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# St. James's Place plc
# Annual Report and Accounts
# 2009

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# Contents

## Financial Highlights

- EEV operating profit of £228 9 million (2008 £204 3 million)
- EEV pre-tax profit of £363 2 million (2008 loss of £115 9 million)
- EEV new business profits of £155 4 million (2008 £123 5 million)
- EEV net asset value per share 284 5 pence (2008 232 4 pence)
- IFRS profit before shareholder tax of £49 9 million (2008 £64 5 million, excluding one-offs of £16 2 million)
- IFRS net asset value per share 112 0 pence (2008 105 9 pence)
- Proposed final dividend increased by 4% to 2 66 pence per share making a total dividend for the year of 4 5 pence (2008 4 39 pence) up 2 5%

## Other Highlights

- Total single investments of £3 4 billion (2008 £3 1 billion) up 10%
- Net inflow of funds £2 3 billion (2008 £1 7 billion) up 35%
- Funds under management of £21 4 billion (2008 £16 3 billion) up 31%
- Partnership numbers at 1,464 up 9%, fourth consecutive year of growth

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| **European Embedded Value Basis** | | |
| Life business | **175.1** | 174 1 |
| Unit trust business | **74.3** | 50 8 |
| Other | **(20.5)** | (20 6) |
| Operating profit before tax | **228.9** | 204 3 |
| Total profit/(loss) before tax | **363.2** | (115 9) |
| Shareholders' funds | **1,371.4** | 1,114 3 |
| **International Financial Reporting Standards** | | |
| Life business – shareholder profit | **53.6** | 83 2 |
| Unit trust business | **16.8** | 18 1 |
| Other | **(20.5)** | (20 6) |
| One-off items | – | (16 2) |
| Profit before shareholder tax* | **49.9** | 64 5 |
| Profit/(loss) before tax** | **28.5** | (31 4) |
| Shareholders' funds | **539.8** | 508 0 |

* Figures exclude policyholders tax gross up

** Figures include policyholders tax gross up

# About us

St. James's Place Wealth Management is a leading UK wealth management organisation. Founded in 1991, St James's Place was listed on the London Stock Exchange in 1997 and is now a FTSE 250 company with over £21 billion funds under management The Company provides face-to-face advice to clients based on their individual needs and circumstances, adapting the advice as requirements change over time to ensure that recommendations remain appropriate.

This relationship-based approach has proved to be very resilient, no more so than in the volatile period of the last few years As the UK, along with other economies, emerges from the credit crisis in what is likely to be a slow and fragile recovery, there is increasing demand for trusted face-to-face advice from experienced advisers backed by a strong organisation and brand

We believe we remain uniquely positioned to continue to succeed in our market because of the 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

## The St James's Place Partnership

The members of the St James's Place Partnership play the leading part in delivering our wealth management service The Partnership – so called because of the way they work in partnership with their clients – work from a network of offices across the UK On average, they have 17 years' experience in their field and include some of the most experienced, able and highly-regarded professionals working in wealth management today

All our Partners are experienced advisers, some have particular expertise in specific and often highly technical areas If a client's circumstances require specific expertise, the Partner will consult – and if necessary introduce – a colleague who can provide it Partners often work alongside clients' other professional advisers, providing a complementary service and a fresh perspective We believe advice is best given face-to-face and focused on the personal needs of each individual client

Our Partners recognise that no one client's objectives or circumstances are the same as another The relationships between Partners and clients endure because they are founded on mutual respect and trust, with the emphasis on building and maintaining a long-term relationship The large majority of clients choose to continue the working relationship with their Partner indefinitely, appreciating a source of trusted advice as their financial needs evolve over the years The success of our approach can be seen from the fact that an estimated 75% of new investments came from existing clients or from referrals from them

## Our Approach to Investment Management

We do not employ in-house fund managers because we believe that no single investment house has a monopoly of investment expertise We therefore carefully select a number of external managers from across the globe 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

The Investment Committee is assisted by the independent investment consulting firm, Stamford Associates, who play an important role in selection and monitoring of investment managers This approach gives us both the flexibility to respond to market conditions as they change and also the confidence that we are employing the best fund managers for our clients

Stamford provides highly specialised skills and a level of investment manager research that would not normally be available to private clients or trustees They maintain close contact with our investment managers and monitor the 'investment footprints' of their portfolios on an ongoing basis

**New Fund Managers**

During 2009, the Investment Committee in conjunction with Stamford Associates identified and appointed three new fund managers and added a new investment mandate to the responsibilities of one of our existing managers, Stuart Mitchell of SW Mitchell Capital The three new managers appointed were

- Peg McGetrick at Liberty Square Asset Management
- John Wood at JO Hambro Capital Management
- Kenneth A Broekaert at Burgundy Asset Management

We remain committed to monitoring and reviewing all of our fund managers to ensure we generate the optimum return for our clients' investment and will be making further new appointments, of both managers and mandates in 2010

# Our Services at a Glance



## St James's Place Wealth Management offers wealth management advice to individuals and businesses

## Our services include:

### Investments
Investing offers significant potential for increasing wealth, but only if it is done in the right way Our clients benefit from our distinctive approach to investment management By selecting a number of leading investment managers and investment houses, each with their own distinctive investment style, we are able to offer our clients access to some of the best managers available with a well diversified portfolio

The advice given to our clients is based on a review of their individual circumstances and we ensure that our clients' investment strategies are aligned to their objectives whether it be to generate income or capital growth

### Retirement Planning
For many, retirement will last as long as, or even longer than, their working lives The financial implications are enormous Making a plan for a long and prosperous retirement is very likely to involve investments in pensions but there is much more to retirement planning than pensions alone proper planning must encompass all aspects of what is, for most people, the biggest change in their financial circumstances during their adult lives

The range of potential strategies is as broad as ever, but with the tax environment changing rapidly, knowing whether to take advantage of the opportunities available, and when, is key Whatever the strategy, the flexibility and control provided by our investment approach gives a distinct advantage together with bespoke advice

### Protecting Wealth
Protecting the wealth and financial future of our clients' families is a key element of our service We deal with exceptional insurance needs, such as unusually high levels of life cover needed to protect estates from Inheritance Tax ('IHT') or to protect business assets

Although the value of insurance is most often considered in the context of individuals' private lives, it frequently has an important role to play in business, protecting companies and the people who own and manage them We are specialists in this field, providing cover which can fund necessary changes in the business or its ownership

With increasing longevity, many of our clients face the prospect of needing to use all of their wealth to fund care in later life Our range of trust-based schemes addresses this by allowing clients to make a gift of capital so as to reduce the value of their estate for IHT purposes, while at the same time providing them with a predetermined income to help meet the expenses of care in later life, if required

### Business Planning
Running a business today takes a great deal of hard work and commitment The pressures of maintaining the pace in competitive markets mean that the future wellbeing of the business tends to take priority over time spent on planning financial objectives

Among other issues, business owners need to consider how they will convert their enterprise into wealth and the development of an effective exit or transition strategy By taking time to understand a business, we work with business owners to meet their financial aims

# Chairman's Statement

2009 really was a year of two halves as is best illustrated by our new business results

The first six months saw new business fall by 8% and in our interim statement we said that the Company had again demonstrated its resilience in adverse market conditions.

Stock markets recovered sharply in the second six months of the year and new business on an APE basis increased by 20% with funds under management and profits also increasing strongly Consequently, total new business for the year grew by 5%

MIKE WILSON
CHAIRMAN

+5%

APE NEW BUSINESS

+2.5%

FULL YEAR DIVIDEND

+12%

EEV OPERATING PROFIT

Net inflows of funds last year were £2 3 billion and our funds under management ended the year at £21 4 billion, up 31% and at the highest level in our history As a result of the new business figures, the strong net inflows and market recovery, I am pleased to announce a 12% increase in 2009 operating profits of £228 9 million on a European Embedded Value ('EEV') basis

We are also delighted to announce a fourth consecutive year of strong growth in the size of the Partnership with total Partner numbers increasing by 9% to 1,464

**Financial Performance**

The Financial Commentary on pages 12 to 21 provides comprehensive detail on the performance of the group for the year on both the IFRS (International Financial Reporting Standards) basis and an EEV basis

Shareholders will recall that the Board continue to believe the EEV result provides a more meaningful measure of the Group's operating performance since it better reflects the long term nature of the business

On an IFRS basis the operating profit, before shareholder tax, was £49 9 million compared with £64 5 million (ignoring one-off items) for the prior year The lower profit reflects the economic conditions and in particular the impact of interest rates which significantly reduced the income received on cash balances

EEV operating profit for the year at £228 9 million was some 12% higher than the £204 3 million for the prior year The increase reflects the higher profit arising from new business together with the positive effect of reducing expenses

Following the strong recovery in the world stock markets during the later part of the year we are reporting a positive EEV investment variance of £148 2 million The corresponding figure for 2008 was a negative variance of £320 6 million which reflected the 30–40% declines in world markets in that year

**Dividend**

At the half year we maintained the dividend at 1 84 pence and indicated that the level of the final dividend would depend upon our full year performance and how the economic and stock markets progressed throughout the remainder of the year together with the outlook for 2010

In light of the performance of the business in the second half of the year the Board has recommended an increase in the final dividend of just over 4% to 2 66 pence per share This provides for a full year dividend of 4 5 pence per share (2008 4 39 pence per share), an increase of 2 5%

Subject to the approval of shareholders at the Annual General Meeting the final dividend will be paid on 18 May 2010 to those on the register as at 5 March 2010 An alternative of a scrip dividend will once again be available

**Board**

On 1 January 2010 Charles Gregson was appointed as an independent non-executive Director and I would like to take this opportunity to welcome Charles, whose appointment will further strengthen the Board In addition, Jo Dawson resigned from the Board as a non-executive Director with effect from 5 February 2010 I would like to thank Jo for her contribution during her time on the Board

**Partners and Employees**

On behalf of the Board 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

The quality of our people at every level of our community is exceptional as demonstrated by their continued commitment, dedication and enthusiasm

**Mike Wilson**
23 February 2010

# Key Performance Indicators

GROWTH IN NEW BUSINESS
APE (£ MILLION)

INCREASE OF
+5%

New business is measured on the Annual Premium Equivalent ('APE') basis, being new regular premiums plus one-tenth of single premiums and unit trust sales Our longer term growth target for new business is 15 to 20% Over the period since inception new business has grown at a compound growth rate of 17% per annum In 2009, the growth in new business was +5%

NEW BUSINESS PER PARTNER
APE (£'000)

DECREASE OF
-3%

New business per Partner is measured as APE produced by the St James's Place Partnership divided by the average number of Partners for the year It is a measure of the productivity of the Partnership and has significantly contributed to the growth in new business over recent years In 2009, the new business per Partner was £314 1k (2008 £323 2k)

NEW BUSINESS CONTRIBUTION ON AN EEV BASIS
£ MILLION

INCREASE OF
+26%

New business contribution represents the gross margin emerging from new business sales less the direct expenses and as such is a measure of the profitability of new business sales In 2009, the growth in new business contribution was 26%

EEV OPERATING PROFIT BEFORE TAX
£ MILLION

INCREASE OF
+12%

The European Embedded Value ('EEV') reporting basis, in our opinion, provides the most meaningful measure of the Group's operating performance We aim to achieve sustainable growth in EEV operating profit and for 2009 achieved growth of 12%

DIVIDENDS
PENCE PER SHARE

INCREASE OF
+2.5%

It is our intention to increase the total dividend on a basis judged prudent taking account of the cash profits generated from the business Taking into account the impact of the economic downturn in the latter part of 2008 and the first half of 2009, together with the strong second half of 2009 that we experienced, we have increased the total dividend for 2009 by 2 5% over the 2008 level

* 6 35p special dividend also distributed

FUND UNDER MANAGEMENT
£ BILLION

INCREASE OF
+31%

Funds under management ('FUM') have grown since inception at a compound growth rate of 28% per annum The associated annual management charges contribute to our ongoing EEV and cash profits During 2009, FUM rose to over £20 billion for the first time following growth of 31% over twelve months

NUMBER OF PARTNERS

INCREASE OF
+9%

The growth in the number of advisers in the St James's Place Partnership continues to contribute to the growth in new business year on year It is key not only to recruit good quality advisers but also to retain those already with us During 2009 the number of Partners increased by 9% to 1,464

MANUFACTURED PROPORTION OF NEW BUSINESS
%

INCREASE OF
+6%

An important part of driving forward our profitability is the proportion of the new business sales that is our own or 'manufactured' Our target is for our own manufactured portion of new business product sales to be at least 80% of the total new business sales During 2009, the proportion of manufactured business was 91%, representing growth of 6% over the prior year

# Chief Executive's Statement

At the end of my 2008 statement I said '2009 will be another challenging year' and 'we will continue to demonstrate just how resilient this business is'.

2009 was most certainly a challenging year. It is a tribute to the quality of our fund performance and the relationships our Partners have with their clients that we continued to attract new business and record levels of new funds under management. We grew the Partnership at the fastest rate for ten years, whilst at the same time reducing our establishment expenses and thereby increasing profits

DAVID BELLAMY
CHIEF EXECUTIVE

+9%

SIZE OF PARTNERSHIP

>95%

FUND RETENTION RATE

£2.3BN

NET INFLOW OF FUNDS

Given the market conditions, I believe 2009 will come to be viewed as one of our most robust performances

**New Business**

After a difficult first six months, where we reported an 8% fall in new business on an Annual Premium Equivalent ('APE') basis, we returned to growth in the second half of the year with an increase of 20% As a result, new business for the year was up 5% and at a record level – a significant achievement given the economic backdrop The fourth quarter in isolation saw new business up 38% on the corresponding period in 2008

Total new funds invested, including pension business, grew by 11% to £3 46 billion and, as in the last two years, we retained over 95% of existing clients' funds during the year We believe these are sector leading retention numbers The combination of these two factors resulted in a net inflow of funds under management of £2 3 billion, some £600 million higher than in 2008

**The St James's Place Partnership**

The size of the Partnership grew by 9% in 2009 This represents the fourth year of strong growth and is the highest annual growth in the Partnership for ten years, bringing the total to 1,464 at the end of the year

As well as recruiting quality businesses to the St James's Place Partnership, of equal importance is the retention of existing Partners and we have once again retained over 90% of those Partners who were with us at the start of the year

Whilst productivity per Partner for the whole year dipped a little compared to the previous year, we saw strong productivity gains in the final quarter giving us confidence that we can expect further improvements as markets recover

Our academy initiative progresses well with 20 individuals graduating to join the Partnership during the current year While we will continue to develop this initiative and expect a further intake during 2010, we intend to utilise some of the existing training resource to meet the professional qualification requirements of the Retail Distribution Review ('RDR')

We continue to see a very active marketplace for good advisers and expect St James's Place to continue to attract the highest quality advisers who are seeking a strong and stable home

**Investment Management**

The world's stock markets initially started 2009 on a positive footing, but soon went into decline as global economic worries and concerns about the banking sector resurfaced Consequently, the FTSE 100 fell 20% by March Since that low point, markets recovered somewhat with the FTSE 100 ending the year up 22% With that as the backdrop, we were delighted to see our funds under management increase by 31% to £21 4 billion by the end of the year, their highest ever level

The growth in funds under management was fuelled by a combination of new investments and the performance of our funds, with the positive growth achieved by the markets during 2009 reflected in the return on our funds, enabling them to recover some of the losses seen in 2008 Looking at the long-term performance, in every rolling five year period since 2002, over 70% of our clients' money has performed above the average of their respective peer group

We continued to evolve our fund range and during the year we launched an Investment Grade Corporate Bond fund managed by Paul Reed and Paul Causer of Invesco Perpetual and in September we announced some changes to our existing range John Wood of JO Hambro Capital Management, and Peg McGetrick of Liberty Square Asset Management were appointed as managers of our UK and General Progressive Unit Trust, whilst Stuart Mitchell of SW Mitchell Capital and Kenneth Broekaert of Burgundy Asset Management were appointed as managers of our Greater European Progressive Unit Trust

Towards the end of the year we appointed our own Chief Investment Officer, Chris Ralph, and increased the membership and experience of the Investment Committee with the appointment of Vivian Bazalgette and Peter Dunscombe I would like to take this opportunity to welcome all three of them to our community

Looking forward, and to complement our existing fund range, in April we will be launching some new funds including an Emerging Market fund and an International Bond fund Further new investment funds are being developed to be added to the range later in the year

**Our Clients**

As I have said in previous statements, we strive to build long-term relationships with clients through the St James's Place Partnership We do this by providing them with ongoing face-to-face advice, delivering above average investment performance over the medium term and maintaining regular contact with them

# Chief Executive's Statement
*continued*

**£21.4BN**

FUNDS UNDER MANAGEMENT

**£2.6M**

FUNDS RAISED FOR SJP FOUNDATION

Successfully maintaining these relationships and building on them is crucial to the success of this business We measure this in two ways firstly by looking at our retention rates, which as I mentioned earlier, are amongst the best within our peer group Secondly, from the feedback we receive from clients and here again we're pleased with the results from our regular surveys which show high levels of satisfaction

In addition to survey results, it is always pleasing to receive external recognition and we were delighted to be awarded the **'Wealth Manager of the Year'** for the second year running from the Financial Times/Investors Chronicle We also received the award for **'Best Wealth Manager for Inheritance Tax and Succession Planning'** and the **'Best Wealth Manager for Investments'** These are awards voted for by clients

Alongside these, the highly respected Management Today issued their annual league table of **'Britain's Most Admired Companies'** towards the end of the year and St James's Place was ranked **'51st Most admired Company in Britain'** up from 67th in 2008

### Foundation and Community

Raising funds for our Foundation and supporting those who are less fortunate remains an important ethos within the St James's Place culture

Despite the economic climate, 2009 was another exceptional year for the Foundation with our community raising, including the matching by the Company, in excess of £2 6 million This brings the total raised over the last 18 years to £18 0 million

The funds raised have enabled the Foundation to continue to support hundreds of grants to smaller charities and also to commit to larger projects

In 2009 a new hydrotherapy pool for the Children's Trust at Tadworth, which we committed to fund last year, was completed This will benefit children with severe brain disorders for many years to come

Our most recent donation to Hope and Homes has been to commit nearly £1 million to build the St James's Place 'Ray of Hope' centre in the Ukraine The centre will be a focal point for children, giving them and young mothers community support when they need it, whilst at the same time showing the local authorities an alternative to the institutions so common in the old eastern block

On behalf of the trustees I would like to thank all members of the St James's Place community and those suppliers who have generously supported the Foundation during 2009

### Retail Distribution Review

In our Interim Statement in 2009 we reported that the Financial Services Authority had published a consultation paper on proposed regulatory changes, commonly referred to as the Retail Distribution Review ('RDR')

Whilst the final details of the proposals, due to take effect in 2013, will not be known until later this year, we do know that changes affecting the whole of the industry are inevitable In anticipation of this, we have begun to embrace some aspects of the proposals, particularly those linked to the further demonstration of the Partnership's professionalism, and the Partnership is now working towards achieving the new qualification levels expected of them We will keep shareholders abreast of our progress and of any changes resulting from the RDR once we know more

### Outlook

The current economic climate remains uncertain, and the recovery is fragile, but we begin 2010 with a little more optimism and confidence than last year

Having said that, we can all expect to see further tax changes (some of which have already been announced), will also experience a General Election, and anticipate some further changes to the regulatory regime as mentioned above

Clearly, we cannot predict the outcome of these changes, but we do know from our results in 2009 that our business has proved resilient and is in really good shape to capitalise on better times, whenever they arrive In the meantime, the significant increase in Partner numbers over the last four years provides a solid foundation for the further growth of our business

**David Bellamy**
23 February 2010

# Financial Commentary

In a year of economic turbulence St James's Place has demonstrated both resilience as markets fell and strength as markets recovered.

Despite the difficult economic environment and turbulent world stock markets new business for the year was up 5% whilst retention of existing clients' investments improved further from an already very strong position The combination of both the new business and retention led to net inflows of funds under management of £2.3 billion, which was 35% higher than the prior year. Overall net inflows amounted to some 14% of opening funds.

