

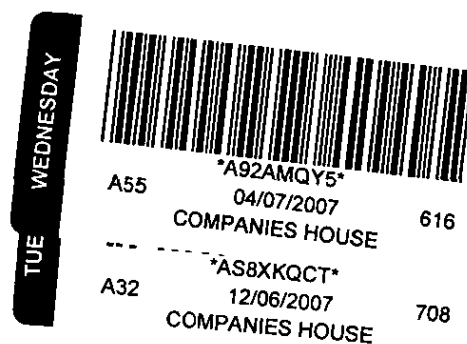
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ST. JAMES'S PLACE plc

REPORT AND ACCOUNTS

31 DECEMBER 2006



ST. JAMES'S PLACE WEALTH MANAGEMENT

About Us

St James's Place, a FTSE 150 company, is a leading company in the expanding wealth management market

The business was founded in 1992 as the J Rothschild Assurance Group with 180 experienced financial advisers. By 1997, when the company achieved a stock market flotation, the number of advisers had grown to 813 and funds under management exceeded £2 billion. In 2000 the company rebranded as St James's Place and HBOS took a 60% stake in the business. Today the St James's Place Group is thriving with 1157 advisers and funds under management of over £15 billion.

Our strategy is to focus on increasing our presence in the UK wealth management market through organic growth. We are both a manufacturer and distributor of wealth management products through our dedicated network of experienced advisers, the St James's Place Partnership.

Our Corporate Objective

Our goal is to be acknowledged as the UK's most successful wealth management adviser. We believe we can achieve this because of two fundamental principles that have underpinned our business from day 1: the strength of the relationship between our advisers and their clients and our approach to investment management.

Partner/Client Relationships

Our advisers, members of the St James's Place Partnership, build relationships with clients that last. We work with clients to achieve their long term financial objectives, whether it be to secure an income that will deliver freedom in retirement, to protect their estate for future generations or protect their family in the case of illness. Our advice is face-to-face and focused on the personal needs of each individual client as we recognise that no one client's objectives or circumstances are the same as another. We build relationships founded on trust.

Our Approach to Investment Management

We do not employ in-house fund managers because we believe that no single investment house can have a monopoly of investment expertise. We therefore carefully select a number of external managers to manage our range of funds. The cornerstone of this approach is the Investment Committee who 'manage the fund managers' on behalf of our clients. We retain an independent investment consulting firm, Stamford Associates, who play a crucial role in selection and management. This approach gives us both the flexibility to respond to market conditions as they change and also the certainty that we are employing the best fund managers for our clients.

Our Financial Objectives

Our aims are to grow new business by 15-20% per annum over the longer term, maintain the manufactured share of this new business above 80% and to limit annual expense growth to 10% or less, again, over the longer term.

The key drivers to new business growth are to increase both the size of the Partnership and the productivity per Partner by some 5-10% per annum over the longer term.

The successful achievement of these new business and expense objectives will result in the EEV new business profit increasing by some 20% per annum.

FINANCIAL HIGHLIGHTS

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
European Embedded Value Basis		
Life business	139 0	92 3
Unit trust business	39 9	30 6
Other	(2 9)	(4 1)
IT systems development	-	(4 3)
	<u>176 0</u>	<u>114 5</u>
Operating profit before tax	<u>176 0</u>	<u>114 5</u>
Total profit before tax	<u>244 0</u>	<u>213 4</u>
Shareholders' funds	<u>1,032 7</u>	<u>828 8</u>

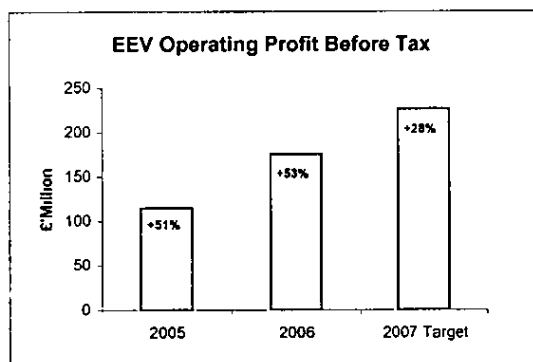
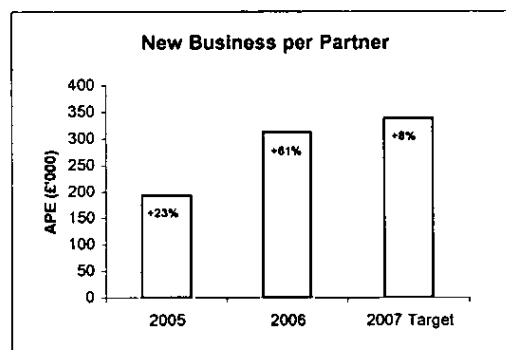
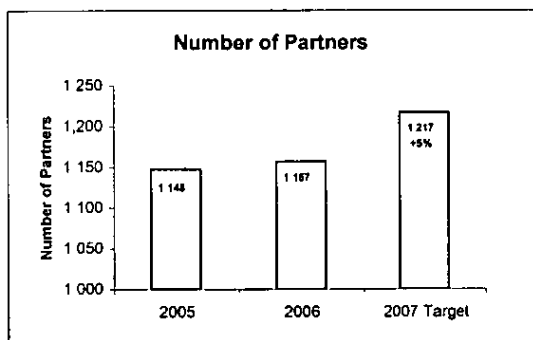
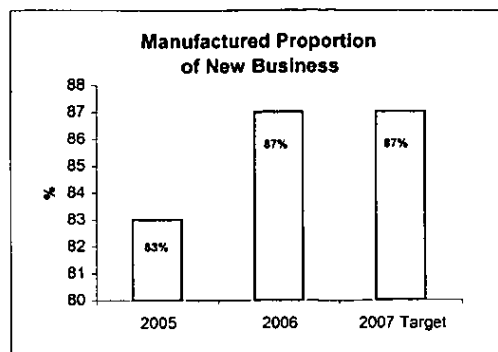
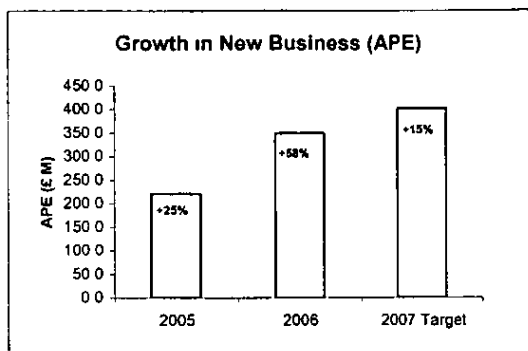
International Financial Reporting Standards

Life business – shareholder profit	85 5	29 3
Unit trust business	18 0	12 8
Profit on sale of LAHC	7 0	9 5
Other	(2 9)	(4 1)
IT systems development	-	(4 3)
	<u>107 6</u>	<u>43 2</u>
Profit before shareholder tax *	<u>107 6</u>	<u>43 2</u>
Profit before tax **	<u>179 9</u>	<u>127 1</u>
Shareholders' funds	<u>382 2</u>	<u>274 5</u>

* figures exclude policyholders' tax gross up

**figures include policyholders' tax gross up

KEY PERFORMANCE INDICATORS



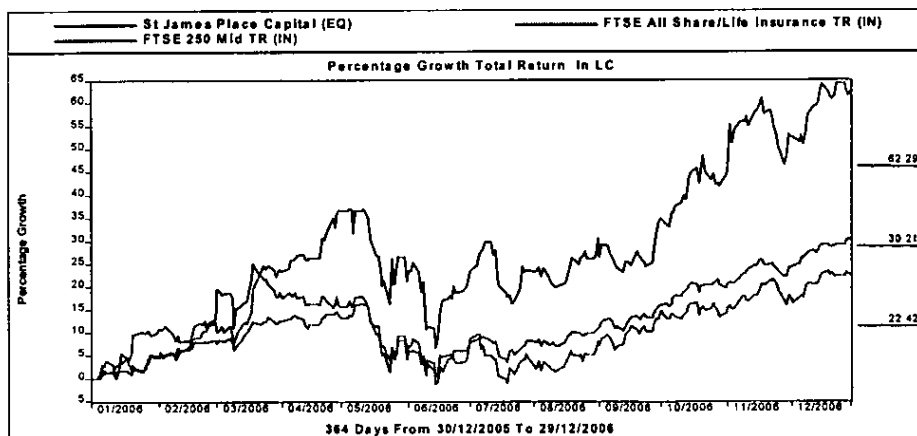
OTHER PERFORMANCE MEASURES

Funds under management up 25% to £15.4 billion (2005 up 29% to £12.3 billion)

Wealth management services - gross fees generated up 26% to £35.7 million (2005 up 33% to £28.3 million)

St James's Place share price up 60% to 429.75p (2005 up 26% to 268p)

Total shareholder return



CHAIRMAN'S STATEMENT

I am delighted to report a third consecutive year of substantial growth in both new business and profits during 2006. New business from long-term savings and investments (measured on an APE basis, the standard industry measure of annual premiums plus one tenth of single premiums) was up 58% and funds under management ended the year at £15.4 billion up 25%.

Financial Performance

As usual we have presented our results on both an IFRS (International Financial Reporting Standards) basis and an EEV (European Embedded Value) basis. We continue to believe that the EEV basis provides a more meaningful measure of the Group's performance.

On the IFRS basis the operating profit, before shareholder tax, increased by 149% from £43.2 million to £107.6 million whilst the total profit before tax increased from £127.1 million to £179.9 million.

The pre-tax operating profit on the EEV basis was £176.0 million compared with £114.5 million for the prior year, an increase of 54%. The total pre-tax profit for the year increased by 14% from £213.4 million to £244.0 million. The Financial Commentary on pages 7 to 14 provides further details on the results for the year.

Dividend

As indicated in the Interim Report the Board has recommended increasing the final dividend by 16% to 2.15 pence per share (2005: 1.85 pence per share) giving a full year dividend of 3.65 pence per share (2005: 3.15 pence per share) an increase of 16%.

Due to significant one-off cash generation during 2006, as detailed in the Financial Commentary on page 7, the Board has recommended to pay an additional one-off special dividend of 6.35 pence per share.

Subject to the approval of shareholders at the Annual General Meeting both the final dividend and the special dividend will be paid on 18 May 2007 to those shareholders on the register as at 9 March 2007.

New Business

2006 was a record year for new business at £349.1 million up 58%, with the growth in each quarter of the year exceeding 50%. This achievement was particularly pleasing following the 25% growth in 2005 and 19% in 2004.

The main drivers of new business growth last year were

- investment business which increased by 49% in favourable market conditions and
- pensions business which increased by 96% benefiting from the new pension legislation introduced in April 2006 (Pensions 'A' Day)

2006 total new single premiums (investments and pensions) were up 62% at £2.6 billion (2005: £1.6 billion), which contributed to the 25% increase in funds under management to £15.4 billion at the end of the year.

Very importantly from a profitability point of view our own manufactured products represented 87% of total APE, exceeding both our stated objective of 80% and the corresponding figure of 83% for 2005.

Gross fees from our other wealth management services rose by 26% to £35.7 million (2005: £28.3 million).

The St. James's Place Partnership

The substantial increase in the productivity of the Partnership accounted for the majority of our new business growth in 2004 and 2005. This remained the case in 2006, when productivity per Partner increased by a further 61%, with new business per Partner at £312,000 (almost double the level achieved two years earlier). This growth in 2006 resulted from an increase in business secured from existing and new clients – as well as a significant increase in the size of investments made.

We continue to believe that the quality of the Partnership provides for further growth in productivity. However our objective remains to increase new business at 15 – 20% over the longer term and this will realistically be achieved by not only continuing to increase productivity per Partner, but also by increasing the size of the Partnership. I am pleased to report that we are now benefiting from the recruitment measures, highlighted in the 2005 Report and Accounts, which were taken to increase the size of the Partnership. The size of the Partnership at 31 December 2006 was 1,157 which, after taking account of the Home of Choice transaction (announced on 17 October 2006), represents underlying growth for the year of some 5 – 6%, in line with our 2006 objective. We remain committed to recruiting only the highest quality financial advisers into the Partnership and to retaining only those who are profitable to the Group in the longer term.

Investment management

We are delighted that our distinctive approach to investment management continues to deliver superior performance in both the short and longer term. Over the last five years, to the end of 2006, 80% of our funds under management were in the top quartile against their respective peer group. Over the last 1, 3 and 5 years our pension managed funds have all achieved top quartile performance relative to their peer groups and the record of these funds since launch also shows top quartile results with two funds, the SJP GAM and the SJP THSP pension funds ranked first amongst their respective peer group.

In November 2006 we announced that a number of new funds would be available at the start of 2007. These new funds are the St James's Place Jupiter Cautious Funds, the MPC UK Growth Unit Trust, the Invista Property Unit Trust, the Newton Global Unit Trust and two worldwide funds managed by Polaris Capital Management. Bernie Horn from Polaris Capital Management has recently won MarketWatch's Mutual Fund Manager of the Year award for 2006 and we are pleased to bring such outstanding investment experience to our clients in the UK.

At the same time we announced that Andrew Green's funds would be closed to new business from the end of 2006. This decision was taken in conjunction with Andrew as he was concerned that the growth in the volume of funds he was being asked to manage would make it difficult for him to maintain his investment style, and hence his investment performance.

At the end of July we replaced the Select Managed Fund with two new managers chosen by the Investment Committee. The two managers, Richard Peirson at AXA/Framlington and Paul Butler at Newton Investment Management were selected from the 80 plus managers considered by Stamford Associates, our independent investment consultants. At the same time, Nick Purves took over Ted William's portfolio on the Schroders managed fund.

We deliberately choose a relatively small but exceptionally talented range of fund managers – and if we need to, as we have shown in the past, we will make changes to ensure we deliver results for our clients. Importantly the investment performance we have achieved shows that the approach works.

Foundation

The St James's Place Foundation, the Group's charitable trust, plays an important role within the St James's Place community and I am delighted to report that over the last fifteen years the cumulative amount raised is over £10 million. 2006 was another record year with funds raised of £1.9 million, including the company matching. More than 80% of our own people give on a monthly basis by gift aid. Further details of the fund raising events and charities supported by the Foundation are provided on pages 19 and 20.

The Board would like to thank all members of St James's Place and those suppliers who have generously supported the Foundation by way of sponsorship and donations.

Partners and staff

2006 has been a record year for both new business and profits. On behalf of the Directors and shareholders I would like to thank the Partnership, our employees and the staff in our administration centres for their outstanding contribution to our results last year. I believe that the quality of our people at every level is exceptional. I am continually amazed by their enthusiasm, commitment and dedication.

Board changes

In my half year statement I commented that Sir James Crosby and John Edwards stepped down from the Board on 31 May 2006 to be replaced by Andy Hornby and Jo Dawson. I would like to repeat my welcome to Andy and Jo to the Board and again thank James and John for their contribution.

We announced on 5 January 2007 that the Board and Mark Lund had jointly agreed that Mark would step down as Chief Executive and leave the Group. The Board would like to thank Mark for his contribution over the last three years. The search for a new Chief Executive is underway. In the meantime David Bellamy, who has been the Managing Director over the last five years, has taken over responsibility for the day to day running of St James's Place, supported by Andrew Croft (Group Finance Director) and Ian Gascoigne (Group Sales Director). The Board has every confidence that this senior and experienced executive team will continue to drive the business forward until the new Chief Executive is appointed.

Outlook

We have now had three consecutive years of strong growth in both new business and profits.

The social, economic and demographic conditions remain positive for our proven adviser based approach to wealth management. There is an increasing need for quality financial advice and our target market is expanding rapidly. We remain convinced that the St James's Place Partnership gives us a real competitive edge to capitalise on opportunities going forward.

Our new business has grown at a compound rate of over 16% per annum over the last ten years and our longer term objective remains to grow new business by 15 – 20% per annum.



Mike Wilson
26 February 2007

FINANCIAL COMMENTARY

This Financial Commentary is presented in its usual two sections – the first section provides a summary of the results on both an IFRS and EEV basis, whilst the second section covers other matters of interest to shareholders and investors

SECTION 1: COMMENTARY ON THE RESULTS

International Financial Reporting Standards (IFRS)

The IFRS result is shown on pages 53 to 99

As noted in previous financial commentaries the IFRS result requires the pre-tax profit of the life business to be ‘grossed up’ for policyholder tax, with the corresponding amount then being deducted within the tax charge. The table below reflects the IFRS result after eliminating this ‘gross up’ in order to show the shareholder return from the business

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Life business	85.5	29.3
Unit trust business	18.0	12.8
Other	(2.9)	(4.1)
IT systems development	-	(4.3)
Operating profit	100.6	33.7
LAHC	7.0	9.5
Operating profit	107.6	43.2
Policyholder tax	72.3	83.9
Total pre-tax profit	179.9	127.1
Profit after tax	88.0	47.6

Life Business

The profit from the life business increased from £29.3 million to £85.5 million, an increase of 192%. The increase in profit reflects partly the increase in new business, partly the higher funds under management during the year and partly the effect of adopting a new reserving methodology at the end of 2006. This is described in more detail later in the commentary.

The increase in the new business levels has resulted in the impact of the combined DAC (deferred acquisition costs) and DIR (deferred income reserve) movement during the year being £15.1 million higher than the prior year at £28.8 million (2005: £13.7 million).

The higher funds under management have increased the investment management charges accruing to the life business during the year.

In the second half of 2006 the Financial Services Authority (FSA) relaxed the reserving methodology required to be followed by life companies and we have fully adopted these changes at the year end which has resulted in a profit before tax of £14.7 million.

Unit Trust Business

The growth in new business and the higher funds under management have resulted in the pre-tax unit trust profit increasing by 41% from £12.8 million in 2005 to £18.0 million in the current year. The movement in the DAC and DIR reduced the profit by £2.4 million in the current year (2005: £1.0 million).

Other

Other operations contributed a loss for the year of £2.9 million, compared with a loss of £4.1 million for 2005. Included within the current year loss is an amount of £1.75 million for the expected deferred income in future years from the transfer of the mortgage Partners to the specialist provider Home of Choice which was announced on 17 October 2006. Ignoring this deferred income the loss for the current year would have been £4.6 million which includes the cost of expensing share options at £7.6 million (2005: £3.0 million).

IT systems Development

As noted in last year's statement the major IT systems development was largely completed in 2005 and consequently no development costs were incurred during 2006 (2005: £4.3 million).

Operating profit

The total operating profit for the year was £100.6 million, which was almost three times the £33.7 million for the prior year.

LAHC

At the time of the 2004 disposal of LAHC a provision of £16.5 million was established against possible claims under the transaction warranties and indemnities. During 2005 £9.5 million of the provision was released and following a review of the status of the warranties and indemnities the remaining provision of £7.0 million has been released in 2006.

The resulting total profit before shareholder tax was £107.6 million compared with £43.2 million for the prior year.

The total net assets were £382.2 million (2005: £274.5 million) resulting in a net asset value per share of 82.4 pence (2005: 61.4 pence).

European Embedded Value Basis

The table below summarises the pre-tax profit of the combined business and the detailed result is shown on pages 111 to 121.

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Life business	139.0	92.3
Unit trust business	39.9	30.6
Other	(2.9)	(4.1)
IT systems development	-	(4.3)
Operating profit	176.0	114.5
Investment return	70.8	86.1
Economic assumption changes	(9.8)	3.3
Profit from core business	237.0	203.9
Profit on sale of LAHC	7.0	9.5
Total pre-tax profits	244.0	213.4
Post tax profit	184.2	160.7

Life Business

Operating profit has increased by 51% from £92.3 million to £139.0 million and a full analysis of the result is shown on page 117

The new business profit has increased from £48.4 million to £87.6 million, an impressive growth of 81%

The significant growth in this figure is a combination of the increased volumes, the favourable business mix and limiting establishment expense growth. The latter two points mean that not only is there more profit from the higher volumes, but we are also making more profit per pound of APE. Section 2 of this commentary provides further detail on the new business margin.

The experience variance during the year reduced operating profit by £2.6 million (2005 positive variance of £1.7 million). As usual this figure reflects a combination of positives and negatives but the one variance worthy of note relates to pension persistency.

Following the introduction of the new pensions legislation in April of this year, we have observed a number of clients, aged between 50 and 70, converting their existing pension policies to our new Income Drawdown product to take advantage of the flexibility introduced by the new legislation and in particular the tax free cash provisions. The total of these conversions have been included in our reported results and amount to some £4.4 million of APE and of £1.7 million of new business profit.

As a result of these conversions we have experienced pension outflows during 2006 which exceed our long term EEV assumption. We anticipate this will continue to be the case for the next couple of years prior to the level of demand stabilising and our pension outflows returning to normal. Consequently we have made a £3.9 million provision within the calculation of the embedded value to reflect the anticipated level of conversions over the next two years.

It is worth noting that excluding these conversions to our own income drawdown product, there has been no change in the underlying persistency of our pensions business and, if anything, persistency looks to have improved in the over 50 category.

There are two operating assumption changes which have been made to the calculation of the embedded value. Firstly, as noted in the IFRS section, we have adopted the new reserving methodology introduced by the FSA which has increased the embedded value by £7.1 million reflecting the cost of the 'lock-in' for those reserves that have now been released. Secondly there has been a strengthening of our mortality and morbidity assumptions which has reduced the embedded value by some £9.5 million.

Unit Trust Business

The operating profit has increased by 30% from £30.6 million to £39.9 million and a full analysis of the unit trust result is shown on page 118.

The new business profit has increased by 47% to £27.6 million from £18.8 million for the prior year reflecting the stronger new business during the year.

As highlighted at the half year we have strengthened the persistency assumptions for the unit trust business having noted a small deterioration in the first half of the year. The £3.1 million cost of this strengthening is reflected within the operating assumption changes. There has been no further deterioration noted in the second half of the year.

Other and IT Systems Development

The loss from other operations and the costs of the IT systems development have previously been commented on in the IFRS section.

Investment Return

The investment return reflects the average after tax increase in our fund prices over and above that assumed in the calculation of the embedded value. During 2006 this average after tax increase was some 5-11% higher than the return assumed resulting in a positive investment return of £70.8 million (2005 £86.1 million reflecting 13-18% outperformance).

Economic Assumption Change

Gilt yields have increased by 0.6% since the start of the year impacting the economic assumptions underlying the embedded value. This has resulted in a reduction in the embedded value of £9.8 million. The corresponding figure for 2005 was an increase in the embedded value of £3.3 million reflecting a decrease in the gilt yields during that year.

Taking into account the release of the LAHC provision covered earlier in this statement, the total pre-tax profit for the year was £244.0 million compared with £213.4 million for the prior year.

The total net assets on an EEV basis were £1,032.7 million (2005: £828.8 million) resulting in a net asset value per share of 222.6 pence (2005: 185.2 pence).

SECTION 2: OTHER MATTERS

Noted below are a number of issues about the Group that are of interest to shareholders.

(i) Expenses

This section provides a reminder to shareholders of categories and nature of expenditure incurred.

Shareholders will recall that "commission, investment expenses and third party administration costs" are met from corresponding policy margins. Any variation in these costs flowing from changes in the volumes of new business or the level of the stock markets does not directly impact the profitability of the Company.

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

"Establishment costs" are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term.

The "contribution from third party product sales" reflects the net income received from wealth management sales of £6.6 million (2005: £5.0 million), sales of stakeholder products of £1.4 million (2005: £1.6 million) and sales through the Protection Panel of £9.7 million (2005: £9.8 million).

The table below provides the familiar breakdown of expenses.

Category	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
<i>Paid from policy margins</i>		
Commission	167.2	131.6
Investment expenses	55.7	35.1
Third party administration	20.9	19.2
	<u>243.8</u>	<u>185.9</u>
<i>Direct expenses</i>		
Other new business related costs	35.4	20.5
Establishment costs	86.2	75.4
Contribution from third party product sales	(17.7)	(16.4)
	<u>103.9</u>	<u>79.5</u>
	<u>347.7</u>	<u>265.4</u>

At the start of the year we set a target of maintaining the growth in the establishment expenses at between 5-8%. The objective of setting this target was to create a 5-10% gap between the expense growth and the new business growth.

The establishment expense growth for the year was 14% and, although above the 5-8% target set at the beginning of the year, this was on the back of 58% new business growth, significantly above the new business target. Importantly the gap between the new business growth and the expense growth ended the year at some 44% above our stated objective. Consequently, as shown below, the new business margin expanded.

For 2007 we have set a target of maintaining the growth in the establishment expenses to less than 10%, if we achieve both this target and the new business growth target, then shareholders can expect a further expansion in new business margins in the coming year.

(ii) New Business margin

The insurance sector has historically disclosed new business in terms of Annual Premium Equivalent (APE). Most commentators would agree that APE no longer has much correlation with the underlying profitability of the new business and consequently the industry is moving to provide additional disclosure on the present value of new business premiums (PVNBP).

APE is calculated as the sum of regular premiums plus 1/10th single premiums. PVNBPs are calculated as single premiums plus the present value of expected premiums from regular premium business, allowing for lapses and other EEV assumptions. Noted in the table below is the new business margin calculated both as a % of APE and PVNBP.

	2006	2005
<u>Life business</u>		
New business profit (£' m)	87.6	48.4
APE (£' m)	294.6	183.5
Margin (%)	29.7	26.4
PVNBP (£ m)	2,124.1	1,275.7
Margin (%)	4.1	3.8
<u>Unit trust business</u>		
New business profit (£ m)	27.6	18.8
APE (£' m)	54.5	37.5
Margin (%)	50.6	50.1
PVNBP (£ m)	534.2	369.4
Margin (%)	5.2	5.1
<u>Total business</u>		
New business profit (£' m)	115.2	67.2
APE (£' m)	349.1	221.0
Margin (%)	33.0	30.4
PVNBP (£' m)	2,658.3	1,645.1
Margin (%)	4.3	4.1

The PVNBP calculation only includes our manufactured business as it is not sensible to apply the principles to the non-manufactured business

The new business margin has been beneficially affected by the rate of growth in new business, the proportion of manufactured business, the underlying business mix and by maintaining the growth in the level of expenses to well below the growth in new business

(iii) Cashflow

Shareholders have requested additional disclosure on the underlying cashflow of the group and this new section of the commentary covers this area of interest. This is new disclosure and comparatives are not provided. The information is provided post tax.

