million	£' Million
Income from listed investments	129.2	102.9
Income from other investments	3.9	6.0
(Losses)/gains on the realisation of investments	(73.4)	451.3
	59.7	560.2

The income shown in the technical account represents the whole of the investment income arising in the Group's long-term business fund. The investment income shown in the non-technical account arises from non-life companies.

4. CLAIMS

The aggregate claims are as follows:

	Year Ended 31 December 2001	Year Ended 31 December 2000
	£' Million	£' Million
Deaths	29.5	25.1
Surrenders	214.3	202.2
PHI	11.0	11.7
Maturities	1.8	2.7
	256.6	241.7
Reinsurances - Risk	(19.5)	(16.8)
- Financial	-	(3.5)
Total claims incurred	237.1	221.4

Surrenders include encashment of single premium plans.

Notes to the Accounts continued

5. NET OPERATING EXPENSES: LONG-TERM BUSINESS TECHNICAL ACCOUNT

	Year Ended 31 December 2001	Year Ended 31 December 2000
	<u>£'Million</u>	<u>£' Million</u>
Acquisition commission	65.8	65.6
Other acquisition costs	62.6	69.7
Change in deferred acquisition costs	<u>(17.7)</u>	<u>(6.7)</u>
Acquisition costs incurred	110.7	128.6
Administrative expenses	21.3	19.6
Renewal commission	<u>18.2</u>	<u>13.1</u>
	<u>150.2</u>	<u>161.3</u>

Administrative expenses include the following:

	Year Ended 31 December 2001	Year Ended 31 December 2000
	<u>£'Million</u>	<u>£' Million</u>
Exceptional items:		
Halifax transaction and re-branding costs	<u>-</u>	<u>8.9</u>

The acquisition of 60% of the share capital of SJPC by Halifax Group plc was completed on 2 June 2000 and resulted in the occurrence of a number of one-off transaction and re-branding costs. In the prior year comparative figures, in addition to the £8.9 million charged in the technical account, a further £4.3 million was charged to the non-technical account giving total exceptional costs of £13.2 million. These exceptional items related wholly to continuing operations.

Notes to the Accounts continued

6. TAXATION

Long-term business technical account

	Year Ended 31 December 2001	Year Ended 31 December 2000
	<u>£'Million</u>	<u>£' Million</u>
Group relief		
- current year	(3.1)	-
- prior year	(0.4)	-
Corporation tax		
- current year	-	30.8
- prior period credit	(0.7)	(2.4)
Overseas taxes	2.3	2.4
Deferred tax cost	4.3	1.7
	<u>2.4</u>	<u>32.5</u>

Non-technical account

	Year Ended 31 December 2001	Year Ended 31 December 2000
	<u>£'Million</u>	<u>£' Million</u>
Group relief		
- current year	1.1	-
- prior year	1.4	-
UK Corporation tax		
- current year charge	2.8	7.2
- prior period credit	(4.4)	(3.2)
Taxation attributable to the balance on the long-term technical account	23.8	16.0
Share of taxation of participating interests		
LAHC	(3.7)	4.9
	<u>21.0</u>	<u>24.9</u>

UK Corporation tax for the year is calculated on the profit for the year at a rate of 30% (2000: 30%). Deferred taxation is provided at the rate of 30% (2000: 30%). The assumed tax on the increase in the value of long-term business in force, has been calculated by applying an underlying tax rate of 30% (2000: 30%) after adjusting for the taxation on the deferred acquisition costs.

Notes to the Accounts continued

7. INCOME FROM OTHER INVESTMENTS

Non-technical account

	Year Ended 31 December 2001	Year Ended 31 December 2000
	£'Million	£' Million
Interest receivable	5.2	7.0
Other investment income	1.0	0.3
	6.2	7.3

8. INCOME FROM UNIT TRUST OPERATIONS

An analysis of income generated by the Group's unit trust management activity, is shown below:

	Year Ended 31 December 2001	Year Ended 31 December 2000
	£'Million	£' Million
Turnover	25.0	22.2
Operating expenses	(14.6)	(15.5)
	10.4	6.7

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION IS AFTER CHARGING/(CREDITING):

	Year Ended 31 December 2001	Year Ended 31 December 2000
	£'Million	£' Million
Exceptional items		
Halifax transaction and re-branding costs	-	13.2
Depreciation charged during the year		
Tangible fixed assets	2.9	2.9
Auditor's remuneration		
Audit services	0.2	0.2
Non-audit services	-	-
Hire of assets under operating leases		
Office equipment	0.3	0.3
Property leases	5.8	5.4
Interest payable on loans	0.6	0.5
Operating lease income	(0.5)	(0.4)

Of the total audit fee, £50,000 (2000: £50,000) relates to the audit of the parent company's consolidated accounts. This fee is paid by another group company.