ANDREW CROFT
FINANCE DIRECTOR

**Overview of Results**
Establishment expenses were down 4% for the year, which helped the Group achieve a record new business margin and improved profitability across most of our financial measures

Solvency remained strong throughout the year benefiting from our prudent investment policy The cash result for the year at £23 5 million was similar to the £24 1 million for 2008

The International Financial Reporting Standards ('IFRS') profit before shareholders tax for the year at £49 9 million was lower than the prior year principally reflecting lower interest income, together with some one off impacts in the comparative period

The European Embedded Value ('EEV') operating profit at £228 9 million was up 12% in the year whilst the strong recovery in the world stock markets resulted in a total pre-tax result of £363 2 million compared with a loss for the prior year of £115 9 million

In light of the performance of the business the final dividend was increased by 4% to 2 66 pence per share

**Presentation of the Financial Performance of the Business**
Our business is long term in nature with an initial investment required to acquire new business and with shareholder cash returns emerging over time Therefore the performance of the business is presented on three bases, IFRS, EEV and a cash result

The EEV result recognises the long term nature of the emergence of shareholder cash returns by reflecting the net present value of these future cash flows

The cash result is a measure of the underlying cash generated by the business The result is a combination of the cash arising from the business in-force at the start of the year less the costs incurred to acquire the business in the current year In effect a proportion of the cash generated from the in-force business is reinvested to acquire future cash returns from the new business added during the year

The aim of the IFRS result is to smooth the recognition of profit from new business and spread the benefit over the life of the contracts Therefore the result does not reflect the full impact of the new business in a particular year

The EEV result provides a measure of the future shareholder value added from the new business in a particular year, whilst the cash result provides a measure of the capital that has been generated for shareholders in the year (a factor in determining the dividend) We believe it is these two measures, and not the IFRS result, that best represent shareholder value

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

## SECTION 1 INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')

**IFRS Result**
The IFRS result is shown on pages 62 to 96

As noted above the aim of the IFRS approach is to smooth the emergence of profit from the business and spread the benefit over the life of the contracts and therefore does not reflect the impact of the higher new business during the year Consequently IFRS is not the best measure of the underlying cash generated by the business (see the cash result presentation in Section 3) nor the true economic value of the expected future cash flows (see the EEV presentation in Section 2)

A further complication in the presentation of results for life insurers is that IFRS requires the pre-tax profit of the life business be 'grossed up' for policyholder tax, with the corresponding amount then being deducted within the tax charge The table below shows the profit before shareholder tax, which reflects the IFRS result after eliminating this policyholder tax 'gross up' This figure is the best measure of shareholder return from the business in the year based on the IFRS result

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| Life business | 53 6 | 83 2 |
| Unit trust business | 16 8 | 18 1 |
| Other | (20 5) | (20 6) |
| Profit before shareholder tax | 49 9 | 80 7 |
| Policyholder tax | (21 4) | (112 1) |
| Total pre tax profit/(loss) | 28 5 | (31 4) |
| Policyholder tax | 21 4 | 112 1 |
| Shareholder tax | (10 1) | (13 6) |
| Profit after tax | 39 8 | 67 1 |

The profit before shareholder tax at £49 9 million for the current year was lower than the £80 7 million for 2008 The prior year comparative included a one-off £16 2 million in the life business and excluding this amount the like for like comparative was £64 5 million, £14 6 million higher than 2009

This £14 6 million variance is driven by the fall in interest income of £17 0 million partly offset by a £6 3 million reduction in the cost of expensing share options

# Financial Commentary
*continued*

Life Business
The current year life business pre-tax profit of £53 6 million was lower than the prior year £83 2 million

The 2008 IFRS result included a one off £16 2 million of tax related benefit which included £7 0 million for the impact of establishing an internal reassurance company Excluding this one-off the prior year comparative profit was £67 0 million

Economic conditions also affected the IFRS result and in particular the lower interest rates impacted interest income in the life businesses which was some £7 3 million lower in the current year The balance of the difference relates to a number of small negative items relating to insurance reserves

Unit Trust Business
The pre tax operating profit for the unit trust business was £16 8 million compared with £18 1 million for the prior year

IFRS treatment of unit trust business requires both income from initial charges and some initial expenses be deferred Since the amount of income deferred exceeds the expenses, the increase in new business has resulted in an IFRS new business strain compared to the prior year This has more than offset a small increase in underlying cash flow

Other
Other business contributed a loss of £20 5 million (2008 loss of £20 6 million) Within this figure the cost of share options for the year was lower at £8 6 million compared to £14 9 million for 2008

This reduction in costs was offset by reduced investment income in 2009 being some £9 2 million lower reflecting the lower prevailing interest rates

Profit before Shareholder Tax
Due to the factors outlined above the total profit before shareholder tax for the year was £49 9 million, down from the £80 7 million last year

Policyholder Tax
The policyholder tax charge reflects the movement in the tax position of the policyholder funds, which in the current year amounted to a credit of £21 4 million (2008 £112 1 million credit)

This movement is predominantly driven by the change in deferred tax on unrealised capital gains on equity holdings in the unit linked life funds The liability established is closely correlated with movements in asset values within these funds

Taking account of the policyholder pre-tax movement, the pre tax result for the year was a profit of £28 5 million compared with a loss for the prior year of £31 4 million

**Analysis of Constituent Parts of the IFRS Post Tax Profit**
The table below provides additional disclosure to assist in the understanding of the IFRS result The starting point for the analysis is the cash result shown in Section 3

| | Note | In-force £ Million | New Business £ Million | 2009 Total £ Million | In force £ Million | New Business £ Million | 2008 Total £ Million |
|---|---|---|---|---|---|---|---|
| Cash result | 1 | 88 8 | (65 3) | 23 5 | 91 4 | (67 3) | 24 1 |
| DIR amortisation | 2 | 64 4 | 4 4 | 68 8 | 57 6 | 4 4 | 62 0 |
| DAC amortisation | 3 | (49 0) | (4 4) | (53 4) | (41 4) | (4 4) | (45 8) |
| PVIF amortisation | 4 | (2 6) | – | (2 6) | (2 4) | – | (2 4) |
| DIR on new business | 2 | – | (86.3) | (86 3) | – | (77 4) | (77 4) |
| DAC on new business | 3 | – | 105 1 | 105 1 | – | 100 0 | 100 0 |
| Share options | 5 | (8 6) | – | (8 6) | (14 9) | – | (14 9) |
| IFRS deferred tax impacts | 6 | (4 2) | – | (4 2) | 16 5 | – | 16 5 |
| Other IFRS | 7 | (2 5) | – | (2 5) | 5 0 | – | 5 0 |
| IFRS profit (post tax) | | 86 3 | (46 5) | 39 8 | 111 8 | (44 7) | 67 1 |
| Shareholder tax | 8 | | | 10 1 | | | 13 6 |
| *Effective shareholder tax rate* | | | | 20 2% | | | 16 9% |
| IFRS operating profit | | | | 49 9 | | | 80 7 |

The post tax IFRS profit arising from the in force business in the last year decreased from £111 8 million to £86 3 million

The loss associated with acquiring new business during the year was £46 5 million (2008 loss of £44 7 million) and should be viewed as an investment for future profits These profits will arise as net annual management fees less the future amortisation of the associated deferred acquisition cost ('DAC') and deferred income ('DIR') in subsequent years

Notes

1 See explanation in Section 3

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

(a) The amortisation of the opening deferred income which for the current year was £64 4 million The release in a particular year will depend upon the value of DIR at the start of the year and the remaining life of the policies to which the DIR relates or the remaining surrender penalty period The expected release for 2010 is £71 0 million

(b) The deferral of the initial profit associated with new business sales in the year In 2009 the deferred profit reduced the IFRS result by £86 3 million The deferral of profit in any particular year will be dependent upon the level of new business

3 DAC Specific new business acquisition expenses are required to be deferred in the year they arise and then amortised in future years over the life of the policies to which the costs relate This treatment of these acquisition expenses gives rise to two adjustments to arrive at the IFRS result

(a) The amortisation of the opening DAC, which for the current year was a charge of £49 0 million The charge in a particular year will depend upon the value of the DAC at the start of the year and the remaining life of the policies to which the DAC relates The expected amortisation charge for 2010 is £55 2 million

(b) The deferral of the specific acquisition costs incurred in the current year In 2009 this deferral increased IFRS profits by £105 1 million The deferral of expenses in any particular year will be dependent upon the level of the acquisition costs which themselves will be determined by the level of new business

4 The IFRS balance sheet includes an asset representing purchased value of in force This asset is amortised over the remaining life of the policies associated with this asset The amortisation charge for 2010 is expected to be £2 8 million

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

6 IFRS deferred tax under IFRS a deferred tax asset is established for expected future tax impacts not recognised in the cash result In 2008 this adjustment reflected a number of positive one offs, including £7 million of anticipated benefit from the establishment of an internal reassurance company In 2009 £4 million of this benefit has been realised increasing cash and decreasing IFRS deferred tax

7 Other IFRS this adjustment offsets strains emerging in the cash result These strains move opposite to the stock market and normally the impact would be small However the significant stock market movements recently have resulted in more significant adjustments in the last few years

8 The effective shareholder tax rate this reflects the weighting of IFRS profit between UK Life insurance business (with a marginal tax rate of 8%), International business (taxed at 12 5%) and Pensions and Unit Trust business (taxed at 28%)

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

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

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| Purchased value of in force* | 39 0 | 41 6 |
| Deferred acquisition costs* | 473 7 | 417 7 |
| Deferred income* | (327 3) | (305 4) |
| Other IFRS net assets | 91 1 | 94 1 |
| Solvency assets | 263 3 | 260 0 |
| Total IFRS net assets | 539 8 | 508 0 |

* Net of deferred tax

| | Year Ended 31 December 2009 Pence | Year Ended 31 December 2008 Pence |
|---|---|---|
| Net asset value per share | 112 0 | 105 9 |

## SECTION 2 EUROPEAN EMBEDDED VALUE

The new business of the group is long term investments and pension business where shareholder cash flow emerges over time The EEV result reflects the net present value of those future cash flows, calculated using accepted actuarial techniques

As the EEV result reflects the long-term shareholder value we believe this is the most meaningful measure of the Group's operating performance The EEV result is shown on pages 105 to 113

The table below summarises the profit of the combined life and unit trust business

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| Life business | 175 1 | 174 1 |
| Unit trust business | 74 3 | 50 8 |
| Other | (20 5) | (20 6) |
| Operating profit | 228 9 | 204 3 |
| Investment return | 148 2 | (320 6) |
| Economic assumption changes | (13 9) | 0 4 |
| Total pre-tax result | 363 2 | (115 9) |
| Tax | (98 1) | 28 5 |
| Post tax result | 265 1 | (87 4) |

The group operating profit at £228 9 million increased 12% over the corresponding figure for 2008, the increase principally reflects a higher new business profit resulting from the record new business margin In addition our retention of client money improved over the year from the already very strong position, providing for a positive experience variance

Business Review

# Financial Commentary
*continued*

The recovery in the world stock markets resulted in a higher than assumed investment return and therefore a positive investment variance partly reversing the significant negative investment variance in 2008 Total pre-tax profit for the year was £363 2 million which compares to a pre-tax loss in 2008 of £115 9 million

Life Business
Operating profit increased from £174 1 million to £175 1 million A full analysis of the result is shown on page 110 and the principal movements are commented on below

The **new business profit** increased from £93 0 million to £106 3 million reflecting an increase in the new business margin due to the higher level of new business together with lower expenses

The expected profit for the year, the so called **unwind of the discount rate**, at £63 7 million was at a similar level of £63 4 million for the prior year

The assumed **investment income** at £4 8 million for the year was in line with the £4 9 million last year reflecting the continuing low interest rate environment

The **experience variance** during the year increased operating profit by £2 6 million (2008 £13 7 million) The prior year experience variance included a positive one-off experience variance of £11 2 million resulting from the establishment of an internal reassurance company to reassure all future pensions business The amount reflected the anticipated earlier utilisation of existing pension tax losses Excluding this one-off item both the current year and prior year experience variance was a small positive of c£2 5 million

In my interim commentary I indicated that a change in taxation of overseas dividends from 1 July 2009 could lead to a write-off of an £8 6 million tax asset in the second half of the year I am pleased to say that the final year end tax position proved to be better than expected and the amount we were required to write off was only £1 7 million

There was a small loss of £2 3 million (2008 loss of £0 9 million) from **operating assumption changes** which have been made to the calculation of the embedded value

Unit Trust Business
The operating profit increased to £74 3 million from £50 8 million and a full analysis of the unit trust result is shown on page 110

Similar to the life business, the operating profit is principally higher due to the increase in the **new business profit**, which at £49 1 million was higher than the £30 5 million for the prior year This significant increase in the new business profit reflects the 30% higher new business
The expected profit or **unwind of the discount rate** at £14 6 million was lower than last year's £17 1 million

There was a positive **experience variance** of £9 0 million in the current year principally reflecting the stronger retention than assumed in the embedded value calculation The experience variance for the prior year was a positive £3 2 million

There was a small profit of £0 8 million (2008 £nil) from operating assumption changes which have been made to the calculation of the embedded value

Other
The loss from other operations has previously been commented on in the IFRS section

Investment Return and Economic Assumption Changes
Variations from the assumed level of stock market growth, both positive and negative, impact the expected future annual management charges (and therefore profits) the business will earn The capitalised effect of any such variation on the future annual management fees (and profits) is shown in the analysis of the embedded value movement for the year as an **investment variance** The strong recovery in the world stock markets in the second half of the year resulted in a positive investment variance of £148 2 million for the year, reflecting the 15 7% growth in the MSCI £ World Index over the same period In 2008 there was a large negative investment variance of £320 6 million reflecting the significant fall in world stock markets and property prices during that year (the MSCI £ World Index fell 17 9% in 2008)

The **economic assumptions** used in the projection of the cash flows have resulted in a loss of £13 9 million for the year compared with a profit of £0 4 million for the prior year The current year loss principally reflects an increase in the rate of inflation implied by 10 year index linked gilts from 1 7% to 3 2% The increase in expected inflation impacts the expected future costs of maintaining the in-force business

**Total pre-tax result** for the year was a profit of £363 2 million compared with a loss of £115 9 million for the prior year

## 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 one-tenth single premiums PVNBP is calculated as single premiums plus the present value of expected premiums from regular premium business, allowing for lapses and other EEV assumptions

Noted in the table below is the new business margin calculated both as a percentage of APE and PVNBP

| | 2009 | 2008 |
|---|---|---|
| Life business | | |
| New business contribution (£ Million) | 106 3 | 93 0 |
| APE (£ Million) | 351 6 | 350 5 |
| Margin (%) | 30 2 | 26 5 |
| PVNBP (£ Million) | 2,764 1 | 2,520 4 |
| Margin (%) | 3 8 | 3 7 |
| Unit trust business | | |
| New business contribution (£ Million) | 49 1 | 30 5 |
| APE (£ Million) | 89 2 | 68 5 |
| Margin (%) | 55 0 | 44 6 |
| PVNBP (£ Million) | 892 2 | 685 0 |
| Margin (%) | 5 5 | 4 5 |
| Total business | | |
| New business contribution (£ Million)* | 155 4 | 123 5 |
| APE (£ Million) | 440 8 | 419 0 |
| Margin (%) | 35 3 | 29 5 |
| PVNBP (£ Million) | 3,656 3 | 3,205 3 |
| Margin (%) | 4 3 | 3 9 |

- New business contribution is calculated as the gross margin of £277 3 million (2008 £250 2 million) from new business sales less the direct expenses of £121 9 million (2008 £126 7 million), as can be seen in the expenses table in Section 4

The new business margin on an APE basis has increased significantly over the year from 29 5% to 35 3%, a record high The improvement reflects the higher new business volumes, the higher proportion of manufactured business, good retention and strong control of establishment expenses

The PVNBP new business margin has increased from 3 9% to 4 3% and reflects the higher new business volumes and the lower expenses The PVNBP calculation only includes our manufactured business, as we do not apply these principles to the non-manufactured business

**Analysis of the Embedded Value and Net Assets per Share**

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

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| Value of in-force | | |
| – Life | 886 6 | 702 2 |
| – Unit trust | 221 5 | 152 1 |
| Solvency assets | 263 3 | 260 0 |
| Total embedded value | 1,371 4 | 1,114 3 |

| | Year Ended 31 December 2009 Pence | Year Ended 31 December 2008 Pence |
|---|---|---|
| Net asset value per share | 284 5 | 232 4 |

**SECTION 3 CASH RESULT AND CAPITAL**

Noted below are a number of issues regarding cash result and the capital position

**Cash Result**

The cash result of the business in the year is a measure of the underlying shareholder cash generated by the business and is a factor in determining the dividend

The cash result is the combination of the cash profit arising from the business in force at the start of the year less the costs incurred to acquire the business in the current year In effect the Group is re-investing a proportion of the cash generated from the in-force business to acquire future cash generation from the new business added during the year In other words cash returns are deferred in order to build a growing stream of future income and therefore future dividends for shareholders

In 2009 the cash generated from the in-force business at £88 8 million was at a similar level to the £91 4 million in the prior year While the cost of acquiring the new business at £65 3 million was £2 0 million lower than in 2008 The EEV post tax new business profit arising from the new business added during the year was £115 0 million and represents the net present value of the expected future shareholder cash flows after deducting this cost of investment

# Financial Commentary
*continued*

The cash result for the year was £23 5 million (2008 £24 1 million) and the tables and commentary below provides an indicative analysis of the sources of this cash result

| 2009 | Note | Arising from Business In-force at 1 January £ Million | Arising from New Business in Year £ Million | Total £ Million |
|---|---|---|---|---|
| Net annual management fee | 1 | 1199 | 13 2 | 133 1 |
| Unwind of surrender penalties | 2 | (40 8) | (4 4) | (45 2) |
| Margin arising from new business | 3 | – | (12 0) | (12 0) |
| Establishment expenses | 4 | (6 9) | (62 1) | (69 0) |
| Shareholder interest (regulated companies) | 5 | 3 0 | – | 3 0 |
| Shareholder interest (non regulated companies) | 5 | 1 7 | – | 1 7 |
| Miscellaneous | 6 | 11 9 | – | 11 9 |
| Post tax cash flow | | 88 8 | (65 3) | 23 5 |

| 2008 | Note | Arising from Business In force at 1 January £ Million | Arising from New Business in Year £ Million | Total £ Million |
|---|---|---|---|---|
| Net annual management fee | 1 | 111 2 | 11 0 | 122 2 |
| Unwind of surrender penalties | 2 | (41 1) | (3 3) | (44 4) |
| Margin arising from new business | 3 | – | (10 0) | (10 0) |
| Establishment expenses | 4 | (7 2) | (65 0) | (72 2) |
| Shareholder interest (regulated companies) | 5 | 10 1 | – | 10 1 |
| Shareholder interest (non-regulated companies) | 5 | 6 9 | – | 6 9 |
| Miscellaneous | 6 | 11 5 | – | 11 5 |
| Post tax cash flow | | 91 4 | (67 3) | 24 1 |

Notes

The cash result is unaudited and differs from the IFRS result as it removes the non cash items such as the DAC DIR and the cost of expensing share options

1 The net annual management fee 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 and therefore the net annual management fee will increase or decrease in line with funds under management Over the course of 2009 funds under management have benefited from the new money invested by clients and the strong recovery in the level of the world stock markets
The income for the year at £133 1 million was up 9% over the prior year

2 Unwind of surrender penalty relates to the reserving methodology applied to the surrender penalties within the charging structure of the single premium life and pension plans At the outset of these plans 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
This cash outflow has increased from £44 4 million to £45 2 million due to net inflows and the increase in the level of the stock markets

3 The margin arising from new business reflects the net cash impact of the new business contribution less the associated directly attributable expenses The negative cash flow increased in the year to £12 0 million (2008 £10 0 million) as a result of higher pension business in the year

4 Establishment expenses are the post tax expenses of running the Group s infrastructure During 2009 these expenses were 4% lower than the prior year at £69 0 million (2008 £72 2 million)

5 Shareholder interest is the income accruing on the investments and cash held by the Group and is shown separately for both the regulated and non regulated companies Given the lower prevailing interest rates in the year the combined level of income has fallen from £17 0 million to £4 7 million

6 Miscellaneous represents the cash result of the business not covered in any of the other categories It will include miscellaneous product charges, reserving changes experience variances and the income (excluding interest) and expenses included within the other operations of the business
The miscellaneous cash result for the current year at £11 9 million was at a similar level to the prior year As noted last year 2008 benefited from a number of one offs including a £7 4 million positive tax impact 2009 has also benefited from one offs, including a positive £2 5 million reduction in insurance reserves due to stock market increases and a positive £4 0 million emerging from an internal reassurance company that we established during 2008 Ordinarily shareholders should expect a small positive miscellaneous cash result

Business Review

### Capital Position

The capital position of the Group, assessing solvency assets and required capital on an entity basis, together with a categorisation of the net assets, is shown in the table below

It will be noted that the regulated entities are well capitalised over their solvency requirement and that the assets are prudently managed – being predominantly in cash, AAA money market funds and UK government backed securities

Comparison with previous valuations would show that the solvency position has remained stable despite the recent market uncertainty, reflecting the low risk appetite for Market, Credit and Liquidity risks in relation to solvency

| | Life £ Million | Other Regulated £ Million | Other £ Million | Total £ Million |
|---|---|---|---|---|
| **Solvency position** | | | | |
| Solvency net assets | 124 7 | 19 8 | 118 8 | 263 3 |
| Solvency requirement | 42 5 | 13 3 | | |
| Solvency ratio | 293% | 149% | | |
| **Analysis of solvency net assets** | | | | |
| UK government gilts | 50 2 | – | – | 50 2 |
| Other government backed debt | 3 1 | – | – | 3 1 |
| AAA rated money market funds | 110 0 | 21 3 | 31 8 | 163 1 |
| Bank balances | 24 3 | 28 2 | 14 8 | 67 3 |
| Fixed assets | – | – | 10 4 | 10 4 |
| Actuarial reserves | (20 5) | – | – | (20 5) |
| Other assets/liabilities | (42 4) | (29 7) | 61 8 | (10 3) |
| Solvency net assets | 124 7 | 19 8 | 118 8 | 263 3 |
| **Reconciliation to IFRS net assets** | | | | |
| Solvency net assets | 124 7 | 19 8 | 118 8 | 263 3 |
| – Purchased VIF | 39 0 | – | – | 39 0 |
| – DAC and DIR | 157 1 | (10 8) | – | 146 3 |
| – Other | 91 2 | – | – | 91 2 |
| Total IFRS net assets | 412 0 | 9 0 | 118 8 | 539 8 |

### Solvency II

The European Commission is continuing to develop the detail of the new Solvency II regime, due to be implemented in 2012 This will result in significant changes to accounting for insurance business with the underlying aim of better reflecting the inherent risk Because of the low risk, unit linked nature of our insurance business, we believe that Solvency II should have a positive impact on our business, however, until the actual rules are finalised it is not possible to confirm We will continue to monitor development of the solvency standards and track the implications for the business

### Share Options Maturity

The Group has share options outstanding under the various share option schemes at 31 December 2009, amounting to 31 0 million (31 December 2008 32 9 million) As can be seen from the table below if exercised they will provide a source, up to £69 5 million, of future capital for the company It must be recognised that at present a number of these options are 'underwater' and would not therefore be exercised