It is first necessary to adjust the post tax IFRS profits for the 'non-cash' items to obtain an adjusted post tax figure which is more representative of the underlying cashflow of the business.

The table below sets out these adjustments

	2006
	£'m
Post tax IFRS result	88.0
<u>Adjustments</u>	
Movement in deferred acquisitions cost	(68.6)
Movement in deferred income	42.2
Amortisation of purchased VIF	3.1
Movement in financial reinsurance balance	(8.9)
Release of LAHC provision	(7.0)
Share option expense	7.6
Movement in deferred tax asset	(13.3)
Movement in deferred tax liability*	23.2
Other	(0.9)
Adjusted post tax cashflow	65.4

* excluding amounts in respect of the unit linked funds

Taking account of these non-cash adjustments the group generated positive cashflow of £65.4 million during 2006. The table and commentary below provide an indicative unaudited analysis of the sources of this cashflow.

	Note	2006
		£'m
Net annual management fee	1	93.2
Unwind of surrender penalties	2	(32.6)
Profit arising on new business	3	1.9
Establishment expenses	4	(62.1)
Miscellaneous	5	12.1
Tax relief on expenses b/fwd	6	22.6
FSA reserving change	7	20.9
Investment income	8	9.4
Post tax cashflow		65.4

Notes

- 1 The net annual management fee this is the income on the funds under management that the group retains after payment of the associated costs Broadly speaking the group retains around 1% pre-tax of funds under management
- 2 Unwind of surrender penalties this relates to the reserving methodology applied to the surrender penalties within the charging structure of the single premium life bonds At the outset of the life bond we establish a liability net of the outstanding surrender penalty which would apply if the policy were to be encashed As the surrender penalty reduces to zero so the liability to the policyholder is enhanced by increasing their funds by 1% per annum over the first six years of the product life, to correspond to this 'unwind' of the surrender penalty In other words there is a cash transfer from the shareholder to the policyholder
- 3 Profit arising from new business this is the cash flow arising in the year after taking into account the directly attributable expenses
- 4 Establishment expenses these are the post tax expenses commented on in point (1) above and represent the running costs of the Group's infrastructure
- 5 Miscellaneous this represents the cashflow of the business not covered in any of the other categories It will include miscellaneous product charges, reserving changes, experience variances and the income and expenses included within the Other operations of the business
- 6 Tax relief on expenses b/fwd, as shareholders will recall from previous financial commentaries the UK life company obtains tax relief for its expenses against the tax deductions on the income and capital gains within the unit-linked life funds At the start of the year there was approximately £112.9 million of excess unrelieved expenses During 2006 we have obtained relief for these expenses which has given rise to positive cashflow of £22.6 million At the end of 2006 there were no remaining unrelieved expenses
- 7 FSA reserving change as mentioned in the results section of this commentary the FSA have relaxed the reserving methodology required to be followed by life companies The adoption of these changes has resulted in a one off £20.9 million
- 8 Investment income this is the income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the group

(iv) Analysis of the Embedded Value

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

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Value of in-force		
- Life	590.8	503.0
- Unit trust	171.5	140.7
Solvency assets	270.4	185.1
Total embedded value	1,032.7	828.8

(v) Share options maturity

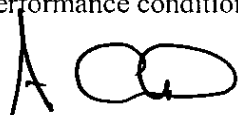
Options outstanding under the various share option schemes at 31 December 2006 amount to 46.2 million (31 December 2005 56.5 million)

The total number of options including those in the SJP Employee Trust, together with their anticipated proceeds, are set out in the table below

Earliest date of exercise	Average exercise price	Number of share options outstanding	Anticipated proceeds
	£		£' Million
Prior to 31 Dec 2006	1.68	16,862,520	28.3
Jan – Jun 2007	1.68	4,323,086	7.3
Jul – Dec 2007	1.56	4,322,782	6.7
Jan – Jun 2008	1.04	2,306,634	2.4
Jul – Dec 2008	1.93	400,010	0.8
Jan – Jun 2009	2.23	1,087,136	2.4
Jul – Dec 2009	2.75	16,191,857	44.4
Jan – Jun 2010	2.19	503,961	1.1
Jul – Dec 2010	2.28	162,867	0.4
Jan – Jun 2011	2.43	3,334	-
		<u>46,164,187</u>	<u>93.8</u>

Included within those share options with an earliest date of exercise prior to January 2007 are 3.9 million options with an expiry date before the end of July 2007 with anticipated proceeds of £5.2 million

Of those options with an earliest date of exercise prior to January 2007, 1.8 million options require further performance conditions to be met before vesting unconditionally



Andrew Croft
26 February 2007

CORPORATE AND SOCIAL RESPONSIBILITY REPORT

St James's Place fully supports all the initiatives aimed at ensuring companies adopt a responsible attitude towards their stakeholders and in particular to clients, staff and the community

The environmental, social and governance (ESG) risks affecting the Group are assessed and mitigated as part of the Group's overall risk management processes described more fully on pages 31 to 33. The Board has sought to identify and assess the significant ESG risks which may affect the Company's short and long term value and, where appropriate, put in place controls or procedures to mitigate such risks. The Board believes that competitive advantage can be gained from taking a proactive approach to a number of ESG risks and shareholders will find a number of examples of this proactive approach set out in this CSR report. Further information can also be found on the Company's website at www.sjp.co.uk

OUR CLIENTS

At the heart of our business is the relationship between our advisers, the members of the St James's Place Partnership, and our clients. These relationships are founded on the principle that every client has different goals, responsibilities and ambitions and that therefore each requires individual and personal advice. By applying this principle our Partners have developed exceptionally strong, trusted and lasting relationships with their clients.

We support and encourage these relationships in a number of ways. Firstly, by ensuring that we offer a comprehensive range of wealth management products and services that meet the current and future needs of our clients. Secondly, by guaranteeing the advice given by members of the Partnership when recommending any of the products and services provided by companies in the St James's Place Group. And thirdly, by providing good administrative support to both Partners and clients.

We also recognise that our clients' needs change and that we need to anticipate, understand and respond to these changes. We therefore consult regularly with the Partnership for their views and in 2006 introduced research direct with clients. We were delighted with the initial response from this research and, whilst only a small sample, the feedback was extremely useful and we are committed to repeating this exercise on at least an annual basis.

As well as providing advice on a range of products and services, a substantial part of our business is the management of our clients' money. We employ Stamford Associates, an external firm of consultants, to oversee the performance of our Fund Managers and report regularly to our Investment Management Committee. Our approach of selecting the best Fund Managers, closely monitoring their activities and introducing new managers where appropriate will, we believe, deliver above average investment returns over the medium to long term.

In settling life and health claims we take a positive view and do not hide behind the 'small print'. Wherever possible we will pay claims in line with the spirit of the contract. We also place great emphasis on communicating the characteristics of our products and services with clarity and transparency.

Inherent in everything we do is our desire to be fair and reasonable to clients.

THE PARTNERSHIP

The St James's Place Partnership is made up of some of the most experienced, able and highly regarded professionals working in financial services.

They are self-employed business people who represent St James's Place in respect of the financial products and services made available by the Group. Despite their self-employed status, members of the St James's Place Partnership form a close bond with the Company and share its core values. On average, they have over 16 years' service in the Financial Services industry and Partner retention has remained very strong in recent years.

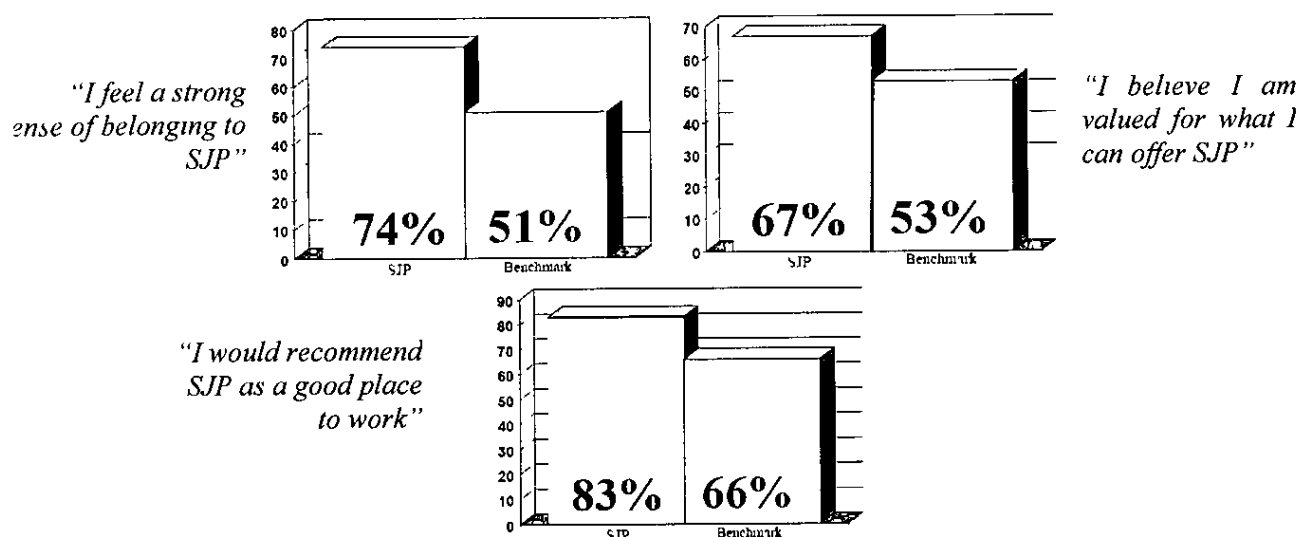
Partners are encouraged to continually develop their knowledge and expertise. A wide menu of training courses are available to all Partners and they receive regular information and guidance with regard to changes in legislation or regulation. A number of them will specialise in particular aspects of financial advice, e.g. Pensions advice, Inheritance Tax planning, Corporate markets, Employee benefits etc., and the Company provides further support in these areas to deepen their knowledge.

The remuneration arrangements for our Partners are designed such that their interests are aligned with clients and support the long term relationships we aspire to achieve.

OUR EMPLOYEES

We firmly believe that our employees give us a sustainable competitive advantage in a market place where the provision of high quality service is paramount. The attitude, knowledge and commitment of our people continues to be a strong differentiator.

We take pride in being a people business where people are the most important asset and 2006 saw the introduction of a bespoke Employee Survey to understand our employees' views. The survey had a response rate of 71% and our employee engagement was as high as 91% in some areas. Some of the highlights were that 74% of employees feel a strong sense of belonging to St James's Place and believe that they are valued for what they can offer, 75% are satisfied with the benefits package and 83% of employees would recommend St James's Place as a good place to work. The graphs below demonstrate how we compare with external benchmarks.



Employee retention for 2006 is 88.5% and attracting new employees has rarely posed an issue for us. Days lost through sickness across the business currently stands at 4.7 days per employee per year, which is significantly below the national average. We remain committed to our equal opportunities policy for potential and existing employees, recognising people's individual ability and merit, free from any form of discrimination. Our workforce gender profile is fairly evenly split with a total of 288 female and 271 male employees.

The performance and development of our people is encouraged and supported through a formalised Performance Development Review Process. Our reward package is competitive with a comprehensive range of benefits provided to all employees including Pension, Life & Critical Illness cover and Private Medical cover. We also provide the opportunity for all the employees to benefit from annual bonuses linked to the Company's performance. Recognising the benefit of all employees having the opportunity of an equity interest in the Company everyone can join the SAYE plan and acquire discounted shares. 64% of all employees are currently members of this scheme. Management are also given the opportunity to participate in share incentive schemes, further details of which are set out in the Remuneration Report.

January 2007 will see the introduction of an Employee Volunteering policy to support St James's Place employees wishing to volunteer with schools, charities or community groups that serve the local communities in which we live and work.

Our working environments are created to satisfy Health and Safety Regulations and work has commenced on the construction of our new purpose built Head Office in our home town of Cirencester, which will provide 45,000 square feet of space and enable all 'back office' functions to work together in one building

St James's Place has a well-established awareness of the statutory and social responsibilities with regard to the recruitment or employment of disabled staff. Our recruitment procedures are free from bias and discrimination and we always consider possible modifications to our working environment to ensure a disabled person has the chance to take up opportunities or promotion

The Group's approach ensures that every effort is made to achieve continuity of employment in the event of an employee becoming disabled. Similarly best practice principles ensure that the Group's responsibilities are met as an equal opportunity employer

COMMUNICATION

We remain committed to an open style of communication and keep all of our community informed on a regular basis on matters that might affect their day-to-day work and communicate items of interest. We encourage regular feedback and managers are expected to have monthly one-to-ones with team members and regular team meetings. Directors and senior managers regularly visit all SJP office locations to disseminate key corporate messages and obtain valuable feedback

ENVIRONMENTAL REPORT

We recognise that we have a responsibility to the environment and we will continue to take positive steps to address the impact we have on the environment

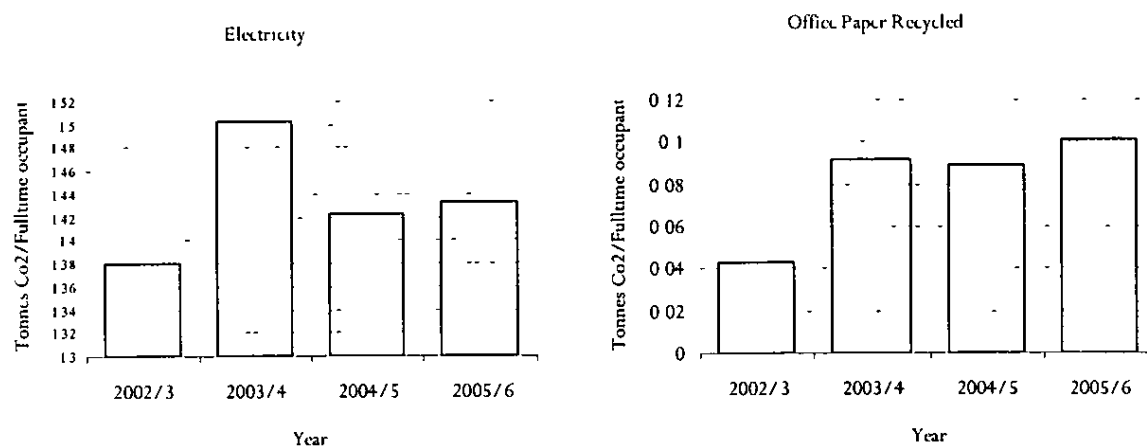
We measure our environmental data from October to September, which allows sufficient time for our third party providers to produce relevant data for inclusion in our Annual Report and Accounts

CORPORATE ENVIRONMENTAL POLICY

Our Environmental Policy can be found along with the full Environmental Report on our website at www.sjp.co.uk. The policy continues to form the basis of the Group's approach to revising our environmental impacts. The policy sets out our objectives, commitment to setting and measuring realistic targets and communicating with our stakeholders. The policy objectives are reviewed annually and are used to drive forward our procedures towards reducing our CO₂ levels wherever possible

We took the decision to move away from reporting in Eco-points, to reporting according to the Department for Environmental Food and Rural Affairs (DEFRA) reporting guidelines, as from the 2005 Environmental report, which was posted on to our website during 2006. We are also committed to participating in leading environmental surveys, such as the Business in the Environment (BiE) index. St James's Place continues to be included in the FTSE4Good Index which comprises companies that meet globally recognised corporate social responsibility criteria

Basing our figures on the new reporting period we can report a small increase of 1.5% on our CO₂ footprint, which is directly related to the increase in business levels. However within this figure is an element of Climate Control Levy (CCL) exempt energy usage



We use the services of Entech who check, monitor and produce our annual usage figures for energy and water consumption. This along with other initiatives resulted in a gas improvement of 25% while electricity usage resulted in a less than 1% increase based on a full time occupancy measurement.

Our fuel management systems provide fuel usage figures, which are added to mileage expense claims to obtain total annual CO₂ figures. This along with rail and air mileage is calculated using a formula and DEFRA conversion figures to give an overall figure attributed to travel.

Whilst our new business volumes have grown by over 50% in 2006 and the amount of travel required to conduct business has also increased, on a normalised percentage basis, CO₂ output relating to travel has only increased by 9%.

In early 2004 the Company decided to, wherever possible, move from providing bottled drinking water to mains supplied filtered water, which has meant that our water consumption has altered from previous years. With the summer of 2006 being particularly dry our increase in water consumption by 13% can be partially put down to an increase in drinking water and general usage. In those areas where mains water is not easily accessible, we have sourced our water supplies from Belu Water and have begun using their bio-degradable bottles.

Our successful paper recycling programme continues to improve and office paper recycling increased by 13% compared with the previous 12 month period. The recycling of paper stocks held at our print company reduced by 47% during the period owing to better print management controls and less product changes. Other recycling programmes which have been put in place include the disposal of PC's, mobile phones and toner cartridges. Cardboard is recycled at one particular site and other sites are being considered where it is practical to introduce it.

We continue to offer electronic communication for shareholders, so that they can elect to receive Company documentation and to vote on AGM resolutions, electronically rather than by post, which reduces printing and distribution costs. This has recently been enhanced by the eTree Initiative. For every shareholder that registers to receive their communications electronically, a sapling is donated on the shareholder's behalf in an area selected for reforestation in the UK via the Woodland Trust's 'Tree for all' campaign. Further details can be found at www.etreeuk.com.

For those investors particularly interested in investing in environmentally friendly companies and to comply with the policy on socially responsible investment by Trustees of Occupational Pension Schemes, the Group offers ethical funds. These funds invest in companies demonstrating sound environmental and social policies. The Investment Committee of the Board meets regularly to monitor and review the performance of all the funds under management against a series of defined criteria.

During 2006 we set up a Health and Safety and Environmental working group to review and update all working practices within these areas. We have also been in discussions with the Waste & Resources Action Programme to promote the use of recycled paper within our print portfolio. Proposals are being prepared for consideration. Other ongoing initiatives include improving supplier awareness and continuing with new technology to reduce paper usage. We will continue to work with our energy consultants, Entech, to achieve the most efficient source of energy. A new contract was put in place during 2006 to supply CCL exempt energy from green resources, which is an important factor in reducing our CO₂ emissions footprint.

The building of our new headquarters in Cirencester is now well under way and it is being constructed with a view to achieving a 'Good' or 'Very good' assessment using BREEAM (Building Research Establishment Environmental Assessment Method) when the building is completed at the end of 2007.

We acknowledge that in spite of our attempts to reduce and manage CO₂ emissions, there is a limit to this process, and have therefore begun dialogue with The Carbon Neutral company to establish whether it is possible to become partially or fully carbon neutral.

Although some expected target reductions have not been met during the period due to business levels we still anticipate being able to make relative improvement in 2007 in areas such as recycling and paper usage. Based on a target of 15% growth in 2007 we have set ourselves a target of not increasing travel emissions by more than 3.5%. It is also expected that gas and electricity usage will generally remain at existing levels as

business continues to grow, however the Company will look to achieve the following targets during the period October 2006 to September 2007

TARGETS

Energy (electricity)	1% reduction
Gas	No change
Travel	3.5% increase*
General waste	2% reduction
Water	No change
Paper usage	2% reduction

*This figure is based on business growth of 15%

THE 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. Forming a charitable trust (The Foundation) was included in the original business plan for the Company in 1992.

The Foundation has two main activities – fundraising and the awarding of grants.

Each of our regional offices and departments within Head Office organise fundraising events. These range from raffles bringing in a few hundred pounds, to auctions of promises and other social events, which often raise several thousand pounds. Every social event is looked upon as an opportunity to raise funds for the Foundation. Many of the Company's local and national suppliers are happy to support the Foundation and regularly donate cash or goods to aid our fundraising efforts.

In addition to group events, individuals also push themselves to the limit in an effort to raise as much sponsorship as possible from their contacts and clients. The challenges taken up in 2006 include a Partner from Bristol took part in an Iron Man Challenge in Nice, a team of 11 took part in the Cuba Cycle Challenge, a group of Partners climbed Kilimanjaro, a Manager from our Leeds Office took part in the Arctic Marathon, and a team of 31 took part in a Tandem Skydive Challenge in September. The largest single fundraising event of 2006 was a triathlon organised by a Partner from our City Location. 43 teams from all over the country took part and raised over £200,000.

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

We are very proud of the fact that 87% of the St James's Place community of over 1,600 people are making regular monthly donations to the Foundation through Gift Aid. This demonstrates the commitment to the Foundation throughout the Company at every level.

Every pound raised by members of the St James's Place community is matched by the Company and 2006 was another record breaking year, with funds raised exceeding £1,900,000 (including matching). This brings the total raised to over £10,000,000 – a huge achievement by our Partners and staff.

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

The Foundation's management committee, in consultation with the rest of the community, establish a theme framework for awarding grants. For 2006 there have been two themes. The first being "Cherishing the Children", whereby any small charity that has a project in the UK that is for the direct benefit of physically disabled children or those suffering from a mental condition or those suffering from a life threatening or degenerative illness, can apply for a grant from the Foundation.

The second theme is the Hospice Movement, whereby the Foundation makes grants to hospices in the UK for items such as equipment, the cost of therapy and other treatments. In addition, 2006 was the third

year of an £800,000 funding partnership with Help the Hospices called "Care Beyond Cancer". This three-year programme is focused on helping patients and their families suffering from illnesses other than cancer. It is hoped it will not only bring immediate benefits to sufferers but also change some of the thinking about hospice care in this area of need.

In addition to the grants awarded under the "themes", 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 seven year commitment with Hope & Homes for Children, a UK based charity which provides family homes and other support for children orphaned by war or disaster. More than £2.1 million has been paid over to Hope & Homes for Children in the last seven years. In July 2006 the Trustees agreed to continue its commitment for the next three years.

In 2006 the Foundation embarked on new relationships with Teenage Cancer Trust and CIDA – with an initial commitment of approximately £200,000 to both organisations. Teenage Cancer Trust aims to open 21 units around the UK for teenagers with cancer – they currently have 8 Units. The initial funding will cover the cost of the patient technology required in two Units. CIDA is a University in South Africa, run by the students. CIDA has implemented formal programmes that require students to give back to their home community. The initial funding will sponsor 39 students through a three-year degree course.

Our entire community is incredibly proud of what has been achieved over the past 15 years – having raised just over £10 million in that time - and aims to continue to raise even more funds in the years ahead so that even more people may benefit from its success. Specifically, for 2007 the Foundation's target is that 85% of the St James's Place community of Partners and employees give regularly by way of Gift Aid and that in total we can exceed £2,000,000 of funds raised in the year (including matching).

The Group will continue its focus on the various initiatives described in this update in 2007 and beyond, and ensure that Corporate and Social Responsibility remains at the forefront of its business.

PRESIDENT AND BOARD OF DIRECTORS

Sir Mark Weinberg (75)

President

Sir Mark founded the St James's Place Group with Mike Wilson in 1991 and was Chairman of the Group until September 2004, when he resigned from the Board and was appointed to the position of President. He currently chairs the Investment Committee. He originally practised as a barrister and was formerly Deputy Chairman of the Securities and Investments Board, the forerunner to the Financial Services Authority.

THE CURRENT DIRECTORS OF THE COMPANY ARE.

Mike Wilson (63)

Chairman

Mike has worked in the life assurance industry since 1963 and founded the St James's Place Group with Sir Mark Weinberg in 1991. He was Chief Executive until September 2004. Mike is a trustee of the St James's Place Foundation and member of the Nomination Committee. He was formerly Chairman of the Mental Health Foundation and a non-executive director of Vendôme Luxury Group plc between 1993 and 1998.

Sarah Bates (48)

Non-executive Director

Sarah joined the Board as an independent non-executive Director in September 2004 and is a member of the Investment and Risk Committees. She is a Director of Witan Pacific Investment Trust, Invesco English and International Trust plc, New India Investment Trust, JPMorgan American Investment Trust plc and the Association of Investment Companies, as well as strategic investment advisor to the Merseyside and East Riding Pension Funds and lay advisor to the investment committee of the Royal College of Surgeons. Sarah has also recently become a member of the Investment Committees at Newnham College, Cambridge and of the Cancer Research UK Pension Fund. She has a law degree from Trinity Hall, Cambridge and an MBA from London Business School.

David Bellamy (53)

Managing Director

David joined the Group in April 1991, was appointed to the Board in September 1997 and became Managing Director in January 2002, having previously fulfilled the role of Group Operations Director. He has worked in the insurance industry since 1973 and is a trustee of the St James's Place Foundation.

Andrew Croft (42)

Group Finance Director

Andrew joined the Group as Financial Accountant in 1993 and was promoted to various roles culminating in his appointment as Group Finance Director in September 2004. He qualified as a Chartered Accountant at PriceWaterhouseCoopers in 1988 and has a degree in Accounting and Economics from Southampton University. He is a trustee of the St James's Place Foundation.

Jo Dawson (44)

Non-executive Director

Jo was appointed to the Board as a non-independent, non-executive Director on 31 May 2006 representing HBOS plc. She is Chief Executive of Insurance and Investment at HBOS plc and joined the HBOS board on 1 May 2006. She originally joined Halifax in June 2000 as General Manager, Retail Sales, having held senior positions at Nat West and Green Flag.

Andy Hornby (40)

Non-executive Director

Andy was appointed to the Board as a non-independent, non-executive Director on 31 May 2006 representing HBOS plc. He joined the Board of Halifax plc as Chief Executive, Halifax Retail in 1999, having previously held senior positions at Blue Circle and Asda. He was appointed Chief Executive of HBOS plc on 31 July 2006 and is also a non-executive director of GUS plc.

Ian Gascoigne (50)*Group Sales Director*

Ian was appointed to the Board as Group Sales Director in January 2003. His specific responsibilities include the recruitment, growth and development of the St James's Place Partnership. He has worked in the insurance industry since 1986, joined the Group in December 1991 and was appointed to the Board of St James's Place UK plc in 1997. He has a degree from Lancaster University and an MA from Leicester University and is also a trustee of the St James's Place Foundation.