The exceptional items arose as a result of the acquisition of 60% of the share capital of SJPC by the Halifax Group plc which was completed on 2 June 2000 and resulted in the occurrence of a number of one-off transaction and re-branding costs. These exceptional items related wholly to continuing operations.

Notes to the Accounts continued

10. EMPLOYEE COSTS

	Year Ended 31 December 2001 £'Million	Year Ended 31 December 2000 £' Million
Staff costs		
Wages and salaries	16.4	17.4
Social security costs	1.8	2.0
Other pension costs	1.5	1.4
	19.7	20.8
 Average number of persons employed by the group during the year	 433	 372

The above information includes Directors' costs.

Information concerning Director's emoluments, shareholdings and options is shown in the Remuneration Report on pages 20 to 29.

11. DIVIDENDS

	Year Ended 31 December 2001 Pence per share	Year Ended 31 December 2000 Pence per share	Year Ended 31 December 2001 £' Million	Year Ended 31 December 2000 £' Million
Interim dividend paid	1.25	1.00	5.4	4.2
Final dividend proposed	1.50	1.25	6.4	5.3
	2.75	2.25	11.8	9.5

The proposed dividend of 1.50p per share is payable on 17 May 2002 to those shareholders on the register on 19 April 2002.

Notes to the Accounts continued

12. EARNINGS PER SHARE

	Year Ended 31 December 2001	Year Ended 31 December 2000
	Pence per share	Pence per share
Profits on ordinary activities after taxation	13.9	13.7
Adjustments		
Halifax exceptional costs	-	2.6
Adjusted earnings	13.9	16.3
Diluted earnings	13.1	13.1
Diluted adjusted earnings	13.1	15.7

The above table sets out earnings per share, adjusted earnings per share and their diluted counterparts. Prior year adjusted earnings per share figures have been presented to eliminate the exceptional items discussed in notes 5 and 9.

The earnings per share has been calculated using the profit on ordinary activities after tax of £59.2 million (2000: £57.8 million) and a weighted average number of shares in issue for the year ended 31 December 2001 of 427.2 million (2000: 423.2 million).

The adjusted earnings per share has been calculated using an adjusted profit after tax of £59.2 million (2000: £69.1 million).

The diluted earnings per share has been calculated using 452.8 million shares (2000: 441.3 million) which takes account of the dilutive effect of options over 57.0 million shares (2000: 58.3 million).

Notes to the Accounts continued

13. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	<u>Company</u> £' Million
At 1 January 2001	311.4
Movement in the year	-
At 31 December 2001	<u>311.4</u>

Principal Subsidiary Undertakings at 31 December 2001

Investment Holding

St. James's Place Investments plc

St. James's Place Holdings plc

Life Assurance

J. Rothschild Assurance plc

J. Rothschild International Assurance plc (incorporated in Ireland)

Unit Trust Management

St. James's Place Unit Trust Group Limited

Financial Services

St. James's Place Financial Services Limited

A full list of subsidiaries is included in the Company's annual return.

The company owns indirectly 100% of the voting ordinary equity share capital of the above-named subsidiaries.

All of these companies are registered in England and Wales and operate principally in the United Kingdom except where otherwise stated.

Notes to the Accounts continued

14. INVESTMENTS - LAND AND BUILDINGS

The freehold property was valued as at 31 December 2001 by Doherty & Baines, Chartered Surveyors, on an open market basis, in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors. This valuation resulted in a write up of the value by £0.1 million.

The Directors do not believe the value of the building to have changed significantly since this valuation.

15. INVESTMENTS IN PARTICIPATING INTERESTS

The Group holds an investment of 22.6% (2000: 22.6%) in the 1 pence shares of Life Assurance Holding Corporation Limited ("LAHC"). This investment is held indirectly by the Company and has been dealt with in the consolidated accounts as a participating interest and equity accounted on the basis of management accounts covering the year ended 31 December 2001.

The movement in the interest in LAHC is analysed below:

Carrying Value	Note	£' Million
At 1 January 2001		96.9
Underlying profit		18.9
Investment variance	a	(29.6)
Modification to calculation basis	b	(60.9)
Aberdeen transaction	c	27.4
Commutation of indemnities	d	<u>32.0</u>
Share of pre-tax results in year		(12.2)
Share of tax in year		<u>3.7</u>
As at 31 December 2001		<u>88.4</u>

Notes:

- a) Investment variance reflects the difference between the long term investment assumptions and actual experience.
- b) LAHC has adjusted the basis of calculation of the value of in force business. The principal effect of this has been to eliminate future DSS rebate business and the profit effect of future DSS rebates will be reflected in future years as they are received.
- c) Non-recurring gains arose on the transfer of LAHC's investment management operation to Aberdeen Asset Managers Limited.
- d) Non-recurring gains arose on the re-negotiation of certain indemnities held by LAHC as a result of its acquisition of various life businesses in earlier years.