# Financial Commentary
*continued*

The total number of options (including those in the SJP Employee Trust), together with their earliest exercise date, is set out in the table below

| Earliest Date of Exercise | Average Exercise Price £ | Number of Share Options Outstanding Million | Potential Proceeds £ Million |
|---|---|---|---|
| Prior to 1 Jan 2010 | 2 28 | 28 5 | 64 9 |
| Jan – Jun 2010 | 2 59 | 0 6 | 1 6 |
| Jul – Dec 2010 | 2 62 | 0 2 | 0 4 |
| Jan – Jun 2011 | 2 14 | 0 1 | 0 2 |
| Jul – Dec 2011 | – | – | – |
| Jan – Jun 2012 | 1 50 | 1 6 | 2 4 |
| | | 31 0 | 69 5 |

Of those options with an earliest date of exercise prior to 1 January 2010, 2 5 million options require further performance conditions to be met before vesting unconditionally

## SECTION 4 OTHER MATTERS

As usual this final section of my commentary covers a number of additional areas that will be of interest to shareholders

### Expenses

The table and commentary below provides details of the Group's expense position

| Category | Note | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|---|
| Paid from policy margins | | | |
| Partner remuneration | 1 | 190 0 | 176 9 |
| Investment expenses | 1 | 75 4 | 59 6 |
| Third party administration | 1 | 30 0 | 27 8 |
| | | 295 4 | 264 3 |
| Direct expenses | | | |
| Other new business related costs | 2 | 41 9 | 42 2 |
| Establishment costs | 3 | 93 3 | 97 6 |
| Contribution from third party product sales | 4 | (13 3) | (13 1) |
| | | 121 9 | 126 7 |
| | | 417 3 | 391 0 |

I am pleased to say that despite the very strong 9% growth in the Partnership, which increases the infrastructure costs, we were able to reduce the establishment costs by over 4% during 2009

We expect establishment expenses for 2010 to be at a similar level to the current year which means these expenses will remain well below the 2008 level despite the increase in the size of the Partnership and higher new business since that year

In addition in 2010 we will incur expenditure of some £4 0 million as a result of a significant change in our investment proposition together with some £2 0 million of costs associated with the advancing the Partnership towards full Diploma status as commented upon in the Chief Executive's statement

Notes

1 These costs are met from corresponding policy margins and any variation in them from changes in the volumes of new business or the level of the stock markets does not directly impact the profitability of the Company

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

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

4 Contribution from third party product sales reflects the net income received from wealth management sales of £4 3 million (2008 £5 4 million) sales of stakeholder products of £0 9 million (2008 £1 1 million) and sales through the Protection Panel of £8 1 million (2008 £6 6 million)

### Movement in Funds under Management

The table below shows the movement in the funds under management of the Group during the year

As can be seen from the table we have not experienced any significant outflows and the implied surrender rate for the current year has improved marginally over 2008

| | Year Ended 31 December 2009 £ Billion | Year Ended 31 December 2008 £ Billion |
|---|---|---|
| Opening funds under management | 16 3 | 18 2 |
| New money invested | 3 5 | 3 0 |
| Investment return | 2 8 | (3 6) |
| | 22 6 | 17 6 |
| Regular income withdrawals/maturities | (0 4) | (0 4) |
| Surrenders part surrenders | (0 8) | (0 9) |
| Closing funds under management | 21 4 | 16 3 |
| Implied surrender rate as % of average funds under management | 4 0% | 5 2% |

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

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

Surrenders and part surrenders are those amounts where clients have chosen to withdraw money from their plan Surrenders are assumed to occur in the calculation of the embedded value new business profit based on actual experience, updated on an annual basis, by plan duration and the age of the client The implied surrender rate shown in the table above is very much a simple average and it should not be assumed that small movements in this rate will result in a change to the embedded value assumptions

### Net Inflow of Funds under Management

The table below shows the net inflow of funds under management and the inflow as a percentage of opening funds under management

| | Year Ended 31 December 2009 £ Billion | Year Ended 31 December 2008 £ Billion |
|---|---|---|
| Net inflow of funds under management | 2 3 | 1 7 |
| Inflow as % of opening funds under management | 14 1% | 9 3% |

The net inflow of funds for the year, at £2 3 billion, was 35% higher than the prior year and amounted to some 14% of opening fund under management

After reading this statement I hope shareholders will agree with my opening remark that the business demonstrated both resilience in the first half of the year whilst in the second half of the year our business recovered strongly

**Andrew Croft**
23 February 2010

# Risk and Risk Management

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

In the following sections we outline the framework for the management of risk in the Group We provide detail on the main strategic risks facing the business and associated management activity, followed by individual sections on

- Market Risk (on page 24)
- Credit Risk (on page 25)
- Liquidity and Currency Risk (on page 26)
- Insurance Risk (on page 26)
- Operational Risk (on page 27)

This information is an integral part of the audited financial statements

### Risk Appetite Statement

The Board is ultimately responsible for setting the framework within which risk is managed at St James's Place ('SJP') At the centre of this framework is our Risk Appetite Statement

In our Risk Appetite Statement, the Board clearly sets out our 'risk boundaries' – a specification of the types of risks the Group is willing to take and to what extent The Statement is regularly reviewed and updated by the Board to ensure that it remains current and continues to take account of the implications of any emerging or topical risk

Some examples of activities that our Risk Appetite Statement currently explicitly inhibits are

- providing guarantees on investment returns or options for unit linked funds,
- manufacturing any general insurance or lending products, or assuming insurance or credit risk arising from them, other than PI insurance manufacture through the captive arrangement, and
- the sale of with profits business

### Risk Policies

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

### The Risk Committee and Group Risk Function

Overseeing our Risk Management Framework is the Risk Committee The Risk Committee is made up of non-executive Board members responsible for ensuring that a culture of effective risk identification and management is fostered across the Group The Committee is also responsible for reviewing and assessing corporate, emerging and topical risks Further information setting out the activities of the Risk Committee is set out on pages 47 and 48

The Risk Committee is supported by a central Group Risk function whose primary role is to ensure that an appropriate Risk Management Framework is in place, that it is fit for purpose and is working as intended The Group Risk function is responsible for the ongoing development and co-ordination of risk management within SJP and, importantly, for the consolidation, reporting and, where appropriate, escalation of risk related management information

## Strategic Risks and Uncertainties

Certain risks and uncertainties are inherent within both the Group's business model and the market in which we operate At the time of preparing this report, the key risks and uncertainties facing the business, and the high level controls and processes through which we aim to mitigate these risks are

| RISK | DESCRIPTION | MANAGEMENT |
| --- | --- | --- |
| Distribution capability | The Group's distribution strength may be eroded due to an inability to recruit and retain Partners of the appropriate quality | We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners Formal retention strategies are in place to ensure that, wherever possible, we retain good quality, experienced Partners All recruitment and retention activity is closely monitored |
| Investment management approach | Our approach to investment management may fail to deliver expected returns to clients of the Group | We actively manage and monitor the performance of our investment managers through the Investment Committee and a firm of professional external advisers – Stamford Associates |
| Outsourcing | The Group's dependence on outsourcing may come under threat should any of its key investment management or administration business partners decide to exit the market, significantly revise their strategy or fail | We maintain close working relationships with our outsourced business partners and should have sufficient warning of any material changes that may impact upon our business model All relationships are governed by formal agreements with adequate notice periods and full exit management plans Strong alternative providers exist in the market Business continuity arrangements have been considered and scenario analysis carried out |
| Competitor activity | A major and successful new entrant to the adviser-based wealth management market has an impact on the success of SJP's business | We closely monitor competitor activity and the marketplace for signs of any potential new entrants or threats As noted above, we also have a proven track record in Partner acquisition and retention which we believe would make it difficult for a new entrant to challenge SJP's position Established SJP Partners have significant equity stakes in their practices and these are structured to aid retention |
| Culture | Developments in the industry or in the scale of SJP's business have an adverse effect on SJP's culture and ultimately the continuing success of the business | We have a range of strategic initiatives in place including, for example, regular staff surveys and consultation groups which enable us to monitor the sentiment of our staff and Partners, identify any adverse or potential adverse impacts upon our culture, and allow us to take appropriate action |
| Economic environment | A major and prolonged economic downturn and/or stock market crash leads to a failure to meet targets and to a significant underperformance of our business plan | We closely monitor the achievement of our business plan, the performance of the markets and consumer confidence Robust management information is used to facilitate this monitoring and to identify early signals of a market decline so we can manage expenses and strategy appropriately |

# Risk and Risk Management
*continued*

## Market Risk

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

The Group seeks to manage market risk by undertaking unit linked business whereby the client bears the market risk This strategy mitigates any risk to the Group associated with being unable to meet clients' liabilities However, a reduction in the market value of the unit linked funds would affect the annual management charges paid to the Group, since these charges are based on the market value of funds under management 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 The Group accepts the risk associated with the level of future profits

**Management of Market Risks**
The table below summarises the main market risks that the business is exposed to and the methods by which the Group seeks to mitigate those risks

| RISK | DESCRIPTION | MANAGEMENT |
|---|---|---|
| Shareholder funds | The value of shareholder funds decreases, thereby reducing the capital available to support the business | Financial assets and liabilities held outside unitised funds primarily consist of low volatility government, supranational fixed interest securities, units in AAA rated money market funds, cash and cash equivalents |
| Client liabilities | As a result of a reduction in equity values the group may be unable to meet client liabilities | There is no risk to the Group in this area as market risk is borne by clients This has been achieved by the Group's strategic focus on unit linked business |
| Tax | In adverse market conditions, when the Group is realising investment losses rather than gains, the working of the I-E tax regime can lead to short-term capital inefficiencies including deferral of cash benefit of tax relief on expenses | The tax position is monitored closely |
| Retention | Adverse market conditions lead to clients withdrawing their funds | Retention of funds is monitored closely Currently retention has remained consistently high at 95% |
| New business | Poor performance in the stock market leads to existing and future clients rejecting equity investment | The benefit of long term equity investment is fundamental to the business model Advice and marketing remain valid even when market values fall, however greater attention is required to support and give confidence to existing and future clients, in such circumstances, and this the Group does |

# Credit Risk

Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit The Group has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives

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

**Management of Credit Risks**

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

| RISK | DESCRIPTION | MANAGEMENT |
|---|---|---|
| Shareholder assets | Loss of assets | Invested in AAA rated unitised money market funds and deposits with approved banks<br>Maximum counterparty limits are set for each company within the Group and aggregate limits are also set at a Group level |
| Investment matching of non-linked liabilities | Failure of counterparty or counterparty unable to meet liabilities | It is necessary for the credit ratings of potential reinsurers to meet or exceed minimum specified levels Consideration is also given to size, risk concentrations/exposures and ownership in the selection of reinsurers The Group also seeks to diversify its reinsurance credit risk through the use of a spread of reinsurers |
| Reinsurance | In adverse market conditions, when the Group is realising investment losses rather than gains, the working of the I-E tax regime can lead to short-term capital inefficiencies including deferral of cash benefit of tax relief on expenses | The tax position is monitored closely |
| Partner loans | Inability of Partners to repay loans from the business | Loans are managed in line with the Secured Lending Policy All loans are explicitly or implicitly secured on the future renewals income stream expected from a Partner's portfolio, and loan size varies in relation to the projected future income of a Partner Outstanding balances are reviewed on a regular basis and support is provided to help Partners manage their business appropriately Appropriate provision is made where impairment risk is high |

# Risk and Risk Management
*continued*

## Liquidity Risk
The Group adopts a risk averse approach to liquidity risk, with a policy of not actively pursuing liquidity risk except where necessary to support other objectives The Group is subject to minimal liquidity risk since it maintains a high level of liquid assets to meet its liabilities rather than relying on recourse to the market

## Currency Risk
The Group is not subject to any significant currency risk since all material financial assets and financial liabilities are denominated in Sterling

## Insurance Risk
The Group assumes insurance risk by issuing insurance contracts under which the Group agrees to compensate the client (or other beneficiary) if a specified future event (the insured event) occurs The Group insures mortality and morbidity risks but has no longevity risk or annuity business

The Group has a medium appetite for insurance risk, only actively pursuing where financially beneficial, or in support of strategic objectives We seek to manage insurance risk through the use of reassurance, reviewable contract terms, regular pricing reviews and underwriting controls

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

| CATEGORY | ESSENTIAL TERMS | RISKS GENERATED | CLIENT GUARANTEE |
|---|---|---|---|
| Unit linked reviewable assurances | Deductions from units pay for benefits<br>Deductions are reviewable at any time | Expense | No significant guarantees |
| Conventional reviewable assurances | Regular premiums pay for benefits<br>Premium level is reviewable every fifth policy anniversary | Mortality, morbidity, expense | Premium level guaranteed between reviews |
| Conventional guaranteed assurances | Premium level fixed throughout life | Mortality, expense | Premium and benefit level guaranteed |

**Management of Insurance Risks**
The table below summarises the main insurance risks to which the insurance business is exposed and the methods by which the Group seeks to mitigate them

| RISK | DESCRIPTION | MANAGEMENT |
|---|---|---|
| Underwriting | Failure to price appropriately for a risk, or the impact of anti selection | Experience is monitored regularly For most business the premium or deduction rates can be re-set |
| Epidemic/disaster | An unusually large number of claims arising from a single incident or event | Protection is provided through reassurance |
| Expense | Administration costs exceed expense allowance | Administration is outsourced and a tariff of costs is agreed The contract is monitored regularly to rationalise costs incurred Internal overhead expenses are monitored and closely managed |
| Persistency | Loss of product margins due to higher than anticipated lapses | Lapse rates are monitored and unexpected experience is investigated |

## Operational Risk

Operational risk is the risk arising from inadequately controlled internal processes or systems, human error and from external events This includes all risks that we are exposed to, other than the financial and insurance risks described above The Group has a medium appetite for operational risk, only actively pursuing where necessary to support other objectives, and seeks to manage it through outsourcing and close management of the Partnership Operational risks that could affect SJP include

- Regulation, information technology, financial crime, business protection, human resources, outsourcing, purchasing, communications and legal contracts and obligations
- Brand value
- Product development process
- Advice, sales management and distribution
- Financial processes including financial reporting and taxation
- External events and developments

Each division of the Group is responsible for identifying, managing and reporting its operational risks as part of the quarterly risk reporting process There is an Operational Risk Policy which expresses the Group risk appetite and provides the business with guidance on how to manage this type of risk Each risk is assessed by considering its potential impact and the probability of its occurrence Impact assessments are made against financial and non-financial metrics This is consistent with the assessment of all other type of risk as specified in the SJP Risk Management Framework document

### Management of Operational Risks

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

| RISK | DESCRIPTION | MANAGEMENT |
|---|---|---|
| Advice | Advice given by an individual Partner or authorised by the Group is deemed unsuitable leading to redress, costs and potential reputation damage | Advice guidelines are agreed by technical specialists and reviewed by Group management These guidelines are supported by training and accreditation arrangements that have been established, with close compliance monitoring to ensure advice guidelines are followed Appropriate incentives exist to promote Partner compliance, whilst those failing to do so are subject to censure and other sanctions |
| Retail Distribution Review | Changes arising from the Retail Distribution Review, particularly in relation to professionalism, proposals to split the market and implications for advised sales | Strategic plans in place to move Partnership towards achieving Diploma status ahead of 2012 deadline and to manage the outcome of the adviser charging review |
| Regulatory censure | That the Group could face regulatory censure should it fail to comply with regulation | We seek to maintain open and mutually beneficial relationships with our regulators We have a range of compliance monitoring activities designed to ensure we remain compliant with all applicable regulations |
| Regulatory and legislative environment | Changes in the wider regulatory, legislative or tax environment have an adverse impact on the Group's business | Governance structure, management committees and active management of the FSA relationship provides intelligence and tools to mitigate the impact of operating in a highly regulated sector |

# Corporate Social Responsibility Report

St. James's Place is committed to growing the business in a way that considers the economic, social and environmental impacts of what we do We understand that responsible management is increasingly important to our stakeholders – shareholders, clients, Partners, employees, suppliers and the communities in which we operate

This report provides information on how we manage Corporate Social Responsibility ('CSR') at St James's Place and identifies the key areas where we have made a positive impact during the year, including

- The St James's Place Foundation ('the Foundation')
- People
- Clients
- Community activities
- Environment

We are pleased that St James's Place continues to be included in the FTSE4GOOD Index which comprises companies that meet globally recognised CSR criteria

Further information can be found on our website at www sjp co uk

**CSR Governance**
St James's Place's CSR programme is overseen by the HR/ Corporate and Social Responsibility Steering Group The Steering Group met on a regular basis throughout the year to review the Company's HR and CSR programmes against its objectives The Group is chaired by the Company Secretary and comprises senior executives from across the business During the year, the Steering Group considered a number of CSR related matters including how to encourage more employee volunteering in the local community, fundraising activities for the Foundation and how to reduce the Group's environmental impact through changes to the company car scheme The Group also considered actions emanating from the staff survey, recruitment and recognition policies and employee development

Environmental matters are also considered by the St James's Place Environmental Working Group The Group met on a regular basis throughout the year to review the Company's environmental programme against its objectives The Group is chaired by the Operations Director and, during the year, focused on ways to reduce landfill waste, increase recycling and increase the overall awareness of environmental matters with staff

**The Foundation**
The St James's Place Foundation is a thriving grant making charity that was set up in 1992 because the Founders, Directors, Partners and employees of the Company had a collective desire to give something back to the community in which we live

The Foundation has made a significant impact on helping the causes we have supported as well as helping to maintain the Company's core values and reinforce team work and collaboration across our whole community 2009 was a record year for the Foundation, both in terms of funds raised and the amount of funds donated to good causes Further details are set out below

The Foundation's ability to support charities in their efforts to make a lasting and positive difference to the lives of people most in need is thanks to the generosity and the extensive fundraising efforts of Partners and employees of St James's Place In 2009 Partners and employees of St James's Place raised £1 3 million which was then matched by the Company pound for pound, giving a total of £2 6 million Through our grants programmes in 2009 we were able to donate in excess of £3 million to good causes assisting a mixture of large and small charities with one-off grants as well as committing to multi-year grants over a three year period both in the UK and overseas

Following consultation with Partners and employees the Foundation reviewed its themes for grant-making activities in 2009 and beyond Two main themes were approved, Cherishing the Children and The Hospice Movement

Cherishing the Children
The Foundation invests in projects that are for the benefit of children and young people up to the age of 25, whose lives have been challenged by physical or mental health difficulties or a life-threatening or degenerative illness The Foundation will also consider applications for funding from charities supporting children and young people who are marginalised or disadvantaged in some way and struggling to get on in life

*Kids Company*
The Foundation has donated £60,000 to Kids Company (www kidsco org uk) to fund a volunteer coordinator assisting disadvantaged and marginalised young people through their individual support and mentoring programmes Each year Kids Company provides practical, emotional and educational support to 1,200 inner-city London children and young people

The Hospice Movement
The Foundation helps people of all ages through its support of projects put forward by hospices and makes grants of up to £10,000 for items such as equipment or a contribution towards the cost of specialist nursing care or therapies Hospices offer care, support and medical help to people of all ages, often playing a vital role in supporting people at the end of their lives, as well as supporting their families so they are able to cope with the emotional and practical challenges The Foundation assists hospices to improve the quality of care they offer people

*St Richard's Hospice*
The Foundation made a grant of £10,000 to St Richard's Hospice in Worcester to fund the salary of a Clinical Nurse Specialist The nurses spend time with the patients, listening to their concerns, helping them to make choices, identifying other support services and linking with the other healthcare professionals working with them The doctors work with the nurses to advise on pain and symptom management The Clinical Nurse Specialist also provides a 24-hour on-call telephone service for advice and help and is also backed up by the Hospice at Home team

Overseas
*Hope and Homes for Children*
In 2009 we committed £850,000 to assist Hope and Homes for Children ('HHC') in transforming the lives of 600 young disadvantaged and orphaned children in Ukraine We enabled HHC to begin the closure of an outdated orphanage in Makiriv near the capital Kiev and they will soon begin to build a social services centre and small family home Our recent gift means the Foundation has donated almost £4 million over the last ten years to assist HHC in support of orphans across Eastern Europe and Africa

UK
*The Children's Trust*
The Children's Trust opened its new Hydrotherapy Centre for disabled children in Tadworth, Surrey The Children's Trust provides care, education, therapy and rehabilitation to children with multiple disabilities and complex health needs and received a donation of £1 2 million to fund the project from the Foundation

It is the single largest gift made by the Foundation in its 18 year history and has been made possible by the fundraising efforts of Partners and staff in the last two years

The new Hydrotherapy Centre replaces an old pool built in the 1930s, which was increasingly hard to maintain and is an integral part of The Children's Trust's newly-built residential rehabilitation centre for children with acquired brain injuries It will be used by children who come from all parts of the UK to benefit from the Trust's services

Pictured (left to right) at the official opening ceremony of the new Hydrotherapy Centre are Andrew Ross, chief executive of The Children's Trust, Mike Wilson, Chairman of St James's Place, Malcolm Cooper-Smith, chairman of the Foundation, David Bellamy, CEO of St James's Place and the president of The Children's Trust, Sir Brian Hill

# Corporate Social Responsibility Report
*continued*

*WellChild*
The Foundation agreed to fund a WellChild Nurse (www wellchild org uk) working out of Cardiff Hospital to care for children with life-limiting and life threatening conditions and illnesses, and those whose lives are challenged by disability The total donation from the Foundation is £75,000 over two years

*National Star College*
In December 2009 the Foundation agreed to donate £656,000 to fund a student residence being built at National Star College based in Ullenwood, Gloucestershire The National Star College ('NatStar') educates disabled young people between the ages of 16 and 25, many of whom have severe disabilities and complex health needs Over 40 years, NatStar has enriched thousands of young people's lives through holistic programmes of education, therapy, independence training, personal care and pastoral support Students from all over the UK attend the college and it also provides some day places for local students Our grant will enable them to build a new specialist hall of residence tailored to the students' needs

Supporting Charities Through One Off Grants
As well as the larger donations we make, we also help hundreds of organisations by donating small one-off grants of up to £1,000 to assist their efforts both in the UK and abroad These causes are mostly introduced by members of the SJP community and encompass a broad range of different types of charities In 2009 a total of £180,000 was donated to small charities in this way