Simon Gulliford (48)*Non-executive Director*

Simon was appointed as an independent non-executive Director in May 2005 and is a member of the Remuneration and Nomination Committees. He is Chief Executive of Simon Gulliford Ltd, an independent marketing consultancy, prior to which he was Group Marketing Director of Barclays plc. Other directorships include William Jackson & Sons Ltd and Archant Newspapers. Formerly he was also Marketing Development Director of EMAP plc and Marketing Director of Sears plc. He is a Council member of the Marketing Group of Great Britain and a Fellow of the Marketing Society.

Derek Netherton (62)*Non-executive Director*

Derek is an independent non-executive Director, appointed in May 1996. He is Chairman of the Audit Committee and a member of the Remuneration Committee. Derek is Chairman of Greggs plc and is a non-executive director of Next PLC. He is a Fellow of the Institute of Actuaries and was formerly a director of J Henry Schroder & Co Limited.

Mike Power (49)*Non-executive Director*

Mike joined the Board as an independent non-executive director in May 2005. He is Chairman of the Risk Committee and a member of the Audit Committee. He is Professor of Accounting and a Research Director of the ESRC Centre for Analysis of Risk and Regulation at the London School of Economics and Political Science, where he has worked since 1987. He is a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate of the UK Chartered Institute of Taxation. He sits on the risk management committee of the London School of Economics and lectures and writes on risk management, regulation and compliance issues.

Michael Sorkin (63)*Senior Independent Director*

Michael was appointed to the Board as an independent non-executive Director in January 2002. He was appointed Senior Independent Director in May 2005, is Chairman of the Remuneration and Nomination Committees and a member of the Audit Committee. 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 is Vice Chairman of Investment Banking at N M Rothschild Corporate Finance Limited and a non-executive director of J Z Equity Partners plc.

Roger Walsom (53)*Non-executive Director*

Roger was appointed to the Board as an independent non-executive Director in July 2005 and is a member of the Risk Committee. After several years in the insurance industry, he graduated in law from Southampton University and qualified as a solicitor in 1980 with a City law firm. He became a partner at Ashurst, another leading City law firm, in 1988, specialising in the financial services industry. He retired as a partner in April 2005 but continues as a consultant to Ashurst. He is a non-executive director of The Pensions Regulator and a director of Invesco Income Growth Trust plc.

Ages correct as at 26 February 2007

DIRECTORS' REPORT

The Directors present their Report & Accounts of the Company for the year ended 31 December 2006

BUSINESS REVIEW

The information that fulfils the Companies Act requirements of the Business Review can be found in the following sections

Principal risks and uncertainties	The Risk and Risk Management section of the Corporate Governance Report on pages 31 to 33
Performance and development during the year and position at the end of the year	Chairman's Statement on pages 4 to 6 and the Financial Commentary on pages 7 to 14
Financial and non-financial KPIs	Key Performance Indicators on page 3

RESULTS AND DIVIDENDS

An interim dividend of 1.5 pence per share (2005: 1.3 pence per share) was paid on 18 September 2006. The Directors recommend that shareholders approve a final dividend of 2.15 pence per share (2005: 1.85 pence per share) to be paid on 18 May 2007 to shareholders on the register at the close of business on 9 March 2007. Furthermore, the Directors also recommend a special dividend of 6.35 pence per share (2005: nil) to be paid on 18 May 2007 to shareholders on the register at close of business on 9 March 2007.

A resolution to renew the Directors' authority to offer a scrip dividend will be put to the shareholders at the forthcoming Annual General Meeting.

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 the sale and marketing of wealth management products and services. A full review of the activities of the Group is given in the Chairman's Statement on pages 4 and 6.

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 26 February 2007:

HBOS plc 278,121,816 (59.77%)

BlackRock Investment Management (UK) Limited 25,334,599 (5.45%)

DIRECTORS

The present Directors of the Company are listed on pages 21 and 22.

Jo Dawson and Andy Hornby were appointed to the Board on 31 May 2006. Pursuant to the articles of association of the Company, both directors will retire at the forthcoming Annual General Meeting and offer themselves for re-election.

James Crosby and John Edwards resigned from the Board on 31 May 2006 and Mark Lund resigned from the Board on 4 January 2007.

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 2004 shall retire from office by rotation. The Directors retiring by rotation at the AGM are David Bellamy and Mike Wilson. Derek Netherton will also be seeking annual re-election to meet corporate governance guidelines applicable to his length of service on the Board.

Further details on the background of those Directors seeking re-election are set out in the Directors' Biographies on pages 21 and 22 and in the Notice of the Annual General Meeting. The Chairman is pleased to confirm that those non-executive Directors seeking re-election continue to be effective in their roles on the Board and its Committees and have demonstrated their continued commitment.

Details of all executive Directors' service contracts are set out in the Remuneration Report on pages 39 and 40.

DIRECTORS' INTERESTS

The interests of the Directors in the share capital of the Company and in the share capital of HBOS plc, being the Company's ultimate holding company, as at 31 December 2006, and any changes between that date and the date of this Report, are set out in the Remuneration Report on pages 47 and 48

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 pursuant to the Listing Rules published by the FSA

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. SJPMs's average number of days purchases outstanding in respect of trade creditors at 31 December 2006 was 11 days (2005: 9 days)

CHARITABLE DONATIONS

As agreed by shareholders in 2000, the Group pays an amount to the St James's Place Foundation (a charitable trust) each year which matches fundraising during the year up to a limit determined by the Directors from time to time, which was set at £1 million for 2006. During the year ended 31 December 2006, the Group contributed £850,492 (2005: £765,380) to the St James's Place Foundation. A list of charitable donations made by the Foundation, together with a report which outlines the basis on which priorities for donations have been established, is available on request. Further details on the Foundation are included in the Corporate & Social Responsibility Report on pages 19 and 20

POLITICAL CONTRIBUTIONS

It is the Group's policy not to make any donations to political parties within the meaning of the definitions set out in the Political Parties, Elections and Referendums Act 2000, and the Group did not make any political donations during the year

EMPLOYEES

Full details of the Group's approach to employee involvement, development and communication and the Group's policy for the employment, training and development of the disabled can be found in the Corporate & Social Responsibility Report on pages 16 and 17

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held on 4 May 2007 at The Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ at 11.00am

AUTHORITY TO PURCHASE OWN SHARES

At the Annual General Meeting in 2006, shareholders granted authority to the Directors for the purchase by the Company of its own shares in accordance with the relevant provisions of the Companies Act 1985. The authority will expire at the end of the Annual General Meeting to be held in 2007 or 18 months from the date granted, whichever is earlier. The Directors will propose the renewal of the authority to purchase own shares at the forthcoming Annual General Meeting

GOING CONCERN

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

AUDITORS

Each of the directors at the date of approval of this report confirms that

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- The director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution that they be re-appointed until the end of the 2008 Annual General Meeting will be put to shareholders at the Annual General Meeting on 4 May 2007

By Order of the Board

A handwritten signature in black ink, appearing to read 'H. Gladman', written in a cursive style.

Hugh Gladman
Company Secretary
26 February 2007

CORPORATE GOVERNANCE REPORT

This report explains the approach the Group has taken to apply the principles and provisions set out in the Combined Code on corporate governance

The Financial Services Authority requires listed companies to disclose, in relation to section 1 of the Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year. The Board considers that the Group has achieved compliance with all the provisions of the Combined Code throughout the accounting year

THE BOARD

The Board is responsible for providing leadership for the Group and for ensuring that the right strategy and controls are in place in order to deliver value to shareholders and the wider community of individuals and organisations which benefit from the Group's activities. St James's Place is committed to high standards of Corporate Governance and supports the Combined Code on Corporate Governance

The Board meets six times a year, with additional meetings arranged on an ad hoc basis as required. During 2006 there were six formal Board Meetings plus an additional all day strategy meeting. A table containing the Directors' attendance at Board meetings can be found on page 28

Board members are supplied with an agenda and board pack prior to each meeting. This will normally include detailed reports on current trading, sales, operational issues, compliance, risk, accounting and financial matters. The Board also receives reports from the Chairmen of the various Committees of the Board

The Board has a formal schedule of matters specifically reserved to it, a copy of which can be found in the Corporate Governance section of the corporate website. 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,
- review major transactions or initiatives proposed by the executive Directors,
- implement appropriate corporate governance procedures,
- periodically review the results and operations of the Group,
- ensure that proper accounting records are maintained and adequate controls are in place to safeguard the assets of the Group from fraud and other significant risks,
- identify and manage risk, and
- decide the Group's policy on charitable and political donations

A Board Control Manual sets out the primary policy and decision-making mechanisms within the Group and defines the terms of reference of the Committees of the Board and the Group's risk policies. In addition, it contains detailed job descriptions of the Directors showing their individual responsibilities. The Manual is reviewed by the Board annually

THE ROLES OF THE CHAIRMAN AND MANAGING DIRECTOR

The division of responsibilities between the Chairman of the Board, Mike Wilson, and the Managing Director, David Bellamy, is clearly defined and has been approved by the Board. No single individual has unfettered powers of decision making. The Chairman is responsible for ensuring the continued effectiveness of the Board of Directors and communication with shareholders. He also liaises with senior members of the Group's sales force and acts as a sounding board to the senior management team, where they feel it appropriate. The Managing Director's primary responsibility is to manage the Group and implement the strategies adopted by the Board

THE EXECUTIVE COMMITTEE

The Board delegates day to day business and risk management control to the Executive Committee. The Committee met fortnightly in 2006 to discuss and consider operational issues, business development plans, financial and operating budgets and forecasts, capital expenditure proposals, compliance matters and key performance indicators

DIRECTORS AND DIRECTORS' INDEPENDENCE

The Board currently comprises an Executive Chairman, six independent non-executive directors, two non-independent non-executive directors and three executive directors. Changes to the Board during the year include the resignation of James Crosby and John Edwards and the appointment of Jo Dawson and Andy Hornby as non-independent non-executive directors, being the HBOS representatives on the Board. In addition, Mark Lund resigned from the Board on 4 January 2007.

When determining whether a non-executive director is independent, the Board considers for each non-executive director whether they are independent in character and judgement, how they conduct themselves in Board meetings, whether they have any relationships or there are any circumstances which are likely to affect, or could appear to affect, their judgement, and whether they act in the best interests of the Company and its shareholders at all times. The Board has considered the independence of Derek Netherton with particular care, given that he has served on the Board for more than nine years. The Board strongly believes that Derek Netherton continues to contribute significantly to the Board and its Committees through his individual skills and considerable knowledge of both the Company and the financial services industry. His financial knowledge is particularly helpful in connection with his role as Chairman of the Audit Committee and he continues to demonstrate a strong independence of management in the manner in which he discharges his responsibility as a director at Board and Committee meetings by questioning and constructively challenging management as and when he considers it appropriate. In view of the above and the changes to the Board membership made in recent years, the Board does not believe that it is in the interests of the Group to replace Derek Netherton with a further non-executive director appointment at the present time. This matter is subject to annual review by the Board (with the assistance of the Nomination Committee). The terms and conditions of appointment of the non-executive Directors are available on request and will be available at the Annual General Meeting in May 2007.

THE SENIOR INDEPENDENT DIRECTOR

Michael Sorkin has acted as the Senior Independent Director since May 2005. The Senior Independent Director is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for investor communication.

PROFESSIONAL DEVELOPMENT

Directors receive training in their duties and responsibilities on appointment as part of an induction process designed to assist them in their understanding of the business, including meeting with members of senior management, the Partnership and visiting some of the Group's offices. The Directors are also offered training on an ongoing basis via a rolling programme coordinated by the Company Secretary. During 2006 a number of non-executive directors received presentations on product development, Life company accounting and the impact of Pensions "A" Day, as well as having an opportunity to meet with Partners and staff informally. Non-executive Directors may also meet with major shareholders as necessary.

The Directors are regularly updated on their duties and responsibilities and have access to the advice of the Company Secretary and to independent professional advice where needed in furtherance of their duties. Further training is made available as necessary to ensure that the whole Board is kept abreast of relevant developments applicable to their roles and topical issues are also addressed before each Board meeting. For example, the Board have been updated by the Company Secretary on the new directors duties introduced by the Companies Act 2006.

PERFORMANCE EVALUATION

During 2006 the Chairman held separate meetings with the non-executive Directors. Issues discussed included topics for pre-Board presentations, non-executive director training requirements and the results of the performance evaluation of the Board. In addition, the non-executive Directors, led by the Senior Independent Director, also met without the Chairman present to appraise the Chairman's performance and to discuss other topical issues such as succession plans and the overall performance of the Board.

The Board carried out an annual evaluation of its own performance and of its committees and individual Directors by way of a detailed questionnaire and interviews carried out by the Company Secretary. The findings were presented to the Board and, as a result, a number of improvements were made to the Board's procedures, including the information contained in Board packs and further discussions on strategic issues. The Senior Independent Director carried out a formal appraisal of the Chairman's performance.

BOARD COMMITTEES

The Board has formally constituted six committees, being the Audit, Investment, Nomination, Remuneration, Risk and Urgent Issues Committees. The membership and terms of reference of the Board committees are reviewed at least annually and are available on request and on the Company's website.

Board meetings and attendance

The attendance of the individual Directors at Board and Committee meetings during 2006 was as follows

	Board (7 meetings)	Risk (6 meetings)	Audit (7 meetings)	Remuneration (3 meetings)	Nomination (2 meetings)	Investment (6 meetings)
S Bates	7	1(2)	-	-	1(1)	6
D Bellamy	7	-	-	-	-	-
A Croft	7	-	-	-	-	-
J Dawson	3(3)	-	-	-	-	-
I Gascoigne	7	-	-	-	-	-
S Gulliford	7	3(4)	-	1	2	-
A Hornby	3(3)	-	-	-	-	-
D Netherton	7	-	7	3	-	-
M Power	7	6	7	-	-	-
M Sorkin	6	-	7	3	2	-
R Walsom	7	6	-	-	-	-
M Wilson	7	-	-	-	2	-

Figures in brackets indicate the maximum number of meetings in the period in which the director was a Board or Committee member.

Audit Committee

Members: Derek Netherton (Chairman), Michael Sorkin and Mike Power

The Audit Committee comprises solely independent non-executive Directors. All of the Committee members held office throughout the year and at the date of this report and have considerable financial experience, as can be seen from their biographies on pages 21 and 22. During the year, the Committee invited the Finance Director, the Group Risk Director, Executive Director – Internal Audit and Risk Management, an HBOS representative and the external auditor to attend meetings. A summary of the terms of reference of the Audit Committee is set out below:

- to examine any matters relating to the financial affairs of the Group, including reviewing and advising the Board on the Company's interim and annual financial statements, its accounting policies and compliance with accounting standards,
- to review the nature and scope of the work to be performed by the external auditors, the results of the audit work and the responses of management,
- to make recommendations on the appointment and remuneration of the external auditors and to monitor their performance,
- to review any non-audit services provided by the external auditors and to maintain responsibility for ensuring the independence, cost effectiveness and objectivity of the external auditors,
- to monitor and oversee the Group's internal control procedures and risk management processes,
- to approve the internal audit plan for the year and review reports on the results of such internal audits including the response of management,
- to review the activities, resources, organisational structure and operational effectiveness of the internal audit function,
- to receive reports from the internal audit function on the adequacy and effectiveness of the Group's control framework,
- to carry out an annual review of the Group's system of internal control, and
- to assess the appropriateness of the Group's 'whistleblowing' procedures

During the year, the Committee formally reviewed and considered the following

- ♦ draft interim and annual reports and associated preliminary and interim announcements, focussing on key areas of judgement and accounting policies,
- ♦ reports of the Risk Management and Internal Audit functions and external audit findings,
- ♦ at each meeting a progress report on the internal audit plan and regular updates on the implementation of that plan, and
- ♦ increasing the number of meetings from 4 to 5 so that an entire meeting could be dedicated to the annual review of the Group's system of internal controls

The Audit Committee annually reviews the auditors' independence and the services provided by the external auditors. In order to ensure auditor objectivity and independence, the Committee has established a financial limit of £100,000 on the fees that can be paid to the external auditors in respect of non-audit advice and consultancy work.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in the Notes to the Accounts on page 69.

Remuneration Committee

Members: Michael Sorkin (Chairman), Simon Gulliford and Derek Netherton

The Remuneration Committee comprises solely independent non-executive Directors. All of the Committee members held office throughout the year and at the date of this report. A summary of the terms of reference of the Remuneration Committee is set out below.

- ♦ to determine all aspects of executive Director and senior management remuneration,
- ♦ to determine the discretionary bonus scheme for executive Directors and to review the performance of the Directors against the scheme
- ♦ to determine appropriate incentives to executive Directors to encourage enhanced performance including grants of options or awards of shares and determining the policy and performance conditions of such grants or awards,
- ♦ to determine the policy for and scope of termination payments and severance terms for executive Directors, and
- ♦ to be responsible for selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee

Meetings are held on an ad-hoc basis as issues arise. Further details on the work of the Committee is set out in the Remuneration Report on page 36.

Nomination Committee

Members: Michael Sorkin (Chairman), Simon Gulliford and Mike Wilson

During the year, Sarah Bates stood down as a member of the Committee and was replaced by Simon Gulliford. Mike Wilson stepped down as Chairman, to be replaced by Michael Sorkin in January 2007. A summary of the terms of reference of the Committee is set out below.

- ♦ to review the structure, size and composition of the Board and evaluate the balance of skills, knowledge and experience required for a role and the preparation of a description of any new role and the capabilities required,
- ♦ to consider new appointments and to make recommendations on suitable candidates to the Board, and
- ♦ to consider succession planning for senior executive positions and the need for the progressive refreshing of the Board

The Committee considered succession plans for the Board and senior management as well as evaluating ways of improving staff development at all levels of the Company. The results of the staff survey were also considered with a view to implementing the findings during 2007 and beyond. More recently the Committee has taken the lead role in finding suitable candidates for the position of Chief Executive, with a view to providing a shortlist for discussion by the Board. The Committee has appointed a consultancy to assist with the search and agreed a set of objective criteria on which the merits of the candidates will be assessed.

Risk Committee

Members Mike Power (Chairman), Sarah Bates and Roger Walsom

During 2006, Simon Gulliford stood down as a member of the Committee and was replaced by Sarah Bates. The Chief Executive, Managing Director, Group Sales Director, Group Risk Director, Executive Director – Internal Audit and Risk Management and an HBOS representative were all invited by the Chairman to attend meetings.

A summary of the terms of reference of the Committee is set out below:

- to foster a culture of effective risk identification and management throughout the Group,
- to review the material and emerging risks affecting the Group and to call for reports from management on how material risks are being managed,
- to report to the Audit Committee and the Board on any material areas of concern or weakness identified by the Committee,
- to review and approve the Group's Risk Appetite Statement and risk policies,
- to carry out an annual review of the procedures for the identification, recording and mitigation of material risks across the Group, and
- to make recommendations for changes in risk related practices or procedures.

During the year, the Committee received regular updates by senior executives on risk identification and mitigation within specific areas of the business, including the Group Services department, business checking functions, recruitment and money laundering. The Committee also formally reviewed and considered the following:

- the annual Risk Appetite Statement,
- risk reports from the Irish life company St James's Place International plc,
- the annual Money Laundering Reporting Officers Report,
- the Individual Capital Assessment, and
- reports from Operational Compliance on Risk Management.

Investment Committee

Members Sir Mark Weinberg (Chairman) and Sarah Bates

All of the Committee members held office throughout the year. Mark Lund was a Committee member until his resignation on 4 January 2007. The Committee is responsible for monitoring the performance and suitability of the external fund managers, with assistance from investment consultants Stamford Associates. The Group Business Development Director, Divisional Director – Asset Management and advisers from Stamford Associates were all invited to attend meetings during the year by the Chairman. The Committee's main responsibilities are:

- to oversee the Group's investment management approach,
- to monitor the performance and suitability of the fund managers and to ensure that they follow the terms of their agreements with the Group,
- to make recommendations in relation to the appointment or removal of fund managers
- to oversee market risk, and
- to consider and make recommendations in relation to the appointment and the continued effectiveness of the investment consultant.

The Committee's approach to fund management is to adopt considered views about the likelihood of future outcomes which will put the Company in an informed position to take decisive and remedial action, if appropriate, preferably before a period of sustained poor investment results has been experienced by an investment manager. For example, during the year the Committee devoted time to considering

- the possible consequences arising from the retirement of Nils Taube from Taube Hodson Stonex Partners (THSP), and
- oversaw an extensive search of more than 80 investment management professionals on a worldwide basis, before appointing Richard Pierson of AXA /Framlington and Paul Butler of Newton to the St James's Place's investment offering

A copy of the Report of the Investment Committee 2006, which gives more details on the work of the Investment Committee, can be obtained by contacting the Company

Urgent Issues Committee

Comprising the Chairman and at least two other Directors, one of whom must be a non-executive Director, the role of the Urgent Issues Committee is to make decisions on matters of urgency which cannot await the next meeting of the Board. It can act only by unanimous decision. If this cannot be reached, the issue under consideration will be referred for decision to the full Board. The Committee did not meet during 2006

DIRECTORS' AND OFFICERS' INSURANCE

The Group has taken out insurance covering Directors and officers against liabilities they may incur in their capacity as Directors or officers

RELATIONS WITH SHAREHOLDERS

The Board maintains close relationships with institutional shareholders through dialogue and frequent meetings. In addition, there are regular meetings with the Company's brokers, JPMorgan Cazenove and Dresdner Kleinwort, who facilitate meetings with other investors and their representatives. Attendance notes from such meetings are circulated to members of the Board so they are aware of the views of major shareholders. The Senior Independent Director is available for consultation with shareholders should the need arise. Non-executive Directors are also available to meet with major shareholders on request

The Company's Annual General Meeting is held in London where members of the Board are available to answer shareholders' questions on the activities of the Board and its Committees. Where possible, the timing and location of the meeting is designed to encourage the participation of small shareholders

RELATIONSHIP WITH HBOS PLC

The Company and Halifax Group plc entered into a Relationship Agreement in order 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 in 2001, the Relationship Agreement was 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 SJP Group will be conducted on an arm's length basis. Under the Agreement, HBOS has power to appoint a number of Directors to the Board and its Committees. The number varies in relation to HBOS' shareholding in the Company and HBOS currently has the right to appoint three non-executive Directors to the Board. As at the date of this report, HBOS has appointed two non-executive Directors to the SJP Board, being Jo Dawson and Andy Hornby

RISK AND RISK MANAGEMENT

Introduction

The mechanisms for identifying, assessing, managing and monitoring risk are an integral part of SJP's management process. Understanding the risks we face and managing them appropriately aids effective decision making and contributes to the achievement of our business objectives

Each of our shareholders has made an investment in our business and by doing so accepts that in order to be successful we must take risks. As a regulated business, however, we also have specific duties to our clients. We must therefore manage risk to an acceptable level in accordance with our agreed risk appetite and whilst meeting our regulatory obligations.

Risk Management Framework

- **Risk appetite**

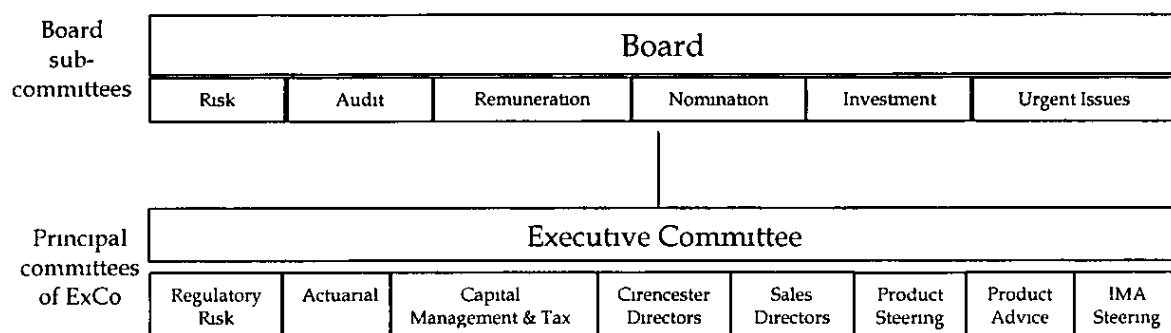
The Group's risk appetite statement lays out what types of risk the Group intends to take and to what extent. It is used to balance risk and return, recognising a range of outcomes, as business plans are implemented. The Board regularly reviews the risk appetite statement.

- **Risk policies**

The Group's Risk Management Policy sets out the key elements of the risk management framework and is designed to ensure that sound risk management practices are in place, including the application of the Group's risk appetite. This includes individual policies for Insurance Risk, Market Risk, Credit Risk, Liquidity Risk, Operational Risk and Group Risk.

- **Risk governance**

The Board is ultimately responsible for the system of risk management in the Group and for ensuring that the Risk Management Policy is adopted. The governance and decision-making mechanisms within the Group are set out in the Board Control Manual, in particular the activities of the Board, its sub-committees, the Executive Committee (ExCo) and its Principal Committees.



The Group's senior management have clearly defined responsibilities for managing specific risks.

- **Risk Management & Risk Assessment process**

Executive Management has primary responsibility for the application of the risk policies, remaining within the risk appetite, identifying and evaluating significant risks to the business, and for designing and operating appropriate controls to manage those risks. The Group uses a standard risk assessment process for identifying and evaluating significant risks to the achievement of its business objectives.

Risk information is reported through the management and governance structure to the Executive Committee and Board Risk Committee as appropriate.

The Group has a specialist Group Risk function, reporting to the Group Risk Director. Group Risk comprises separate Risk Management, Compliance and Internal Audit functions.

Principal Risks & Uncertainties

The principal risks facing the group are considered to be inherent within both our business model and the market environment within which we operate.