LAHC is registered in England and Wales and operates principally in the United Kingdom.

	Year Ended 31 December 2001 LAHC	Year Ended 31 December 2001 SJPC Share	Year Ended 31 December 2000 LAHC	Year Ended 31 December 2000 SJPC Share
	£'Million	£'Million	£'Million	£'Million
(Loss)/profit before tax	<u>(53.8)</u>	<u>(12.2)</u>	<u>72.7</u>	<u>16.4</u>
(Loss)/profit after tax	<u>(37.6)</u>	<u>(8.5)</u>	<u>50.9</u>	<u>11.5</u>
Capital and reserves	<u>390.9</u>	<u>88.4</u>	<u>428.5</u>	<u>96.9</u>

16. OTHER FINANCIAL INVESTMENTS

Shares and Variable Yield Securities

Nascent Group SA ("Nascent")

Nascent is a holding company incorporated in Luxembourg, owning an Italian financial services business. As another party controls in excess of 50% of the voting capital of Nascent, SJPC considers that the level of influence it may exercise over the management of Nascent to be restricted. As a result, the Directors consider the holding in Nascent to be an investment. The holding has been brought into the accounts at a value of £13.4 million (2000: £6.6 million), being the cost of the investment.

The classes of share and the percentage held in Nascent are as detailed below.

<u>Class of share</u>	Number	%
Ordinary shares of €1.25*	41,497	19.5
12.5% cumulative redeemable preference shares of €1.25**	173,483	26.7

*SJPC also has voting power over 17,758 ordinary shares in an employee trust giving it voting control of 27.8% of the ordinary shares.

**Dependent on future conditions, the cumulative preference shares may be either redeemed or converted into ordinary shares.

Debt Securities and Other Fixed Income Securities

The cost of these investments is £44.7 million (2000: £35.5 million), relating to investments listed on a recognised Stock Exchange.

17. CRITICAL ILLNESS EXPERIENCE

During the last quarter of 2001 the Group entered discussions with its reinsurers over an increase in recent claims experience on its critical illness plans. As a result of the uncertainty over future experience, the Company entered into a financial reinsurance arrangement where the reinsurer agreed to maintain the current rates provided it could recover experience in excess of those rates from profits on future new business written by the Group. The effect of this reinsurance is that there is no deterioration in the Group's solvency position as at 31 December 2001.

Following discussions with its Appointed Actuaries the Group has increased its statutory long-term provision prior to reinsurance by £23.7 million, although the net provision (after reinsurance) remains unchanged as a result of the financial reinsurance. This financial reinsurance has been accounted for in accordance with FRS 5 "Reporting the substance of transactions" and accordingly a liability of £23.7 million has been established. The cash balance outstanding under the arrangement at 31 December 2001 was, however, £nil.

After adjusting the statutory long-term business provision for certain elements, which have been taken to the value of long-term business in force, the impact on the reported profit for the year is £12.5 million before tax, as disclosed in note 19.

18. LONG-TERM BUSINESS TECHNICAL PROVISION

The long-term business provision is determined by the Appointed Actuaries following their annual investigations of the long-term business.

Non-linked policies

The long-term provisions are calculated using the gross premium valuation method. The assumed rate of interest is 3.25% for life business. Mortality rates are based on recognised mortality tables suitably adjusted to reflect actual experience. Morbidity rates are derived from the rates charged by reinsurers and industry experience.

Linked policies

The long-term provision consists of sterling reserves designed to cover any future cash flows without recourse to additional capital. The cash flows are projected assuming:

- unit growth rates between 4% and 6% per annum depending on the tax status and territory of the contract;
- a projection of current expenses assuming inflation between 4% and 4.5% again depending on territory; and
- mortality and morbidity costs are derived from actual rates charged by reinsurers and industry experience.

The resulting cash flows are discounted at a rate of interest between 4.0% and 5.0% (depending on the tax status and territory of the contract) to calculate the sterling reserve.

During the year SJPC has experienced a deterioration in its morbidity experience on critical illness plans. The effects on long-term provisions of this are described in note 17.