*National Autistic Society (Aberdeen Youth Club)*
An example of the type of small grants we make to charities introduced to the Foundation by our Partners and employees is the grant we made to The National Autistic Society's youth club in Aberdeen The Society provides a safe and nurturing environment for autistic children, providing fun activities, such as art and drama, whilst encouraging the children's social skills Our grant will help to fund the establishment of more youth clubs in Scotland for autistic children

Fundraising
In 2009, Partners and employees of St James's Place raised a total of £2 6 million including Company matching The total amount raised equates to each member of our community donating £1,270 to the Foundation in 2009 The amount raised in 2009 is an improvement on the £2 45 million raised in 2008 and takes our total fundraising since the formation of the Foundation in 1992 to a total of £17 7 million

The total funds raised and engagement in the Foundation by the whole SJP community illustrates how central the Foundation is to the objectives of the Company and how important it is to the Partners, employees, Directors and Board of St James's Place

A key aspect of our fundraising is the funds we receive from Partners and employees by way of monthly regular gifts, either a set amount or a percentage of earnings, with over 80% of our community contributing in this way, showing just how committed our community is to the Foundation and the hundreds of charities we support This is illustrated by the Aberdeen Office which has for a number of years had 100% of their Partners and employees supporting the Foundation in this way

Led by Senior Partner Steve McKnight (far left), the Aberdeen Office not only have 100% of their Partners and employees contributing to the Foundation, they also hold regular events to raise funds, including an annual family fun day (shown above)

Dare to Dream Ball
The Dare to Dream Ball held in London in March 2009 raised an amazing £500,000 for the Foundation which represents the largest amount raised for the Foundation from a single event in its history The event was the vision of two of our Partners, David Moran and Lesley Belcher and David's wife Patricia, who had the drive and passion to make it happen, dedicating much of their own time to make it such a success The event was well supported by the Partnership with over 1,000 people enjoying fine cuisine and superb entertainment, while at the same time showing their generosity through their involvement in the various fundraising initiatives on the night The event was also well supported by a number of St James's Place's key suppliers

The major sponsors of the evening were Invesco Perpetual, Jupiter Group, Stamford Associates, Prudential, Schroders, THS Partners and IFDS

One of our most successful, and regular, annual fund raising events is The St James's Place Triathlon in support of Hope and Homes for Children (www hopeandhomes org) which raised £260,000 in 2009 The event is the idea of one of St James's Place's leading Partners Martin Rashdi who, along with a dedicated team, has now raised in excess of £1 million over the last seven years

Another fund raising event saw an enthusiastic group of Partners, employees, clients and family ride from Walney to Wear in the SJP Coast to Coast Cycle Challenge organised by SJP employee Kate Roberts and Company Secretary Hugh Gladman 53 cyclists raised in excess of £75,000 for the Foundation

In September 2009, 131 Partners, employees, clients, friends and family braved the harsh conditions of Dartmoor National Park to take on the Ten Tors Challenge at the same time raising £80,000 for the Foundation

Participants of the 2009 Ten Tors Challenge on Dartmoor

As well as the events organised and supported by the St James's Place community a number of individuals set personal goals and took part in their own activities to raise valuable funds for the Foundation Two examples of this include

Principal Partner Simon Fleet successfully completed the 2009 Jungle Marathon in Brazil and raised £20,000 for the Foundation including Company Matching The event consisted of Simon completing four back to back marathons in dense jungle

Senior Partner Ian Jamieson completed the Ironman USA in Mount Placid raising £21,000 including Company matching, for the Foundation and Hope and Homes for Children

Simon Fleet competing in the 2009 Jungle Marathon in Brazil

## People

Our Approach

At induction, all employees and members of the St James's Place Partnership receive a booklet entitled 'Our Approach' which gives guidance on the culture and values of St James's Place We believe it is important for all areas of our community to know and understand our objectives the St James's Place brand and how its integrity and value should be maintained, our corporate culture and management style, how we deal with internal and external communications, and our commitment to the St James's Place Foundation

Spirit of Partnership

For Partners, the Spirit of Partnership, written by Partners for Partners, sets out the principles which have made the Partnership our competitive edge and a group of professionals that other advisers aspire to join

We emphasise our values of integrity, trust, openness, partnership and teamwork and the clarity we provide is designed to guide individual and corporate actions, decisions and standards across the Company

## Our Employees

We take pride in being a people business and continue to believe that our success as a business depends on the loyalty and dedication of our people, whether Partners or employees Our employees give us a sustainable competitive advantage and the attitude, knowledge and commitment of our people continues to be a strong differentiator We aim to attract the best people, enable them to fulfil their potential and secure their continued commitment by providing them with an interesting and challenging career within a first class working environment We share ideas and are always receptive to suggestions for change We give credit where credit is due and work hard to recognise individual performance

# Corporate Social Responsibility Report
*continued*

2009 saw the introduction of a new booklet which outlines our leadership ethos, leading by example, conveying belief, enthusiasm and passion for what we do Our Leadership Team meets on a quarterly basis and has specific responsibility for protecting our unique culture, the team focuses on management and inspirational leadership for individuals, the Company and the community

**Employee Communication**

We remain committed to an open style of communication with employees We keep all of our community informed frequently on matters that might affect their day-to-day work and communicate items of interest via a bi-monthly employee newsletter Regular feedback is sought through informal lunches hosted by Directors, and managers are expected to have regular team meetings and regular one-to ones with their team members Directors and senior managers frequently visit all St James's Place office locations to disseminate key corporate messages and obtain valuable feedback

**Employee Feedback**

We continue to seek employee's views and opinions through our Employee Survey Our 2008 survey received a response rate of 82% and employee engagement was as high as 95% in some areas Survey results provide an overwhelming message that St James's Place is a great place to work and the advocacy of our staff is measured through our employee engagement index The following table shows the response to the questions linked to our overall employee engagement

| | |
|---|---|
| I feel proud to work for SJP | 93% |
| I would recommend SJP as a good place to work | 92% |
| Considering everything, I am satisfied with SJP as a place to work | 90% |
| I feel a strong sense of belonging to SJP | 84% |
| I intend to still be working for SJP in twelve months time | 88% |
| I am happy to go the 'extra mile' at work when required | 96% |
| Working here makes me want to do the best I can | 91% |

We plan to carry out a similar employee survey in 2010 Employee retention for 2009 was 95% whilst days lost through sickness across the business stands at 4 66 days per employee, per year, which is below the national average Our workplace gender profile is fairly evenly split with a total of 332 female and 294 male employees We are keen to ensure that individuals are encouraged to develop and given opportunities to seek new challenges across the business and as a result, job vacancies are advertised internally

Whilst our employee turnover is very low, we carry out farewell interviews for all our employees, to gain valuable feedback on reasons for leaving and act where possible

**People Development**

St James's Place is a Corporate Member of the Institute of Customer Service During 2009 the ICS Awards programme continued to provide practical support to the development of employees with growing numbers of staff involved in the scheme We now have over 50 people participating in the Awards programme and many of the early participants now assist colleagues in coaching and mentoring roles The Company retained its Approved Centre Status by the ICS which recognises that our programme is self-sufficient with our own training events, coaches and assessors

The Knowledge Development Meetings implemented during 2008 for Cirencester employees were extended in 2009 and were supported by a new range of events for Managers In total we ran 60 of these events with over 800 attendees This approach has proved to be successful in helping employees develop their understanding of our business These meetings are extremely well received and the programme will continue to evolve throughout 2010

The induction programme for new Head Office employees ensures that the unique brand and culture of St James's Place is shared in sufficient depth with all new joiners with an emphasis on St James's Place as a Wealth Management company The inclusion in the programme of selected members of staff from our third party providers and suppliers is proving very successful in helping them build a better understanding of the Company

Our Field Management Team has different specialist areas, so we have created a development programme that is tailored to each role This commences as soon as a new Manager joins St James's Place and continues throughout their career An example of this is a programme of six courses for Business Development Managers that helps them develop their skills to act as a consultant and help Partners build their practices This covers various topics from recruiting staff to business planning During 2009 we worked extensively with our Senior Field Management team to develop a more effective appraisal and review process to ensure that everyone has clear personal development objectives We have also commenced work to help our Field Managers assist and support Partners in acquiring the professional qualifications required by the Retail Distribution Review

### Performance, Reward and Remuneration

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 and Critical Illness cover and Private Medical cover Our employee survey found that 99% of employees understood what is included in their benefits package

We provide all employees with the opportunity to benefit from annual bonuses linked to St James's Place corporate or team performance and recognise the benefit of all employees being given the opportunity to participate in ownership of St James's Place shares All employees are eligible to participate in the Sharesave plan and acquire shares in the Company after a three-year savings period and currently 65% of employees participate in the scheme

All employees are provided with an opportunity to sacrifice earned bonuses to their pension arrangement, with any amount sacrificed enhanced by 10% by the Company to encourage retirement planning A pension salary sacrifice arrangement was introduced during 2009 to complement the existing bonus sacrifice arrangement enabling staff to give up a portion of their annual salary, such amount again enhanced by 10% with over 20% of our employees electing to participate

In 2010, the Company will launch a Share Incentive Plan ('SIP') and provide all employees with further opportunity to purchase shares in the Company Under the SIP, employees will be given the opportunity to acquire up to £1,500 worth of shares from their pre tax salary The Company will then match every tenth share acquired with one further share at the end of the period These arrangements maximise the opportunities available from HMRC approved or exempt arrangements from a tax planning and long-term saving perspective

### Diversity and Equal Opportunities

St James's Place has a well-established awareness of its statutory and social responsibilities with regard to the recruitment and employment of staff The Company is committed to maintaining an appropriately skilled and diverse work force irrespective of age, colour, race, nationality, ethnicity, sex, mental or physical handicaps We seek to employ the best person for each job and aim to ensure everyone can enjoy equal opportunities in an environment that is free from discrimination of any sort

In respect of employees with disabilities, we will always consider possible modifications to the working environment to ensure that anyone with disabilities has the chance to take up opportunities or receive promotion

We ensure that every effort is made to achieve continuity of employment in the event of an employee becoming disabled Similarly best practice principles ensure that our responsibilities are met as an equal opportunity employer

### Our Clients

St James's Place has always recognised that the interests of our clients are paramount and central to our culture We strive to build and maintain long-term relationships with clients through the St James's Place Partnership These relationships are founded on the principle that every client has different goals and aspirations, requiring an individual, personal and bespoke advice service from a St James's Place Partner By applying this principle, our Partners have developed exceptionally strong and lasting relationships with their clients which are founded on trust We aim to deliver consistent all round performance to clients by

- Providing trusted advice through experienced and suitably trained advisers
- Providing solutions to meet identified client needs
- Ensuring that our literature is clear and easily understood
- Doing our very best to ensure that our clients' investments are managed effectively and meet or exceed expectations
- Exhibiting empathy and consideration when dealing with our clients and working within the 'spirit' of our relationship with them we listen to their needs

We support and encourage Partner/client relationships by ensuring that the range of wealth management products and services on offer is comprehensive and meets both the current and future needs of clients We wish to ensure that our clients' perception of St James's Place is positive in every sense and that their experience of dealing with the organisation is consistent with the image we portray We also guarantee the advice given by Partners when they recommend any of the products and services provided by companies in the St James's Place Group

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

# Corporate Social Responsibility Report
*continued*

### Investing Client Money
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 At the heart of this process is the Investment Committee, chaired by Sir Mark Weinberg and assisted by independent investment consultants Stamford Associates Stamford are responsible for monitoring the managers and for making recommendations to the Investment Committee We select the best Fund Managers, closely monitoring their activities and introducing new managers where appropriate This approach has consistently delivered above average investment returns over the medium to long term for our clients

There have been a number of initiatives developed in recent years to enhance the client experience such as the introduction of our 'flagship' client report – the 'Wealth Account' This brings together all of a client's products and services arranged via the St James's Place Partnership into a consolidated annual summary with valuation and asset class information

### Client Feedback
We recognise that clients' needs change over time and we try to anticipate and understand this process and respond positively in a way that maintains the Partner/client relationship for the long term

Client consultation is undertaken on a regular basis via client surveys and focused research on specific areas of our offering We conducted annual satisfaction surveys in 2007 and 2008 and the feedback was very positive which gave us a clear understanding of what clients want and expect

In 2009, 463 clients responded to an invitation to take part in Partner-led online satisfaction surveys and the feedback was again very positive, with 99% of those clients responding saying that they would be willing to refer their Partner to family, friends or colleagues

Future research is planned for 2010 The results will enable us to measure progress and ensure we remain aligned to clients' expectations

During 2009, St James's Place won three prestigious awards as voted for by readers of the Investors Chronicle and Financial Times Readers of these two publications were asked to rate their wealth managers on a range of criteria including performance, fees, range of investments, trustworthiness and reliability

Wealth Manager of the Year (Second successive year)
This award identifies wealth managers who offer all round outstanding service and performance to their clients

Best Wealth Manager for Investments
This award identifies wealth managers that readers believe offer their clients outstanding investment services

Best Wealth Manager for Inheritance Tax ('IHT') & Succession Planning
This award identifies wealth managers who offer outstanding IHT and succession planning advice

In addition, readers of The Daily Telegraph voted St James's Place Wealth Management the winner of the 'Best Performing Fund Award for 2009' in recognition of the consistent performance of our fund range

### Community Activities
Our community activity is focused on the recognition of our responsibility to help build strong and healthy communities in the areas in which we operate our business

Where possible we work with local charitable partners and community organisations The combination of their expertise and the talents and enthusiasm of our employees makes our community involvement effective and rewarding for all concerned

Business Review

Highlights from our community activities include

| | |
|---|---|
| Employee Volunteering | Our Employee Volunteering has taken a different direction in 2009 with employees being encouraged to share their business skills and experience to help charities and Third Sector organisations This is high on the agenda for 2010 and looking to link skills based on volunteering with our employees' personal development For example, some of our employees are directly involved in sharing their skills with each of the initiatives detailed below |
| Cirencester Church | We entered into a partnership arrangement with the Trustees of the beautiful Cirencester Parish Church to help them to raise funds for the much-needed restoration programme Under the scheme, St James's Place will match funds raised by the Church in local fundraising activities up to a limit of £50,000 per year We very much hope this will encourage the local community to support the restoration programme |
| Cirencester College | Cirencester College has over 1,600 students between the ages of 16 and 19 and a further 7,000 students attending a variety of adult learning courses Our main involvement with the College is to provide support for the 16 to 19 year old 'Academy Programmes', of which there are eight, all designed for students who aspire to work in a particular market sector In 2009 we supported seven students with paid summer internships and we continue to provide extensive personal mentoring to students from a business coach St James's Place also sponsors a number of awards and continues to have representation on the various Academy Boards We have also employed five Academy students as a direct result of our relationship with the College, following their graduation |
| Young Gloucestershire | Young Glos is the leading voluntary youth organisation in Gloucestershire, delivering high-quality programmes and training for vulnerable young people In 2009, we helped Young Glos to set up a drop-in centre for young people in South Cerney, near Cirencester and helped with their bid for government funding to build a new centre for young people in Gloucester An example of employee involvement includes St James's Place providing an employee who advises the Board of Trustees on topics such as employment issues or risk management |
| Citizens Advice Bureau | The Cheltenham and Cirencester Citizens Advice Bureau ('CAB') provides a range of advice to people living in the Gloucestershire area In 2009, the CAB identified a growing need for a debt counselling service as a result of the economic downturn St James's Place agreed to part fund the salary of a debt counsellor for the Cirencester area to provide much needed support for the community in the area |
| CCP Christmas Hamper Scamper Appeal | CCP provide a range of crisis and preventative services to improve the lives of children, families and vulnerable adults across Gloucestershire The Hamper Scamper is a Christmas giving scheme, providing food hampers and gifts for disadvantaged people In 2009, our employees donated 175 presents, food for hampers and other donations We also held a 'mufti day' to raise funds for a local charity providing a Christmas Day meal to the homeless or elderly in the Cirencester area |

St James's Place also sponsors the Loughborough University swimming club The support helps the team in a number of ways such as safeguarding the existing swimming programme and allowing the squad to enhance its current performance and receive additional coaching In 2009, Loughborough's swimmers experienced unprecedented success in the pool at the FINA World Championships in Rome with 14 swimmers representing national teams and returning with five medals from a GB total of seven The team was also named BBC East Midlands team of the year during 2009 St James's Place will continue to provide sponsorship as the team turns its focus to London 2012

### Environmental Performance

We continue to manage the Company in a responsible way which takes into account our impact on the environment During 2009 we continued to make improvements to our activities and worked towards improving our environmental performance We recognise that both the Company and our staff have a responsibility towards managing the effects on climate change by taking a responsible approach to business activities

We measure our environmental data from October to September, which allows sufficient time for the data collation process to be completed and included on a consistent basis, for inclusion in our Annual Report

# Corporate Social Responsibility Report
*continued*

## $CO_2$ Emissions

The table below summarises our $CO_2$ footprint for the years 2007/8 and 2008/9, produced for our core business and adjusted to take into account the updated Defra conversion rates for all categories We have used the UK Grid rolling average basis to calculate electricity usage and recalculated the 2007/8 figures for comparison purposes

For consistency we have produced comparable figures across the core business activities which produce greenhouse gases These have been presented as tonnes of $CO_2$ per category and measured on a full time occupant basis to give percentage changes between 2007/8 and 2008/9

| | 2007/8 Tonnes $CO_2$ | 2007/8 $CO_2$ per FTO* | 2008/9 Tonnes $CO_2$ | 2008/9 $CO_2$ per FTO* | Absolute Change | FTO Change |
|---|---|---|---|---|---|---|
| Electricity | 2,528 | 1 867 | 2,492 | 1 841 | –1% | –1% |
| Gas | 574 | 0 424 | 505 | 0 373 | –12% | –12% |
| Total energy | 3,102 | 2 291 | 2,997 | 2 214 | –3% | –3% |
| Business travel | 1,256 | 1 954 | 1,136 | 1 716 | –10% | –12% |
| General waste | 234 | 0 173 | 226 | 0 167 | –3% | –3% |
| Total $CO_2$ changes | 4,592 | 4 418 | 4,359 | 4 097 | –5% | –7% |

| | Tonnes | Tonnes per FTO | Tonnes | Tonnes per FTO | Absolute Change | FTO Change |
|---|---|---|---|---|---|---|
| Recycled paper | 162 | 0 119 | 170 | 0 125 | 5% | 5% |

| | Cubic Meters | Cubic Meters per FTO | Cubic Meters | Cubic Meters per FTO | Cubic Meter Change | FTO Change |
|---|---|---|---|---|---|---|
| Water usage | 7,818 | 5 774 | 6,734 | 4 973 | –14% | –14% |

- FTO = Full Time Occupant

FTO figures for electricity and gas include all occupants of St James's Place Offices
FTO figures for travel only relate to those with company cars and those who claim travel expenses which are staff related

We are pleased to have achieved reductions in $CO_2$ output by 1% for electricity and 12% for gas This can mainly be attributed to more efficient management of the Building Management System in our new Head Office building during our second year of occupation Business travel has also improved with an overall improvement of 10% in absolute terms and 12% in FTO terms This has been achieved through less business car mileage offset against an increase in rail usage and a significant increase in the use of audio and web conferencing

During the year, our general waste output reduced and paper recycling increased by 5% following the implementation of increased recycling facilities in all our office locations We now recycle paper, plastic bottles, cans, toner cartridges and electrical equipment and are pleased that in our core business areas there has been an overall reduction in $CO_2$ output in absolute terms of 5%, while full time equivalent employee $CO_2$ output has reduced by 7% Our Marketing Department continues to search for improvements to processes with a view to reducing the need to produce paper based literature One example of an improvement has been the introduction of 'on demand' print options rather than 'print and distribute' Print material is still needed for client facing documents and these are printed using paper produced on Forestry Stewardship ('FSC') or Programme for the Endorsement of Forest Certification ('PEFC') accredited stock We use 100% recycled branded copy paper throughout the Company and work closely with our paper and copier suppliers to ensure that we can continue to use this paper without impacting on equipment performance

During the year, we undertook a project to introduce a more fuel efficient car scheme which would help reduce $CO_2$ emissions As a result, a number of higher generating $CO_2$ car models were removed from the approved car list available to employees Early evidence shows that the changes have reduced our average $CO_2$ emissions from 176g/km to 159g/km Further analysis is scheduled towards the end of 2010

In 2009, we further increased our corporate environmental awareness by highlighting World Environment Day in which a number of activities were held during the day to promote environmental awareness We also held a separate SJP Environment Day to further heighten awareness amongst staff and invited a speaker from a supplier company, who are leaders in their industry on environmental improvements, to present to a number of staff and management about their achievements and the business benefits gained from their environmental journey

### Engagement with Third Parties

In 2009, we once again took part in the carbon disclosure project The project is a global initiative to inform investors of the risks and opportunities presented by climate change from an individual company perspective which provides the investment community with information on greenhouse gas emissions and climate change management strategies We continue to remain a member of Business in the Community ('BITC') and engage with them on a regular basis to discuss our progress and plans for improvements We have also engaged with the Ethical Investment Research Services Ltd ('EIRIS') for inclusion in the FTSE4GOOD Index

### Environmental Projects

We continuously look at ways to reduce our $CO_2$ emissions and obtain a significant proportion of our electricity supply from renewable sources via our energy supplier and include this as part of our Carbon Footprint reporting We have looked into an added energy efficiency system for our new Head Office, however we concluded that this will make no material improvements to the existing system, which is both relatively new and remains efficient

We recognise that in spite of making various changes to systems and increasing awareness amongst employees, Partners and suppliers, we still produce emissions For this reason we engage with the Carbon Neutral Company ('CNC') to manage our offsets Further details of the offset projects into which we have invested through CNC are set out below