The principal risks and uncertainties faced by the Group can therefore be summarised under two headings:

Business Model Risks

Business Model Risks are those risks which naturally occur as a result of SJP's chosen strategy and methods of conducting business. The principal risks in this area are

- inability to maintain and develop the capacity of our distribution strength through the recruitment, retention and development of high quality advisors – The Partnership,
- loss of the ability to deliver the SJP Investment Management Approach and to ensure that this continues to meet client, Partner and investor expectations,
- the insurance and persistency risks associated with the business we conduct, including adverse morbidity or mortality experience,
- the threat of a significant new entrant to the Wealth Management sector, and
- reputational risks which could arise from, for example, the highly regulated market in which we operate

External Environment Risks

The wider business and political environment in which we operate, and the regulation to which it is subject, also gives rise to a number of potential risks for SJP. Whilst these risks are very varied, the principal risks faced in this area are

- the potential for fundamental changes in legislation which could have a detrimental impact on our business plan, including for example, changes to taxation regimes or the Welfare State system,
- the potential for unexpected changes to the Financial Services Authority's statutory objectives and the manner in which they regulate the UK financial services industry,
- a major and or prolonged economic downturn or stock market crash, and
- the loss of a key supplier or business partner

Internal Control

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. This includes a responsibility for financial, operational and compliance controls in managing the risks inherent in the business. The Audit and Risk Committees of the Board along with the appropriately staffed and qualified Internal Audit, Risk Management and Compliance functions support the Directors in the discharge of these responsibilities.

The Group has fully complied with provision C 2.1 of the Combined Code throughout the financial year and up to the date of approval of the Annual Report and Accounts.

In accordance with the Turnbull Guidance on Internal Control, the Directors and senior managers of the Group are committed to maintaining a strong control culture within all business areas and have established processes for evaluating and managing the significant risks faced by the Group. Adherence to regulatory codes of conduct is required at all times and the Board actively promotes a culture of quality and integrity. In addition to these ongoing procedures, the Audit Committee conducts an annual review that considers the effectiveness of the Group's systems of internal control including financial, operational, compliance and other risk management systems. The review also includes the nature and scope of the ongoing monitoring processes, including the effectiveness of the internal audit function, and the potential impact on these processes as a result of any changes during the year to the risks that the Group faces.

When control issues of significance have occurred the Audit Committee has received full and detailed reports from management and internal audit, including proposals for amending and strengthening the business systems involved in line with the Group's focus on continuous improvement. Where appropriate, such cases have been taken forward to the Board by the Chairman of the Audit Committee for noting and discussion.

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

In the Board's view, the information it has received from entity wide risk assessment, operational management, and the reports issued by the internal auditors was sufficient to enable it to properly review the effectiveness of the Company's system of internal control in accordance with the Guidance for Directors on Internal Control (Turnbull)

STATEMENT OF BUSINESS PRACTICE

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

- the Group's objectives,
- the St James's Place brand and how its integrity and value is maintained,
- the Group's corporate culture and management style,
- how the Group deals with internal and external communication, and
- the Group's commitment to the St James's Place Foundation, a charitable trust, more details of which can be found on pages 19 and 20

The booklet emphasises the values of integrity, trust, openness, partnership and teamwork and is designed to guide individual and corporate actions, decisions and standards

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE REPORT AND ACCOUNTS AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Report and Accounts and the group and parent company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards

The group financial statements are required by law and IFRSs, as adopted by the EU, to present fairly the financial position of the group and the performance for that period, the Companies Act 1985 provides that, in relation to such financial statements, references in the relevant part of that Act to financial statements giving a true and fair view, are references to their achieving a fair presentation

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company

In preparing each of the group and parent company financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent,
- for the group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company 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 parent company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities

The Directors have chosen to prepare supplementary information in accordance with the European Embedded Value Principles issued in May 2004 by the Chief Financial Officers Forum as supplemented by

the Additional Guidance on European Embedded Value Disclosures issued in October 2005 (the EEV Principles”) When compliance with the EEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the methodology contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles

In preparing the EEV supplementary information, the Directors have

- prepared the supplementary information in accordance with the EEV Principles,
- identified and described the business covered by the EEV Principles,
- applied the EEV Principles consistently to the covered business,
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently, and
- made estimates that are reasonable and consistent

Under applicable law and regulations, the Directors are also responsible for preparing a Directors Report, Directors’ Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company s website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

REMUNERATION REPORT

The Directors have pleasure in presenting their Remuneration Report for the financial year ended 31 December 2006. The Report will be put to shareholders for approval at the forthcoming AGM. It also contains additional information required by the FSA Listing Rules and the Combined Code on corporate governance.

The sections marked with an asterisk (“*”) have been audited by KPMG Audit Plc.

THE REMUNERATION COMMITTEE

The Remuneration Committee (the “Committee”), on behalf of the Board, determines the remuneration packages of the Chairman and executive Directors of the Company. The Committee also monitors the remuneration of the senior management team and supervises the operation of the executive long term incentive schemes.

The members of the Committee are Michael Sorkin as Chairman, Derek Netherton and Simon Gulliford, all of whom are independent non-executive Directors. The membership and terms of reference of the Committee are reviewed at least annually and the terms of reference are available on request and on the Company’s website. Details of the number of meetings of the Committee during the year can be found in the Corporate Governance Report on page 28.

The Company Secretary, Hugh Gladman, acts as Secretary to the Committee, providing advice on corporate governance, legal and regulatory issues and the design and operation of the long term incentive schemes. At the Committee’s request, Committee meetings are also attended by other executives, in particular Mike Wilson, the Chairman, who may make recommendations to the Committee regarding changes to the remuneration packages of individual Directors or policy generally. Such recommendations are discussed by the Committee and adopted or amended as the Committee sees fit. No Director is present at any part of a meeting of the Committee when his own remuneration or contractual terms are being discussed.

The Committee also has access, as required, to professional advice and market data and this was provided by New Bridge Street Consultants LLP (“NBSC”) in 2006. NBSC was appointed by the Committee to provide advice and data on executive remuneration, long term incentives and other remuneration issues and they have not provided any other services to the Company.

REMUNERATION POLICY

The Committee applies the principles set out in the Combined Code when setting remuneration policy. The remuneration policy for 2006 and future years, as approved by the Committee, is designed to ensure that remuneration is sufficiently competitive to attract, retain and motivate executive Directors of sufficient calibre to enable the Group to achieve its business objectives.

The Committee aims to set fixed benefits (salary, pension and fringe benefits) at slightly below the median position for companies of a similar size in the UK financial services market (although a cross check is also made against companies of a similar size in other sectors), with significant annual bonus and long term incentive awards enhancing an executive’s potential total remuneration to on or slightly above the median, but only if stretching short term and long term performance targets are achieved. In this way, the Committee aims to incentivise the Directors to achieve above average results compared with competitor organisations. The incentive schemes are designed to be retentive in nature as well as linking the value of an award to movements in the share price, in line with shareholder interests. Based on data provided by NBSC, approximately 50-55% of the total remuneration of the executive Directors is performance related, except for Mike Wilson, the Chairman, where approximately 45% of his total remuneration is performance related.

The full-time Executive Chairman, Mike Wilson, does not participate in the annual bonus scheme. He does, however, participate in the long term incentive scheme (the Performance Share Plan), as this plan focuses on long term value creation (rather than the more operationally focussed annual bonus plan). Any shares in the Company which vest to Mike Wilson will be retained by him until he ceases to be a Director of the Company, less any shares required to meet a tax liability on vesting.

The Committee also operates shareholding guidelines for the executive Directors, whereby as and when awards vest under the PSP or other long term incentive schemes, the executive Directors are required to retain no fewer than 50% of the vested shares, less any shares required to pay any tax liability which arises on vesting, until such time as a shareholding equivalent to 100% of base salary has been achieved

The Committee has followed the provisions of Schedule A to the Combined Code in designing schemes of performance-related remuneration. Further details of all of the above elements of remuneration are set out below

SALARIES

Salaries are reviewed annually in January, using comparative company data provided by NBSC. As stated above, the Committee aims to set fixed benefits (salary, pension and fringe benefits) slightly below the median position for companies of a similar size in the UK financial services market (with a cross check with other sectors), with adjustments then being made to take into account the responsibility and accountabilities of each role, the experience of the relevant individual and any other relevant factors. On this basis, the Committee approved the following salary increases for the executive Directors with effect from 1 January 2007, these salaries when taken together with pension and other fringe benefits represent around 95% of the median, based on the comparator data provided by NBSC. No change was made to the salary of Mike Wilson

	New Salary	Previous Salary
David Bellamy	£300,000	£280,000
Ian Gascoigne	£300,000	£280,000
Andrew Croft	£300,000	£258,000

The Committee considered that David Bellamy should also receive a temporary salary supplement for 2007 in light of his current role as 'acting chief executive' following the resignation of Mark Lund from the Board in January 2007. Accordingly, David Bellamy has been awarded a salary supplement of £100,000 (thus increasing his salary to £400,000) for 2007. The Committee decided that the salary supplement should be pensionable and taken into account when awarding any annual discretionary bonus for 2007. However, his other fringe benefits will be calculated by reference to his fixed salary of £300,000 per annum as will any long term incentive award under the performance share plan. This supplemental arrangement will be reviewed at the end of 2007, if still applicable.

The salary increases have been determined after recognising the need to increase salary levels so as to provide broadly competitive fixed benefits. The salary for Andrew Croft has been moved closer to (but still below) the market median and has been equalised with the other executive Directors in recognition of his performance and development over 2006 and the fact that he has now successfully carried out the role of Group Finance Director for more than two years.

ANNUAL BONUS

For 2007, as in previous years, the Committee has determined that the maximum annual bonus will be 120% of salary, with half of any bonus award payable in cash, the remainder being invested in the Company's shares and deferred for 3 years. The operating profit target set by the Committee is based on a sliding scale, to progressively reward incremental performance. The range of operating profit before tax for the 2007 bonus represents a significant increase from the actual level of operating profit before tax achieved in 2006. The Committee also set out other strategic objectives for 2007, based on the business plan, and the maximum bonus has been calibrated to ensure that it will only be payable if the Committee considers that "outstanding" performance has been achieved by the Group and also by the executive Directors.

Taking the cash and shares element of the bonus together, up to 80% of salary will be awarded by reference to the performance of the Group, largely based on growth in European Embedded Value operating profit before tax, although the Committee retains the discretion to amend the bonus, up or down, to take into account other relevant factors such as the Group's performance compared with competitor organisations, regulatory issues and completion of other business plan objectives. Up to a further 40% of salary will be awarded by reference to the personal performance of the executive Directors both individually and collectively as a unit. In order to maintain a team ethic, the Committee intends to award the personal performance element of the bonus on a team basis in 2007 by applying an average of the performance gradings for the executive Directors, although the Committee intends to review this policy for 2008.

The Committee is able to take into account the performance of the Group on environmental social and governance (ESG) matters when assessing the bonus to be paid to the executive Directors. The Committee believes that the Group's remuneration structure helps to alleviate ESG risks affecting the Group.

No executive Director has a contractual right to receive an annual bonus award. The satisfaction of the targets is assessed by reference to the Company's internal management information systems verified by the Committee, which the Committee believes is the most appropriate method, given the internal nature of the performance targets. Mike Wilson does not participate in the annual bonus scheme.

The Committee believes that the annual bonus scheme is an effective incentive for the executive Directors, whilst at the same time offering strong retentive characteristics through the deferred element which normally lapses if an executive leaves the Group, as well as being aligned with shareholder interests due to the value of the deferred element of the award on vesting being dependent on share price performance.

LONG TERM INCENTIVE SCHEMES

All UK employees of the Group, including the executive Directors, are eligible to enter into a Save As You Earn (SAYE) contract, under which they are 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.

The sole long term incentive plan operated by the Company is the Performance Share Plan (PSP). Under this Plan, the Committee may make awards of performance shares to the executive Directors, which vest after three years, subject to the achievement of challenging performance conditions. The PSP is also used to make awards to other senior managers within the Group.

The Committee reviewed the grant levels and the performance conditions in January 2007 and decided to continue with the existing policy of making annual PSP awards to the executive Directors, subject to the same mix of EPS and TSR performance conditions as in 2006. For 2007 awards under the PSP, two-thirds of the shares are subject to an earnings growth condition and one-third of the shares are subject to a comparative Total Shareholder Return ('TSR') condition, both measured over a single three-year period. Awards vest after three years subject to the achievement of the performance conditions and continued employment. The Committee believes that this provides an appropriate balance of targets that both incentivise the executives to achieve stretching long term financial performance targets, whilst also keeping their interests aligned with those of shareholders.

Earnings per share is calculated by reference to adjusted consolidated profit after tax on the European Embedded Value (EEV) basis of accounting for both the life and unit trust businesses (on a fully diluted per share basis). The adjustment to the consolidated after tax figures will be to strip out any earnings from Life Assurance Holding Corporation (an investment that has been sold), the EEV investment variance and any economic assumption change. Shareholders will appreciate that these factors are not within the control of management, with the latter two factors combined producing wide variations in reported earnings due to stock market fluctuations.

For the awards made in 2007, the two-thirds of the shares based on earnings will (as in 2006) vest if the following growth targets are achieved:

Average annual earnings growth	Proportion exercisable
Below RPI+ 8%	Zero
RPI+ 8%	25%
RPI+ 18% or more	100%
Between the above points	Pro rata between 25% and 100%

The Committee assessed these thresholds and believe them to be suitably demanding in the context of the prospects of the Company and the current operating environment.

For the one third of shares based on TSR, these will vest (as for awards made in 2006) as follows

Company's ranking compared to comparator group # at end of performance period	Proportion exercisable
Below median	Zero
Median	25%
Upper quartile	100%
Between the above points	Pro rata

Details of the awards made under the PSP are set out on page 44

The comparator group comprises Aberdeen Asset Management, AMVESCAP, Aviva, Bradford & Bingley, Close Brothers, F&C Asset Management, Friends Provident, Henderson Group, Investec, Legal & General, New Star Asset Management, Old Mutual, Prudential, Rathbone Brothers, Resolution, Royal & SunAlliance, Schroders and Standard Life. These companies were selected by the Committee as a result of having business interests comparable with those of the St James's Place Group

In considering the grant levels for awards in 2007, the Committee concluded that a modest increase in the annual grant level from 150% to 175% of salary would be appropriate for 2007 in recognition of the additional burden being placed on the executive team until such time as the Board appoints a new chief executive. It is currently intended that this higher grant will be for 2007 only, before reverting to a grant level of 150% of salary in 2008.

PENSION AND DEATH IN SERVICE BENEFITS

In 2006 employer contributions of 20% of base salary were made to the money purchase section of the Group's occupational pension scheme or to a Group personal pension for the executive Directors, except for Mike Wilson who received part of the relevant amount as additional salary due to the pension cap.

The costs of the pension and death in service arrangements for the executive Directors during the year ended 31 December 2006 are shown on page 43.

SERVICE AGREEMENTS

It is the Committee's policy that service agreements should generally terminate on the executive's 65th birthday and should not contain notice periods in excess of one year. The terms and conditions of the Directors' service agreements are reviewed regularly and all service agreements contain an express obligation on the executive to mitigate his loss in the event the agreement is terminated. In addition, the Company reserves the right to pay an amount representing the value of salary and benefits in lieu of any outstanding period of notice on a monthly basis so that, should the executive obtain alternative employment during the notice period, the monthly payments can be reduced to take into account any earnings received under the new employment.

When considering the size of any proposed termination payment, the Committee would take into account a number of factors including the health, length of service, age and the performance of the relevant executive, including the duty to mitigate his own loss, with a broad aim to avoid rewarding poor performance while dealing fairly with cases where the departure is due to other reasons, for example illness.

The Committee adopted the above principles when determining the compensation payable to Mark Lund when he left the Group on 5 January 2007.

All of the executive Directors have entered into a service agreement with the Company. Each service agreement can be terminated, inter alia, by either party giving the other not less than twelve months' written notice. The agreements automatically terminate on the 65th birthday of the executive (increased from age 60 due to recent age discrimination legislation). All the service agreements provide for benefits in kind, including life assurance, pension provision, private health insurance and a company car. Mike Wilson is also entitled to a chauffeur.

Further details of the service agreements of the executive Directors are provided below.

Executive	Date of contract	Base salary £	Date contract automatically terminates
Mike Wilson	27 May 2005	£500,000	5 December 2008
David Bellamy	8 August 2006	£300,000	15 April 2018
Ian Gascoigne	8 August 2006	£300,000	7 July 2021
Andrew Croft	8 August 2006	£300,000	11 June 2029

Currently, no executive Director acts as a non-executive Director on the Board of another listed company.

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. A basic annual fee of £20,000 per annum was paid to the non-executive Directors in 2006, with additional fees being paid in respect of Board Committee and other responsibilities. The Board reviewed the fees paid to the non-executive Directors in January 2007, in light of increased responsibilities due to the new Combined Code and other corporate governance changes. The Board decided to increase the basic annual fee to £25,000 per annum and the fees paid for membership of certain committees were also increased where felt appropriate due to increased time commitments.

Set out below are the annual fees paid to the non-executive Directors in 2006 and those currently payable in relation to 2007.

Director	2006 fee £	2007 fee £	Date of Letter of Appointment	Year of re- election at AGM
Sarah Bates	40,000	50,000	26 July 2004	2008
Jo Dawson#	20,000	25,000	31 May 2006	2007
Simon Gulliford	32,500	37,500	11 April 2005	2008
Andy Hornby#	20,000	25,000	31 May 2006	2007
Derek Netherton	40,000	47,500	15 Mar 1999	2007
Mike Power	47,500	52,500	22 April 2005	2009
Michael Sorkin	40,000	52,500	16 Oct 2001	2008
Roger Walsom	30,000	35,000	22 July 2005	2009

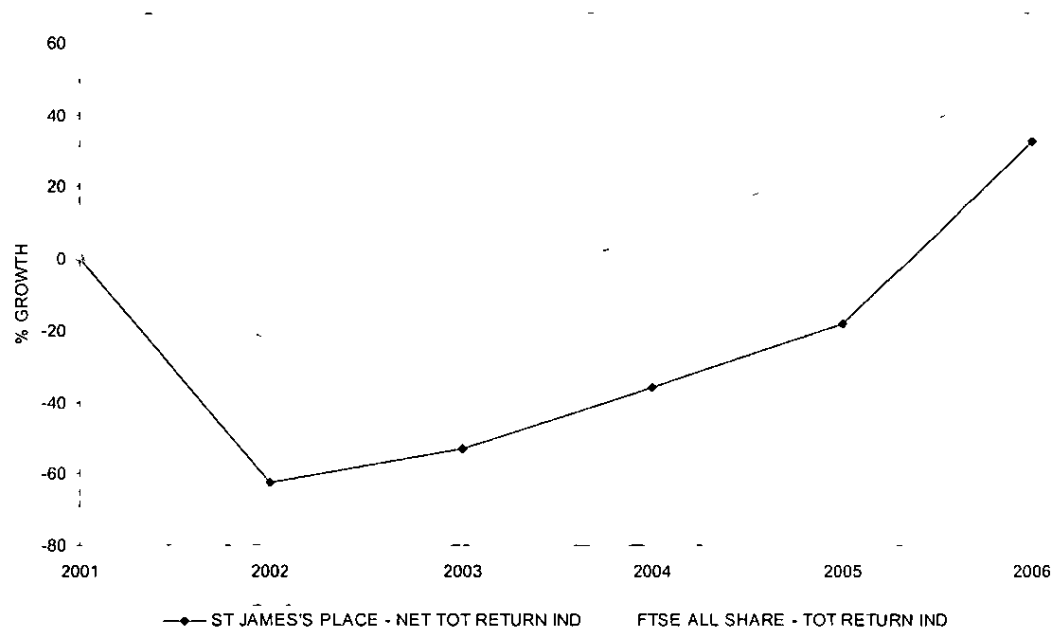
Notes

- (i) Fees to Directors marked with # are payable directly to HBOS plc
- (ii) Fees paid to Directors who left during 2006 are set out on page 43

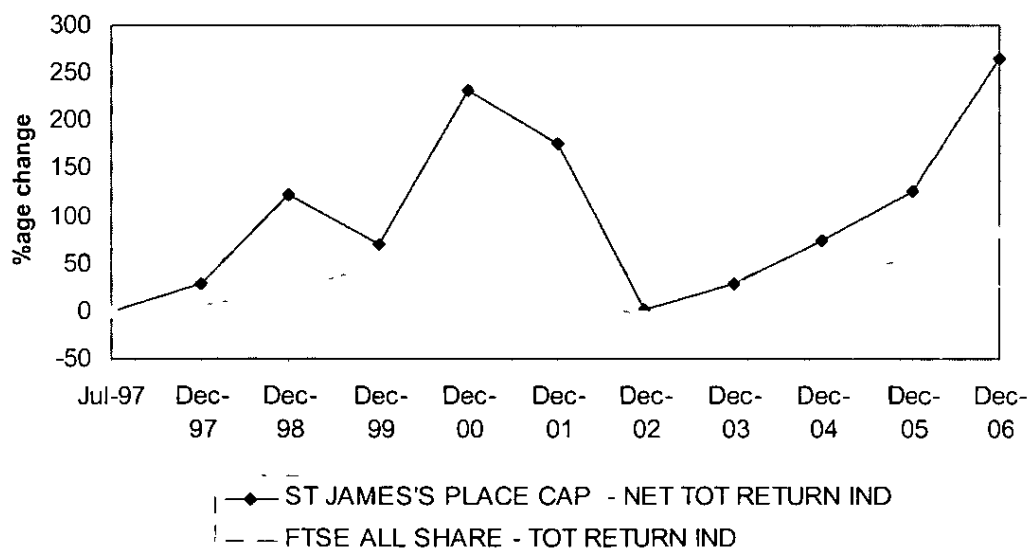
The non-executive Directors do not have service contracts or any benefits in kind arrangements and do not participate in any of the Group's pension or long term incentive arrangements. The term of the appointment of each non-executive Director (other than those appointed by HBOS plc pursuant to the Relationship Agreement described more fully on page 31) is for 3 years, terminating on the date on which the non-executive Director is required to retire by rotation at the AGM, at which time the appointment will be reviewed by the Board. Any period of service longer than six years is subject to particularly rigorous review by the Nominations Committee of the Board.

PERFORMANCE GRAPH

The graph below, prepared in accordance with the Companies Act 1985, shows a comparison of the Company's TSR performance against the FTSE All-Share index over the last five financial years. The Company considers this to be the most appropriate comparative index given the broad nature of the index and the companies within it.



The graph below shows a comparison of the Company's TSR performance against the FTSE All-Share index since July 1997, when the Company restructured and changed its focus to concentrate on its wealth management business.



DIRECTORS' REMUNERATION*

Total Directors' remuneration for the year ended 31 December 2006 is shown below, with comparative figures for the year ended 31 December 2005

	Year Ended 31 December 2006 £	Year Ended 31 December 2005 £
Aggregate emoluments		
Fees to non-executive Directors	270,000	312,788
Emoluments to executive Directors	3,106,401	3,017,873
Aggregate gains on exercise of share options	4,251,662	19,942
Company contributions to money purchase pension schemes – see note (iii) to the table below	348,600	262,750
	7,976,663	3,613,353

The following table, which has been prepared in accordance with regulatory requirements, sets out the elements of Directors' aggregate emoluments for the year ended 31 December 2006 or for the period ended 31 December 2006 if appointed during the year

Director	Salaries & Fees	Bonus	Deferred Bonus	Death In Service & Other Benefits	2006 Aggregate Emoluments	2005 Aggregate Emoluments
	£	£	£	£	£	£
Sarah Bates	40,000	-	-	-	40,000	31,592
David Bellamy	280,000	168,000	168,000	31,047	647,047	557,700
Andrew Croft	258,000	154,800	154,800	29,834	597,434	512,335
James Crosby	8,274	-	-	-	8,274	20,000
Jo Dawson	11,726	-	-	-	11,726	-
John Edwards	8,274	-	-	-	8,274	8,819
Ian Gascoigne	280,000	168,000	168,000	31,646	647,646	554,753
Simon Gulliford	32,500	-	-	-	32,500	20,739
Andy Hornby	11,726	-	-	-	11,726	-
Mark Lund	425,000	212,500	-	38,963	676,463	855,769
Derek Netherton	40,000	-	-	-	40,000	37,500
Mike Power	47,500	-	-	-	47,500	28,681
Michael Sorkin	40,000	-	-	-	40,000	34,780
Roger Walsom	30 000	-	-	-	30 000	13,322
Mike Wilson	500 000	-	-	37,811	537,811	537,316

Notes

- (i) Death in service and other benefits comprise the cost of life assurance, entitlement to company car or cash equivalent fuel, private health care, life and critical illness cover and are generally the amounts which are returned for taxation purposes
- (ii) The fees in respect of the services of James Crosby, John Edwards, Jo Dawson and Andy Hornby were paid directly to HBOS plc
- (iii) Company contributions to money purchase pension schemes for David Bellamy, Andrew Croft, Ian Gascoigne, Mark Lund and Mike Wilson were £56,000, £51,600, £56,000, £85,000 and £100,000 respectively. No other Directors had any such contributions made on their behalf. £75,000 of Mike Wilson's contributions were paid as additional salary due to the pensions cap
- (iv) For the annual discretionary bonus in 2006, executive Directors could earn up to 80% of salary by reference to Group performance based on growth in pre-tax operating profit and other business plan targets set at the start of the year, including growth in the Group's sales force (the St James's Place Partnership), growth in the productivity of the Partnership and the successful launch of various initiatives such as new products and additional funds to further develop the Group's unique approach to investment management. A further payment of up to 40% of salary could be earned by reference to individual performance, based on personal objectives set at the start of the year and the executive's performance generally in 2006

The Remuneration Committee met in January 2007 to review the performance of the Group and the executives against the objectives set at the start of the year. In light of the exceptional performance of the Group in 2006, including the 54% growth in pre-tax operating profits compared with 2005, the Committee awarded the maximum bonus of 120% of salary to each of the current executive Directors, 50% of which was payable in cash and the remaining 50% used to purchase deferred shares which vest in 3 years, subject to continued employment. Further details of the annual bonus scheme can be found on page 37.