19. VALUE OF LONG TERM BUSINESS IN FORCE

The value of the long-term business in force represents the discounted value of future surpluses. These future surpluses are calculated by projecting future cashflows based on the assumptions below which are set on a passive basis.

Economic Assumptions

The principal economic assumptions used within the cashflows, for both 2000 and 2001 were as follows:

Risk discount rate (net of tax)	10.0%
Future investment returns:	
- Fixed interest	6.0%
- Unit-linked funds:	
- Capital growth	5.75%
- Dividend income	2.5%
- Total	8.25%
Expense inflation	5.0%
Indexation of capital gains	3.5%

The risk discount rate is used to discount projected future cash flows from the business in force to a present value. The rate represents the best estimate of the long term rate of return on Government bonds together with a margin for risk.

Future investment returns represent the best estimate of the long term rates of return that will be achieved. They have been determined having regard to past, current and expected future experience.

The expense inflation and indexation of capital gains assumptions represent best estimates of the long term rates, consistent with the assumptions for investment returns.

All assets have been valued at market value.

For the purposes of projecting future unit growth, unit linked funds have been valued on a smoothed basis.

Experience Assumptions

The principal experience assumptions were derived as follows. All experience assumptions are reviewed annually.

The value of new business has been calculated using actual acquisition costs.

Lapse experience is derived where possible from the company's own experience, or otherwise from external industry experience. Lapse rates for pension policies have been adjusted to take into account a one-off increase in off rates following the introduction of Stakeholder pensions.

In projecting future surpluses allowance has been made for the target surplus being the cost of maintaining a statutory solvency margin on the business in force.

Maintenance expenses have been set to be in line with the costs charged by the Company's third party administrators, together with an allowance for the Company's own maintenance costs.

Mortality and morbidity assumptions have been set by reference to the Company's own experience, published industry data and the rates charged by the Company's reinsurers. As described in note 17 the Group has experienced a recent deterioration in morbidity experience and a provision has been made within the cashflows to allow for this. The net effect has been to reduce the profits before tax by £12.5 million.

The treatment of commission accruing to certain sales representatives has changed during the year, these cash flows now being retained within the insurance company. The impact of this change has increased the pre-tax value of long-term business in force of the life company by £7.3 million.

These assumptions have been determined in accordance with industry accepted actuarial techniques.

Notes to the Accounts continued

20. REGULATORY MATTERS

In common with many other UK life companies, the Group has liabilities in respect of pension transfer and opt-out business, and also freestanding additional voluntary contribution business.

The accounts include both a long-term business provision for policyholder compensation and review costs and also an allowance for recoveries from professional indemnity insurers. The net effect of these is to include a liability of £5.7 million at 31 December 2001 (2000: £6.9 million) for policyholder compensation. In addition, a provision of £1 million has been included for other regulatory review expenses.

Taking into account payments during the year, this represents an increase in pre-tax liabilities of £3.2 million.

21. FINANCIAL REASSURANCE

In addition to the disclosure in note 17, the Group had arrangements in place at the beginning of the year whereby a proportion of future margins under certain classes of contract were to be paid to the reinsurers up to a maximum of the current deficit account. Claims recovered and premiums paid are included in the technical account and have been deducted from claims and premiums respectively. The arrangement was terminated during the year and all balances repaid. The cash balance outstanding at 31 December 2001 was £nil (2000: £6.1 million).

22. ASSETS HELD TO COVER LINKED LIABILITIES

Assets held to cover linked liabilities comprise the following:

	31 December 2001	31 December 2000
	£'Million	£' Million
Market Value		
Government securities	514.8	413.7
Other fixed interest securities	111.9	30.5
Ordinary shares	3,381.4	2,693.3
Unit trusts and OEICs	342.9	487.8
Deposits	429.3	622.1
Other	16.3	29.0
	4,796.6	4,276.4
Historic costs	4,995.7	3,837.0

Notes to the Accounts continued

23. TANGIBLE ASSETS

	Fixtures, Fittings, Computers and Office Equipment £' Million	Motor Vehicles £' Million	Total £' Million
Cost			
At 1 January 2001	17.9	3.6	21.5
Additions	4.3	1.1	5.4
Disposals	(0.7)	(1.0)	(1.7)
At 31 December 2001	<u>21.5</u>	<u>3.7</u>	<u>25.2</u>
Depreciation			
At 1 January 2001	13.2	1.9	15.1
Charge for the year	2.2	0.7	2.9
Disposals	(0.5)	(0.8)	(1.3)
At 31 December 2001	<u>14.9</u>	<u>1.8</u>	<u>16.7</u>
Net book value			
At 31 December 2000	<u>4.7</u>	<u>1.7</u>	<u>6.4</u>
At 31 December 2001	<u>6.6</u>	<u>1.9</u>	<u>8.5</u>

Notes to the Accounts continued

24. SHARE CAPITAL

Authorised	Number	Nominal value £' Million
Ordinary shares at 15p each		
At 1 January 2001 and 31 December 2001	605,000,000	90.8

In addition, the authorised share capital includes one Special Rights Redeemable Preference Share of £1 to the J. Rothschild Name Company Limited, an entity formed to protect the use of the name "J. Rothschild".