**Forestry** Mynydd-Y-Garnedd, Wales
Right in the heart of Snowdonia, Mynydd-Y-Garnedd will link two existing National nature reserves through a 'new native woodland' Mynydd-Y-Garnedd has been designed to grow from a combination of natural regeneration and new planting

**Wind** Sebenoba-Karakurt Wind Power Project
This project sees the construction of 21 new wind turbines at two sites in Turkey By providing renewable energy, the project reduces Turkey's reliance on fossil fuels for electricity supply The project aims to generate emission reductions of 127,000 tonnes $CO_2$ equivalent in between 2007 and 2009, certified and verified to the Voluntary Carbon Standard

**Wind** Tirunelveli Wind Power Generation
This project sees the construction of 22 new wind turbines in India By providing renewable energy, the project helps to reduce India's reliance on fossil fuels for electricity generation The project has generated emissions reductions of 47,000 tonnes $CO_2$ between 2005 and 2007, verified to the Voluntary Carbon Standard

**Hydro** Sichuan Province Hydro Power Project
This project bundles four small run-of-river hydro power stations in Sichuan province, western China The project displaces electricity generated by fossil fuel power plants and will generate emission reductions of an estimated 360,000 tonnes $CO_2$ equivalent between 2006 and 2012, certified and verified to the Voluntary Carbon Standard

### Tree Electronic Communication

We are signed up to the e Tree initiative – a programme which encourages shareholders to receive electronic communications as a way of saving paper and reducing the impact on the environment The scheme is run in association with the Woodland Trust 'Tree for All' Campaign and for every shareholder who registers to receive information electronically, a sum is donated on the shareholder's behalf to an area selected for re forestation in the UK by the Trust Further details of the scheme can be found at www etreeuk com

### Activities Planned for 2010

A number of initiatives are planned in 2010 to further improve our environmental performance These include

- Reducing printed material further by increasing electronic access to information and working to create and improve on existing print to order facilities
- Maintaining our improvements in recycling by continuing to check on existing practices and provide additional facilities where necessary
- Continuing to encourage the use of audio and web conferencing which will impact on and reduce business mileage
- Looking further into energy improvement systems for office locations with older Building Management Systems in operation
- Engaging further with both Business in the Community for environmental improvements and with CNC to further reduce our emissions and where this is not possible, to offset via appropriate projects both in the UK and abroad
- Continuing to engage with employees to maintain awareness of environmental matters including holding another St James's Place Environment Day to further encourage staff and suppliers to consider their effect on the environment

A full Environment Report is produced annually and can be located with a copy of our Environment Policy on our corporate website at www sjp co uk

# President and Board of Directors

**1 Sir Mark Weinberg (78) (I)** President
Sir Mark founded the St James's Place Group with Mike Wilson in 1991 and was Chairman of the Company until September 2004, when he resigned from the Board and was appointed President of the Company He chairs the Investment Committee Sir Mark originally practised as a barrister and was formerly deputy chairman of the Securities and Investments Board, the forerunner to the Financial Services Authority He is chairman of the Pension Corporation and of Synergy Insurance Services

**THE CURRENT DIRECTORS OF THE COMPANY ARE**

**2 Mike Wilson (66) (N)** Chairman
Mike has worked in the financial services industry since 1963 and founded the St James's Place Group with Sir Mark Weinberg in 1991 He was Chief Executive until September 2004, when he became Chairman Mike is a member of the Nominations Committee He was formerly chairman of the Mental Health Foundation and a non-executive director of Vendôme Luxury Group plc between 1993 and 1998 Mike is a Trustee of the St James's Place Foundation

**3 Sarah Bates (51) (I) (R)**
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 various listed investment trusts and chairman of the Stena Line (UK) Pension Fund Trustees and the Cancer Research UK Pension Fund Investment Committee Sarah is also an advisor to, or member of, various other investment committees including the Investment Committee of the Daily Mail & General Trust pension schemes and of the National Heritage Memorial Fund She recently became a non executive director of Development Securities plc Sarah graduated in Philosophy and Law from Trinity Hall, Cambridge and has an MBA from the London Business School

**4 David Bellamy (56)** Chief Executive
David joined the Company in April 1991 and was appointed to the Board in September 1997, before becoming Chief Executive in May 2007 He previously fulfilled a number of roles at St James's Place including Group Operations Director and Managing Director David has worked in the financial services industry since 1973 and is a Trustee of the St James's Place Foundation

**5 Steve Colsell (45)**
Non-executive Director
Steve was appointed to the Board as a non-independent non-executive Director in January 2009 to represent Lloyds Banking Group plc He is finance and strategy director of Wealth and International at Lloyds Banking Group Steve joined HBOS in 2006 as finance director, insurance and investment and prior to that, held a number of senior finance and strategy roles in the life, general insurance and consumer finance sectors He is a non-executive director of Invista Real Estate Investment Management Holdings plc, a graduate of Imperial College, London and a Fellow of the Institute of Actuaries

**6 Andrew Croft (45) (I)** Finance Director
Andrew joined the Company as Financial Accountant in 1993 and was promoted to Finance Director in September 2004 He qualified as a chartered accountant at PricewaterhouseCoopers in 1988, has a degree in Accounting and Economics from Southampton University and is a member of the Investment Committee He is also a Trustee of the St James's Place Foundation

**7 Charles Gregson (62) (Rem)**
Non-executive Director
Charles joined the Board in January 2010 as an independent non-executive Director and will be a member of the Remuneration Committee Charles is a non-executive chairman of ICAP plc and a non-executive director of International Personal Finance plc He was recently appointed to the Board of Caledonia Investments plc and CPP Group plc and has extensive board and senior management experience in the UK and overseas He has served on the boards of United Business Media plc, Provident Financial plc and MAI plc Charles graduated in History and Law from Trinity Hall, Cambridge and has an MA in Law He qualified as a solicitor in 1972

1 4 13 5

2 3 11

**8 Ian Gascoigne (53)** Partnership Director
Ian has worked in the financial services industry since 1986 and joined St James's Place in December 1991 He was appointed to the Board in January 2003 He has a degree from Lancaster University and an MA from Leicester University Ian is also a Trustee of the St James's Place Foundation

**9 David Lamb (53) (I)**
Business Development Director
David joined the Company in 1992 with responsibility for the Finance Department He was promoted to the position of Business Development Director in 2001 and to the Board in December 2007 He has responsibility for developing the Company's wealth management proposition and fund management range David is a graduate of City University, London and a Fellow of the Institute of Actuaries He is also a member of the Investment Committee and Trustee of the St James's Place Foundation

**10 Derek Netherton (65) (Rem) (A) (N)**
Non-executive Director
Derek joined the Board in May 1996 and is an independent non-executive Director He is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees Derek is chairman of Greggs plc and is a former non-executive director of Next plc and Hiscox plc He is a Fellow of the Institute of Actuaries and was formerly a director of J Henry Schroder & Co Limited

**11 Mike Power (52) (R) (A)**
Non-executive Director
Mike joined the Board as an independent non-executive Director in May 2005 He chairs the Risk Committee and is Deputy Chairman of the Audit Committee He is Professor of Accounting at the London School of Economics and Political Science and Research Director of the ESRC Centre for Analysis of Risk and Regulation Mike is a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate of the UK Chartered Institute of Taxation He is a member of the Risk Management Committee of the London School of Economics and lectures and writes on risk management, regulation and compliance issues

**12 Michael Sorkin (66) (I) (Rem) (N) (A)**
Senior Independent Director
Michael was appointed to the Board as an independent non-executive Director in January 2002 and nominated Senior Independent Director in May 2005 Michael chairs the Remuneration and Nominations Committees and is a member of the Audit and Investment Committees He joined Hambros Bank in 1968, was a director of Hambros plc between 1986 and 1999, and 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 director of Almar plc and Leucadia National Corporation He is a former non-executive director of J Z Equity Partners plc

**13 Roger Walsom (56) (R) (Rem)**
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 and Remuneration Committees After several years in the financial services industry, Roger 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 to work as a consultant to Ashurst He is a non executive director of Invesco Income Growth Trust plc and the Miller Insurance Broking Group He was formerly a non executive director of the Pensions Regulator

Ages correct as at 23 February 2010

(I) – Member of the Investment Committee
(R) – Member of the Risk Committee
(Rem) – Member of the Remuneration Committee
(N) – Member of the Nominations Committee
(A) – Member of the Audit Committee

6 9 12

7 10 8

# Directors' Report

The Directors present their Annual Report and Accounts of the Company for the year ended 31 December 2009

## 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 on pages 22 to 27 |
| Performance and development during the year and position at the end of the year | Chief Executive's Statement on pages 8 to 10 and the Financial Commentary on pages 12 to 21 |
| Information on likely future developments | Chief Executive's Statement on page 10 and the Financial Commentary on pages 15, 19 and 20 |
| Directors' and officers' indemnity and insurance | The Corporate Governance Report on page 45 |
| Financial and non-financial KPIs | Key Performance Indicators on pages 6 and 7 |
| Environmental, employee and social community matters | The Corporate Social Responsibility Report on pages 28 to 37 |

## RESULTS AND DIVIDENDS

The consolidated statement of comprehensive income is on page 62 and profit for the financial year attributable to equity shareholders amounted to £39 8 million An interim dividend of 1 84 pence per share (2008 1 84 pence per share) was paid on 16 September 2009 The Directors recommend that shareholders approve a final dividend of 2 66 pence per share (2008 final dividend of 2 55 pence per share) to be paid on 18 May 2010 to shareholders on the register at the close of business on 5 March 2010

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

## STATUS OF COMPANY

The Company is registered as a public limited company under the Companies Act 2006

## PRINCIPAL ACTIVITIES

The Company is a financial services holding company with principal interests in the provision of wealth management advice and services to the clients of the Group A full review of the activities of the Group is given in the Chief Executive's Statement on pages 8 to 10

## SUBSTANTIAL SHAREHOLDERS

The Company is aware of the interests of the following companies in 3% or more of the ordinary issued share capital of the Company as at 23 February 2010

Lloyds Banking Group plc ('LBG') 286,418,796 (59 37%)
BlackRock Investment Management Ltd 25,329,491 (5 25%)
M&G 19,137,973 (3 97%)

Details of the relationship agreement between LBG and the Company are set out on page 45

The interests of the Directors, their families and any connected persons in the issued share capital of the Company are shown on page 58

## SHARE CAPITAL

### STRUCTURE OF THE COMPANY'S CAPITAL

As at 31 December 2009, the Company's issued and fully paid up share capital was 482,031,787 ordinary shares of 15 pence each All ordinary shares are quoted on the London Stock Exchange and can be held in uncertificated form via CREST Details of the movement in the issued share capital during the year are provided in Note 29 to the financial statements on page 91

The rights and obligations attaching to the ordinary shares of the Company are set out in the Articles of Association The Articles can be amended by a special resolution of the members of the Company and copies can be obtained from Companies House Holders of ordinary shares are entitled to receive the Company's Reports and Accounts, attend, speak and exercise voting rights and appoint proxies to attend general meetings

### VOTING RIGHTS

At any general meeting, on a show of hands, each member who is present in person shall have one vote and every proxy present who has been duly appointed by a member entitled to vote on a resolution has one vote On a poll, every member who is present in person or by proxy shall have one vote for every share of which he is the holder

Proxy forms sent by the Company to shareholders in relation to any general meeting must be received by the Company not less than 48 hours before the time appointed for holding of the meeting or adjourned meeting

### RESTRICTIONS ON VOTING RIGHTS

If any shareholder has been sent a notice by the Company under Section 793 of the Companies Act 2006 and failed to supply the relevant information for a period of 14 days, then the shareholder may not (for so long as the default continues) be entitled to attend or vote either personally or by proxy at a shareholders' meeting or to exercise any other right conferred by membership in relation to shareholders' meetings

If those default shares represent at least 0 25% of their class, any dividend payable in respect of the shares shall be withheld by the Company and (subject to certain limited exceptions) no transfer, other than an excepted transfer, of any shares held by the member in certificated form shall be registered

### RESTRICTIONS ON SHARE TRANSFERS

There are restrictions on share transfers, all of which are set out in the Articles of Association Restrictions include transfers made in favour of more than four joint holders and transfers held in certificated form Directors may decline to recognise a transfer, unless it is in respect of only one class of share and lodged (and duly stamped) with the Transfer Office The Directors may also refuse to register any transfer of shares held in certificated form which are not fully paid Directors may also choose to decline requests for share transfers from a US Person (as defined under Regulation S of the United States Securities Act 1933) that would cause the aggregate number of beneficial owners of issued shares who are US Persons to exceed 70

The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may from time to time determine in respect of any class of shares

The Company is not aware of any agreements between shareholders that restrict the transfer of shares or voting rights attached to the shares

## POWER OF THE DIRECTORS

The Directors are responsible for managing the business of the Company and their powers are subject to any regulations of the Articles, to the provisions of the Statutes and to such regulations as may be prescribed by special resolution of the Company

The Company's Articles of Association contain, for example, specific provisions and restrictions concerning the Company's power to borrow money They also provide that Directors have the power to allot unissued shares, up to pre-determined levels set and approved by shareholders in general meeting This also applies to the Directors allotting equity securities otherwise than in accordance with statutory pre-emption rules

## DIRECTORS

Details of the Directors as at 23 February 2010 and their biographies are shown on pages 38 and 39 Brief particulars of the Directors' membership of the Board Committees are contained in the Corporate Governance Report on pages 43 to 49

Charles Gregson was appointed to the Board on 1 January 2010 as an independent non-executive Director and will retire at the forthcoming AGM where he will offer himself for re-election Jo Dawson resigned as a non-independent non-executive Director on 5 February 2010 As reported in last year's Report and Accounts Andy Hornby resigned as a non-independent non-executive Director on 16 January 2009 and his replacement, Steve Colsell was appointed to the Board on 30 January 2009

The Company's Articles of Association require that any Director appointed during the year to fill a casual vacancy must stand for reappointment at the next AGM and that, at each AGM, all those Directors who were elected or last re-elected at or before the AGM held in the third calendar year before the current year shall retire from office by rotation Further details on the background of those Directors seeking re-election are set out in the Directors' biographies on pages 38 and 39 and in the Notice of Meeting

Accordingly, all those Directors who were elected or last re-elected at or before the AGM held in 2007 shall retire from office by rotation The Directors retiring by rotation at the AGM are David Bellamy and Mike Wilson and being eligible, will offer themselves for re-election at the AGM Derek Netherton will seek annual re-election to meet corporate governance guidelines applicable to his length of service on the Board The Chairman is pleased to confirm that the non-executive Director seeking re-election continue to be effective in his role on the Board and its committees and has demonstrated his continued commitment to the roles

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 pursuant to the Listing Rules published by the FSA and the Companies Act 2006 Details of all Executive Directors' service contracts are set out in the Remuneration Report on page 54

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes may cause share awards granted to employees under such schemes to vest on a takeover

## 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 2009 was 17 days (2008 20 days)

## CHARITABLE AND POLITICAL DONATIONS

Charitable contributions to the St James's Place Foundation during the year totalled £1,330,000 (2008 £1,040,752) 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 28 to 31 Contributions during the year to other charitable organisations totalled £3,000

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 Sections 362 to 379 of the Companies Act 2006 The Group did not make any political donations during the year (2008 £nil)

## EMPLOYEES

The Company is committed to providing equal opportunities for all people in recruitment, training and career development and has regard for people's aptitudes and abilities The Company will not tolerate discrimination on the grounds of race, religion, marital status, age, gender, sexual orientation or disability The Company's recruitment process seeks to find candidates most suited for the job The Company respects the dignity of individuals and their beliefs and does not tolerate any sexual, racial, physical or mental harassment of staff in the workplace

It is the Company's policy that disabled persons should be given the same opportunity for training, career development and promotion as other employees In the event of employees becoming disabled, every effort is made to maintain the employee's employment and suitable retraining is offered, if appropriate Full and fair consideration is given to applications for employment from disabled persons

# Directors' Report
*continued*

Further details of the Group's approach to employee involvement, training, development and communication can be found in the Corporate Social Responsibility Report on pages 28 to 37

## CHANGE OF CONTROL

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid None is considered to be significant in terms of their potential impact on the business as a whole as all agreements are entered into in the ordinary course of business and are on arm's length commercial terms

## AGM

The Company's AGM will be held on 13 May 2010 at The Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ at 11 00 a m

## AUTHORITY TO PURCHASE OWN SHARES

At the AGM in 2009, shareholders granted authority to the Directors for the purchase by the Company of its own shares The authority will expire at the end of the AGM to be held in 2010 or 18 months from the date granted, whichever is earlier During the year the Company did not purchase any of its own ordinary shares The Directors will propose the renewal of the authority to purchase own shares at the forthcoming AGM

## GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review as referred to on page 40 The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Commentary on pages 12 to 21 In addition the Notes on pages 81 and 86 and the Risk and Risk Management section on pages 22 to 27 include the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity

As shown on page 19 of the Financial Commentary, the Group's capital position is strong and well in excess of regulatory requirements The long-term nature of the business results in considerable positive cash flows arising from existing business As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

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 Further information on the basis of preparation of these accounts can be seen in Note 1 to both the Consolidated Accounts under International Financial Reporting Standards and Parent Company Accounts on UK GAAP basis

## AUDITORS

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

- so far as the Directors are aware, there is no relevant audit information of which the auditors are unaware, and
- the Directors have taken all reasonable steps to ascertain relevant audit information and ensure that the auditors are aware of such information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed until the end of the 2011 AGM will be put to shareholders at the AGM on 13 May 2010

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm to the best of their knowledge that

- The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole
- The European Embedded Value ('EEV') supplementary information has been prepared in accordance with the EEV principles issued in May 2004 by the Chief Financial Officers Forum as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 ('the EEV Principles')
- Pursuant to Disclosure and Transparency Rules Chapter 4, the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the business

On behalf of the Board

**D Bellamy**
Chief Executive

**A Croft**
Finance Director

23 February 2010

# Corporate Governance Report

This report explains the approach the Company has taken to apply the principles and provisions set out in the Combined Code on Corporate Governance

St James's Place is committed to high standards of corporate governance and supports the principles set out in the Combined Code on Corporate Governance ('the Combined Code') The Listing Rules require UK listed companies to state whether they have complied with the provisions of the Combined Code during the year The Board considers that the Company has achieved compliance with all provisions of the Combined Code throughout the financial year, except in respect of provision A 3 of the Code (Board balance and independence) in relation to which compliance was only achieved in the current financial year

Since the resignation of Simon Gulliford from the Board in February 2008, the Nominations Committee has sought to find a suitably experienced independent non-executive Director to replace him A job specification was prepared and a firm of recruitment consultants with experience of recruiting non-executive candidates was appointed Several candidates were identified and interviewed as part of the process during 2008 and 2009, but the Nominations Committee did not feel it appropriate to put forward any of the candidates for consideration by the Board However, in late 2009, the Nominations Committee recommended Charles Gregson and he was appointed to the Board in January 2010 as an independent non-executive Director As a result, the Company is now compliant with provision A 3 of the Code

## THE BOARD

The Board of Directors are responsible for providing entrepreneurial leadership and direction to the Company and are custodians of the Company's strategic aims, vision and values They ensure controls are in place to deliver value to shareholders and the wider community of individuals and organisations which benefit from the Company's activities The Board also assess whether the necessary financial and human resources are in place to enable the Company to meet its objectives

There were six formal Board meetings during the year, plus an additional all day strategy meeting A table detailing the Directors' attendance at Board meetings can be found on page 45

In advance of each meeting, all members are supplied with an agenda and pack containing reports on current trading, operational issues, compliance, risk, accounting and financial matters The chairmen of the various sub-committees of the Board also report to the Board at each meeting and copies of Board Committee minutes are included in Director Packs for information purposes

The Board has a formal schedule of matters specifically reserved for it and its primary responsibilities include

- Determining the overall strategy of the Company,
- Ensuring that the Company's operations are well managed and proper succession plans are in place,
- Reviewing major transactions or initiatives proposed by the Executive Directors,
- Implementing appropriate corporate governance procedures,
- Periodically reviewing the results and operations of the Company,
- Ensuring that proper accounting records are maintained and adequate controls are in place to safeguard the assets of the Company from fraud and other significant risks,
- Identifying and managing risk, and
- Deciding the Company's policy on charitable and political donations

A copy of the schedule of matters reserved for the Board can be found on the corporate website at www sjp co uk

The Company has developed a Board Control Manual ('BCM') which sets out the primary policy and decision-making mechanisms within the Company The manual contains a variety of useful and informative documents such as the terms of reference for the various sub-committees of the Board as well as the Company's risk policies In addition, detailed job descriptions for each Executive and subsidiary Director are included as well as a general job description outlining the responsibilities of the non-executive Directors The BCM is updated by the Company Secretary and approved by the Audit Committee on an annual basis

## THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE

The division of responsibilities between the Chairman of the Board, Mike Wilson, and the Chief Executive, David Bellamy, are clearly defined and have been approved by the Board No single Director has unfettered powers of decision-making The Chairman is responsible for ensuring the continued effectiveness of the Board and for setting its agenda so that adequate time is available for substantive discussion on strategic issues The Chairman also promotes effective communication between the Executive and non-executive Directors and with shareholders generally The Chairman also liaises with senior members of the Partnership and acts as a sounding board to senior management The Chief Executive's primary responsibility is to manage the Company via the executive management team and implement the strategies adopted by the Board

## THE SENIOR INDEPENDENT DIRECTOR

Michael Sorkin is the Senior Independent Director Michael is available to meet with shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for investor communication

## DIRECTORS AND DIRECTORS' INDEPENDENCE

The Board currently consists of an Executive Chairman, four Executive Directors, six independent non-executive Directors and one non-independent non-executive Director The non-independent non-executive Director, Steve Colsell, has been nominated by the Company's largest shareholder Lloyds Banking Group plc ('LBG') Biographical details of all the Directors can be found on pages 38 and 39 The terms and conditions of appointment of the non executive Directors are available on request and will be available at the Annual General Meeting ('AGM') in May 2010