SHARE AWARDS

The tables below set out details of share awards that have been granted to individuals who were Directors during 2006 and which had yet to vest at some point during the year.

Performance Share Plan - awards held during 2006 *

Director	Balance at 1 January 2006(i)	Granted in year (ii)	Exercised in year	Balance at 31 December 2006	Date from which exercisable	Expiry date
David Bellamy	170,648		-	170,648	17 May 2008	17 Nov 2008
		131,661		131,661	2 Mar 2009	2 Sept 2009
Andrew Croft	156,996		-	156,996	17 May 2008	17 Nov 2008
		121,316		121,316	2 Mar 2009	2 Sept 2009
Ian Gascoigne	170,648		-	170,648	17 May 2008	17 Nov 2008
		131,661		131,661	2 Mar 2009	2 Sept 2009
Mark Lund	259,385		-	259,385	17 May 2008	17 Nov 2008
		199,843		199,843	2 Mar 2009	2 Sept 2009
Mike Wilson	341,296		-	341,296	17 May 2008	17 Nov 2008
		235,109		235,109	2 Mar 2009	2 Sept 2009

Notes

- (i) These awards were made on 17 May 2005 when the share price was £2 1775. The performance period is the 3 year period ending on 31 December 2007. The performance conditions relate to EPS for two-thirds of the award and TSR for one-third of the award, as more fully described on pages 38 and 39, except that for 2005 awards the EPS scale starts at RPI +12.5% for 25% of the award to vest and ends at RPI +22.5% for 100% of the award to vest, with pro-rata vesting between the said points.
- (ii) These awards were made on 2 March 2006 when the share price was £3 1675. The performance period is the 3 year period ending on 31 December 2008. The performance conditions relate to EPS for two-thirds of the award and TSR for one-third of the award, as more fully described on pages 38 and 39, except that for 2006 awards the EPS scale starts at RPI +8% for 25% of the award to vest and ends at RPI +18% for 100% of the award to vest, with pro-rata vesting between the said points.

Deferred Bonus Scheme – shares held during 2006 *

The table below sets out details of the awards held by the Directors under the deferred element of the annual bonus scheme during 2006

Director	Balance at 1 January 2006	Released during year	Granted during year (i)	Balance at 31 December 2006 (ii)
David Bellamy	58,634	-	42,968	101,602
Andrew Croft	48,534	-	39,531	88,065
Ian Gascoigne	58,735	-	42,968	101,703
Mark Lund	50,619	-	65,312	115,931
Mike Wilson	125,647	-	-	125,647

Notes:

- (i) These deferred share awards were granted on 8 March 2006, equal in value to the executive's 2005 annual cash bonus. These shares will be held in trust for a restricted period ending on 8 March 2009. The share price on 8 March 2006 was £3.20.
- (ii) Outstanding awards at the year end relate to share awards granted in 2006 (see (i)), 2005 and 2004 (where for 2005 and 2004 the period ends on 29 March 2008 and 30 March 2007 respectively). The share price at the date of award for the 2005 grant (29 March 2005) was £2.42.
- (iii) No award under the deferred bonus scheme was made to the executive Directors in 2003. Further details of the deferred element of the annual bonus scheme are set out on page 37.

Executive Share Option Schemes – options held during 2006 *

Details of the options held by the Directors in 2006 under the Company's executive scheme (together with any outstanding options held under the previous scheme operated by St James's Place Wealth Management Group plc) and any movements during the year are as follows

Director	Options held at 1 January 2006	Granted in year	Exercised in year (i)	Options held at 31 December 2006	Exercise price	Date from which exercisable	Expiry date
David Bellamy	375,000	-	375,000	-	£1.33	1 July 2001	13 Jul 2007
	353,932	-	353,932	-	£0.89	10 Mar 2006	10 Mar 2013
	176,470	-	-	176,470	£1.78½	27 Feb 2007	27 Feb 2014
Andrew Croft	57,419	-	-	57,419	£1.33	1 July 2002	13 July 2007
	30,000	-	-	30,000	£1.45	15 Mar 2007	15 Mar 2012
	25,000	-	-	25,000	£1.45	28 Feb 2006	13 Dec 2010
	144,351	-	-	144,351	£1.19½	6 June 2006	6 June 2013
	134,453	-	-	134,453	£1.78½	27 Feb 2007	27 Feb 2014
Ian Gascoigne	208,434	-	208,434	-	£1.33	1 July 2002	13 July 2007
	337,078	-	337,078	-	£0.89	10 Mar 2006	10 Mar 2013
	184,873	-	-	184,873	£1.78½	27 Feb 2007	27 Feb 2014
Mark Lund	750,000	-	-	750,000	£1.78½	27 Feb 2007	27 Feb 2014
Mike Wilson	758,426	-	758,426	-	£0.89	10 Mar 2006	10 Mar 2013
	378,151	-	-	378,151	£1.78½	27 Feb 2007	27 Feb 2014

Notes:

- (i) On 10 March 2006, David Bellamy, Ian Gascoigne and Mike Wilson exercised options at the option prices per share as shown in the table above. The market price of the shares on 10 March 2006 was £3.07. The aggregate gain on the exercise of these options was £4,174,946.
- (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 2006 the mid market price for SJP shares was £4.2975. The range of prices between 1 January 2006 and 31 December 2006 was between £2.61 and £4.345.
- (iii) For options granted prior to 2004 to be exercisable requires the Company to have satisfied a performance target based on growth in operating profit of at least RPI plus 5% per annum over a 3 year period. For options granted in 2004, the Company's EPS must have grown by an average annual rate of RPI +3% to 5% over a fixed 3 year period for 33.33% to 100% of the options to be exercisable.

SAYE Share Option Schemes – options held during 2006 *

Details of the options held by the Directors in 2006 under the SAYE scheme and the equivalent predecessor scheme are as follows

Director	Options held at 1 January 2006	Granted in year	Exercised in year ⁽ⁱ⁾	Options held at 31 December 2006	Exercise price	Date from which exercisable	Expiry date
David Bellamy	22,812	-	-	22,812	£0.72	1 May 2008	31 Oct 2008
Andrew Croft	13,125	-	13,125	-	£0.72	1 May 2006	31 Oct 2006
	-	3,831	-	3,831	£2.44	1 May 2009	31 Oct 2009
Ian Gascoigne	13,125	-	13,125	-	£0.72	1 May 2006	31 Oct 2006
Mark Lund	11,354	-	-	11,354	£1.44	1 May 2009	31 Oct 2009
Mike Wilson	22,812	-	-	22,812	£0.72	1 May 2008	31 Oct 2008

- (i) Andrew Croft and Ian Gascoigne exercised share options held under the SAYE Share Option Scheme on 2 May 2006 when the mid-market price of SJP shares was £3.6425. The aggregate gain on the exercise of these options was £76,716.

SHARE INTERESTS

St. James's Place plc *

The interests of the Directors in the share capital of the Company as at 1 January 2006 (or as at the date of appointment, if applicable) and as at 31 December 2006 (or as at the date of resignation, if applicable) are given below

Director	31 December 2006†† Ordinary Shares of 15 pence each		1 January 2006 † Ordinary Shares of 15 pence each	
	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Sarah Bates	13,500	-	13,500	-
David Bellamy	507,827	238,100	464,859	238,100
Andrew Croft	103,190	-	52,534	-
James Crosby††	-	-	-	-
Jo Dawson†	-	-	-	-
John Edwards††	-	-	-	-
Ian Gascoigne	244,953	30,000	201,986	30,000
Simon Gulliford	-	-	-	-
Andy Hornby†	-	-	-	-
Mark Lund	138,511	-	73,199	-
Derek Netherton	10 000	-	10,000	-
Mike Power	-	-	-	-
Michael Sorkin	-	-	-	-
Roger Walsom	-	-	-	-
Mike Wilson	3,625,584	750,000	3,625,584	750,000

†or date of appointment

††or date of resignation

Notes

- (i) The beneficial interests of the executive Directors set out above include deferred bonus scheme awards held in trust for the Directors, details of which are set out on page 45
- (ii) The Company's register of Directors' interests contains full details of Directors' shareholdings and any share awards under the Company's various share schemes

Between 31 December 2006 and 26 February 2007 there were no transactions in the Company's shares by Directors

DILUTION

Dilution limits agreed by shareholders at the time of shareholder approval of the various long term incentive schemes allow for the following

- up to 5% of share capital in ten years to be used for grants to employees under discretionary schemes,
- up to 10% of share capital in ten years to be used for grants to employees under all employee share schemes, and
- up to 15% of share capital in ten years to be used for grants to employees and members of the St James's Place Partnership (the Group's sales force) under all share schemes i.e. both the employee and Partner's share schemes. This increased limit reflects the unique structure of the business and the importance of the Partnership to the ongoing success of the Group

The table below sets out, as at 31 December 2006, the number of new ordinary shares in the Company which have been issued, or are capable of being issued (subject to the satisfaction of any applicable performance conditions) as a result of options or awards granted under the various long term incentive schemes operated by the Company in the last ten years

Share Scheme	Number of new ordinary shares of 15 pence each	% of total issued share capital as at 31 December 2006
SAYE schemes	4,567,820	0.98%
Executive Share schemes	10,924,313	2.36%
Partners Share schemes	53,363,164	11.50%
Total	68,855,297	14.84%

In addition, as at 31 December 2006, the Group's Employee Share Trust held 3,241,777 shares in the Company, which were purchased in the market to satisfy awards made under the PSP or executive share option schemes

HBOS plc *

The Directors had no interests in the share capital of HBOS plc as at 31 December 2006 except for the beneficial interests set out below

Director	31 December 2006 Ordinary Shares of 25 pence each	1 January 2006† Ordinary Shares of 25 pence each
Io Dawson†	52,485	51,667
Ian Gascoigne	3,500	3,500
Andy Hornby†	535,379	535,055
Mark Lund	474	474
Mike Wilson	1,500	1,500

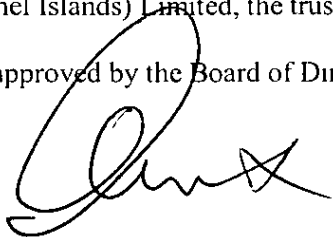
†For date of appointment

Between 31 December 2006 and 26 February 2007 there have been no transactions in shares of HBOS plc by Directors

Interests in Shares Held in Trusts

Certain executive Directors and employees are deemed to have an interest or a potential interest as potential discretionary beneficiaries under the SJP Employee Share Trust. As such, they were treated as at 31 December 2006 as being interested in 4,993,012 ordinary shares of 15p held by S G Hambros Trust Company (Channel Islands) Limited, the trustee of that trust.

This report was approved by the Board of Directors and signed on its behalf by

A handwritten signature in black ink, appearing to read 'Michael Sorkin', is written over the text 'signed on its behalf by'.

Michael Sorkin

Chairman, Remuneration Committee
26 February 2007

**CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC

We have audited the group financial statements of St James's Place plc for the year ended 31 December 2006, which comprise the Group Income Statement the Group Balance Sheet the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of St James's Place plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Report and Accounts and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 34.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes that specific information presented in the Key Performance Indicators, Chairman's Statement, Financial Commentary and Principal Risks and Uncertainties section of the Corporate Governance Report that are cross referred from the Directors' Report. In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority 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 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 Report and Accounts and consider whether it is consistent with the audited group financial statements.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group 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 explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group 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 group financial statements.

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006, and of its profit for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 IAS Regulation, and
- the information given in the Directors' Report is consistent with the group financial statements



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

26 February 2007

CONSOLIDATED INCOME STATEMENT

	Note	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Insurance premium revenue		101 2	104 6
Less premiums ceded to reinsurers		(33 8)	(31 2)
Net insurance premium revenue		<u>67 4</u>	<u>73 4</u>
Fee and commission income		87 6	82 4
Profit on sale of investment in Life Assurance Holding Corporation		7 0	9 5
Other investment return	4	1,519 3	1,838 1
Total investment income		<u>1,526 3</u>	<u>1,847 6</u>
Other operating income		1 8	1 9
Net revenue	3	<u>1,683 1</u>	<u>2,005 3</u>
Policy claims and benefits			
Gross amount		(58 2)	(60 9)
Reinsurers' share		23 1	26 2
Net policyholder claims and benefits incurred		<u>(35 1)</u>	<u>(34 7)</u>
Change in insurance contract liabilities			
Gross amount		62 0	(75 4)
Reinsurers' share		(41 0)	9 2
Net change in insurance contract liabilities		<u>21 0</u>	<u>(66 2)</u>
Investment contract benefits	22	(1,139 3)	(1,480 9)
Fees, commission and other acquisition costs		(260 6)	(218 8)
Administration expenses		(86 1)	(74 5)
Other operating expenses		(3 1)	(3 1)
	5	<u>(349 8)</u>	<u>(296 4)</u>
Operating profit		<u>179 9</u>	<u>127 1</u>
Financing costs		-	-
Profit before tax	3	<u>179 9</u>	<u>127 1</u>
Tax on policyholders' return	7	(72 3)	(83 9)
Tax on shareholders' return	7	(19 6)	4 4
Total tax expense	7	<u>(91 9)</u>	<u>(79 5)</u>
Profit for period attributable to shareholders	3	<u><u>88.0</u></u>	<u><u>47 6</u></u>
		Pence	Pence
Basic earnings per share	8	19 4	10 8
Diluted earnings per share	8	18 4	10 3
		£' Million	£' Million
Dividends	9	15 1	12 7
		Pence	Pence
Dividend per share			
Interim dividend	9	1 50	1 30
Proposed final dividend	9	2 15	1 85
Total		<u>3 65</u>	<u>3 15</u>
Proposed special dividend	9	6 35	-

The notes and information on pages 57 to 99 form part of these accounts

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2006 <u>£ Million</u>	Year Ended 31 December 2005 <u>£ Million</u>
Opening equity shareholders' funds	274.5	222.2
Profit for the financial period, being total recognised income for the financial period	88.0	47.6
Dividends	(15.1)	(12.7)
Issue of share capital		
Scrip dividend	11.1	8.4
Exercise of share options	19.2	6.5
Consideration paid for own shares	(5.4)	(0.5)
P & L reserve credit in respect of share option charges	7.6	3.0
P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust	<u>2.3</u>	<u>-</u>
Net increase to shareholders' funds	<u>107.7</u>	<u>52.3</u>
Closing equity shareholders' funds	<u>382.2</u>	<u>274.5</u>

The notes and information on pages 57 to 99 form part of these accounts

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

	Note	2006 £' Million	2005 £ Million
Assets			
Intangible assets			
Deferred acquisition costs	10	393 6	325 0
Acquired value of in force business	10	64 3	67 4
		457 9	392 4
Property & equipment	11	6 3	5 9
Deferred tax assets	12	83 8	70 5
Investment property	13	568 2	319 4
Investments			
Equities		9,014 5	7 317 3
Fixed income securities		595 2	573 1
Investment in Collective Investment Schemes		963 9	583 0
Currency forwards		0 2	0 2
Reinsurance assets	16	28 3	77 9
Insurance contract receivables		11 5	15 1
Income tax assets		9 7	21 0
Other receivables	17	87 1	97 1
Cash & cash equivalents	18	1,606 9	1,337 7
Total assets		13,433.5	10,810.6
Liabilities			
Insurance contract liability provisions	19	374 3	430 6
Other provisions	21	3 1	9 6
Financial liabilities			
Investment contracts	22	11,819 8	9,411 9
Borrowings	23	13 1	17 2
Currency forwards		0 1	2 5
Deferred tax liabilities	24	277 6	212 6
Reinsurance payables	16	-	8 9
Payables related to direct insurance contracts		18 5	19 5
Deferred income	25	291 9	249 7
Income tax liabilities		19 9	9 9
Other payables	26	100 5	71 4
Net asset value attributable to unit holders	15	132 5	92 3
Total liabilities		13,051.3	10,536.1
Net assets		382.2	274.5
Shareholders' equity			
Share capital	28	69 6	67 1
Share premium	30	57 4	29 6
Other reserves	30	(8 4)	(8 7)
Retained earnings	30	263 6	186 5
Total shareholders' equity		382.2	274.5
		Pence	Pence
Net assets per share		82 4	61 4

The financial statements on pages 53 to 99 were approved by the Board of Directors on 26 February 2007 and signed on its behalf by

D Bellamy
Managing Director

A Croft
Finance Director

The notes and information on pages 57 to 99 form part of these accounts

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Cash flows from operating activities		
Profit before tax for the period	179.9	127.1
Adjustments for		
Depreciation	2.5	2.8
Amortisation of acquired value of in-force business	3.1	3.1
Fair value gains on non-operating investments	(0.1)	(0.1)
P&L reserve credit in respect of share option charges	7.6	3.0
Profit on sale of investment	(7.0)	(9.5)
Changes in operating assets and liabilities		
Increase in deferred acquisition costs	(68.6)	(30.6)
Increase in investment property	(248.8)	(189.6)
Increase in investments	(2,100.2)	(1,797.8)
Decrease / (increase) in reinsurance assets	49.6	(7.6)
Decrease / (increase) in insurance contract receivables	3.6	(6.6)
Increase in other receivables	(3.5)	(23.5)
(Decrease) / increase in insurance contract liability provisions	(56.3)	79.3
Increase in provisions (excluding LAHC)	0.5	1.4
Increase in financial liabilities (excluding borrowings)	2,405.5	2,215.6
Decrease in reinsurance liabilities	(8.9)	(2.4)
Decrease / (increase) in payables related to direct insurance contracts	(1.0)	8.3
Increase in deferred income	42.2	17.9
Increase in other payables	29.1	20.2
Increase in net assets attributable to unit holders	40.2	34.1
Cash generated from operations	269.4	445.1
Income taxes paid	(9.3)	(2.4)
Net cash from operating activities	260.1	442.7
Cash flows from investing activities		
Acquisition of property and equipment	(3.0)	(1.9)
Proceeds from sale of plant and equipment	0.2	0.2
Proceeds from sale of LAHC	3.9	3.8
Net cash from investing activities	1.1	2.1
Cash flows from financing activities		
Proceeds from the issue of share capital	30.3	14.1
Consideration paid for own shares	(5.4)	(0.5)
Proceeds from exercise of options over shares held in trust	2.3	-
Repayment of borrowings	(4.1)	(5.2)
Dividends paid	(15.1)	(12.7)
Net cash from financing activities	8.0	(4.3)
Net increase in cash & cash equivalents	269.2	440.5
Cash & cash equivalents at 1 January	1,337.7	897.2
Cash & cash equivalents at 31 December	1,606.9	1,337.7

The notes and information on pages 57 to 99 form part of these accounts

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. ACCOUNTING POLICIES

St James s Place plc ("the Company") is a company incorporated and domiciled in England and Wales

Statement of Compliance

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group")

The group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs "). The Group has applied all IFRSs and interpretations adopted by the EU including all amendments to existing standards that are not effective until later accounting periods, except for the following

- *Amendments to IAS 1 Presentation of Financial Statements (Capital Disclosures)*
- *IFRS 7 Financial Instruments Disclosures*

The effective date for both this amendment and the new standard is 1 January 2007, and it is likely that further disclosures will be required when the standards are applied

The group financial statements also comply with the revised Statement of Recommended Practice issued by the Association of British Insurers in December 2005 in so far as these requirements do not contradict IFRS requirements

Basis of Preparation

The financial statements are presented in pounds sterling, rounded to the nearest one hundred thousand pounds. They are prepared on a historical cost basis except for assets classified as investment property, investments and currency forwards, which are held at fair value

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, assets and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements

Summary of Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial information incorporates the assets, liabilities and the results of the Company and of its subsidiary undertakings. Subsidiaries are those entities in which the Group directly or indirectly has the power to govern the financial and operating policies in order to gain benefits from its activities (including unit trusts in which the Group holds more than half of the units). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances, and any income and expenses or unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(b) Product classification

The Group's products are classified for accounting purposes as either insurance contracts or investment contracts. Insurance contracts are contracts which transfer significant insurance risk. Contracts that do not transfer significant insurance risk are treated as investment contracts. Where contracts contain both insurance and investment components and the investment components can be measured reliably, specifically unit linked pension contracts, the contracts are unbundled and the components are separately accounted for as insurance contracts and investment contracts respectively.

(c) Long-term business

(i) Premium income

For unit linked insurance contracts, premiums are recognised as revenue when the liabilities arising from them are recognised. All other premiums are accounted for when due for payment.

Investment contract premiums are not included in the income statement but are reported as deposits to investment contract liabilities in the balance sheet.

(ii) Revenue from investment contracts

Fees charged for services related to the management of investment contracts are recognised as revenue as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services, are deferred and amortised over the anticipated period in which services will be provided.

(iii) Claims

For insurance contracts, death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other claims and surrenders are accounted for when payment is due.

For investment contracts, benefits paid are not included in the income statement but are instead deducted from investment contract liabilities. The movement in investment contract benefits within the income statement represents the investment return credited to policyholders.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(iv) Acquisition costs

For insurance contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. Acquisition costs which are incurred during a financial year are deferred by use of an explicit asset which is amortised over the period during which the costs are expected to be recoverable and in accordance with the incidence of future related margins

For investment contracts, only directly related acquisition costs, which vary with and are related to securing new contracts and renewing existing contracts, are deferred to the extent that they are recoverable out of future revenue. These deferred acquisition costs, which represent the contractual right to benefit from providing investment management services, are amortised on a straight line basis over the average lifetime of the Group's investment contracts. All other costs are recognised as expenses when incurred.

Where contracts contain both insurance and investment components, specifically unit linked pension contracts, the associated deferred acquisition costs are classified as deferred acquisition costs on investment contracts. The associated deferred income on such contracts is included in deferred income on investment contracts.

(v) Insurance contract liabilities

Under current IFRS requirements, insurance contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices.

Insurance contract liability provisions are determined following an annual actuarial investigation of the long-term fund in accordance with regulatory requirements. The provisions are calculated on the basis of current information and using the gross premium valuation method. The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4, as they consider current estimates of all contractual cash flows, and of related cash flow such as claims handling costs.

Long-term business provisions can never be definitive as to their timing nor the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

(vi) Investment contracts

Investment contracts consist of unit linked contracts. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset value of the Group's unitised investment funds, determined on a bid value, at the balance sheet date. An allowance for deduction of future tax to be paid in respect of unrealised capital gains, discounted to reflect the time period over which such gains are expected to be realised, is also reflected in the measurement of unit linked liabilities. Investment contracts are recognised when the associated unit liability has been created, they are derecognised when the unit liability has been extinguished.

The decision by the Group to designate its unit linked liabilities as fair value through the income statement reflects the fact that the underlying investment portfolio is managed, and its performance evaluated, on a fair value basis.

(vii) Insurance contract receivables and payables

Insurance contract receivables and payables are initially recognised at fair value and subsequently at amortised cost.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(d) Reinsurance

The Group's insurance subsidiaries cede insurance premiums and risk in the normal course of business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct reinsurance business being reinsured. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Reinsurance liabilities represent amounts due to reinsurers under financial reinsurance arrangements in connection with the Group's critical illness claims experience, these arrangements are being terminated. The outstanding balance is calculated based on recognised actuarial principles in line with the methodology applied in the determination of insurance contract liabilities.

(e) Fee & commission income

Fee & commission income primarily consists of management fees on investment contracts (see accounting policy note c (ii)) and commission due in respect of products sold on behalf of third parties. Commission is recognised in full on acceptance and inception of the policy by the product provider. Where the product provider retains the right to clawback of commission on an indemnity basis, turnover on sale of these products is recognised net of a provision for the estimated clawback.

(f) Investment return

Investment return comprises investment income and investment gains and losses. Investment income includes dividends, interest and rental income from investment properties under operating leases. Dividends are accrued on an ex-dividend basis, and rental income is recognised in the income statement on a straight-line basis over the term of the lease. Interest, which is generated on assets classified as fair value through profit and loss, is accounted for on an accruals basis.

(g) Revenue

Revenue consists principally of premium income, fee and commission income and investment return. Accounting policies in respect of each of these are set out in the following accounting policy notes:

- Premium income (c) (i)
- Fee & commission income (e)
- Investment return (f)

(h) Expenses

(i) Operating lease payments

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and are spread over the life of the lease.

(ii) Financing costs

Financing costs comprise interest payable on borrowings calculated using the effective interest rate method.

(i) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax payable by the Group in respect of policyholders and shareholders. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Policyholder and shareholder tax

The total income tax expense for a period includes tax which is not related to profits earned by shareholders for the period, being the tax that is attributed to policyholders in the unit linked funds. The tax charge in the income statement is therefore analysed between shareholders' tax and policyholders' tax, the latter reflecting tax charges paid by the unit linked funds to relevant tax authorities and the movement in deferred tax on unrealised capital gains provided within the UK unit linked funds.

(j) Dividends

Dividend distributions to the Company's shareholders are recognised as liabilities in the period in which the dividends are declared, and, for the final dividend, when approved by the Company's shareholders at the annual general meeting.

(k) Intangible assets

(i) Deferred acquisition costs

See accounting policy note c (iv)

(ii) Acquired value of in-force business

The acquired value of in-force business in respect of insurance business represents the profits that are expected to emerge from insurance business acquired on business combinations. It is calculated at the time of acquisition using best estimate actuarial assumptions for interest, mortality, persistency and expenses, and it is amortised over the anticipated lives of the related contracts in the portfolio. An intangible asset is also recognised in respect of acquired investment management contracts representing the fair value of contractual rights acquired under those contracts.

The acquired value of in-force business is expressed as a gross figure in the balance sheet with the associated tax included within deferred tax liabilities.

(iii) Goodwill

Goodwill on the acquisition of subsidiaries prior to 1 January 2004 has been charged directly to reserves. Prospectively the Group's policy is to recognise goodwill on the balance sheet as an intangible asset, measured at cost less any accumulated impairment losses.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(l) Property & equipment

Items of property & equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy note q). The deemed cost of owner occupied property is the fair value by a determined independent valuer as at 1 January 2004, the date of transition to IFRS.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the property and equipment as follows:

• Computers	3 years
• Fixtures and fittings	5 years
• Office equipment	5 years
• Motor vehicles	4 years
• Buildings	50 years

(m) Investment property

Investment properties, which are all held within the unit linked funds, are properties which are held to earn rental income and / or for capital appreciation. They are stated at fair value.