Issued, Allotted and Fully Paid

Ordinary shares at 15p each	Number	Nominal value £' Million
At 1 January 2001	425,407,362	63.8
Exercise of options	3,588,746	0.5
At 31 December 2001	428,996,108	64.3

In addition the Company has issued one Special Rights Redeemable Preference Share of £1. This share may be redeemed at par by the Shareholder at any time by giving notice to the Company. The holder of the Special Rights Redeemable Preference Share is entitled to repayment of the capital paid up on the Special Share in priority to any repayment of capital to any other member, but does not have the right to participate in the profits of the Company. The holder of the Special Share is entitled to receive notice of, and to attend and speak at general meetings, but is not entitled to vote at general meetings except on resolutions changing the names of any subsidiary so as to exclude the words J. Rothschild.

Share Options

On the acquisition of the remaining share capital of St. James's Place Holdings plc (formerly J. Rothschild Assurance Holdings plc ("JRAH")) in 1997, SJPC agreed to issue further shares, up to a maximum of 25.8 million, to satisfy the exercise of options held over JRAH shares at the time of acquisition. A reserve for shares to be issued was established in recognition of the commitment and 2.3 million shares have still to be issued from this reserve.

During the year options over 8.7 million shares have been granted at a range of prices between £3.00½ and £4.29.

On 2 June 2000, Halifax Group plc acquired 60% of the SJPC share capital. Under the terms of the existing share option schemes at that date, on completion of the acquisition, those SJPC share options became exercisable. SJPC share option holders were given the opportunity to cancel their existing share options in consideration for a grant of replacement options (over SJPC shares) on similar terms to the existing SJPC share options. These replacement options were issued over the same number of SJPC shares as the previous SJPC share options (existing prior to 2 June 2000) and at the same option price.

Notes to the Accounts continued

24. SHARE CAPITAL (continued)

Options outstanding under the various share option schemes at 31 December 2001 amount to 57.0 million shares. Of these, 46.4 million are under option to Partners of the St. James's Place Partnership, 9.1 million are under option to executives and senior management and 1.5 million are under option through the SAYE scheme. These are exercisable on a range of future dates. The following table sets out the anticipated proceeds if all option holders exercised their shares at the first available opportunity.

Earliest date of exercise	Number of share options outstanding Million	Anticipated proceeds £'Million
Immediate	13.5	31.3
Jan - Jun 2002	7.7	12.3
Jul - Dec 2002	2.8	4.0
Jan - Jun 2003	7.6	12.0
Jul - Dec 2003	4.5	10.4
Jan - Jun 2004	2.0	5.8
Jul - Dec 2004	5.8	14.8
Jan - Jun 2005	1.9	7.4
Jul - Dec 2005	6.4	17.5
Jan - Jun 2006	0.2	0.7
Jul - Dec 2006	4.4	11.5
Jan - Jun 2007	0.1	0.1
Jul - Dec 2007	0.1	0.5
	57.0	128.3

Notes to the Accounts continued

25. RESERVES

Group

	Share Premium Account £'Million	Shares to be Issued Reserve £'Million	Other Reserves £'Million	Profit and Loss Account £'Million
At 1 January 2001	0.5	0.6	162.0	232.0
Release of reserve on issue of shares	-	(0.1)	-	-
Exercise of options	2.9	-	-	-
Retained profit for the year	-	-	-	47.4
Transfer to other reserves	-	-	66.2	(66.2)
At 31 December 2001	3.4	0.5	228.2	213.2

The shares to be issued reserve was established on the acquisition of St. James's Place Holdings plc ("SJPH") to account for the share options in that company that were unexercised at the acquisition date as detailed in note 25. The movement in the reserve during the year occurred on the exercise of these options.

Included in other reserves at 31 December 2001 is £179.8 million (2000: £137.3 million) which represents the value of in force business in excess of the statutory result of the two life companies since their date of acquisition, as adjusted for certain items including the deferral of acquisition costs and removal of certain statutory reserves.