Jo Dawson resigned as a non independent non executive Director on 5 February 2010 following her decision to leave LBG Charles Gregson joined the Board as an independent non-executive Director with effect from 1 January 2010

The quality of individual Directors and the Board's overall composition is a key contributor to the Board's effectiveness Committee membership

# Corporate Governance Report
*continued*

is reviewed annually to ensure the gradual refreshment of skills and experience over time The Board is satisfied that all Directors have sufficient time to devote to their roles

When determining whether a non-executive Director is independent, the Board considers whether each individual has an independent character and considers how they conduct themselves in Board meetings Other criteria include how they exercise judgement and whether they act in the best interests of the Company and its shareholders at all times

Derek Netherton has served on the Board for more than nine years which is a relevant factor in the consideration of his independence The Board has considered this point with particular care and believe that Derek continues to demonstrate his independence when carrying out his duties on the Board He constructively challenges management as and when he considers it appropriate and contributes significantly in Board and Committee meetings His individual skills and extensive knowledge of the financial services sector is extremely helpful to the business in general His financial knowledge is particularly helpful in connection with his role as Chairman of the Audit Committee and the Board do not believe that it is in the interests of the Company to replace him with a further independent non-executive Director at the present time However, to plan for succession in the future, the Board has appointed Mike Power as Deputy Chairman of the Audit Committee

**INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT**

On joining the Board, Directors are given a pack of documents giving background information about the Group and an appropriate induction programme is set up for them The programme enables the new Director to meet senior management, visit office locations and speak directly to Partners and staff around the country Ongoing training is coordinated by the Company Secretary for all Directors throughout the year following individual discussions with each Director Adhoc training is set up on request and the non-executive Directors are able to attend location meetings and the Double Partner Development Conference, where they have an opportunity to meet Partners on a more informal basis Non-executive Directors are briefed on the views of major shareholders at Board meetings and have an opportunity to meet with shareholders as necessary

Directors are regularly updated on their duties and responsibilities and have access to the advice of the Company Secretary as well as 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 Topical issues are addressed prior to each Board meeting For example, during the year, the Company Secretary and other senior executives updated the Board on an array of pertinent topics such as the Retail Distribution Review, the results of the staff survey and the financial impact of scenario testing

**BOARD EVALUATION**

The Board carried out an annual evaluation of its own performance during the year which included a review of its committees and individual Directors The evaluation was conducted by the Company Secretary who carried out individual interviews with each Board member The findings were presented to the Board and a number of relatively minor improvements were implemented, including devoting more time at Board meetings to strategic issues

The Chairman met each of the non-executive Directors separately to discuss the results of the evaluation in relation to their performance on the Board or its committees Other items discussed included suitable topics for pre-Board presentations, training requirements and succession plans

The non-executive Directors, led by the Senior Independent Director, met without the Chairman present to appraise the Chairman's performance and to discuss other topical issues such as the overall performance of the Board The Senior Independent Director carried out a formal appraisal of the Chairman's performance during the year, using the feedback obtained during the Board evaluation process

**BOARD COMMITTEES**

There are five sub-committees of the Board, being Audit, Investment, Nominations, Remuneration and Risk Committees The membership and terms of reference of the committees are reviewed annually and the terms of reference are available on the corporate website (www sjp co uk) or on request from the Company

## ATTENDANCE AT MEETINGS

The attendance by individual Directors at Board and committee meetings during the year ended 31 December 2009 was as follows

| | Board (7 Meetings) | Risk (4 Meetings) | Audit (5 Meetings) | Remuneration (3 Meetings) | Nominations (3 Meetings) | Investment (8 Meetings) |
|---|---|---|---|---|---|---|
| Sarah Bates | 6 | 4 | – | – | – | 8 |
| David Bellamy | 7 | (4) | – | (3) | (2) | – |
| Andrew Croft | 7 | – | (5) | (2) | – | 7 |
| Steve Colsell | 5 | – | (4) | – | – | – |
| Jo Dawson | 5 | – | – | – | – | – |
| Ian Gascoigne | 7 | (3) | – | – | – | – |
| David Lamb | 7 | – | – | – | – | 8 |
| Derek Netherton | 7 | – | 5 | 3 | 3 | – |
| Mike Power | 7 | 4 | 5 | – | – | – |
| Michael Sorkin | 7 | – | 5 | 3 | 3 | 7 |
| Roger Walsom | 7 | 4 | – | 3 | – | – |
| Mike Wilson | 7 | – | – | (2) | 3 | – |

Figures in brackets indicate where a Director has been invited by a committee to attend the meeting but is not a formal member of the committee The Group Risk Director is invited to attend part of Board meetings throughout the year to present his Group Risk Report He also attends Risk and Audit Committee meetings during the year

## DIRECTORS' AND OFFICERS' INDEMNITY AND INSURANCE

The Company has taken out insurance covering Directors and officers against liabilities they may incur in their capacity as Directors or officers All members of the Board and other senior employees who act as Directors of subsidiary companies have each been granted indemnities from the Company to the extent permitted by law These indemnities are uncapped in amount and protect recipients from certain losses and liabilities that they may incur to third parties in connection with the furtherance of their duties as Directors of the Company or its subsidiaries Copies of the indemnities are available to shareholders on request

## PROCEDURES TO DEAL WITH DIRECTORS' CONFLICTS OF INTEREST

At the 2008 AGM, shareholders amended the Articles of Association to include provisions for dealing with Directors' conflicts of interest as permitted under the new Companies Act 2006 In 2008, procedures were approved by the Board to deal with situations where a Director either has a conflict of interest or where a potential conflict of interest situation arises Under the procedure, the relevant Director must disclose to the Board the actual or potential conflict of interest for discussion by the other members of the Board The Board will consider the potential conflict on its particular facts and decide whether to waive the potential conflict if it believes this to be in the best interests of the Company The process involves keeping detailed records and Board minutes in respect of authorisations granted by the Board and the scope of approvals given Conflict authorisations are reviewed annually by the Board

## RELATIONS WITH SHAREHOLDERS

The Board maintains close relationships with institutional shareholders through dialogue and frequent meetings The Company also meets regularly with JPMorgan Cazenove who facilitates meetings with investors and their representatives Attendance notes from each meeting are circulated to members of the Board to bring them up to speed on the views and opinions of major shareholders The Senior Independent Director is available for consultation with shareholders and other non executive Directors are also available to meet with major shareholders on request

Members of the Board will be available at the forthcoming AGM to answer shareholders' questions on the Company's business and the activities of the Board and its committees

## RELATIONSHIP WITH LLOYDS BANKING GROUP PLC

The Company entered into a Relationship Agreement ('the Agreement') with Halifax Group plc in 2000 to regulate the relationship between the two companies after the completion of a Partial Offer The Agreement was novated to HBOS plc, following the merger between Halifax and Bank of Scotland in 2001 On 16 January 2009, HBOS plc was acquired by Lloyds TSB Bank plc, which subsequently changed its name to Lloyds Banking Group plc

The principal purpose of the Agreement is to ensure the Company operates independently of LBG and to provide that the relationship between LBG and the Company will be conducted on an arm's length basis Under the Agreement, LBG has the authority to appoint a number of Directors to the Board and its committees and the number varies in relation to LBG's shareholding in the Company LBG currently has the right to appoint three non-executive Directors to the Board although, as at the date of this report, LBG has appointed one non-executive Director, being Steve Colsell

## NOMINATIONS COMMITTEE

The Nominations Committee comprises two independent non-executive Directors and the Executive Chairman The Committee met three times during the year and the current members and attendees are

| Members | Attendees |
|---|---|
| Michael Sorkin (Chairman) | David Bellamy |
| Derek Netherton | |
| Mike Wilson | |

# Corporate Governance Report
*continued*

DUTIES

The Committee is responsible for identifying and nominating candidates to fill Board vacancies as and when they arise Prior to any appointment being made, the Committee evaluates the skills, knowledge and experience of existing members and prepares a comprehensive description of the role and capabilities required for a particular appointment

Succession planning forms a core remit of the Committee, taking into account the challenges and opportunities facing the Company at present and in the future and the Committee gives full consideration to the type of skills and expertise required at Board and senior management level The Committee will, from time to time, use the services of an external search consultancy to assist in finding suitable candidates from a wide range of backgrounds

The terms of reference that set out the Committee's role and authority can be found on the corporate website

ACTIVITIES

During the year, the Committee focused its efforts on finding a suitable independent non executive Director to fill the vacancy left by the resignation of Simon Gulliford An external search consultancy was appointed and the Committee shortlisted a number of suitable candidates for the role In January 2010, Charles Gregson was appointed to the Board as an independent non-executive Director

The Committee reviewed the succession plans for the Board and senior management and considered plans for identifying a successor to Sir Mark Weinberg, as Chair of the Investment Committee Three key appointments were made during the year as a consequence of this piece of work, being the appointment of a Chief Investment Officer and the appointment of two new external members to the Investment Committee All three appointments have helped to broaden the expertise of the Investment Committee

## REMUNERATION COMMITTEE

The Remuneration Committee comprises solely independent non-executive Directors The Committee met three times during the year and members and attendees of the Committee are

| Members | Attendees |
| --- | --- |
| Michael Sorkin (Chairman) | David Bellamy |
| Derek Netherton | Mike Wilson |
| Roger Walsom | Andrew Croft |
| Charles Gregson (from 1 March 2010) | |

DUTIES

The Committee is responsible for determining the Company's broad policy for executive remuneration and the entire individual remuneration packages for each of the Executive Directors, the Group Risk Director and where appropriate other senior executives (if applicable), including any executive whose total remuneration is expected to exceed the median total remuneration of Executive Directors

The Committee reviews the performance of individual Directors and senior management against bonus and incentive schemes and determines any performance conditions In the event of a Director leaving the Group, the Committee will review and determine the scope of any termination payment and severance terms The Committee is also responsible for selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee

The terms of reference that set out the Committee's role and authority can be found on the corporate website and further details on the activity of the Committee during the year is set out in the Remuneration Report on page 50

## INVESTMENT COMMITTEE

The Investment Committee met eight times during the year and the current members of the Committee are

Sir Mark Weinberg (Chairman)
Sarah Bates
Andrew Croft
David Lamb
Michael Sorkin
Vivian Bazalgette (from 1 January 2010)
Peter Dunscombe (from 1 January 2010)
Chris Ralph (from 1 January 2010)

Various members of the Asset Management team and representatives from Stamford Associates were invited to attend meetings during the year In January 2010, the Committee appointed three new members Two are independent consultants who have a wealth of knowledge and experience in the investment management arena, being Vivian Bazalgette and Peter Dunscombe Chris Ralph was also appointed, being the Group's Chief Investment Officer

DUTIES

The Committee's main responsibilities include overseeing the Company's investment management approach, monitoring the performance and suitability of the fund managers as well as ensuring that all fund managers follow the terms of their agreements with the Company Where necessary, the Committee will make recommendations in relation to the appointment or removal of fund managers The Committee evaluates market risk and considers and makes recommendations in relation to the appointment and the continued effectiveness of the investment consultant

ACTIVITIES

During the year, the Committee monitored the performance of the Company's investment managers and focused on specific manager issues that arose Face-to-face reporting sessions were held with each manager, which provided the Committee with an opportunity to evaluate their 'investment style' and decision-making

The Committee also considered the Investment Manager Report from Stamford Associates and brought about a number of changes and additions to the investment managers appointed by the Group New managers were identified and appointed to the new UK Equity Income Unit Trust and the Investment Grade Corporate Bond Fund The Committee also made a number of investment manager changes to existing funds, including the High Octane Unit Trust, the UK and General Progressive Unit Trust and the Greater European Progressive Unit Trust

More details on the work of the Committee can be found in the 'Report of the Investment Committee 2009', which can be obtained from the Company's website at www sjp co uk

## AUDIT COMMITTEE

The Audit Committee met five times during the year and members and attendees of the Committee are

| Members | Attendees |
|---|---|
| Derek Netherton (Chairman) | Andrew Croft |
| Mike Power (Deputy Chairman) | Steve Colsell |
| Michael Sorkin | |

All members of the Audit Committee are independent non-executive Directors who have considerable financial experience Biographies for each Director can be found on pages 38 and 39 Attendees at meetings during the year included the Finance Director, the Risk Director, the Head of Internal Audit and members of the finance team, as well as the external auditor Steve Colsell also attended meetings as the LBG representative

### DUTIES

The Committee is responsible for reviewing the Company's internal and external audit resource and examining any matters that relate to the financial affairs of the Company This includes advising the Board on the Company's interim and annual financial statements, its accounting policies and compliance with accounting standards The Committee also assists the Board to ensure that the financial and non financial information supplied to shareholders provides a balanced assessment of the Company's position

Other duties include maintaining an appropriate relationship with the external auditors, reviewing the nature and scope of the work performed by them and their responses to management The terms of reference that set out the Committee's role and authority can be found on the corporate website at www sjp co uk

### ACTIVITIES

During the year, the Committee formally reviewed the draft interim and annual reports and associated announcements and considered the accounting principles, policies and practices adopted in the Company's financial statements and proposed changes were made where necessary The Committee considered significant accounting issues and areas of judgement, as well as deferred tax and other liabilities, potentially affecting the Company

The Committee considered the appropriateness, independence and services provided by the external auditor Areas considered during the year included

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditors' engagement letter,
- the overall work plan for the year ahead,
- the external auditor's fees,
- issues that arose during the course of the audit and their resolution,
- key accounting and audit judgements, and
- recommendations made by the external auditors and the adequacy of management's response

In order to maintain the external auditor's independence and objectivity, the Committee has established a financial limit of £100,000 in fees for non-audit related advice and consultancy work by the external audit firm Details of the amount paid to the external auditors during the year for audit and non-audit related services are set out in the Notes to the Accounts on page 75 The Committee held a private meeting with the previous external auditor, KPMG Audit PLC during the year (which was independent from management) to review key issues and responsibilities

Other activities undertaken by the Committee during the year included consideration of the Internal Audit function audit plan, which included a review of the Company's system of internal financial controls and a review of the Group's 'whistle-blowing' policy The Committee also considered a change in external audit firm and recommended to the Board, the appointment of PricewaterhouseCoopers LLP as external auditor to replace KPMG Audit PLC The change was required in order to harmonise the audit process with LBG and shareholders will be asked to reappoint PricewaterhouseCoopers LLP at the AGM on 13 May 2010

Committee members received updates from the chair of the Risk Committee and discussed risks identified on the Emerging, Topical and Corporate Risk Schedules The Chairmen of the Audit and Risk Committees, along with the Risk Director also considered the interaction between the two committees in the area of risk management and a number of small changes were made to the reporting process and interaction between the two committees

The Committee also received and considered the Individual Capital Assessment report of the life company, St James's Place UK plc ('SJPUK') SJPUK is required by the regulator to maintain a capital assessment for regulatory purposes and one of the responsibilities of the Committee is to review and consider the report

## RISK COMMITTEE

The Risk Committee met four times during the year and members and attendees include

| Members | Attendees |
|---|---|
| Mike Power (Chairman) | David Bellamy |
| Sarah Bates | Ian Gascoigne |
| Roger Walsom | Bill Tonks (Group Risk Director) |

All members of the Committee are independent non-executive Directors who have considerable financial and/or risk-based experience Biographies for each Director can be found on pages 38 and 39 Other attendees at meetings during the year included Head of Internal Audit, Head of Risk Management and a representative from LBG, the Company's major shareholder

### DUTIES

The Committee's responsibilities include fostering a culture of effective risk identification and management and reviewing the major and emerging risks affecting the Group The Committee can call for reports from senior management on how material risks are being managed and annually review the procedures for the identification, recording and mitigating of material risks Where necessary, the Committee makes recommendations for changes in risk related practices and procedures and can seek external input for its work, where necessary

# Corporate Governance Report
*continued*

The Risk Appetite Statement and risk policies are reviewed annually and all material areas of concern or weakness reported to the Audit Committee and the Board The Group Risk Director reports to the Committee on risk issues at each meeting and has direct access to the Chairman of the Risk Committee, should the need arise The Group Risk Director's remuneration is approved by the Remuneration Committee The terms of reference that set out the Committee's role and authority can be found on the corporate website

ACTIVITIES
During the year, the Committee received regular management reports from senior executives on risk identification and mitigation within their areas of the business These included an update from the Group Legal Director on risk mitigation in relation to the Legal and Client Liaison Departments, an update from the Finance Director on risk mitigation in the Finance Department, a review of the business plan for the year ahead and a discussion on risks arising from the work to further develop the Group's investment management approach

The Committee reviewed and approved the risks identified on the Emerging, Topical and Corporate Risk Schedules as well as the annual Risk Appetite Statement and Internal Audit plan as well as SJPUK's Individual Capital Assessment

The annual Money Laundering Reporting Officers' report was reviewed by the Committee during the year The report included an examination of the governance framework, operation of systems and controls and training requirements in respect of anti-money laundering activities within the Group

**INTERNAL CONTROL**
The Board retains overall responsibility for the effectiveness of the Group's system of internal control (including, financial, operational and compliance controls) and risk management The Audit and Risk Committees of the Board along with appropriately structured, staffed and qualified Internal Audit, Risk Management and Compliance functions support the Directors in the discharge of these responsibilities and oversee their outcome

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 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

The Group utilises a number of outsourced service providers to provide administration services to the Group companies These services are detailed in formal contracts and their delivery is monitored by dedicated relationship managers against documented Service Level Agreements and Key Performance Indicators

Each year the outsourced service providers are required to confirm and evidence the adequacy and effectiveness of their internal control framework (as assessed against the requirements of the COSO Internal Control – Integrated Framework) and to confirm that no material control issues have been identified in their operations over the course of the year that would require notification to the Company

This system of internal control is designed to ensure that the primary objectives of compliance with applicable laws and regulation, effective and efficient operations, quality financial and operational reporting and safeguarding of assets, are met

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 referred to the Board by the Chairman of the Audit Committee and the Group Risk Director for further discussion

In establishing the system of internal control, the Directors have regard to the materiality of relevant risks, the likelihood of risks occurring and the cost of mitigating risks It is therefore designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material financial 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 Internal Audit has been sufficient to enable it to properly review the effectiveness of the Company's system of internal control in accordance with the Turnbull Guidance for Directors on Internal Control

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

The Directors are responsible for preparing the Annual Report and Accounts, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors 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 Embedded Value Methodology ('EVM') 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 EVM,
- applied the EVM 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

The Directors are responsible for the maintenance and integrity of the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Each of the Directors, whose names and functions are listed in Board of Directors section of the Annual Report and Accounts confirm that, to the best of their knowledge

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group,
- the European Embedded Value ('EEV') supplementary information has been prepared in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum as supplemented by the EEV Principles issued in October 2005, and
- the business review referenced to in the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

# Remuneration Report

The Directors present the Remuneration Report for the financial year ended 31 December 2009 which has been prepared on behalf of the Remuneration Committee ('the Committee') and in accordance with the requirements of the Companies Act 2006 Shareholders will be invited to approve the report at the Annual General Meeting ('AGM') on 13 May 2010 The Report contains information relating to executive remuneration policy, including Directors' pay and benefits, share awards and pension provision It also contains additional information required by the FSA Listing Rules and the Combined Code on Corporate Governance

The sections marked with an asterisk ('*') are subject to audit by PricewaterhouseCoopers LLP

## ROLE OF THE COMMITTEE

The Committee, on behalf of the Board, determines the remuneration packages of the Executive Directors of the Company, including the Chairman In addition, the Committee monitors the remuneration of the senior management team, including the Group Risk Director and his colleagues in the Risk Division, and oversees the operation of the executive long-term incentive schemes and all employee share schemes

The membership and terms of reference of the Committee are reviewed annually and the Terms of Reference are available 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 45

## MEMBERSHIP OF THE COMMITTEE

The members of the Committee (all independent non executive Directors) are as follows

Michael Sorkin – Chairman, Senior Independent non-executive Director
Derek Netherton
Roger Walsom
Charles Gregson

Charles Gregson will be appointed to the Committee with effect from 1 March 2010 Although Derek Netherton has served on the Board for more than nine years, the Board believes him to be entirely independent of management See page 44 of the Corporate Governance Report for further details Biographical details of the current members of the Committee are set out on pages 38 and 39

The Company Secretary acts as Secretary to the Committee and provides advice on corporate governance, legal and regulatory issues as well as the design and operation of the long-term incentive schemes The Committee may request attendance at meetings of members of the executive team or other third parties as they see fit

## ADVISORS TO THE COMMITTEE

The Committee has access to detailed external information and research on market data and trends from independent remuneration consultants Hewitt New Bridge Street ('Hewitt') Hewitt were appointed by the Committee to provide advice and data on executive remuneration, long-term incentives and other remuneration issues Neither Hewitt, nor its parent company Hewitt Associates Limited, have provided any other services to the Company during the year

The Chairman and Chief Executive are normally invited to attend each Committee meeting to provide information on corporate or individual performance to the Committee They may also make recommendations regarding the remuneration packages of individual Directors 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 their individual remuneration or contractual terms are being discussed

## REMUNERATION POLICY

The remuneration policy is designed to support and encourage the delivery of the Group's short-term and long-term business objectives The Committee aims to ensure that remuneration packages are sufficiently competitive to attract, retain and motivate executives of the highest calibre, whilst encouraging sustainable long-term performance through the delivery of a significant proportion of remuneration in SJP shares, deferred for three years

The short-term and long-term 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 Approximately 55–60% of the total remuneration of the Executive Directors is performance related, except for Mike Wilson, where approximately 40% of his total remuneration is performance related as he does not participate in the short term bonus scheme He does 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 focused 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 any tax liability on vesting

When setting the remuneration policy, the Committee applies the principles set out in Schedule A of the Combined Code and also takes into account best practice guidance issued by the major UK institutional investor bodies, the FSA and other relevant bodies The Committee reviewed the recommendations published by the Walker Review during the year on supporting sound risk management when setting incentive arrangements Further details of the changes made by the Committee as a result of this review are set out on page 51