An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every month.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy note (f).

(n) Investments

The Group's investments are all classified as fair value through profit and loss, with all gains and losses recognised within investment income in the income statement. The fair values of quoted financial investments, which represent the vast majority of the Group's investments, are based on current bid prices. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

The decision by the Group to designate its investments at fair value through the income statement reflects the fact that the investment portfolio is managed, and its performance evaluated, on a fair value basis.

The Group recognises purchases and sales of investments on trade date. The costs associated with investment transactions are included within administration expenses in the income statement.

(o) Currency forwards

The Group uses currency forwards within some unit linked funds to hedge exposure to foreign currency. Each contract is recognised initially and subsequently at fair value based on quoted market prices, with all changes in value recognised within investment income in the income statement.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

(p) Other receivables

Other receivables are stated at amortised cost less impairment losses

(q) Impairment policy

Formal reviews to assess the recoverability of deferred acquisition costs on insurance and investment contracts and the acquired value of in-force business are carried out at each balance sheet date. The recoverability of such assets is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. The carrying amounts of the Group's other assets that are not carried at fair value are also reviewed to determine whether there is any indication of impairment. If there is any indication of irrecoverability or impairment, the asset's recoverable amount is estimated based on its estimated future cashflows.

Impairment losses are reversed - through the income statement - if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation where applicable, if no impairment loss had been recognised.

(r) Cash & cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts to the extent that the Group has a right of set-off.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The Group recognises provisions for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(t) Borrowings

Borrowings are measured initially at fair value, net of transaction costs, and subsequently stated at amortised cost. The difference between the proceeds and the redemption value is recognised in the income statement over the borrowing period on an effective interest rate basis. Borrowings are recognised on drawdown and derecognised on repayment.

(u) Other payables

Other payables are stated at amortised cost.

(v) Net asset value attributable to unit holders

The Group consolidates unit trusts in which it holds more than half of the units. The third party interests in these unit trusts are measured at fair value and are shown in the balance sheet as net assets attributable to unit holders. Income attributable to the holdings is accounted for within investment income, offset by a corresponding change in investment contract benefits.

(w) Employee benefits

(i) Pension obligations

The Group operates a defined contribution personal pension plan for its employees. Contributions to this plan are recognised as an expense in the income statement as incurred.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The Group also has an occupational pension scheme with both a defined contribution and a defined benefit section, both of which are closed to new members

Contributions to the defined contribution section, in respect of existing members, are recognised as an expense in the income statement as incurred

The defined benefit section has no active members and there are thus no employer contributions. The residual liabilities to the current and deferred pensioners have been matched by purchased annuities (both immediate and deferred) from insurance companies and therefore no surplus or deficit will arise

(u) Share-based payments

The Group operates a number of share-based payment plans. The fair value of equity instruments granted is recognised as an expense spread over the vesting period of the instrument, with a corresponding increase in equity in the case of equity settled plans. The total amount to be expensed is determined by reference to the fair value of the awards at the grant date, measured using standard option pricing models.

At each balance sheet date, the Group revises its estimate of the number of equity instruments that are expected to vest and it recognises the impact of the revision of original estimates, if any, in the income statement, such that the amount recognised for employee services are based on the number of shares that actually vest. The charge to the income statement is not revised for any changes in market vesting conditions.

(x) Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid is deducted from equity attributable to shareholders, as disclosed in the Treasury Shares reserve. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects.

(y) Foreign currency translation

The Group's presentational currency is pounds sterling. The functional currency of the Group's foreign operations is the currency of the primary economic environment in which these entities operate.

Foreign currency transactions are translated into sterling using the approximate exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gain or losses on translation are recognised in the income statement.

Non-monetary assets and liabilities which are held at historical cost are translated using exchange rates prevailing at the date of transaction, those held at fair value are translated using exchange rates ruling at the date on which the fair value was determined.

(z) Segment reporting

The principal activity of the Group is the transaction of long-term insurance and investment business and the Group segments its operations by lines of business: life, unit trust and other business revenues. Revenues and expenses allocated to business units reflect those revenues and expenses generated in or incurred by the legal entities comprising the segments.

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

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(aa) Current and non-current disclosure

Assets which are expected to be recovered or settled no more than twelve months after the balance sheet date are disclosed as current within the notes to the accounts. Those expected to be recovered or settled more than twelve months after the balance sheet date are disclosed as non-current.

Liabilities which are expected and due to be settled no more than twelve months after the balance sheet date are disclosed as current within the notes to the accounts. Those liabilities which are expected and due to be settled more than twelve months after the balance sheet date are disclosed as non-current.

Deferred tax balances are all treated as non-current.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements

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

Estimates

The principal areas in which the Group applies accounting estimates are

- providing for long-term insurance business,
- deciding the amount of management expenses that are treated as acquisition expenses,
- amortisation and recoverability of deferred acquisition costs and deferred income, and
- determining the fair value, amortisation and recoverability of acquired in-force business.

Estimates are also applied in determining the level of deferred tax asset on unrelieved expenses and other provisions – these are set out in notes 12 and 21 respectively.

The Group has applied estimation techniques consistent with those applied for the prior year accounts, except in the application of PS06/14, which has been applied in full and has had a significant effect on the reported results.

Providing for long-term insurance business

In 2006 the FSA made changes to the reserving requirements for insurance contracts through PS 06/14. The most important change was to introduce an allowance for the effect of lapses. However they also made a distinction between attributable and non-attributable expenses and required only that non-attributable expenses be reserved for at portfolio level. The lapse assumption was set prudently based on an investigation of experience during the year, as was the level of attributable expenses. No additional reserve was required for non-attributable expenses, as the future costs were less than future margins emerging. The adoption of PS06/14 has increased pre-tax profits by £14.7 million in 2006.

The other assumptions used in the calculation of insurance business liabilities that have a significant effect on the income statement of the Group are the assumed rate of investment return (based on the regulatory maximum rounded to the lower 0.1%) and the mortality and morbidity tables used for the calculation of non-linked insurance liabilities (based on the results of an investigation of experience during the year). Greater detail on the assumptions applied is shown in note 19.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Other estimates

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

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

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

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

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

3. SEGMENT REPORTING

The Group segments its operations into three lines of business:

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

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The income and results of these segments are as follows

Net Revenue	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Life business		
Net insurance premium income	67.4	73.4
Net movement on deferred income	(23.3)	(7.8)
Investment income – unit linked policyholders	1,503.9	1,813.3
Segment revenue	1,548.0	1,878.9
Unit trust business		
Fee income (excluding deferred income)	67.7	49.0
Net movement on deferred income	(18.9)	(10.1)
Segment revenue	48.8	38.9
Other business		
Commission income	62.1	51.3
Investment income – sale of investment in LAHC	7.0	9.5
Investment income – other shareholders	6.7	5.4
Investment income – other ⁽¹⁾	8.7	19.4
Other operating income	1.8	1.9
Segment revenue	86.3	87.5
Total revenue⁽²⁾	1,683.1	2,005.3

(1) *Investment income - other* relates to investment income on third party holdings in the St James's Place unit trusts which are subject to consolidation (the third party holdings are disclosed as "net asset value attributable to unit holders" within the balance sheet). This income is offset by a change in investment contract benefits within the income statement.

(2) All revenue is generated from external transactions.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Segment Result	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Life business		
Shareholder	85.5	29.3
Policyholder tax gross up	72.3	83.9
Unit trust business	18.0	12.8
Profit on sale of investment – LAHC	7.0	9.5
Other loss	(2.9)	(8.4)
Total other business	4.1	1.1
Total operating profit	179.9	127.1
Financing costs	-	-
Profit before tax	179.9	127.1
Income taxes		
Policyholder tax	(72.3)	(83.9)
Shareholder tax	(19.6)	4.4
Profit after tax	88.0	47.6

Other Segmental Information

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Segment Assets		
Life business	12,963.5	10,433.9
Unit trust business	103.3	82.2
Other business	303.9	260.7
Unallocated assets	93.5	91.5
Consolidation adjustments	(30.7)	(57.7)
Total Assets	13,433.5	10,810.6
Segment Liabilities		
Life business	12,481.8	10,097.9
Unit trust business	94.0	76.9
Other business	69.4	72.8
Unallocated liabilities	297.5	222.5
Consolidation adjustments	108.6	66.0
Total Liabilities	13,051.3	10,536.1
Capital expenditure		
Other business	3.0	1.9
Depreciation Expense		
Other business	2.5	2.8
Amortisation Expense		
Life business – DAC	35.0	36.2
Life business – acquired value of in-force business	3.1	3.1
Unit trust business - DAC	5.2	4.2

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

4. OTHER INVESTMENT RETURN

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Dividend income	264.6	198.5
Interest income	66.8	48.7
Rental income	21.6	12.8
Net realised gains	1,084.7	503.5
Net unrealised gains	72.9	1,055.2
Income attributable to third party holdings in unit trusts	8.7	19.4
Total other investment return	1,519.3	1,838.1

The investment return disclosed for the year ended 31 December 2005 has been grossed up to reflect the cost of investment transactions. The corresponding expense has been included under administrative expenses within the income statement. There is no effect on profit or net assets.

5. EXPENSES

The following items are included within the expenses disclosed in the income statement:

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Employee costs (see note 6)	36.6	30.0
Depreciation	2.5	2.8
Amortisation of acquired value of in-force business	3.1	3.1
Amortisation of DAC	40.2	40.4
Payment under operating leases	9.1	8.1
Fees payable to the company's auditor for the audit of the company's annual accounts	0.1	0.1
Fees payable to the company's auditor and its associates for other services		
- the audit of the company's subsidiaries pursuant to legislation	0.4	0.3
- other services pursuant to legislation	-	-

In addition to audit services relating to SJP plc and its subsidiaries, fees of £0.1 million (2005: £0.1 million) have been paid to the auditors in respect of the audit of the eleven unit trusts managed by the Group.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

6. EMPLOYEE COSTS

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Wages and salaries	29.5	24.2
Social security costs	4.5	3.4
Pension costs in relation to defined contribution schemes	2.6	2.4
Total employee benefits	36.6	30.0
Average number of persons employed by the Group during the year	579	549

The above information includes Directors' remuneration

Details of the Directors' remuneration, share option, pension entitlements and interests in shares are disclosed in the Remuneration Report on pages 36 to 49

7. INCOME TAXES

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Policyholder tax		
Overseas withholding taxes	9.2	7.1
Deferred tax	41.8	76.8
UK corporation tax	21.3	-
Total policyholder tax charge for the year	72.3	83.9

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Shareholder tax		
UK corporation tax		
Current year charge / (credit)	8.7	(5.7)
Prior year credit	-	(11.6)
Group relief		
Current year	-	6.9
Prior year charge	0.1	10.3
Overseas taxes	0.9	0.4
	9.7	0.3
Deferred tax charge / (credit)		
On unrelieved expenses	(1.1)	(8.7)
Other	11.0	4.0
Total shareholder tax charge for the year	19.6	(4.4)

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Reconciliation of tax charge		
Profit before tax	179.9	127.1
Tax at 30%	54.0	38.1
Effects of		
Pension losses – not relieved	-	(7.1)
Disposal of LAHC – non taxable	(2.1)	(2.9)
Deferred tax adjustment on unrelieved expenses	(1.1)	(8.7)
Overseas withholding tax in unit linked funds	9.1	7.1
Deferred tax in unit linked funds	30.6	56.0
Shareholder deduction for policyholder tax	(7.4)	-
Adjustments to reserves	(7.8)	-
Policyholder tax rate differential	19.8	-
Other adjustments	(3.2)	(3.0)
Total tax charge for the year	91.9	79.5

8 EARNINGS PER SHARE

	Year Ended 31 December 2006 Pence	Year Ended 31 December 2005 Pence
Basic earnings per share	19.4	10.8
Adjustments – disposal of LAHC	(1.5)	(2.2)
Basic adjusted earnings per share	17.9	8.6
Diluted earnings per share	18.4	10.3
Adjustments – disposal of LAHC	(1.5)	(2.1)
Diluted adjusted earnings per share	16.9	8.2

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

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Earnings		
Profit after tax (<i>for both basic and diluted EPS</i>)	88.0	47.6
Adjustments – disposal of LAHC	(7.0)	(9.5)
Adjusted profit (<i>for both basic and diluted EPS</i>)	81.0	38.1
Weighted average number of shares		
Weighted average number of ordinary shares in issue (<i>for basic EPS</i>)	452.8	442.0
Adjustments for outstanding share options	25.8	20.4
Weighted average number of ordinary shares (<i>for diluted EPS</i>)	478.6	462.4

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

9. DIVIDENDS

The following dividends have been paid by the Group

	Year Ended 31 December 2006 Pence per share	Year Ended 31 December 2005 Pence per share	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Final dividend in respect of previous financial year	1 85	1 60	8 3	6 9
Interim dividend in respect of current financial year	1 50	1 30	6 8	5 8
Total	3.35	2.90	15.1	12.7

The Directors have recommended a final dividend of 2 15 pence per share (2005 1 85 pence). This amounts to £10 0 million (2005 £8 3 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 18 May 2007 to those shareholders on the register as at 9 March 2007.

The Directors have also recommended the payment of a special dividend of 6 35 pence per share (2005 nil), which amounts to £29 5 million. Subject to shareholder approval at the Annual General Meeting, it will also be paid on 18 May 2007 to those shareholders on the register as at 9 March 2007.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

10 INTANGIBLE ASSETS

	Deferred Acquisition Costs			Total DAC	Acquired value of in-force business	Total
	Life business - insurance DAC	Life business - investment DAC	Unit trust business - investment DAC		£ Million	
	£ Million	£ Million	£ Million	£ Million		£ Million
Cost						
At 1 January 2005	53.6	232.8	48.3	334.7	73.4	408.1
Additions	8.9	48.8	13.3	71.0	-	71.0
At 31 December 2005	62.5	281.6	61.6	405.7	73.4	479.1
At 1 January 2006	62.5	281.6	61.6	405.7	73.4	479.1
Additions	8.4	78.7	21.7	108.8	-	108.8
At 31 December 2006	70.9	360.3	83.3	514.5	73.4	587.9
Amortisation						
At 1 January 2005	18.6	18.2	3.5	40.3	2.9	43.2
Charge for the year	15.2	21.0	4.2	40.4	3.1	43.5
At 31 December 2005	33.8	39.2	7.7	80.7	6.0	86.7
At 1 January 2006	33.8	39.2	7.7	80.7	6.0	86.7
Charge for the year	10.4	24.6	5.2	40.2	3.1	43.3
At 31 December 2006	44.2	63.8	12.9	120.9	9.1	130.0
Carrying value						
At 1 January 2005	35.0	214.6	44.8	294.4	70.5	364.9
At 31 December 2005	28.7	242.4	53.9	325.0	67.4	392.4
At 31 December 2006	26.7	296.5	70.4	393.6	64.3	457.9
Outstanding amortisation period						
At 31 December 2005	6 years	14 years	14 years		20 years	
At 31 December 2006	6 years	14 years	14 years		19 years	

Amortisation of deferred acquisition costs is charged within the fees, commission and other acquisition costs line in the income statement. The amortisation of the acquired value of in-force business is charged within other operating expenses.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

11. PROPERTY & EQUIPMENT

	Fixtures, Fittings, Computers & Office Equipment	Motor Vehicles	Land & Buildings	Total
	£ Million	£ Million	£ Million	£ Million
Cost				
At 1 January 2005	26.7	1.7	1.2	29.6
Additions	1.2	0.7	-	1.9
Disposals	-	(0.5)	-	(0.5)
At 31 December 2005	27.9	1.9	1.2	31.0
At 1 January 2006	27.9	1.9	1.2	31.0
Additions	2.4	0.6	-	3.0
Disposals	-	(0.7)	-	(0.7)
At 31 December 2006	30.3	1.8	1.2	33.3
Depreciation				
At 1 January 2005	21.9	0.8	-	22.7
Charge for the year	2.4	0.4	-	2.8
Disposals	-	(0.4)	-	(0.4)
At 31 December 2005	24.3	0.8	-	25.1
At 1 January 2006	24.3	0.8	-	25.1
Charge for the year	2.0	0.5	-	2.5
Disposals	-	(0.6)	-	(0.6)
At 31 December 2006	26.3	0.7	-	27.0
Net book value				
At 1 January 2005	4.8	0.9	1.2	6.9
At 31 December 2005	3.6	1.1	1.2	5.9
At 31 December 2006	4.0	1.1	1.2	6.3

12. DEFERRED TAX ASSETS

	31 December 2006	31 December 2005
	£ Million	£ Million
Life business – unrelieved expenses	17.1	16.0
Life business – deferred income	34.6	32.7
Unit trust business – deferred income	22.5	16.8
Other	9.6	5.0
Total deferred tax asset	83.8	70.5

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The valuation of the deferred tax asset in respect of unrelieved expenses has been calculated as at 31 December 2006 using a market consistent stochastic model of future income streams against which expenses will be relieved. The gross amount of unrelieved expenses for which no deferred tax asset has been recognised is £139.6 million at 31 December 2006 (2005: £242.1 million).

13. INVESTMENT PROPERTY

	31 December 2006 <u>£ Million</u>	31 December 2005 <u>£ Million</u>
Balance at 1 January	319.4	129.8
Additions	291.0	167.1
Disposals	(95.0)	(1.5)
Changes in fair value	<u>52.8</u>	<u>24.0</u>
Balance at 31 December	<u>568.2</u>	<u>319.4</u>

The rental income and direct operating expenses recognised in the income statement in respect of investment properties are set out below. All expenses relate to property generating rental income.

	Year Ended 31 December 2006 <u>£ Million</u>	Year Ended 31 December 2005 <u>£ Million</u>
Rental income	21.6	12.8
Direct operating expenses	1.1	0.2

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

14. ASSETS HELD TO COVER UNIT LINKED LIABILITIES

Included within the balance sheet are the following assets and liabilities which represent the net assets held to cover linked liabilities. The difference between these assets and liabilities and those shown in the consolidated balance sheet represents assets and liabilities held outside the unit linked funds

	31 December 2006 <u>£ Million</u>	31 December 2005 <u>£ Million</u>
Assets		
Investment property	568.2	319.4
Investments		
Equities	8,883.0	7,230.8
Fixed income securities	544.4	507.5
Investment in Collective Investment Schemes	728.6	460.4
Currency forwards	0.2	0.2
Other receivables	39.4	57.6
Cash and cash equivalents	1,501.4	1,240.8
Total assets	<u>12,265.2</u>	<u>9,816.7</u>
Liabilities		
Financial liabilities		
Currency forwards	0.1	2.5
Deferred tax liabilities	139.8	98.0
Other payables	33.5	24.6
Total liabilities	<u>173.4</u>	<u>125.1</u>
Net assets held to cover linked liabilities	<u>12,091.8</u>	<u>9,691.6</u>

15. ASSETS ATTRIBUTABLE TO UNIT HOLDERS

The following assets and liabilities are attributable to third party holdings in the St James's Place unit trusts which are subject to consolidation

	31 December 2006 <u>£ Million</u>	31 December 2005 <u>£ Million</u>
Investments – equities	131.5	86.5
Cash and cash equivalents	2.3	5.4
Other receivables	0.8	0.6
Other payables	(2.1)	(0.2)
Net assets attributable to unit holders	<u>132.5</u>	<u>92.3</u>

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

16. REINSURANCE BALANCES

	31 December 2006 £' Million	31 December 2005 £' Million
Reinsurers' share of insurance contract liabilities		
Long term insurance contract liability	23 0	72 9
Claims outstanding	5 3	5 0
Reinsurance assets	28 3	77.9
Current	8 0	13 2
Non current	20 3	64 7
	28 3	77 9
Reinsurance payables	-	8.9
Current	-	1 3
Non current	-	7 6
	-	8 9

The reinsurance payables balance in 2005 related to a financial reinsurance arrangement which is being dismantled. As a consequence the reinsurance payables balance has been extinguished at the end of 2006, and the reinsurance asset balance has also decreased by the equivalent amount.

The application of PS06/14 in 2006 has also had a significant impact on the reinsurance assets, reducing the outstanding balance by £29 0 million.

A reconciliation of the movement in the net reinsurance balance is set out below.

	31 December 2006 £' Million	31 December 2005 £' Million
Net reinsurance balance at 1 January	69 0	59 0
Reassurance component of net change in claims provision	0 3	0 8
Reassurance component of change in insurance liabilities	(41 0)	9 2
Net reinsurance balance at 31 December	28.3	69.0

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

17. OTHER RECEIVABLES

	31 December 2006	31 December 2005
	£' Million	£' Million
St James's Place Partnership loans	16.9	6.7
Deferred LAHC proceeds	3.9	7.8
Prepayments	4.9	5.8
Unearned commission	10.4	3.0
Miscellaneous	11.6	16.2
Unit linked funds	39.4	57.6
Total other receivables	87.1	97.1
Current	65.0	87.9
Non current	22.1	9.2
	87.1	97.1

The fair value of other receivables is not materially different from amortised cost

18. CASH & CASH EQUIVALENTS

	31 December 2006	31 December 2005
	£' Million	£' Million
Cash at bank	120.6	70.2
Deposits with credit institutions	-	31.4
Bank overdrafts	(17.4)	(10.1)
Cash & cash equivalents held outside unit-linked and unit trust funds	103.2	91.5
Balances held within unit-linked funds	1,501.4	1,240.8
Balances held within unit trust funds	2.3	5.4
Total cash & cash equivalents	1,606.9	1,337.7

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

19. INSURANCE LIABILITIES

	2006 £' Million	2005 £' Million
Balance at 1 January	430.6	351.4
Movement in unit linked liabilities	32.9	47.4
Movement in non-unit linked liabilities		
New business	(2.9)	(2.0)
Existing business	2.9	7.4
Effect of PS06/14	(43.7)	-
Other assumption changes	(29.4)	28.4
Claims reserve reclassification	(14.9)	-
Experience variance	(1.2)	(2.0)
Total movement in non-unit linked liabilities	(89.2)	31.8
Balance at 31 December	374.3	430.6
Current	52.5	47.4
Non current	321.8	383.2
	374.3	430.6

The changes introduced by the Financial Services Authority in PS06/14 resulted in significantly lower reserves. Other assumption changes in the year included revised expenses, lower future mortality and morbidity and release of additional reserves.

Assumptions used in the calculation of liabilities

The principal assumptions used in the calculation of the liabilities are

<u>Assumption</u>	<u>Description</u>
Interest rate	The valuation interest rate is calculated by reference to the long term gilt yield at 31 December 2006 and the specific gilts backing the liabilities. The specific rates used are between 3.2% and 4.5% depending on the tax regime (3.0% and 4.3% at 31 December 2005).
Mortality	Mortality is based on company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. The shape has changed since 2005 although the overall level is similar.
Morbidity – CI	Morbidity is based on company experience. The shape has changed since 2005 although the level is similar. Sample annual rates per £ for a male non-smoker are

<u>Age</u>	<u>Rate</u>
25	0.000703
35	0.001235
45	0.002953

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Morbidity – PHI

Morbidity is based on company experience. The rates have increased since 2005. Sample annual rates per £ income benefit p a for a male non-smoker are

<u>Age</u>	<u>Rate</u>
25	0.00586
35	0.01547
45	0.03356

Expenses

Contract liabilities are calculated allowing for the actual costs of administration of the business. The assumption for protection business has reduced, which has been offset by an increase in the pension assumption.

<u>Product</u>	<u>Cost</u>
Investment bonds	£19.63
Pension business	£39.07
Protection business	£31.28

Persistency

Allowance is made for a prudent level of lapses within the calculation of the liabilities. There was no allowance for lapses in 2005. Sample lapse rates include

<u>Product</u>	<u>1 – 5 years</u>	<u>6 + years</u>
Bond	3%	5%
Protection	14%	11%
Single premium pensions	2%	8%

Note: the lapse assumptions for single premium business vary by age rather than duration. The rates included in the table above are in respect of a plan commencing at age 55.

20 INSURANCE RISK

The Group assumes insurance risk through the issuance of insurance contracts under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. The Group insures mortality and morbidity risks.

Risk management objectives and risk policies

The Group has a medium appetite for insurance risk – to accept where financially beneficial, or in support of strategic objectives – and seeks to manage solvency risk and profit volatility through the use of reinsurance, reviewable terms, regular review of pricing and underwriting controls.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Terms and conditions

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

<u>Category</u>	<u>Essential Terms</u>	<u>Main Risks</u>	<u>Policyholder Guarantee</u>
Unit linked reviewable assurances	Deductions from units pay for benefits Deductions are reviewable at any time	Expense	No significant guarantees
Conventional reviewable assurances	Regular premiums pay for benefits. Premium level is reviewable every fifth policy anniversary	Mortality, morbidity, expense	Premium level guaranteed between reviews
Conventional guaranteed assurances	Premium level fixed throughout life	Mortality, expense	Premium and benefit level guaranteed

Management of risks

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

<u>Risk</u>	<u>Description</u>	<u>Management</u>
Underwriting	Failure to price appropriately for a risk, or the impact of anti-selection	Experience is monitored regularly. For most business the premium or deduction rates can be re-set.
Epidemic / disaster	An unusually large number of claims arising from a single incident or event	Protection is provided through reinsurance.
Expense	Administration costs exceed expense allowance	Administration is outsourced and the contract monitored regularly.