£22.5 million of other reserves relates to an acquisition reserve arising from the acquisition of SJPH. The acquisition fell within Section 131 of the Companies Act 1985 and therefore no share premium account was required to be established. The acquisition reserve arises on consolidation and represents the excess of the SJPC share price, on the date SJPH was acquired, over the nominal value of those shares issued. The goodwill of £150.4 million that arose on 26 June 1997, following SJPC's acquisition of the then remaining share capital of St. James's Place Holdings plc, has been written off against this reserve. As permitted under the transitional arrangements of FRS 10 such amounts will be charged to the profit and loss account on disposal of the business to which they relate. In addition, there are other reserves totalling £2.2 million.

Notes to the Accounts continued

25. RESERVES continued

Company

	Share Premium Account £'Million	Shares to be Issued Reserve £'Million	Profit and Loss Account £'Million
At 1 January 2001	0.5	0.6	62.4
Release of reserve on issue of shares	-	(0.1)	-
Exercise of options	2.9	-	-
Retained loss for year	-	-	(12.2)
At 31 December 2001	3.4	0.5	50.2

As permitted by Section 230 of the Companies Act 1985 the company has not published a separate profit and loss account. The loss for the financial year dealt with in the accounts of the company was £0.4 million (2000: profit £62.8 million).

The distributable reserves of the company were £50.2 million (2000: £62.4 million).

26. RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

<u>Group</u>	Year Ended 31 December 2001 £'Million	Year Ended 31 December 2000 £'Million
Profit for the financial year	59.2	57.8
Dividends	(11.8)	(9.5)
Retained profit for the year	47.4	48.3
Issue of share capital	3.3	0.5
Net addition to shareholders' funds	50.7	48.8
Opening shareholders' funds	458.9	410.1
Closing shareholders' funds	509.6	458.9

Notes to the Accounts continued

26. RECONCILIATIONS OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS continued

<u>Company</u>	Year Ended 31 December 2001 £'Million	Year Ended 31 December 2000 £'Million
(Loss)/profit for the financial year	(0.4)	62.8
Dividends	<u>(11.8)</u>	<u>(9.5)</u>
Retained (loss)/profit for the financial year	(12.2)	53.3
Issue of share capital	<u>3.3</u>	<u>0.5</u>
Net (reduction)/addition to shareholders' funds	(8.9)	53.8
Opening shareholders' funds	<u>127.3</u>	<u>73.5</u>
Closing shareholders' funds	<u>118.4</u>	<u>127.3</u>

27. PROVISIONS FOR OTHER RISKS AND CHARGES

	Deferred Tax £'Million	Other Provisions £'Million	Total £'Million
At 1 January 2001	10.9	6.0	16.9
Charge/(credit) to the profit and loss account	4.3	(0.9)	3.4
Cash paid	-	(0.5)	(0.5)
At 31 December 2001	<u>15.2</u>	<u>4.6</u>	<u>19.8</u>

The other provisions are principally to meet obligations arising as a result of the Halifax acquisition of 60% of the share capital of SJPC plc in June 2000. As a result of this transaction, a number of share options lost their approved tax status and SJPC has agreed to compensate share option holders to ensure the effect on individuals is neutral.

The value of this provision is dependent, amongst other things, on the current SJPC share price and accordingly the provision has been adjusted at 31 December 2001 to reflect the movement of the share price during the year.

A further consequence of the Halifax transaction was the adoption of the St. James's Place brand throughout the group.

The year end deferred tax provision is analysed as follows:

	31 December 2001 £'Million	31 December 2000 £'Million
Deferred acquisition costs	<u>15.2</u>	<u>10.9</u>

The Group has made provisions in respect of all material deferred tax liabilities. Provision has been made for all unrealised gains on investments included within the long-term business provision.

Notes to the Accounts continued

28. AMOUNTS OWED TO CREDIT INSTITUTIONS

	31 December 2001	31 December 2000
	£'Million	£' Million
Bank overdraft	14.6	10.8

The bank overdraft is unsecured, repayable on demand and is subject to normal commercial overdraft rates of interest.

29. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	31 December 2001	31 December 2000
	£'Million	£' Million
Trade creditors	17.5	12.9
Dealing creditors	2.9	3.7
Corporation tax	65.4	66.8
	85.8	83.4

30. PENSIONS ARRANGEMENTS

Personal Pensions

Defined contribution personal pension plans are operated for employees of St. James's Place Management Services Limited. The total pension costs of employer contributions to these plans in the year were £0.2 million (2000: £0.2 million).