The Committee aims (so far as practicable) to set fixed benefits (salary, pension and fringe benefits) at below the median position for companies of a similar size in both the UK financial services market and other sectors, with significant annual bonus and long-term incentive awards enhancing an executive's potential total remuneration to above the median, but only if stretching short-term and long-term performance targets are achieved

The Committee acknowledges that it is not always possible to achieve this policy in the short-term as the Committee does not slavishly follow comparator data (recognising that data can be volatile and must be used carefully to avoid the risk of an upward ratchet in remuneration) or the need to phase in changes over a period of time For example, the Committee is aware that, in terms of total remuneration, the packages for the Executive Directors are still below its assessment of market median levels, despite the Committee's decision to increase the size of the annual awards under the long-term incentive scheme (see page 52 for further details)

## SHAREHOLDING GUIDELINES

The Committee also operates shareholding guidelines for the Executive Directors whereby, as and when awards vest under the Performance Share Plan 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

At the year-end share price of £2 46, the value of shares in the Company held by Executive Directors as at 31 December 2009, calculated as a percentage of their base salary, is as follows

| Director | Value as a % of Base Salary |
|---|---|
| David Bellamy | 617% |
| Andrew Croft | 272% |
| Ian Gascoigne | 405% |
| David Lamb | 302% |
| Mike Wilson | 3,622% |

Note
Calculations include beneficial and non beneficial interests in ordinary shares of the Company, where applicable

## THE WALKER REVIEW

The Committee considers carefully every year the level of risk inherent in the remuneration policy and, during the year, the Committee reviewed the remuneration policy in light of the recommendations published in the Walker Review of Corporate Governance on 26 November 2009 The Committee's deliberations are summarised below

The Remuneration Committee has, for some time, had an overall responsibility to be aware of the remuneration policies and structures of the Group as a whole However, the Terms of Reference of the Committee have recently been amended to include a review of remuneration policy on a firm-wide basis In addition, the Remuneration Committee works closely with the Risk Committee to ensure that the incentive arrangements are appropriately adjusted for risk The members of the Risk and Remuneration Committees met to discuss the risk adjustments that should be made to the incentive schemes for the Executive Directors

The Terms of Reference have also been amended to include oversight of remuneration policy and outcomes in respect of employees earning on average more than the Executive Directors, although there are no employees within the SJP Group which fall into this category at present

Deferral of incentive payments has for many years been part of the remuneration structures at St James's Place 50% of any sum paid to executives under the annual discretionary bonus scheme is invested in SJP shares and deferred for three years under the Deferred Bonus Scheme In addition, the majority of the incentive pay comes in the form of a long-term incentive scheme (the Performance Share Plan) which has stretching long-term performance targets, subject to which awards vest after a period of three years from the date of the award The Committee has considered whether there should be a five-year vesting period for half of the Performance Share Plan awards as recommended in the Walker Review However, it considers that three years is a sufficiently long vesting period, taking account of the Deferred Bonus Scheme and that the Executive Directors' existing shareholdings are significant The Committee also believes that SJP's business model has a lower risk profile than the largest banks and other financial services companies which were the main focus of the Walker Review

As stated above, the Executive Directors are expected to build and maintain a shareholding in the Company worth a minimum of 100% of base salary, to be built up over a period of time The Committee's policy on cessation of employment is set out under the heading 'Service Agreements' on page 54

The Board supports the recommendation that the Remuneration Committee report should state whether any Executive Director or other senior employee has the right to receive enhanced benefits for any reason (e g on a change of control) Currently, no Director or employee has such a right

Finally, the Board will take into account and carefully consider any changes made to the Combined Code by the Financial Reporting Council The Board fully supports the 'comply or explain' culture which forms the basis of compliance with the Combined Code

## SALARIES

Salaries are reviewed annually at the start of the year, using comparative company data provided by Hewitt and any increases take effect from 1 March As stated above, the Committee aims (so far as practicable) to set fixed benefits (salary, pension and fringe benefits) below the median position for companies of a similar size in both the UK financial services market and 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

The Committee reviewed the salaries of the Executive Directors in January 2010, but agreed with the recommendation from the CEO that, in light of the decision by management to freeze the salaries of all employees in 2010 (other than for those who have been promoted or where exceptional circumstances exist), it would be appropriate to apply the same policy in relation to the pay of the Executive Directors However, the Committee approved an increase to David Lamb's salary in light of his appointment to the Board in December 2007 As set out in the 2008 Remuneration Report, the Committee has been increasing David Lamb's salary over time in recognition of his development in his new role on the Board and the Committee now believe that it is appropriate for his salary to be aligned with Ian Gascoigne and Andrew Croft Accordingly, the 2010 salaries for the Executive Directors are as follows

| Director | 2009 Salary | 2010 Salary |
|---|---|---|
| David Bellamy | £425,000 | £425,000 |
| Andrew Croft | £320,000 | £320,000 |
| Ian Gascoigne | £320,000 | £320,000 |
| David Lamb | £280,000 | £320,000 |
| Mike Wilson | £315,000 | £315,000 |

## ANNUAL BONUS

For 2010, 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 three years Mike Wilson does not participate in the annual bonus scheme

# Remuneration Report
*continued*

The Committee reviewed the operation of the annual bonus plan and decided that some changes should be made to the performance conditions for 2010 In previous years, up to 80% of salary was awarded by reference to growth in European Embedded Value ('EEV') operating profit before tax

For 2010, the Committee decided that it was appropriate to measure the financial performance of the Group using two metrics Up to 40% of salary will be awarded by reference to growth in the Group's EEV operating profit before tax (calculated as in 2009), with the remaining 40% being awarded by reference to growth in the Group's EEV new business profit Whilst both measures are used by shareholders to assess the underlying profitability of the Group, the focus on new business profit has been introduced to align a greater proportion of Executive Director remuneration to growth in new business and the control of expenses

The operating profit and new business profit targets set by the Committee are based on a sliding scale, to progressively reward incremental performance, with the bottom end of the scales representing a material increase in operating profit and new business profit compared with 2009

Up to a further 40% of salary may be awarded by the Committee by reference to the performance of the Executive Directors as a team, based on a review by the Committee of the performance of the Executive Directors in completing the main non-financial objectives set out in the 2010 business plan, agreed by the Board The Committee decided in 2010 to assess the performance of the Directors as a team as it considers that the emphasis on team performance fits with the culture and management ethos within the Director team These objectives include expanding the range of investment funds, achieving targets in relation to exams passed by the Partnership towards Diploma qualifications, growth in net new funds under management, enhancing the standards of service for SJP clients, the successful recruitment and retention of high quality new Partners, successfully controlling and mitigating the material risks that could impact the Group and maintaining the Group's good relations with its regulators A framework for the assessment of these targets has been agreed including, where relevant, sliding scale targets

The Committee retains the discretion to amend each element of the bonus, up or down, within the overall cap of 120% of salary, to take into account other relevant factors such as the Group's performance compared to competitor organisations or, for instance, an exceptional positive or negative event which impacts the Group

The mechanisms for identifying, assessing, managing and monitoring risk are an integral part of the management process at St James's Place When setting the performance targets for the annual bonus plan, the Committee takes into account the principles laid down in the Company's Risk Appetite Statement to ensure that the incentive arrangements support the business objectives and do not encourage a culture of excessive risk taking The Risk Committee of the Board has also reviewed the incentive arrangements from a risk perspective

The Committee is also 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 set by the Committee is assessed by reference to the Company's internal management information systems and verified by the Committee, which the Committee believes is the most appropriate method, given the internal nature of most of the performance targets Financial performance conditions are also verified by the Company's auditors

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

The Committee also believes that the changes to the performance conditions for 2010 will provide a more rounded assessment of the performance of the Executive Directors, together with enhanced risk mitigation characteristics due to the two different profit-based metrics and a significant focus on non-financial objectives, including those based on risk mitigation

**LONG-TERM INCENTIVE SCHEME**

The executive long term incentive plan operated by the Company is the Performance Share Plan ('PSP') approved by shareholders in 2005 Under the PSP, the Committee may make awards of performance shares to the Executive Directors up to a limit of 200% of salary, with such awards normally vesting after three years, subject to the achievement of challenging performance conditions and continued employment The PSP is also used to make awards to other senior managers within the Group

The Committee reviewed the recent grant levels under the PSP (175% of salary in 2007 and 150% in 2008 and 2009) and considered whether this delivered remuneration which was in line with the remuneration policy set out on page 50 It was clear to the Committee that, in order to provide a remuneration package which complies with the policy for potentially above median total remuneration (providing stretching targets have been achieved), the PSP grant levels needed to be increased (within the shareholder approved individual limits of the plan) for the Executive Directors, particularly in respect of the CEO As a result, the Committee decided to increase the PSP awards for Andrew Croft, Ian Gascoigne, David Lamb and Mike Wilson from 150% of salary to 175% of salary and to increase the PSP award for David Bellamy to 190% of salary When making this decision, the Committee noted that the salaries of the Executive Directors (excluding David Lamb) had been frozen by the Committee for two years and that, even after this increase, their potential total remuneration would continue to be below the market median

The Committee also reviewed the performance conditions for the 2010 PSP awards to ensure that they were appropriately challenging and provided an appropriate risk adjusted performance measurement basis, recognising the potentially higher value of the award

For 2010 PSP awards, the Committee approved some changes to the performance conditions from those applying to previous years' awards Previously two thirds of the award was based on an Earnings Per Share ('EPS') performance condition, with the remaining one-third based on an assessment of the Company's Total Shareholder Return ('TSR') against a comparator group of financial services companies

For 2010 PSP awards, one-third of the shares is subject to the same EPS growth condition (based on EEV operating profit), calculated as in previous years A separate one third of the shares is subject to an EPS based performance condition, but one which excludes the impact of the EEV unwind of the discount rate as this will provide a better link to long-term management performance as stock market movements do not impact this measure The final one-third of the shares is subject to a comparative TSR condition All three performance conditions are measured over a single three-year period The Committee believes that the mix of these three performance conditions 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

The first EPS performance condition is calculated by reference to adjusted consolidated profit after tax on the EEV basis of accounting for both the life and unit trust businesses (on a fully diluted per share basis) The effect of the adjustment to the consolidated after tax figures will be to strip out the EEV investment variance and any economic assumption change in the final year of the performance period Shareholders will appreciate that these factors are not within the control of management and can produce wide variations in reported earnings due to stock market fluctuations However, this measure of EPS is still impacted by stock market movements in the prior year due to the impact of any such movements on the unwind of the discount rate in the current year

The second EPS performance condition is calculated in a similar way to the first EPS condition, save that a further adjustment is made to strip out the impact of the unwind of the discount rate This adjustment eliminates any direct impact of stock market volatility throughout the whole three year period of the performance condition

The Committee considered the sliding scale between threshold and maximum performance for each of the EPS-based performance conditions, being careful to ensure that the ranges are suitably stretching in the context of the prospects of the Company and the current challenging operating environment, but without there being any undue pressure for management to take inappropriate risks

In relation to the one-third of the award based on TSR performance, the Committee reviewed the benchmark comparator group Previously, the TSR condition has been based on a basket of companies in the financial services sector However, due to the difficulties of selecting companies with a business model sufficiently similar to the SJP Group and a reduction in appropriate constituents caused by a number of mergers, takeovers and de-listings, the Committee decided that, for 2010 awards, the TSR comparator group should be changed to the constituent companies of the FTSE 250, excluding investment trusts and also companies in the FTSE Oil and Gas Producers and FTSE Mining sectors as their share prices are likely to be impacted by changes in commodity prices The Committee has carried out detailed back testing over several time periods and this has demonstrated that there has been little difference between the Company's performance against either group Accordingly, the Committee does not believe that this will have a material impact on the vesting profile of future PSP awards linked to the TSR performance condition

A summary of the sliding scale performance conditions is set out below

One third of the award based on EPS (including the unwind of the discount rate)

| Average Annual Earnings Growth | Percentage of One-third of Award Exercisable |
|---|---|
| Below RPI + 7% | Zero |
| RPI + 7% | 25% |
| RPI + 16% or more | 100% |
| Between the above points | Pro rata between 25% and 100% |

One-third of the award based on EPS (excluding the unwind of the discount rate)

| Average Annual Earnings Growth | Percentage of One-third of Award Exercisable |
|---|---|
| Below RPI + 7% | Zero |
| RPI + 16% | 25% |
| RPI + 16% or more | 100% |
| Between the above points | Pro rata between 25% and 100% |

One-third of the award based on TSR

| Company's Ranking Within FTSE 250 Based Comparator Group | Percentage of One-third of Award Exercisable |
|---|---|
| Below median | Zero |
| Median | 25% |
| Upper quartile | 100% |
| Between the above points | Pro rata between 25% and 100% |

Details of previous awards made under the PSP are set out on page 56 Awards under the PSP are largely satisfied by the issue of new shares in the Company Full details of the current position of the Company against its dilution limits are set out on page 59

## ALL EMPLOYEE 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 a three-year savings period acquire shares in the Company at a price not less than 80% of the market price of the Company's shares at the date of the invitation to participate

In 2010, all UK employees of the Group, including the Executive Directors, will be invited to participate in a Share Incentive Plan, providing the opportunity to purchase SJP shares up to the value of £1,500 at the date of appropriation, out of pre-tax salary Matching shares on a ratio of one matching share for every ten SJP shares acquired will be offered The matching shares will be subject to forfeiture during a holding period of three years

# Remuneration Report
*continued*

## PENSION AND DEATH IN SERVICE BENEFITS

Employer contributions of 20% of base salary are made to the money purchase Group personal pension for the Executive Directors, except for Mike Wilson who receives 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 2009 are shown on page 55

## SERVICE AGREEMENTS

It is the Committee's policy that service agreements 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

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 No enhanced rights or benefits (other than those previously approved by shareholders in relation to the Group's share incentive schemes) are payable to the Executive Directors on termination, resignation or retirement or as a result of any other event such as a change of control of the Company The agreements automatically terminate on the 65th birthday of the executive, except for Mike Wilson, whose agreement terminates on 31 December 2011, unless otherwise extended by mutual agreement 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 the use of a chauffeur

Further details of the service agreements of the Executive Directors are provided below

| Director | Date of Contract | Date Contract Automatically Terminates |
|---|---|---|
| Mike Wilson | 27 May 2005 | 31 December 2011 |
| David Bellamy | 8 August 2006 | 15 April 2018 |
| Ian Gascoigne | 8 August 2006 | 7 July 2021 |
| David Lamb | 8 August 2006 | 31 January 2022 |
| Andrew Croft | 8 August 2006 | 11 June 2029 |

Currently, no Executive Director acts as a non-executive Director on the Board of another 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 £25,000 per annum is paid to the non-executive Directors, 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 2010 and it was decided to retain the 2009 fee structure in 2010, with no increases in non executive pay

Set out below are the annual fees paid to the non-executive Directors in 2009 and those currently payable in relation to 2010

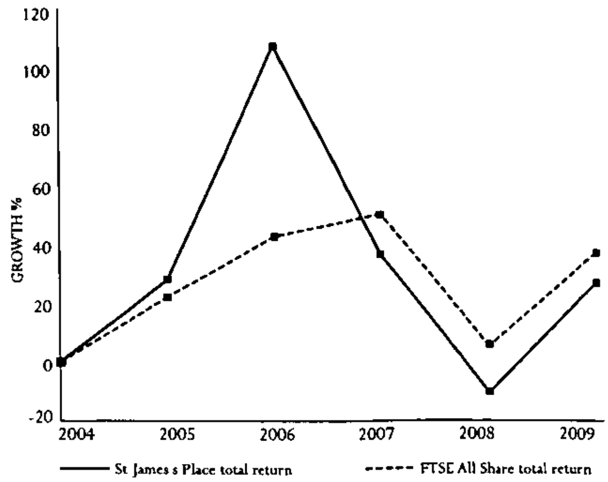
| Director | 2009 Fee £ | 2010 Fee £ | Date of Letter of Appointment | Year of Re-election at AGM |
|---|---|---|---|---|
| Sarah Bates | 55,000 | 55,000 | 26 July 2004 | 2011 |
| Steve Colsell# | 21,685 | 25,000 | 30 January 2009 | 2012 |
| Jo Dawson# | 25,000 | 2,466 | 31 May 2006 | n/a |
| Charles Gregson | n/a | 35,000 | 7 December 2009 | 2010 |
| Derek Netherton | 55,000 | 55,000 | 15 March 1999 | 2010 |
| Mike Power | 58,000 | 58,000 | 22 April 2005 | 2012 |
| Michael Sorkin | 72,500 | 72,500 | 16 October 2001 | 2011 |
| Roger Walsom | 43,000 | 43,000 | 21 July 2005 | 2012 |

Notes
(i) Fees to Directors marked with # were paid directly to LBG
(ii) LBG were paid £986 for Andy Hornby's services as a non executive Director in 2009 up to the date of his resignation from the Board on 16 January 2009
(iii) Charles Gregson was appointed to the Board on 1 January 2010
(iv) Jo Dawson resigned as a non executive Director on 5 February 2010

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 Lloyds Banking Group plc ('LBG') pursuant to the Relationship Agreement described more fully on page 45) is for three 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

## PERFORMANCE GRAPH

The graph below, prepared in accordance with the Companies Act 2006, 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



## DIRECTORS' REMUNERATION*

Total Directors' remuneration for the year ended 31 December 2009 is shown below, with comparative figures for the year ended 31 December 2008

| | Year Ended 31 December 2009 £ | Year Ended 31 December 2008 £ |
|---|---|---|
| **Aggregate emoluments** | | |
| Fees to non-executive Directors | 331,171 | 333,500 |
| Emoluments to Executive Directors | 3,403,572 | 2,427,783 |
| **Aggregate gains on exercise of share options** | 1,218 | 106,874 |
| Company contributions to money purchase pension schemes – see Note (iii) to the table below | 332,000 | 368,000 |
| | 4,067,961 | 3,236,157 |

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 2009, or for the period ended 31 December 2009 if appointed during the year

| Director | Salaries and Fees £ | Cash Bonus £ | Deferred Bonus £ | Death In Service and Other Benefits £ | 2009 Aggregate Emoluments £ | 2008 Aggregate Emoluments £ |
|---|---|---|---|---|---|---|
| Sarah Bates | 55,000 | – | – | – | 55,000 | 55,000 |
| David Bellamy | 425,000 | 233,750 | 233,750 | 62,223 | 954,723 | 589,868 |
| Steve Colsell | 21,685 | – | – | – | 21,685 | – |
| Andrew Croft | 320,000 | 176,000 | 176,000 | 43,931 | 715,931 | 445,281 |
| Jo Dawson | 25,000 | – | – | – | 25,000 | 25,000 |
| Ian Gascoigne | 320,000 | 176,000 | 176,000 | 45,434 | 717,434 | 447,230 |
| Andy Hornby | 986 | – | – | – | 986 | 25,000 |
| David Lamb | 280,000 | 154,000 | 154,000 | 45,849 | 633,849 | 373,910 |
| Derek Netherton | 55,000 | – | – | – | 55,000 | 55,000 |
| Mike Power | 58,000 | – | – | – | 58,000 | 58,000 |
| Michael Sorkin | 72,500 | – | – | – | 72,500 | 72,500 |
| Roger Walsom | 43,000 | – | – | – | 43,000 | 43,000 |
| Mike Wilson | 315,000 | – | – | 66,635 | 381,635 | 571,494 |

**Notes**

(i) Death in service and other benefits comprise the entitlement to company car or cash equivalent fuel private health care life and critical illness cover, permanent health insurance and health screening and are generally the amounts which are returned for taxation purposes

(ii) The fees in respect of the services of Jo Dawson and Steve Colsell were paid directly to LBG

(iii) Company contributions to money purchase pension schemes for David Bellamy Andrew Croft Ian Gascoigne and David Lamb were £85 000, £64,000, £64,000 and £56,000 respectively, being 20% of the base salary Mike Wilson s contributions amounting to £63,000 were paid as additional salary due to the pensions cap No other Directors had any such contributions made on their behalf

(iv) For the 2009 annual bonus Executive Directors could earn up to 80% of salary by reference to Group performance largely based on growth in pre tax operating profit and other business plan objectives set at the start of the year 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 2009

The Committee met in January 2010 to review the performance of the Group and the executives against the objectives set at the start of the year

In light of the performance of the Group in 2009, particularly an outstanding final financial quarter in respect of operating profit and other business plan objectives, a bonus was paid to the Executive Directors equivalent to 75% of salary (out of a possible 80%) in relation to the Group performance element of the annual bonus The Committee awarded a further payment of 35% of salary to each of the Executive Directors for the personal performance element of the bonus

The level of management's performance was recognised by the Committee as being outstanding in highly challenging market conditions Metrics against which management performance was assessed included the achievement of objectives set at the start of the year, communication skills, teamwork, performance in relation to new tasks set during the year, risk management and other relevant factors Further details of the annual bonus scheme can be found on pages 51 and 52

As explained on page 51, half of the annual bonus is paid in cash, with the other half being used to purchase SJP shares which are held in trust for three years under the Deferred Bonus Scheme Mike Wilson does not participate in the annual bonus scheme

# Remuneration Report
*continued*

## SHARE AWARDS

The tables below set out details of share awards that have been granted to individuals who were Directors during 2009 and which had yet to vest at some point during the year