Sensitivity analysis

The table below sets out the sensitivity of the profit and net assets to key assumptions. The analysis reflects the change in the variable / assumption shown while all other variables / assumptions are left unchanged. In practice variables / assumptions may change at the same time as some may be correlated (for example, an increase in interest rates may also result in an increase in expenses if the increase reflects higher inflation). It should also be noted that in some instances sensitivities are non-linear.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Sensitivity analysis	Change in	Change in	Change in	Change in
	assumption	profit	profit	net assets
		before tax	before tax	net assets
		2006	2005	2006
	%	£ Million	£ Million	£ Million
Expense assumptions	-10%	2.1	4.3	1.8
Mortality / morbidity	-5%	0.2	1.6	0.2

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

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

21. OTHER PROVISIONS

	LAHC	Endowments	Office Restructuring	Other Provisions	Total
	£' Million	£' Million	£' Million	£' Million	£' Million
At 1 January 2006	7.0	1.5	0.9	0.2	9.6
Charged to the consolidated income statement	-	(0.7)	(0.9)	-	(1.6)
Additional provisions	-	-	2.1	-	2.1
Unused amounts released	(7.0)	-	-	-	(7.0)
At 31 December 2006	-	0.8	2.1	0.2	3.1
Current	-	0.5	1.1	0.1	1.7
Non current	-	0.3	1.0	0.1	1.4
	-	0.8	2.1	0.2	3.1

The LAHC provision related to possible endowment and pensions sales claims under the transaction warranties and indemnities associated with the disposal of LAHC in 2004. Following the settlement of various matters for which the Group had made provision at 31 December 2005, all of the provision has been released.

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

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

Other provisions refer to outstanding obligations remaining from the Halifax acquisition of 60% of the share capital of the Company in June 2000.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

22 INVESTMENT CONTRACT BENEFITS

	2006 £` Million	2005 £` Million
Balance at 1 January	9,411 9	7,192 2
Premiums	2,048 0	1,286 2
Claims & benefits	(770 7)	(528 0)
Investment contract benefits (principally representing investment income)	1,139 3	1,480 9
Less investment contract benefits attributable to third party holdings in unit trusts	(8 7)	(19 4)
Balance at 31 December	<u>11,819.8</u>	<u>9,411 9</u>
Current	579 2	385 9
Non current	11,240 6	9,026 0
	<u>11,819 8</u>	<u>9,411 9</u>

23 BORROWINGS

	31 December 2006 £` Million	31 December 2005 £` Million
Bank loan	<u>13.1</u>	<u>17.2</u>

The Company granted a Fixed Sum Guarantee in 2003 to Bank of Scotland in connection with loans made to members of St James's Place Partnership by Bank of Scotland

Under the terms of the guarantee, Bank of Scotland agreed, at the request of the Company, to provide loans ('Partner Loans '), either by way of new loans or by an equitable assignment of existing loans, to the members of the St James's Place Partnership. In the event of default on any of these loans the Company guarantees to repay the outstanding balance of the loan

The guarantee can be terminated at any time by the Company giving three months notice. At 31 December 2006, the balance of Bank of Scotland loans covered by this guarantee was £61.5 million (31 December 2005 £65.7 million)

Under the terms of the Assignment Agreement, the Assigned Loans remain legally in the name of the Group and the outstanding balance of £13.1 million is thus shown as both an asset under other receivables and a financial liability under borrowing

The fair value of the outstanding bank loan is not materially different from amortised cost

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

24 DEFERRED TAX LIABILITIES

	31 December 2006 £' Million	31 December 2005 £ Million
On deferred acquisition costs	108 2	88 7
On acquired value of in-force business	19 2	20 1
Within unit linked funds	139 8	98 0
Other	10 4	5 8
Total deferred tax liability	277.6	212.6

Deferred tax liabilities of £6 7 million as at 31 December 2006 (2005 £6 0 million) have not been recognised in respect of taxes that would be payable on the remittance of earnings from overseas subsidiaries. Unremitted earnings totalled £33 7 million at 31 December 2006 (2005 £30 1 million).

25. DEFERRED INCOME

	31 December 2006 £' Million	31 December 2005 £ Million
Life business	216 9	193 6
Unit trust business	75 0	56 1
Total deferred income	291.9	249.7

26. OTHER PAYABLES

	31 December 2006 £' Million	31 December 2005 £ Million
Accruals	44 9	32 8
Miscellaneous	22 1	14 0
Unit linked funds	33 5	24 6
Total other payables	100 5	71 4

All other payable balances are considered current.

The fair value of other payables is not materially different from amortised cost.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

27. FINANCIAL RISK

Risk management objectives and risk policies

The Group adopts a risk averse approach to financial risk with a stated policy of not actively pursuing and accepting financial risk except when necessary to support other objectives. The Group seeks to manage risk through the use of unit-linking for policyholder benefits and investing shareholder assets in highly rated investments.

Market risk

In order to limit the exposure of the Group to market risk, the majority of the Group's business is unit-linked, for which policyholders carry the financial risk. This removes any risk associated with being able to meet policyholders' liabilities. However, a reduction in the market value of the unit-linked funds would affect the annual management charges accruing to the Group, since these charges are based on the market value of funds under management. The associated reduction in dividends could also result in the deferral of tax relief on UK life business expenses and indirectly could also be associated with a reduction in the volume of new business sales.

Credit and interest rate risk

Shareholders' funds are invested in AAA rated unitised money market funds and deposits with approved banks, in accordance with the SJP Group Credit Policy, with a view to minimising credit and market risk. Maximum counterparty limits are set for each company within the Group and aggregate limits are also set at a Group level.

Non-linked liabilities are matched by fixed interest securities with minimum AA credit ratings, maximum counterparty limits are again set for each company within the Group and at an aggregate Group level. All fixed interest securities held by the Group are fixed rate and the Group is therefore not subject to cash flow interest rate risk. Fair value interest rate risk is not material since non-linked liabilities tend to move in line with the matching asset values, as a consequence of asset liability matching, although there is some residual risk due to imperfect matching.

Reinsurance risk is managed in accordance with the Group's Reinsurance Policy with credit ratings of potential reinsurers required to meet or exceed minimum specified levels. Consideration is also given to size, risk concentrations / exposures and ownership in the selection of reinsurers. The Group also seeks to diversify its reinsurance credit risk through the use of a range of reinsurers.

The reinsurance balance reflects reserves that reinsurers are holding on the Group's behalf which results in a credit exposure. The amount of this exposure relates primarily to one A-rated reinsurer, as set out in the credit risk tables below. The Group is actively seeking to minimise this concentration of credit risk. An earlier financial reinsurance arrangement, which had created a significant additional reinsurance balance, is currently being dismantled.

The Group's exposure to credit risk from financial support to the Partnership is managed through securing lending on future commission streams or business values, coupled with the application of monetary limits on the amounts lent to individual Partners.

Liquidity Risk

The Group is subject to minimal liquidity risk since it maintains a high level of liquid assets to meet its liabilities. Neither is the Group subject to significant currency risk since financial assets are denominated primarily in the same currencies as the associated liabilities.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Credit Risk

The following table sets out the credit risk exposure and ratings of financial and other assets which are most susceptible to credit risk as at 31 December 2006

	AAA	AA	A	Unrated	Nil Credit Exposure	Unit- Linked Funds	Attributable to Unit Holders	Total
	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Fixed income securities	50.8					544.4		595.2
Investment in Collective Investment Schemes*	234.7			0.6		728.6		963.9
Cash & cash equivalents		85.9	17.3			1,501.4	2.3	1,606.9
Amounts due from reassurers								
Claims outstanding	0.4	1.0	3.9					5.3
Reassurers share of LTBF	1.8	1.1	20.1					23.0
Total amount due from reassurers	2.2	2.1	24.0					28.3
Other receivables								
St James's Place Partnership loans				16.9				16.9
Deferred LAHC proceeds		3.9						3.9
Other				26.1		39.4	0.8	66.3
Total other receivables		3.9		43.0		39.4	0.8	87.1

*Investment of shareholder assets in Collective Investment Schemes refers to investment in unlisted money market funds held for the longer term

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The table below sets out comparative credit risk data as at 31 December 2005

	AAA	AA	A	Unrated	Nil Credit Exposure	Unit- Linked Funds	Attributable to Unit Holders	Total
	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Fixed income securities	65.6					507.5		573.1
Investment in Collective Investment Schemes	122.1			0.5		460.4		583.0
Cash & cash equivalents	17.8	59.4	14.3			1,240.8	5.4	1,337.7
Amounts due from reassurers								
Claims outstanding	0.1	0.9	4.0					5.0
Reassurers share of LTBF	2.7	1.1	30.5		38.6			72.9
Total amount due from reassurers	2.8	2.0	34.5		38.6			77.9
Other receivables								
St James's Place								
Partnership loans				6.7				6.7
Deferred LAHC proceeds		7.8						7.8
Other				24.4		57.6	0.6	82.6
Total other receivables		7.8		31.1		57.6	0.6	97.1

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Interest Rate Risk

The following table sets out the exposure of the Group's financial assets and liabilities to interest rate risk based on contractual maturity dates as at 31 December 2006

	Up to 1 year	1 – 5 years	Over 5 years	Non interest bearing	Total ex unit linked funds and other unit holders	Unit linked funds	Attributable to unit holders	Total
	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Financial Assets								
Equities					-	8,883.0	131.5	9,014.5
Fixed income securities		28.4	22.4		50.8	544.4		595.2
Investment in Collective Investment Schemes	235.3				235.3	728.6		963.9
Currency forwards					-	0.2		0.2
Other receivables								
St James's Place Partnership loans	3.1	8.1	5.7		16.9			16.9
Deferred LAHC proceeds	3.9				3.9			3.9
Other				26.1	26.1	39.4	0.8	66.3
Total other receivables	7.0	8.1	5.7	26.1	46.9	39.4	0.8	87.1
Cash & cash equivalents	103.2				103.2	1,501.4	2.3	1,606.9
Financial Liabilities								
Investment contracts					-	11,819.8		11,819.8
Borrowings			13.1		13.1			13.1
Currency forwards					-	0.1		0.1
Other payables				64.9	64.9	33.5	2.1	100.5

There are no material financial assets or liabilities which have contractual repricing dates earlier than contractual maturity date

The effective interest rates for the year ended 31 December 2006 on St James's Place Partnership loans was 5.87% (2005 5.88%), on cash and cash equivalents held outside the unit linked funds 4.15% (2005 4.15%), and on borrowings 5.64% (2005 5.65%)

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The table below sets out comparative interest rate risk data as at 31 December 2005

	Up to 1 year	1 – 5 years	Over 5 years	Non interest bearing	Total ex unit linked funds and other unit holders	Unit linked funds	Attributable to unit holders	Total
	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Financial Assets								
Equities					-	7,230.8	86.5	7,317.3
Fixed income securities		3.1	62.5		65.6	507.5		573.1
Investment in Collective Investment Schemes	122.1			0.5	122.6	460.4		583.0
Currency forwards					-	0.2		0.2
Other receivables								
St James's Place								
Partnership loans	1.4	3.3	2.0		6.7			6.7
Deferred LAHC proceeds	3.9	3.9			7.8			7.8
Other				24.4	24.4	57.6	0.6	82.6
Total other receivables	5.3	7.2	2.0	24.4	38.9	57.6	0.6	97.1
Cash & cash equivalents	91.5				91.5	1,240.8	5.4	1,337.7
Financial Liabilities								
Investment contracts					-	9,411.9		9,411.9
Borrowings			17.2		17.2			17.2
Currency forwards					-	2.5		2.5
Other payables				46.6	46.6	24.6	0.2	71.4

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

28. SHARE CAPITAL

	Number of Ordinary Shares	Share Capital £' Million
At 1 January 2005	439,324,746	65.9
Scrip dividend	3,428,344	0.5
Exercise of options	4,678,033	0.7
At 31 December 2005	447,431,123	67.1
Scrip dividend	3,553,044	0.5
Exercise of options	12,874,781	2.0
At 31 December 2006	463,858,948	69.6

The total authorised number of ordinary shares is 605 million (2005 605 million), with a par value of 15 pence per share (2005 15 pence per share). All issued shares are fully paid.

29. SHARE-BASED PAYMENTS

During the year ended 31 December 2006 the Group operated a number of different equity settled share-based payment arrangements, which are aggregated as follows:

- SAYE plan – this is a standard HMRC approved scheme that is available to all employees where individuals can contribute up to £250 per month over three years to purchase shares at a price not less than 80% of the market price at the date of the invitation to participate.
- Executive deferred bonus schemes – under these plans the deferred element of the annual bonus is used to purchase shares at market value in the Company. The shares are held by the Company until vesting after three years and, in addition to the performance targets, which apply prior to any entitlement being granted, further performance conditions may also apply on vesting.
- Executive performance share plan – under this plan, which was introduced in 2005, two-thirds of shares are subject to an earnings growth condition of the Group and one-third of shares are subject to a comparative total shareholder return condition, both measured over a single three year period. Further information regarding the vesting conditions of the earnings growth and total shareholder return dependent portions of the award is given in the Remuneration Report on pages 38 and 39.
- Executive share option schemes – these include both approved and unapproved elements and vest after three or five year periods subject to satisfying personal and/or Group earnings performance.
- Sales management share option schemes – these unapproved options vest after three or five years, subject to satisfying personal sales related performance criteria.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- Partner share option schemes – these are offered to the Partners of the St James's Place Partnership and vest over three to six years subject to satisfying personal sales related performance criteria

Share options outstanding under the various share option schemes at 31 December 2006 amount to 46.2 million shares (2005: 56.5 million). Of these, 36.9 million are under option to Partners of the St James's Place Partnership, 7.1 million are under option to executives and senior management (including 1.9 million under option to Directors as disclosed in the Remuneration Report on page 45) and 2.2 million are under option through the SAYE scheme. These are exercisable on a range of future dates.

The table below summarises the share-based payment awards since 7 November 2002.

	SAYE	Executive Deferred Bonus	Executive Performance Share Plan	Executive Share Option Schemes	Sales Management Share Option Schemes	Partner Share Option Schemes
Awards in 2002						
Date of grant	-	-	-	27 December	27 December	13 November to 30 December
Number granted	-	-	-	32,000	15,000	275,965
Awards in 2003						
Date of grant	1 April	-	-	Various	Various	Various
Number granted	3,525,520	-	-	3,549,123	495,169	2,505,235
Awards in 2004						
Date of grant	23 March	30 March	-	Various	Various	Various
Number granted	279,054	310,783	-	3,362,905	370,417	2,070,940
Awards in 2005						
Date of grant	23 March	29 March	17 May	Various	Various	Various
Number granted	191,395	614,168	1,719,518	525,016	30,000	10,893,682
Awards in 2006						
Date of grant	23 March	8 March	Various	-	-	Various
Number granted	451,193	824,589	1,726,608	-	-	7,310,150
Contractual life	3.5 years and 5 years	3 years	3 years	10 years	6 years	10 years
Vesting conditions	3 and 5 year saving periods	3 years service and achievement of personal targets in some instances	3 years service and achievement of earnings and TSR targets	3 to 5 years service and achievement of personal and/or earnings targets	3 to 5 years service and achievement of personal targets	3 to 6 years service and achievement of personal targets

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Financial assumptions underlying the calculation of fair value

The fair value expense has been based on the fair value of the instruments granted, as calculated using appropriate derivative pricing models. The table below shows the assumptions and models used to calculate the grant date fair value of each award.

	SAYE	Executive Deferred Bonus Schemes	Executive Performance Share Plan	Executive Share Option Schemes	Sales Management Share Option Schemes	Partner Share Option Schemes
Valuation model	Black Scholes	Black Scholes	Monte Carlo	Binomial Lattice	Binomial Lattice	Binomial Lattice
Awards in 2002						
Fair value (pence)	-	-	-	54.13	54.13	52.50 to 60.44
Share price (pence)	-	-	-	133.00	133.00	129.00 to 148.50
Exercise price (pence)	-	-	-	133.00	133.00	129.00 to 148.50
Expected volatility (% pa) ⁽¹⁾	-	-	-	45	45	45
Expected dividends (% pa)	-	-	-	2.3	2.3	2.3
Risk-free interest rate (% pa)	-	-	-	4.3	4.3	4.3
Awards in 2003						
Fair value (pence)	34.02/37.62 ⁽²⁾	-	-	34.80 to 64.31	32.56 to 64.31	30.53 to 64.31
Share price (pence)	90.00	-	-	85.50 to 158.00	80.00 to 158.00	75.00 to 158.00
Exercise price (pence)	72.00	-	-	85.50 to 158.00	80.00 to 158.00	75.00 to 158.00
Expected volatility (% pa) ⁽¹⁾	45	-	-	45	45	45
Expected dividends (% pa)	3.1	-	-	2.3	2.3	2.3
Risk-free interest rate (% pa)	3.8/4.1	-	-	4.3	4.3	4.3
Awards in 2004						
Fair value (pence)	78.26/85.08 ⁽²⁾	81.65/185.75 ⁽³⁾	-	71.56 to 80.56	73.53 to 92.74	71.01 to 109.31
Share price (pence)	179.50	185.75	-	163.00 to 183.50	167.50 to 211.25	161.75 to 249.00
Exercise price (pence)	144.00	0.00	-	163.00 to 183.50	167.50 to 211.25	161.75 to 249.00
Expected volatility (% pa) ⁽¹⁾	50/45	N/A	-	50/45	50/45	50/45
Expected dividends (% pa)	1.5	N/A ⁽⁴⁾	-	1.5	1.5	1.5
Risk-free interest rate (% pa)	4.6/4.7	N/A	-	4.9	4.9	4.9
Awards in 2005						
Fair value (pence)	104.13/113.44 ⁽²⁾	99.22/242.00 ⁽³⁾	51.13 / 146.50 53.69 / 153.83 ⁽⁵⁾	91.23 to 105.37	99.22	89.79 to 103.83
Share price (pence)	245.00	242.00	219.75 / 230.75	222.50 to 257.00	242.00	219.00 to 253.25
Exercise price (pence)	194.00	0.00	0.00	222.50 to 257.00	242.00	219.00 to 253.25
Expected volatility (% pa) ⁽¹⁾	45/40	N/A	45	45/40	45/40	45/40
Expected dividends (% pa)	1.2	N/A ⁽⁴⁾	1.3	1.2	1.2	1.2
Risk-free interest rate (% pa)	4.8	N/A	N/A	4.4	4.4	4.4
Volatility of competitors (% pa)	N/A	N/A	20 to 65	N/A	N/A	N/A
Correlation with competitors (%)	N/A	N/A	25	N/A	N/A	N/A

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

	SAYE	Executive Deferred Bonus Schemes	Executive Performance Share Plan	Executive Share Option Schemes	Sales Management Share Option Schemes	Partner Share Option Schemes
Valuation model	Black Scholes	Black Scholes	Monte Carlo	Binomial Lattice	Binomial Lattice	Binomial Lattice
Awards in 2006						
Fair value (pence)	130 15 ⁽²⁾	140 80/320 00 ⁽³⁾	111 55/210 89 ⁽⁵⁾	-	-	139 70 to 181 20
Share price (pence)	329 50	320 00	307 00 to 363 00 ⁽⁶⁾	-	-	316 00 to 408 00
Exercise price (pence)	244 00	0 00	0 00	-	-	316 00 to 408 00
Expected volatility (% pa) ⁽¹⁾	33	N/A	33	-	-	40 to 42
Expected dividends (% pa)	1 0	N/A ⁽⁴⁾	1 0	-	-	0 8 to 1 0
Risk-free interest rate (% pa)	4 5	N/A	N/A	-	-	4 3 to 5 0
Volatility of competitors (% pa)	N/A	N/A	20 to 45	-	-	N/A
Correlation with competitors (%)	N/A	N/A	20	-	-	N/A

Notes

- (1) Expected volatility is based on an analysis of the Company's historic share price volatility over a period (typically 3 or 5 years) which is commensurate with the expected term of the options or the awards
- (2) In 2006, the vesting period for the SAYE plan was 3 years. In prior years the vesting periods for the SAYE plan were 3 or 5 years and this results in showing two fair values in the table above (for awards made in 2003, 2004 and 2005). These vesting periods may be extended by up to six months in order to catch up on missed contributions (up to a maximum of 6)
- (3) There are two populations of the executive deferred bonus schemes, one of which is subject to performance conditions on vesting as well as the initial performance criteria which apply prior to any entitlements being granted to both populations. There are therefore two fair values in the table above, with the lower value in each case being relevant to the portion subject to further performance criteria on vesting
- (4) Dividends payable on the shares during the vesting period are paid out during the vesting period for the executive deferred bonus schemes and no dividend yield assumption is therefore required
- (5) The awards made under the executive performance share plan are dependent upon earnings growth in the Company (two-thirds of the award) and a total shareholder return of a comparator group of companies (one-third of the award). This results in having two fair values for each of the awards made in the table above, the first being in relation to the comparator total shareholder return and the second relating to the Company's earnings growth
- (6) Awards were made under the executive performance share plan on eight separate occasions during 2006

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

	Year Ended 31 December 2006	Year Ended 31 December 2006	Year Ended 31 December 2005	Year Ended 31 December 2005
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
SAYE.				
Outstanding at start of year	3,252,470	£0 83	3,418,867	£0 78
Granted	451,193	£2 44	191,395	£1 44
Forfeited	(140,646)	£1 10	(272,845)	£0 96
Exercised	(1,379,922)	£0 72	(84,947)	£0 94
Expired	-		-	
Outstanding at end of year	2,183,095	£1 22	3,252,470	£0 83
Exercisable at end of year	17,588	£0 81	896	£2 12
Executive Share Options:				
Outstanding at start of year	11,812,694	£1 48	12,679,468	£1 49
Granted	-		525,016	£2 39
Forfeited	(51,876)	£1 79	(944,536)	£2 14
Exercised	(5,206,868)	£1 20	(447,254)	£1 47
Expired	-		-	
Outstanding at end of year	6,553,950	£1 70	11,812,694	£1 48
Exercisable at end of year	1,469,089	£1 64	3,280,470	£1 59
Sales Management Share Options.				
Outstanding at start of year	892,723	£1 56	1,161,264	£1 54
Granted	-		30,000	£2 42
Forfeited	(205,681)	£1 57	(236,250)	£1 63
Exercised	(181,250)	£1 53	(62,291)	£1 43
Expired	-		-	
Outstanding at end of year	505,792	£1 56	892,723	£1 56
Exercisable at end of year	75,000	£1 34	150,625	£1 86
Partner Share Options:				
Outstanding at start of year	40,525,716	£1 83	35,069,345	£1 60
Granted	7,310,150	£3 28	10,893,682	£2 36
Forfeited	(2,318,875)	£2 14	(1,671,318)	£1 48
Exercised	(8,595,641)	£1 60	(3,765,993)	£1 40
Expired	-		-	
Outstanding at end of year	36,921,350	£2 14	40,525,716	£1 83
Exercisable at end of year	13,473,534	£1 69	17,786,330	£1 70

The average share price during the year was 341 09 pence

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The SAYE plan options outstanding at 31 December 2006 had exercise prices of 72 pence, 144 pence, 194 pence and 244 pence and a weighted average remaining contractual life of 1.6 years

The options outstanding under the executive share option schemes at 31 December 2006 had exercise prices ranging from 85.5 pence to 257 pence and a weighted average remaining contractual life of 0.5 years

The options outstanding under the sales management share option schemes at 31 December 2006 had exercise prices ranging from 80 pence to 242 pence and a weighted average remaining contractual life of 0.0 years

The options outstanding under the Partner share option schemes at 31 December 2006 had exercise prices ranging from 75 pence to 408 pence and a weighted average remaining contractual life of 1.2 years

Early exercise assumptions

The following allowance has been made for the impact of early exercise once options have vested

- (1) SAYE plan – all option holders are assumed to exercise half-way through the six month exercise window
- (2) Executive, sales management and partner share option schemes – it is assumed that 10% of option holders are forced to exercise their options each year irrespective of the level of the share price. For the remainder it is assumed that one-half will exercise their options each year if the share price is at least 33% above the exercise price

Allowance for performance conditions

The executive performance share plan includes a market based performance condition based on the Company's total shareholder return relative to an index of comparator companies. The impact of this performance condition has been modelled using Monte Carlo simulation techniques which involve running many thousands of simulations of future share price movements for both the Company and the comparator index. For the purpose of these simulations it is assumed that the share price of the Company and the comparator index are 20% correlated and that the comparator index has volatilities ranging between 21% pa and 45% pa

The performance condition is based on the Company's performance relative to the comparator index over a three year period commencing on 1 January each year. The fair value calculations for the awards that were made in 2006 therefore include an allowance for the actual performance of the Company's share price relative to the index over the period between 1 January 2006 and the various award dates

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Charge to profit and loss account

The table below sets out the charge to the profit and loss account in respect of the share-based payment awards that have been made since 7 November 2002

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Share option expense	<u>7.6</u>	<u>3.0</u>

30. RESERVES

	Share Premium £ Million	Treasury Shares Reserve £ Million	Profit and Loss Reserve £ Million	Shares to be Issued Reserve £ Million	Miscellaneous Reserves £ Million	Total £ Million
At 1 January 2005	15.9	(10.7)	148.8	0.1	2.2	156.3
Profit for the year			47.6			47.6
Dividends			(12.7)			(12.7)
Issue of share capital						
Scrip dividend	7.9					7.9
Exercise of options	5.8					5.8
Consideration paid for own shares		(0.5)				(0.5)
Own shares vesting charge		0.2	(0.2)			-
P & L reserve credit in respect of share option charges			<u>3.0</u>			<u>3.0</u>
At 31 December 2005	29.6	(11.0)	186.5	0.1	2.2	207.4
Profit for the year			88.0			88.0
Dividends			(15.1)			(15.1)
Issue of share capital						
Scrip dividend	10.6					10.6
Exercise of options	17.2					17.2
Consideration paid for own shares		(5.4)				(5.4)
Own shares vesting charge		3.4	(3.4)			-
P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust		2.3				2.3
P & L reserve credit in respect of share option charges			<u>7.6</u>			<u>7.6</u>
At 31 December 2006	<u>57.4</u>	<u>(10.7)</u>	<u>263.6</u>	<u>0.1</u>	<u>2.2</u>	<u>312.6</u>

The shares to be issued reserve was established on the acquisition of the remaining share capital of St James's Place Wealth Management Group ("SJPWM") by SJP in 1997. SJP agreed at the time of the acquisition to issue further shares, up to a maximum of 25.8 million, to satisfy the exercise of options in SJPWM held at the time of acquisition. The reserve was established in recognition of this commitment and 821 shares have still to be issued from the reserve.