Occupational Scheme

There is also a UK occupational scheme. This has two parts; a defined benefit section which is closed to new members, and a defined contribution section operated for those UK employees of the Group who wish to participate in an Occupational Scheme rather than a Personal Pension Plan. The last valuation of the scheme was carried out at 31 December 1998, details of which are available in the accounts of that year. The residual liabilities of the scheme have been secured with insurance contracts and so no further valuations have been carried out. The scheme is estimated to have no surplus at 31 December 2001 (2000: £2.3 million), the surplus having been utilised by the payment of contributions to the defined contribution section of the scheme. Total payments in 2001 were £1.5 million (2000: £1.2 million). The pension cost to the Group over the year has been assessed as £0.1 million, being that part of the payments not met by the brought forward surplus.

Notes to the Accounts continued

31. RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year Ended 31 December 2001 <u>£' Million</u>	Year Ended 31 December 2000 <u>£' Million</u>
Operating profit before tax	80.2	82.7
Interest paid	0.6	0.5
Interest received	(5.2)	(6.9)
Profits relating to long-term business	(79.5)	(57.5)
Transfer to long-term business fund	(20.0)	-
Profit on sale of fixed assets	(0.1)	(0.1)
Depreciation	2.9	2.9
Profit on disposal of subsidiary undertaking	(0.2)	-
Share of loss/(profit) of associated undertakings	12.2	(16.4)
Increase in debtors and prepayments	(5.7)	(11.9)
(Decrease)/increase in creditors	(5.9)	20.6
Decrease/(increase) in debtor to long-term business fund	6.1	(17.1)
Net cash outflow from operating activities	<u>(14.6)</u>	<u>(3.2)</u>

32. MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS, NET OF FINANCING

	Year Ended 31 December 2001 <u>£' Million</u>	Year Ended 31 December 2000 <u>£' Million</u>
Decrease in cash holdings	(15.6)	(0.2)
Repayment of loan	7.0	-
Portfolio investments: deposits with credit institutions	(23.9)	(25.6)
Total movement in portfolio investments, net of financing	<u>(32.5)</u>	<u>(25.8)</u>
Portfolio investments, net of financing at 1 January	<u>60.2</u>	<u>86.0</u>
Portfolio investments, net of financing at 31 December	<u>27.7</u>	<u>60.2</u>

Notes to the Accounts continued

33. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	<u>At 1 January 2001</u>	<u>Cashflow</u>	<u>At 31 December 2001</u>
	<u>£'Million</u>	<u>£'Million</u>	<u>£'Million</u>
Cash at bank	23.2	(4.4)	18.8
Overdrafts	<u>(3.8)</u>	<u>(11.2)</u>	<u>(15.0)</u>
	19.4	(15.6)	3.8
Deposits with credit institutions	47.8	(23.9)	23.9
Loans	(7.0)	7.0	-
	<u>60.2</u>	<u>(32.5)</u>	<u>27.7</u>

34. FINANCIAL COMMITMENTS

At 31 December 2001 the group had annual commitments under non-cancellable operating leases which expire as follows:

	<u>Year Ended 31 December 2001</u>	<u>Year Ended 31 December 2000</u>
	<u>£'Million</u>	<u>£' Million</u>
Office equipment:		
Within one year	-	-
Between two and five years	0.3	0.3
Property leases:		
Within one year	-	0.3
Between two and five years	2.0	1.1
In more than five years	<u>4.5</u>	<u>3.5</u>
	<u>6.8</u>	<u>5.2</u>

35. RELATED PARTY TRANSACTIONS

HBOS plc

The relationship between SJPC and the HBOS Group is governed by a Relationship Agreement, details of which are given in the Corporate Governance Report on page xx.

SJPC also has arms length arrangements with HBOS as follows:

- Commission from the sale of banking services for St. James's Place Bank (a division of Halifax plc). The amounts receivable during the year were £1.0 million.
- Commission from the sale of Stakeholder pensions for Clerical Medical. The amounts receivable during the year were £0.7 million.
- Commission for the sale of Halifax mortgages. The amounts receivable during the year were £1.2 million.
- HBOS plc provided a guarantee to the Company's reassurers in respect of the Company's obligations in relation to the arrangements described in note 17. The guarantee, which is on normal commercial terms, continues for a maximum of ten years with an annual amount payable by the Company of £0.5 million.
- During the year, deposits were placed with Bank of Scotland on normal commercial terms. At 31 December 2001 these deposits amounted to £0.5 million.

LAHC

There were no material transactions during the financial year ended 31 December 2001.

Nascent Group SA

During the year SJPC sold an Italian sales company to Nascent Group SA for £14.2 million. This disposal was pursuant to the Agreement which established the Nascent Group and included the repayment of loans amounting to £10.8 million (including £0.4 million interest) from Nascent.

J. Rothschild International Assurance plc ("JRIA") has accepted single premium investment business from Nascent SIM SpA which has been reassured on commercial terms to the Nascent Group. Payments from Nascent to JRIA for the year amounted to £3.9 million.

Directors' transactions

Total contributions paid by the Directors during the year to various life and unit trust contracts issued by Group companies under normal terms, amounted to £0.1 million (2000: £0.1 million).

No other contract of significance existed at any time during the year in which a Director was materially interested or which required disclosure as a related party transaction under Financial Reporting Standard 8 - Related Party Disclosures.

36.° ULTIMATE PARENT COMPANY

The ultimate parent undertaking is HBOS plc, a company registered in Scotland, which acquired 100% of the ordinary share capital of Halifax Group plc on 10 September 2001. HBOS plc is the parent of the largest group in which the results of the Company are consolidated. Copies of the consolidated accounts of HBOS plc may be obtained from The Mound, Edinburgh, EH1 1YZ.

The immediate parent company is HBOS Insurance and Investment Group Limited (formerly HCM Holdings Limited), a company registered in England and Wales.

**SUPPLEMENTARY INFORMATION ON GROUP LIFE AND
UNIT TRUST "EMBEDDED VALUES"**

The following information is provided for the combined "embedded value" of the Group's life and unit trust business.

	Year Ended 31 December 2001		Year Ended 31 December 2000	
	£'Million	£'Million	£'Million	£'Million
Post tax profits				
Profit from new business (at point of sale)				
Life	29.1		26.6	
Unit trust	12.3	41.4	13.1	39.7
Unwind of discount rate				
Life	28.5		23.6	
Unit trust	7.1	35.6	5.0	28.6
Other				
Life	(1.9)		(1.8)	
Unit trust	(1.2)	(3.1)	11.1	9.3
Basic operating profit after taxation				
Life	55.7		48.4	
Unit trust	18.2	73.9	29.2	77.6
Exceptionals				
Life	-		(6.9)	
Unit trust	-		-	(6.9)
Profit after taxation				
Life	55.7		41.5	
Unit trust	18.2		29.2	
		73.9		70.7

Notes

- The figures show the earnings for the Group's life business calculated on the basis described in note 19. The Group's unit trust "embedded value" has been calculated on a similar basis.
- The "embedded value" profits before taxation for unit trust business were £26.0 million (2000: £41.7 million) which include earnings of £10.4 million (2000: £6.7 million) as shown in note 2 of the accounts.
- Inclusion of the unit trust value of in force business would increase Group net assets by £79.8 million (2000: £68.9 million). This would increase the net assets per share from 118.8 pence to 137.4 pence (see also note 2 of the accounts).
- Unit trust funds under management amounted to £1.5 billion at 31 December 2001 (2000: £1.4 billion).
- The exceptional items mainly relate to costs associated with the acquisition of SJPC shares by the Halifax Group plc in June 2000.
- Value of 2001 new business (post-tax) – sensitivity:

	Decrease discount rate by 1% to 9%	Increase unit growth by 1% to 9.25%
	£'Million	£'Million
Value of new life business	32.9	32.3
Value of new unit trust business	13.3	13.4
Total	46.2	45.7

Shareholder Information

ANALYSIS OF NUMBER OF SHAREHOLDERS

<u>Number of Shares</u>	<u>Number of Shareholders</u>	<u>%</u>	<u>Shares held</u>	<u>%</u>
1 - 999	3,204	39.31	1,382,471	0.32
1,000 - 1,999	1,656	20.32	2,247,191	0.52
2,000 - 2,999	926	11.36	2,189,568	0.51
3,000 - 3,999	533	6.54	1,803,585	0.42
4,000 - 4,999	294	3.61	1,286,865	0.30
5,000 - 9,999	651	7.99	4,444,966	1.04
10,000 - 24,999	459	5.63	6,992,253	1.63
25,000 - 49,999	157	1.93	5,467,080	1.27
50,000 - 99,999	97	1.19	6,454,875	1.50
100,000 and above	173	2.12	396,727,254	92.49
Total	8,150	100	428,996,108	100

FINANCIAL CALENDAR

Announcement of final results for year ended 31 December 2001	28 February 2002
Announcement of first quarter new business	1 May 2002
Annual General Meeting	16 May 2002
Final dividend on ordinary shares of 15 pence	Payable 17 May 2002 to shareholders on the register on 19 April 2002
Announcement of Interim Results and second quarter new business	24 July 2002
Announcement of third quarter new business	1 November 2002

Secretary and Advisers

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