Miscellaneous reserves represent other non-distributable reserves.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

31. PENSION ARRANGEMENTS

The total cost of employer contributions to defined contribution personal pension plans for SJP's employees during the year was £2.2 million (2005: £2.0 million)

Employer contributions to the defined contribution section of the occupational pension scheme, which is operated for SJP's senior employees, for the year totalled £0.4 million (2005: £0.4 million)

The defined benefits section of the occupational scheme is closed to new members and has no active members. Accordingly there have been no employer contributions during the year. An application to wind up the scheme was made during 2006, which is expected to be completed by 30 June 2007. The residual liabilities to the current and deferred pensioners have been matched by purchased annuities (both immediate and deferred) and these annuities have now been assigned directly to each pensioner.

32. FINANCIAL COMMITMENTS

At 31 December 2006 the Group had the following annual commitments under non-cancellable leases in connection with the rental of office buildings:

	31 December 2006 £ Million	31 December 2005 £ Million
Within one year	0.5	-
Between two and five years	3.0	1.5
In more than five years	6.3	6.7
Total financial commitments	9.8	8.2

33. RELATED PARTY TRANSACTIONS

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

Transactions with HBOS and HBOS group companies

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

- Commission of £4.4 million (2005: £2.5 million) was receivable from the sale of banking services for St James's Place Bank (a division of Halifax plc)
- Commission of £1.4 million (2005: £1.7 million) was receivable from the sale of Stakeholder pensions offered by Clerical Medical
- Commission of £10.4 million (2005: £5.5 million) was receivable from the sale of Halifax, Bank of Scotland and Birmingham Midshires mortgages
- HBOS provided a guarantee at a cost of £0.5 million (2005: £0.5 million) to the Group's reinsurers in respect of the Group's obligations in relation to a financial reinsurance arrangement
- During the year, deposits were placed with Bank of Scotland on normal commercial terms. At 31 December 2006 these deposits amounted to £28.2 million (2005: £1.7 million)

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- Amounts lent by, or assigned to, the Bank of Scotland to members of the St James's Place Partnership, under guarantee by SJP, totalled £61.5 million (2005 £65.7 million)
- Fees of £2.6 million (2005 £2.8 million) were payable to Insight Investment Management Limited in respect of investment management services to a number of SJP life, pension and unit trust funds. The outstanding balance payable at 31 December 2006 was £nil (2005 £0.6 million)
- Fees of £1.7 million (2005 £nil) were payable to Invista Real Estate Investment Management Limited (55% owned by HBOS) in respect of investment management services for the property portfolio of the SJP UK life and pension funds. The outstanding balance payable at 31 December 2006 was £0.9 million (2005 £nil)
- Fees of £40,000 (2005 £56,780) were payable to HBOS in respect of the services of non-executive SJP Board Directors
- SJP Board Directors have been included in a directors' and officers' insurance policy negotiated on a group basis by HBOS

Transactions with key management personnel

The compensation paid to key management personnel, being the Board of Directors of SJP, is set out in the Remuneration Report on page 43. The Remuneration Report also sets out transactions with the Directors under the Deferred Bonus Scheme, the Performance Share Plan, the Executive Share Option Scheme and the SAYE Share Option Schemes, together with details of the Directors' interests in the share capital of the Company.

The charge to the profit and loss account in respect of the share-based payment awards made to the executive Directors of SIP during 2006 was £1.8 million (2005 £0.9 million).

34 PARENT COMPANY

The ultimate parent company of SIP is HBOS plc, a company registered in Scotland. HBOS plc is the parent of the largest group in which the results of the Company are consolidated. Copies of the consolidation accounts of HBOS plc may be obtained from The Mound, Edinburgh EH1 1YZ.

The immediate parent company is HBOS Insurance and Investment Group Limited, a company registered in England and Wales.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST. JAMES'S PLACE PLC

We have audited the parent company financial statements of St James's Place plc for the year ended 31 December 2006, which comprise the parent company Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of St James's Place plc for the year ended 31 December 2006.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Report and Accounts, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 34. Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Key Performance Indicators, Chairman's Statement, Financial Commentary and Principal Risks and Uncertainties section of the Corporate Governance Report that are cross referred from the Directors' Report.

In addition we report to you if, in our opinion, 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 regarding the directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Report and Accounts and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Accounting Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006,
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

26 February 2007

BALANCE SHEET OF THE PARENT COMPANY AT 31 DECEMBER

	Note	2006 £ Million	2005 £ Million
Assets			
Investment in subsidiary undertakings	2	324.7	317.1
Income tax assets		2.1	2.5
Other receivables		0.1	0.8
Total assets		326.9	320.4
Liabilities			
Amounts owed to group undertakings		104.4	118.3
Other creditors		2.5	2.0
Total liabilities		106.9	120.3
Net assets		220.0	200.1
Shareholders' equity			
Share capital	4	69.6	67.1
Share premium	5	57.4	29.6
Share option reserves	5	13.3	5.7
Other reserves	5	0.1	0.1
Retained earnings	5	79.6	97.6
Total shareholders' equity		220.0	200.1

The financial statements on pages 103 to 108 were approved by the Board of Directors on 26 February 2007 and signed on its behalf by

D Bellamy
Managing Director

A Croft
Finance Director

The notes and information on pages 104 to 108 form part of these accounts

NOTES TO THE PARENT COMPANY ACCOUNTS

1. ACCOUNTING POLICIES

Basis of preparation

St James's Place plc (the "Company") is a limited liability company incorporated in England and Wales and whose shares are publicly traded. The Company offers a range of insurance, investment and other wealth management services through its subsidiaries, which are principally incorporated in the UK and Ireland.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The Company has elected to continue to prepare the parent financial statements in accordance with UK Generally Accepted Accounting Practice. In publishing the parent company financial statements, the Company has taken advantage of the exemption in Section 230 of the Companies Act 1985 not to present its individual income statement and related notes that form part of these financial statements.

All accounting policies have been reviewed for appropriateness in accordance with Financial Reporting Standard (FRS) 18 (*Accounting Policies*). In accordance with FRS 1 (*Cash Flow Statements*), the company is exempt from the requirement to prepare a cash flow statement on the grounds that this is provided in its consolidated financial statements, which are publicly available.

Accounting policy changes

Share-based payment

FRS20 (*Share-based Payment*) has been adopted for the year ended 31 December 2006, and the 2005 comparatives have been restated accordingly.

Under FRS20 the cost of equity instruments in the Company granted to employees and members of the St James's Place Partnership are measured at fair value at grant date and recognised over the vesting period within St James's Place Management Services Limited, a wholly owned subsidiary of the Company. In addition, a deferred tax asset, representing the expected future tax deduction in respect of instruments granted and based on intrinsic value, is also recognised within St James's Place Management Services. Corresponding adjustments are made within its reserves.

Within the accounts of the Company, the gross cost of the share awards is treated as an investment in subsidiaries, with a corresponding adjustment to non-distributable reserves. The effect of this change has been to increase investment in subsidiaries and net assets by £13.3 million as at 31 December 2006 (2005: £5.7 million). There is no impact on the profit of the Company.

Significant accounting policies

(a) Investment return

Investment return comprises dividends from subsidiaries, which are accounted for when received.

NOTES TO THE PARENT COMPANY ACCOUNTS *continued*

(b) Taxation

Taxation is based on profits and income for the period as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior periods

(c) Investment in Subsidiaries

Investment in subsidiaries are carried at cost, plus the gross cost of share awards, in the Company granted by the Company's subsidiaries

(d) Receivables

Other receivables are stated at amortised cost less impairment losses

(e) Other creditors and amounts owed to group undertakings.

Other creditors and amounts owed to group undertakings are stated at amortised cost

2. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2006	2005
	£' Million	£' Million
At 1 January	317.1	314.1
Movement in the year	7.6	3.0
At 31 December	<u>324.7</u>	<u>317.1</u>

Principal Subsidiary Undertakings at 31 December 2006

Investment Holding Companies	St James's Place Investments plc St James's Place Wealth Management Group plc
Life Assurance	St James's Place UK plc St James's Place International plc (<i>incorporated in Ireland</i>)
Unit Trust Management	St James's Place Unit Trust Group Limited
Financial Services	St James s Place Wealth Management plc
Management Services	St James's Place Management Services Limited

A full list of subsidiaries is available on request from the registered office and will be submitted with the Company's Annual Return

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

NOTES TO THE PARENT COMPANY ACCOUNTS continued

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

Due to ongoing solvency requirements there are restrictions on the amount of distributable reserves within the life assurance and unit trust operating companies of the Group which restricts their ability to transfer cash dividends to the Company

3. FINANCIAL RISK

As disclosed in note 27 to the consolidated financial statements, the Group adopts a prudent approach to the management of financial risk, with a view to minimising where practicable its exposure to market, credit, liquidity and interest rate risks. As a stand alone entity the Company would be subject to significant liquidity risk since its assets primarily consist of investments in subsidiaries. However, since the Group is managed on a unified basis and is subject to minimal liquidity risk, the Company may, as required, draw on liquid resources from elsewhere within the Group. The Company is not subject to market, credit or interest rate risks.

The Company's financial assets comprise outstanding amounts due in respect of the exercise of share options – these amounts are not interest bearing. The Company's financial liabilities comprise balances owed to other Group companies - these balances are not interest bearing and are repayable on demand.

The carrying values of financial assets and liabilities approximate their fair value.

4. SHARE CAPITAL

Share capital disclosures are made in note 28 on page 91 of the consolidated financial statements.

NOTES TO THE PARENT COMPANY ACCOUNTS continued

5. RESERVES

	Share Premium	Profit and Loss Reserve	Share Option Reserve	Other Reserves	Total
	£ Million	£ Million	£ Million	£ Million	£ Million
At 1 January 2005	15.9	49.5	2.7	0.1	68.2
Profit for the year		60.8			60.8
Dividends		(12.7)			(12.7)
Issue of share capital					
Scrip dividend	7.9				7.9
Exercise of options	5.8				5.8
Cost of share options expensed in subsidiary			3.0		3.0
At 31 December 2005	29.6	97.6	5.7	0.1	133.0
Profit for the year		(2.9)			(2.9)
Dividends		(15.1)			(15.1)
Issue of share capital					
Scrip dividend	10.6				10.6
Exercise of options	17.2				17.2
Cost of share options expensed in subsidiary			7.6		7.6
At 31 December 2006	57.4	79.6	13.3	0.1	150.4

6. RELATED PARTY TRANSACTIONS

The Company has entered into related party transactions with HBOS plc, various subsidiaries of the Company and directors of the Company. HBOS, which owns 60% of the Company's share capital, is the ultimate controlling party of the Company.

Transactions with HBOS

The following transactions were carried out, on an arm's length basis, with HBOS:

- HBOS provided a guarantee at a cost of £0.5 million (2005: £0.5 million) to the Group's reinsurers in respect of the Group's obligations in relation to a financial reinsurance arrangement. This cost is met by the Company on behalf of the Group.

Transactions with subsidiary companies

The following transactions were carried out with subsidiary companies:

- A tax expense of £2.0 million (2005 income: £2.3 million) has been recognised in relation to Group corporate tax relief.
- Internal Group dividends paid to the Company during the year amounted to £nil (2005: £56.5 million).

**SUPPLEMENTARY INFORMATION ON
EUROPEAN EMBEDDED VALUE BASIS**

INDEPENDENT AUDITORS' REPORT TO ST. JAMES'S PLACE PLC ON THE EUROPEAN EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

We have audited the EEV basis supplementary information ("the supplementary information") of St James's Place plc on pages 111 to 121 in respect of the year ended 31 December 2006. The supplementary information has been prepared in accordance with the European Embedded Value Principles issued in May 2004 by the CFO Forum as supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 (together "the EEV Principles") using the methodology and assumptions set out on pages 114 to 117. The supplementary information should be read in conjunction with the group financial statements which are on pages 53 to 99.

This report is made solely to the company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As described in the Statement of Directors' Responsibilities on pages 34 and 35, the directors' responsibilities include preparing the supplementary information on the EEV basis in accordance with the EEV Principles. Our responsibilities, as independent auditor, in relation to the supplementary information are established in the United Kingdom by the Auditing Practices Board, by our profession's ethical guidance and terms of our engagement.

Under the terms of engagement we are required to report to the company our opinion as to whether the supplementary information has been properly prepared in accordance with the EEV Principles using the methodology and assumptions set out on pages 114 to 117. We also report if we have not received all the information and explanations we require for this audit.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of supplementary information, and of whether the accounting policies applied in the preparation of the supplementary information 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 explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the supplementary information is 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 the supplementary information.

Opinion

In our opinion, the EEV basis supplementary information for the year ended 31 December 2006 has been properly prepared in accordance with the EEV Principles using the methodology and assumptions set out on pages 114 to 117.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

26 February 2007

EUROPEAN EMBEDDED VALUE BASIS

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

CONSOLIDATED INCOME STATEMENT

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Life business	139 0	92 3
Unit trust business	39 9	30 6
Other	(2 9)	(4 1)
	<u>176 0</u>	<u>118 8</u>
IT systems development	-	(4 3)
Operating profit	<u>176 0</u>	<u>114 5</u>
Investment return variances	70 8	86 1
Economic assumption changes	(9 8)	3 3
Profit from core business	<u>237 0</u>	<u>203 9</u>
Profit from other business		
Profit on sale of LAHC	7 0	9 5
EEV profit on ordinary activities before tax	<u>244 0</u>	<u>213 4</u>
Taxation		
Life business	(46 5)	(42 7)
Unit trust business	(19 4)	(15 8)
Other	6 1	5 8
LAHC	-	-
	<u>(59 8)</u>	<u>(52 7)</u>
EEV profit on ordinary activities after tax	<u>184 2</u>	<u>160 7</u>

The notes and information on pages 114 to 121 form part of this supplementary information

EUROPEAN EMBEDDED VALUE BASIS continued

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2006 £ Million	Year Ended 31 December 2005 £ Million
Opening equity shareholders' funds on an EEV basis	828.8	663.4
Post tax profit for the year	184.2	160.7
Dividends	(15.1)	(12.7)
Issue of share capital	30.3	14.9
Consideration paid for own shares	(5.4)	(0.5)
P&L reserve credit in respect of share option charges	7.6	3.0
P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust	2.3	-
Closing equity shareholders' funds on an EEV basis	1,032.7	828.8

The notes and information on pages 114 to 121 form part of this supplementary information

EUROPEAN EMBEDDED VALUE BASIS continued

CONSOLIDATED BALANCE SHEET

	31 December 2006 £' Million	31 December 2005 £' Million
Assets		
Intangible assets		
Deferred acquisition costs	393 6	325 0
Value of long-term business in-force		
- long-term insurance	524 1	460 9
- unit trusts	171 5	140 7
	<u>1,089 2</u>	<u>926 6</u>
Property & equipment	6 3	5 9
Deferred tax assets	83 8	70 5
Investment property	568 2	319 4
Investments	10,573 8	8,473 6
Reinsurance share of insurance provisions	28 3	77 9
Insurance contract receivables	11 5	15 1
Income tax assets	9 7	21 0
Other receivables	87 1	97 1
Cash & cash equivalents	<u>1,606 9</u>	<u>1,337 7</u>
Total assets	<u>14,064.8</u>	<u>11,344.8</u>
Liabilities		
Insurance contract liability provisions	374 3	430 6
Other provisions	3 1	9 6
Financial liabilities	11,833 0	9,431 6
Deferred tax liabilities	258 4	192 5
Reinsurance payables	-	8 9
Payables related to direct insurance contracts	18 5	19 5
Deferred income	291 9	249 7
Income tax liabilities	19 9	9 9
Other payables	100 5	71 4
Net asset value attributable to unit holders	<u>132 5</u>	<u>92 3</u>
Total liabilities	<u>13,032 1</u>	<u>10,516 0</u>
Net assets	<u>1,032.7</u>	<u>828.8</u>
Shareholders' equity		
Share capital	69 6	67 1
Share premium	57 4	29 6
Other reserves	<u>905 7</u>	<u>732 1</u>
Total shareholders' equity	<u>1,032.7</u>	<u>828.8</u>
	<u>Pence</u>	<u>Pence</u>
Net assets per share	<u>222 6</u>	<u>185 2</u>

The supplementary information on pages 111 to 121 was approved by the Board of Directors on 26 February 2007 and signed on its behalf by

D Bellamy
Managing Director

A Croft
Finance Director

The notes and information on pages 114 to 121 form part of this supplementary information

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

I. BASIS OF PREPARATION

The supplementary information on pages 111 to 121 shows the Group's results as measured on a European Embedded Value (EEV) basis. This includes the results of the life, pension and investment business, including unit trust business, undertaken by the Group on a basis determined in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum, a group of chief financial officers from 19 major European insurers, as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 (together "the EEV Principles"). The treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis. The objectives of the EEV basis is to provide shareholders with more realistic information on the financial position and performance of the Group than that provided by the IFRS basis.

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

II. METHODOLOGY

(a) Covered business

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

(b) Calculation of EEV

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

(c) Allowance for risk

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

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

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

(d) Deriving the risk discount rate

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

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

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

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

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

(e) Non-market risk

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

(f) Cost of required capital

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

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

(g) New business

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

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

(h) Expenses

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

(i) Taxation

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

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

In determining the market-consistent value an appropriate allowance is made to reflect the fact that the value of tax relief on expenses does not move linearly with market movements. The impact of this is assessed using a stochastic simulation model that is regularly calibrated to market conditions.

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

III. ASSUMPTIONS

(a) Economic Assumptions

The principal economic assumptions used within the cash flows at 31 December 2006 are set out below.

	Year Ended 31 December 2006	Year Ended 31 December 2005
Risk free rate	4.9%	4.3%
Inflation rate	3.0%	2.8%
Risk discount rate (net of tax)	8.0%	7.3%
Future investment returns		
- Gilts	4.9%	4.3%
- Equities	7.9%	7.3%
- Unit linked funds		
- Capital growth	4.5%	3.6%
- Dividend income	2.8%	3.0%
- Total	7.3%	6.6%
Expense inflation	3.6%	4.3%
Indexation of capital gains	2.2%	2.0%

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

The inflation rate is derived from the implicit inflation in the valuation of 10 year index-linked gilts. This rate is increased by 1.5%, to reflect higher increases in earnings and the expense inflation assumption is calculated as 80% of earnings inflation. The inflation rate is reduced by 10% to derive the indexation of capital gains for the proportion of the fund invested in equities.

(b) Experience Assumptions

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

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

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

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

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

(c) Taxation

Future taxation has been determined assuming a continuation of the current tax legislation. The EEV result has been calculated on an after-tax basis and has been grossed up to a pre-tax level for presentation in the profit and loss account. The corporation tax rate used for this grossing up is 28% for UK life and pensions business, 12.5% for Irish life and pensions business and 30% for unit trust business.

IV. COMPONENTS OF EEV PROFIT

(a) Life Business

	Note	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
New business contribution	1	87.6	48.4
Profit from existing business			
Unwind of discount rate		50.3	41.1
Experience variances		(2.6)	1.7
Operating assumption changes		(2.4)	(2.5)
Investment income		6.1	3.6
Operating profit before tax		139.0	92.3
Investment return variances		46.8	63.6
Economic assumption changes		(10.6)	3.8
Profit before tax		175.2	159.7
Attributed tax		(46.5)	(42.7)
Profit after tax		128.7	117.0

Note 1: New business contribution after tax is £63.9 million (2005: £35.3 million)

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

(b) Unit Trust Business

	Note	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
New business contribution	1	27.6	18.8
Profit from existing business			
Unwind of discount rate		15.2	11.2
Experience variances		0.2	0.6
Operating assumption changes		(3.1)	-
Operating profit before tax		39.9	30.6
Investment return variances		24.0	22.5
Economic assumption changes		0.8	(0.5)
Profit before tax		64.7	52.6
Attributed tax		(19.4)	(15.8)
Profit after tax		45.3	36.8

Note 1 New business contribution after tax is £19.3 million (2005 £13.2 million)

(c) Combined Life and Unit Trust Business

	Note	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
New business contribution	1	115.2	67.2
Profit from existing business			
Unwind of discount rate		65.5	52.3
Experience variances		(2.4)	2.3
Operating assumption changes		(5.5)	(2.5)
Investment income		6.1	3.6
Operating profit before tax		178.9	122.9
Investment return variances		70.8	86.1
Economic assumption changes		(9.8)	3.3
Profit before tax		239.9	212.3
Attributed tax		(65.9)	(58.5)
Profit after tax		174.0	153.8

Note 1 New business contribution after tax is £83.2 million (2005 £48.5 million)

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

(d) Detailed Analysis

In order to better explain the movement in capital flows, the components of the EEV profit for the year ended 31 December 2006 are shown separately between the movement in IFRS net assets and the present value of the in-force business (PVIF) in the table below. All figures are shown net of tax.

	Movement in IFRS Net Assets	Movement in PVIF	Movement in EEV
	£' Million	£' Million	£' Million
New business contribution	(52.9)	136.1	83.2
Profit from existing business	83.2	(83.2)	-
Unwind of discount rate	-	47.5	47.5
Experience variances	13.2	(14.5)	(1.3)
Operating assumption changes	20.4	(24.4)	(4.0)
Investment return	4.6	0.1	4.7
Investment return variances	3.9	47.2	51.1
Economic assumption changes	(1.1)	(6.1)	(7.2)
Profit on sale of LAHC	7.0	-	7.0
Miscellaneous	9.7	(6.5)	3.2
Profit after tax	88.0	96.2	184.2

The main component of the experience variances is the use of brought-forward realised tax losses. This has increased the IFRS net assets and reduced the value of the tax assets in the PVIF.

The main component of the operating assumption changes is the decrease in insurance contract liability provisions due to the changes introduced by the FSA in PS06/14.

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

V. EUROPEAN EMBEDDED VALUE SENSITIVITIES

The table below shows the estimated impact on the combined life and unit trust reported value of new business and EEV to changes in various EEV calculated assumptions. In each case, only the indicated item is varied relative to the restated values.

	Note	Change in new business contribution		Change in European Embedded Value
		Pre-tax £' Million	Post-tax £' Million	Post-tax £' Million
Value at 31 December 2006		115.2	83.2	1,032.7
100bp reduction in risk discount rate	1	19.5	14.1	58.8
100bp reduction in risk free rates, with corresponding change in fixed interest asset values		1.7	1.2	7.2
10% reduction in withdrawal rates		11.2	8.1	39.9
10% reduction in expenses		1.5	1.1	10.7
10% reduction in market value of equity assets		-	-	(73.7)
5% reduction in mortality and morbidity	2	0.8	0.6	4.6
100bp increase in equity expected returns	3	-	-	-

Note 1 Although not directly relevant under a market-consistent valuation where the risk discount rate is a derived disclosure only, this sensitivity shows the level of adjustment which would be required to reflect differing investor views of risk.

Note 2 Assumes the benefit of lower experience is passed on to clients and reinsurers at the earliest opportunity.

Note 3 As a market-consistent approach is used, equity expected returns only affect the derived discount rates and not the embedded value or contribution to profit from new business.

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

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

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
IFRS profit before tax	179.9	127.1
Movement in life value of in-force	17.4	46.5
Movement in unit trust value of in-force	46.7	39.8
Total EEV profit before tax	244.0	213.4

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
IFRS net assets	382.2	274.5
Less: acquired value of in-force	(64.3)	(67.4)
Add: deferred tax on acquired value of in-force	19.2	20.1
Add: life value of in-force	524.1	460.9
Add: unit trust value of in-force	171.5	140.7
EEV net assets	1,032.7	828.8

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

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Life company free assets	105.4	65.0
Required life company solvency capital	33.0	32.0
Other subsidiaries, consolidation and IFRS adjustments	243.8	177.5
IFRS net assets	382.2	274.5

	Year Ended 31 December 2006 £' Million	Year Ended 31 December 2005 £' Million
Life company free assets at 1 January	65.0	43.2
Investment in new business	(54.2)	(40.1)
Profit from existing business	91.0	61.0
Investment return	4.6	2.9
Movement in required solvency capital	(1.0)	(2.0)
Life company free assets at 31 December	105.4	65.0

SHAREHOLDER INFORMATION

ANALYSIS OF NUMBER OF SHAREHOLDERS

Analysis by Number of Shares	Holders	%	Shares held	%
1 – 999	2,719	41.9	1,113,622	0.2
1,000 – 9,999	3,028	46.7	8,882,214	1.9
10,000 – 99,999	556	8.5	15,326,682	3.3
100,000 and above	186	2.9	438,536,430	94.6
	<u>6,489</u>	<u>100.0</u>	<u>463,858,948</u>	<u>100.0</u>

FINANCIAL CALENDAR

Ex-dividend date for final dividend	7 March 2007
Calculation period for scrip final dividend	8 – 14 March 2007
Record date for final dividend	9 March 2007
Latest date for receipt of scrip dividend mandates	25 April 2007
Announcement of first quarter new business	2 May 2007
Annual General Meeting	4 May 2007
Payment date for final dividend	18 May 2007
Announcement of Interim Results and second quarter new business	31 July 2007
Announcement of third quarter new business	1 November 2007

SCRIP DIVIDEND

If you would prefer to receive, subject to shareholder approval, new shares instead of cash dividends, please complete a scrip dividend mandate, which is available from the Registrars, Computershare Investor Services plc. Their contact details are on page 123.

SHARE DEALING

A telephone share dealing service has been established with the Registrars, Computershare Investor Services plc, which provides shareholders with a simple way of buying or selling St James's Place plc shares on the London Stock Exchange. If you are interested in this service telephone 0870 703 0084.

ELECTRONIC COMMUNICATIONS

If you would like to have access to shareholder communications such as the Annual Report and the Notice of General Meeting through the internet rather than receive them by post, please register at www.etreeuk.com

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