### PERFORMANCE SHARE PLAN – AWARDS HELD DURING 2009*

| Director | Balance at 1 January 2009 | Granted in Year (ii) | Lapsed in Year | Exercised in Year (iii) | Balance at 31 December 2009 | Dates from which Exercisable |
|---|---|---|---|---|---|---|
| David Bellamy | 131,661 | – | 23,392 | 108,269 | – | 2 Mar 2009 to 2 Sept 2009 |
| | 114,566 (i) | – | – | – | 114,566 | 2 Mar 2010 to 2 Sept 2010 |
| | 40,276 (i) | – | – | – | 40,276 | 7 Aug 2010 to 7 Feb 2011 |
| | 229,936 (i) | – | – | – | 229,936 | 3 Mar 2011 to 3 Sept 2011 |
| | – | 331,168 | – | – | 331,168 | 2 Mar 2012 to 2 Sept 2012 |
| Andrew Croft | 121,316 | – | 21,554 | 99,762 | – | 2 Mar 2009 to 2 Sept 2009 |
| | 114,566 (i) | – | – | – | 114,566 | 2 Mar 2010 to 2 Sept 2010 |
| | 173,128 (i) | – | – | – | 173,128 | 3 Mar 2011 to 3 Sept 2011 |
| | – | 249,350 | – | – | 249,350 | 2 Mar 2012 to 2 Sept 2012 |
| Ian Gascoigne | 131,661 | – | 23,392 | 108,269 | – | 2 Mar 2009 to 2 Sept 2009 |
| | 114,566 (i) | – | – | – | 114,566 | 2 Mar 2010 to 2 Sept 2010 |
| | 173,128 (i) | – | – | – | 173,128 | 3 Mar 2011 to 3 Sept 2011 |
| | – | 249,350 | – | – | 249,350 | 2 Mar 2012 to 2 Sept 2012 |
| David Lamb | 42,319 | – | 7,519 | 34,800 | – | 2 Mar 2009 to 2 Sept 2009 |
| | 43,644 (i) | – | – | – | 43,644 | 2 Mar 2010 to 2 Sept 2010 |
| | 135,256 (i) | – | – | – | 135,256 | 3 Mar 2011 to 3 Sept 2011 |
| | – | 218,181 | – | – | 218,181 | 2 Mar 2012 to 2 Sept 2012 |
| Mike Wilson | 235,109 | – | 41,771 | 193,338 | – | 2 Mar 2009 to 2 Sept 2009 |
| | 190,943 (i) | – | – | – | 190,943 | 2 Mar 2010 to 2 Sept 2010 |
| | 284,039 (i) | – | – | – | 284,039 | 3 Mar 2011 to 3 Sept 2011 |
| | – | 245,454 | – | – | 245,454 | 2 Mar 2012 to 2 Sept 2012 |

Notes

(i) These awards were made on 2 March 2007 and 3 March 2008 when the St James's Place share price was £4.42 and £2.585 respectively. David Bellamy received a further award on 7 August 2007 following his appointment as Chief Executive when the St James's Place share price was £4.26 per share. The performance periods are the three year periods ending on 31 December 2009 and 31 December 2010 respectively. The performance conditions relate to EPS for two thirds of the award and TSR for one third of the award compared to a comparator group of other financial services companies. For the 2007 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. For the 2008 awards, the EPS scale starts at RPI +7% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest, with pro rata vesting between the said points. For both awards the TSR sliding scale is between median and upper quartile with 25% of the TSR part of the award vesting at median

(ii) These awards were made on 2 March 2009 when the St James's Place share price was £1.73. The performance period is the three year period ending on 31 December 2011. The performance conditions relate to EPS for two thirds of the award and TSR for one third of the award. The EPS scale starts at RPI +7% for 25% of the award to vest and ends at RPI +16% for 100% of the award to vest with pro rata vesting between the said points. The TSR sliding scale is between median and upper quartile with 25% of the TSR part of the award vesting at median

(iii) These awards were made on 2 March 2006 when the St James's Place share price was £3.1675 and became exercisable from 2 March 2009 when the St James's Place share price was £1.73. In relation to the two thirds EPS element of the award 100% vested with 46.7% vesting in relation to the one third TSR element of the award resulting in 82% of the total number of shares under the award vesting to the executive

DEFERRED BONUS SCHEME – SHARES HELD DURING 2009*

The table below sets out details of the awards held by the Directors under the deferred element of the annual bonus scheme during 2009

| Director | Balance at 1 January 2009 | Released During Year(i) | Granted During Year(ii) | Balance at 31 December 2009(iii) | Vesting Date |
|---|---|---|---|---|---|
| David Bellamy | 42,968 | 42,968 | – | – | 8 Mar 2009 |
| | 35,814 | – | – | 35,814 | 9 Mar 2010 |
| | 86,564 | – | – | 86,564 | 5 Mar 2011 |
| | – | – | 34,931 | 34,931 | 4 Mar 2012 |
| Andrew Croft | 39,531 | 39,531 | – | – | 8 Mar 2009 |
| | 33,000 | – | – | 33,000 | 9 Mar 2010 |
| | 64,923 | – | – | 64,923 | 5 Mar 2011 |
| | – | – | 26,301 | 26,301 | 4 Mar 2012 |
| Ian Gascoigne | 42,968 | 42,968 | – | – | 8 Mar 2009 |
| | 35,814 | – | – | 35,814 | 9 Mar 2010 |
| | 64,923 | – | – | 64,923 | 5 Mar 2011 |
| | – | – | 26,301 | 26,301 | 4 Mar 2012 |
| David Lamb | 30,937 | 30,937 | – | – | 8 Mar 2009 |
| | 23,023 | – | – | 23,023 | 9 Mar 2010 |
| | 41,478 | – | – | 41,478 | 5 Mar 2011 |
| | – | – | 23,972 | 23,972 | 4 Mar 2012 |

Notes

(i) These deferred share awards were granted on 8 March 2006 equal in value to the executive s 2005 annual cash bonus The St James s Place share price on the date of the grant was £3 20 and on the date of release (31 March 2009) was £1 67

(ii) These deferred share awards were granted on 4 March 2009 equal in value to the executive s 2008 annual cash bonus These shares will be held in trust for a restricted period ending on 4 March 2012 The St James s Place share price on 4 March 2009 was £1 85

(iii) Outstanding awards at the year end relate to share awards granted in 2007 2008 and 2009 (see (ii) above) The share price at the date of the 2007 award (9 March 2007) was £4 4175 and at the date of the 2008 award (5 March 2008) was £2 635

(iv) Further details of the deferred element of the annual bonus scheme are set out on page 51

EXECUTIVE SHARE OPTION SCHEMES – OPTIONS HELD DURING 2009*

Details of the options held by the Directors in 2009 under the Company's executive scheme and any movements during the year are as follows

| Director | Options Held at 1 January 2009 | Granted in Year | Exercised in Year | Options Held at 31 December 2009 | Exercise Price(i) | Dates from which Exercisable |
|---|---|---|---|---|---|---|
| Andrew Croft | 30,000 | – | – | 30,000 | £1 45 | 15 Mar 2007 to 15 Mar 2012 |

Note

(i) 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 2009 the mid market price for St James s Place shares was £2 46 The range of prices between 1 January 2009 and 31 December 2009 was between £1 5525 and £2 9020

# Remuneration Report
*continued*

## SAYE SHARE OPTION SCHEME – OPTIONS HELD DURING 2009*

Details of the options held by the Directors in 2009 under the SAYE scheme and any movements during the year are as follows

| Director | Options Held at 1 January 2009 | Granted in Year | Lapsed in Year(i) | Exercised in Year(ii) | Options Held at 31 December 2009 | Exercise Price | Dates from which Exercisable |
|---|---|---|---|---|---|---|---|
| David Bellamy | 4,507 | – | 4,507 | – | – | £2 13 | 1 May 2011 to 31 Oct 2011 |
| | – | 6,100 | – | – | 6,100 | £1 50 | 1 May 2012 to 31 Oct 2012 |
| Andrew Croft | 3,831 | – | – | 3,831 | – | £2 44 | 1 May 2009 to 31 Oct 2009 |
| | – | 6,100 | – | – | 6,100 | £1 50 | 1 May 2012 to 31 Oct 2012 |
| Ian Gascoigne | – | 6,100 | – | – | 6,100 | £1 50 | 1 May 2012 to 31 Oct 2012 |
| David Lamb | 4,507 | – | 4,507 | – | – | £2 13 | 1 May 2011 to 31 Oct 2011 |
| | – | 6,100 | – | – | – | £1 50 | 1 May 2012 to 31 Oct 2012 |
| Mike Wilson | 4,507 | – | 4,507 | – | – | £2 13 | 1 May 2011 to 31 Oct 2011 |
| | – | 6,100 | – | – | 6,100 | £1 50 | 1 May 2012 to 31 Oct 2012 |

Notes

(i) David Bellamy David Lamb and Mike Wilson cancelled their existing Sharesave contracts on 27 March 2009 resulting in the lapse of options detailed above

(ii) Andrew Croft exercised share options held under the SAYE share option scheme on 13 October 2009 when the mid market close price of St James's Place shares was £2 758 The aggregate gain on the exercise of these options was £1 218

## SHARE INTERESTS

### ST JAMES'S PLACE PLC*

The interests of the Directors in the share capital of the Company as at 1 January 2009 (or as at the date of appointment, if applicable) and as at 31 December 2009 (or as at the date of resignation, if applicable) are given below

| Director | 31 December 2009 Ordinary Shares of 15 pence each | | 1 January 2009 Ordinary Shares of 15 pence each | |
|---|---|---|---|---|
| | Beneficial | Non-beneficial | Beneficial | Non-beneficial |
| Sarah Bates | 13,500 | – | 13,500 | – |
| David Bellamy | 316,184 | 750,575 | 747,642 | 238,100 |
| Steve Colsell(iii) | – | – | – | – |
| Andrew Croft | 354,249 | – | 285,458 | – |
| Jo Dawson | – | – | – | – |
| Ian Gascoigne | 497,414 | 30,000 | 425,027 | 30,000 |
| Charles Gregson(iv) | – | – | – | – |
| Andy Hornby(v) | – | – | – | – |
| David Lamb | 339,777 | 3,681 | 308,040 | 3,681 |
| Derek Netherton | 20,000 | – | 10,000 | – |
| Mike Power | – | – | – | – |
| Michael Sorkin | – | – | – | – |
| Roger Walsom | 3,194 | – | 3,194 | – |
| Mike Wilson | 3,888,361 | 750,000 | 3,774,491 | 750,000 |

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 57

(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

(iii) Steve Colsell was appointed to the Board on 30 January 2009

(iv) Charles Gregson was appointed to the Board on 1 January 2010

(v) Andy Hornby ceased to be a Director of the Company on 16 January 2009

Between 31 December 2009 and 23 February 2010 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
- 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' 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 2009, 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 ten years prior to 31 December 2009

| Share Scheme | Number of New Ordinary Shares of 15 pence each | % of Total Issued Share Capital as at 31 December 2009 |
|---|---|---|
| SAYE schemes | 5,826,447 | 1 21 |
| Executive share schemes | 14,627,829 | 3 03 |
| Partners share schemes | 37,155,982 | 7 71 |
| **Total** | 57,610,258 | 11 95 |

In addition, as at 31 December 2009, the Group's Employee Share Trust held 702,061 shares in the Company which were purchased in the market to satisfy awards made under the PSP and executive share option schemes

A further 2,117,836 shares, registered to employees under the terms of the Group's deferred bonus scheme, have been allocated by the Group's Employee Share Trust These shares are allocated to the relevant individuals on a restricted basis whereby the recipients are not entitled to the shares until completion of the three-year restricted period Further details of the deferred bonus scheme are set out on pages 51 and 52

LLOYDS BANKING GROUP PLC*

The Directors had no interests in the share capital of LBG as at 31 December 2009 except for the beneficial interests set out below On 16 January 2009 Lloyds TSB and HBOS merged resulting in new shares being issued in the new entity Lloyds Banking Group plc

| Director | 31 December 2009 Ordinary Shares of 10 pence each in LBG | 16 January 2009 Ordinary Shares of 10 pence each in LBG | 1 January 2009 Ordinary Shares of 25 pence each in HBOS plc |
|---|---|---|---|
| Steve Colsell | 52,411 | 17,134 | 720 |
| Jo Dawson | 608,360 | 157,206 | 259,846 |
| Ian Gascoigne | 8,086 | 2,117 | 3,500 |
| David Lamb | 307 | 124 | 206 |
| Roger Walsom | 567 | 567 | – |
| Mike Wilson | 907 | 907 | 1,500 |

Between 31 December 2009 and 23 February 2010 there have been no transactions in shares of the LBG by the 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 2009 as being interested in 1,075,328 ordinary shares of 15 pence in the Company, such shares being 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

**Michael Sorkin**
Chairman, Remuneration Committee

23 February 2010

# Consolidated Accounts

on International Financial Reporting Standards basis

# 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 2009 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

### OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements, and
- the information given in the Corporate Governance Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the parent company

Under the Listing Rules we are required to review

- the directors' statement on going concern included in the corporate governance statement, and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

### OTHER MATTERS

We have reported separately on the parent company financial statements of St James's Place plc for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited

**Craig Gentle (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
23 February 2010

Notes

(a) The financial statements are published on the website of St James's Place plc, www sjp co uk The maintenance and integrity of the St James's Place plc website is the responsibility of the directors the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

# Consolidated Statement of Comprehensive Income

| | Note | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|---|
| Insurance premium income | | 85 5 | 93 8 |
| Less premiums ceded to reinsurers | | (30 5) | (33 9) |
| **Net insurance premium income** | | 55 0 | 59 9 |
| Fee and commission income | | 101 2 | 102 1 |
| Other investment return | 4 | 2,706 1 | (2,390 8) |
| Other operating income | | 0 9 | 6 6 |
| **Net income** | 3 | 2,863 2 | (2,222 2) |
| Policy claims and benefits | | | |
| – Gross amount | | (55 4) | (53 2) |
| – Reinsurers' share | | 22 1 | 21 0 |
| **Net policyholder claims and benefits incurred** | | (33 3) | (32 2) |
| Change in insurance contract liabilities | | | |
| – Gross amount | | (49 7) | 67 0 |
| – Reinsurers' share | | 4 6 | (0 7) |
| **Net change in insurance contract liabilities** | | (45 1) | 66 3 |
| **Investment contract benefits** | 22 | (2,364 9) | 2,536 2 |
| Fees, commission and other acquisition costs | | (273 3) | (258 4) |
| Administration expenses | | (114 5) | (117 7) |
| Other operating expenses | | (3 6) | (3 4) |
| | 5 | (391 4) | (379 5) |
| **Operating profit/(loss) and profit/(loss) before tax** | 3 | 28 5 | (31 4) |
| Tax on policyholders' return | 7 | 21 4 | 112 1 |
| Tax on shareholders' return | 7 | (10 1) | (13 6) |
| Total tax credit | 7 | 11 3 | 98 5 |
| **Profit for period** | | 39 8 | 67 1 |
| Other comprehensive income, net of tax | | – | – |
| **Total comprehensive income for the period** | | 39 8 | 67 1 |
| | | Pence | Pence |
| Basic earnings per share | 8 | 8 3 | 14 2 |
| Diluted earnings per share | 8 | 8 2 | 14 1 |

The notes and information on pages 66 to 96 form part of these accounts

All activities are continuing United Kingdom operations

# Consolidated Statement of Changes in Equity

| | Share Capital | Share Premium | Treasury Shares Reserve | Retained Earnings | Miscellaneous Reserves | Total |
|---|---|---|---|---|---|---|
| | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million |
| At 1 January 2008 | 71 5 | 82 2 | (18 2) | 304 7 | 2 3 | 442 5 |
| Total comprehensive income for the period | | | | 67 1 | | 67 1 |
| – Dividends | | | | (20 8) | | (20 8) |
| – Issue of share capital | | | | | | |
| – Scrip dividend | 0 1 | 2 0 | | | | 2 1 |
| – Exercise of options | 0 3 | 2 1 | | | | 2 4 |
| Consideration paid for own shares | | | (0 3) | | | (0 3) |
| Own shares vesting charge | | | 5 5 | (5 5) | | – |
| P&L reserve credit in respect of proceeds from exercise of share options of shares held in trust | | | | 0 1 | | 0 1 |
| P&L reserve credit in respect of share option charges | | | | 14 9 | | 14 9 |
| At 31 December 2008 | 71 9 | 86 3 | (13 0) | 360 5 | 2 3 | 508 0 |
| Total comprehensive income for the period | | | | 39 8 | | 39 8 |
| – Dividends | | | | (21 0) | | (21 0) |
| – Issue of share capital | | | | | | |
| – Scrip dividend | 0 1 | 1 4 | | | | 1 5 |
| – Exercise of options | 0 3 | 2 8 | | | | 3 1 |
| Consideration paid for own shares | | | (0 3) | | | (0 3) |
| Own shares vesting charge | | | 5 6 | (5 6) | | – |
| P&L reserve credit in respect of proceeds from exercise of share options of shares held in trust | | | | 0 1 | | 0 1 |
| P&L reserve credit in respect of share option charges | | | | 8 6 | | 8 6 |
| **At 31 December 2009** | **72 3** | **90 5** | **(7 7)** | **382 4** | **2 3** | **539 8** |

Miscellaneous reserves represent other non-distributable reserves

The notes and information on pages 66 to 96 form part of these accounts

# Consolidated Statement of Financial Position

| | Note | 31 December 2009 £ Million | 31 December 2008 £ Million |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | | | |
| – Deferred acquisition costs | 10 | 642.4 | 564.9 |
| – Acquired value of in force business | 10 | 54.1 | 57.7 |
| | | 696.5 | 622.6 |
| Property and equipment | 11 | 10.4 | 12.2 |
| Deferred tax assets | 12 | 187.0 | 143.7 |
| Investment property | 13 | 401.7 | 410.6 |
| Investments | | | |
| – Equities | | 12,361.4 | 9,190.5 |
| – Fixed income securities | | 2,249.5 | 1,009.9 |
| – Investment in Collective Investment Schemes | | 1,753.7 | 1,239.4 |
| – Currency forwards | | 19.6 | 0.5 |
| Reinsurance assets | 20 | 36.8 | 32.2 |
| Insurance and investment contract receivables | | 17.4 | 14.9 |
| Income tax assets | | 18.6 | 32.4 |
| Other receivables | 16 | 235.0 | 229.9 |
| Cash and cash equivalents | 17 | 1,711.1 | 2,253.5 |
| **Total assets** | | 19,698.7 | 15,192.3 |
| **Liabilities** | | | |
| Insurance contract liabilities | 19 | 388.1 | 338.4 |
| Other provisions | 21 | 4.8 | 12.9 |
| Financial liabilities | | | |
| – Investment contracts | 22 | 16,994.4 | 13,109.8 |
| – Borrowings | 23 | 2.6 | 7.8 |
| – Currency forwards | | – | 126.6 |
| Deferred tax liabilities | 24 | 187.8 | 168.8 |
| Insurance and investment contract payables | | 21.5 | 22.9 |
| Deferred income | 25 | 401.1 | 372.6 |
| Income tax liabilities | | 14.5 | 27.6 |
| Other payables | 26 | 142.4 | 161.1 |
| Net asset value attributable to unit holders | 15 | 1,001.7 | 335.8 |
| **Total liabilities** | | 19,158.9 | 14,684.3 |
| **Net assets** | | 539.8 | 508.0 |
| **Shareholders' equity** | | | |
| Share capital | 29 | 72.3 | 71.9 |
| Share premium | | 90.5 | 86.3 |
| Other reserves | | (5.4) | (10.7) |
| Retained earnings | | 382.4 | 360.5 |
| **Total shareholders' equity** | | 539.8 | 508.0 |
| | | Pence | Pence |
| **Net assets per share** | | 112.0 | 105.9 |

The financial statements on pages 62 to 96 were approved by the Board of Directors on 23 February 2010 and signed on its behalf by

D Bellamy
Chief Executive

A Croft
Finance Director

The notes and information on pages 66 to 96 form part of these accounts

# Consolidated Statement of Cash Flows

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(loss) before tax for the period | 28 5 | (31 4) |
| Adjustments for | | |
| Depreciation | 3 4 | 3 8 |
| Amortisation of acquired value of in-force business | 3 6 | 3 3 |
| Fair value gains on non-operating investments | (0 1) | (0 1) |
| Share-based payment charge | 8 6 | 14 9 |
| **Changes in operating assets and liabilities** | | |
| Increase in deferred acquisition costs | (77 5) | (80 3) |
| Decrease in investment property | 8 9 | 231 9 |
| (Increase)/decrease in investments | (4,943 9) | 1,159 6 |
| (Increase)/decrease in reassurance assets | (4 6) | 0 7 |
| (Increase)/decrease in insurance and investment contract receivables | (2 5) | 3 1 |
| Increase in other receivables | (16 5) | (88 5) |
| Increase/(decrease) in insurance contract liabilities | 49 7 | (67 0) |
| (Decrease)/increase in provisions | (8 1) | 7 6 |
| Increase/(decrease) in financial liabilities (excluding borrowings) | 3,849 6 | (1,012 9) |
| (Decrease)/increase in insurance and investment contract payables | (1 4) | 1 1 |
| Increase in deferred income | 28 5 | 24 8 |
| (Decrease)/increase in other payables | (31 6) | 37 5 |
| Increase in net assets attributable to unit holders | 665 9 | 68 2 |
| **Cash generated from operations** | (439 5) | 276 3 |
| Income taxes received/(paid) | 12 2 | (31 9) |
| **Net cash from operating activities** | (427 3) | 244 4 |
| **Cash flows from investing activities** | | |
| Acquisition of property and equipment | (2 7) | (5 9) |
| Proceeds from sale of plant and equipment | 1 1 | 0 3 |
| **Net cash from investing activities** | (1 6) | (5 6) |
| **Cash flows from financing activities** | | |
| Proceeds from the issue of share capital | 4 6 | 4 5 |
| Consideration paid for own shares | (0 3) | (0 3) |
| Proceeds from exercise of options over shares held in trust | – | 0 1 |
| Repayment of borrowings | (5 2) | (3 4) |
| Dividends paid | (21 0) | (20 8) |
| **Net cash from financing activities** | (21 9) | (19 9) |
| **Net (decrease)/increase in cash and cash equivalents** | (450 8) | 218 9 |
| Cash and cash equivalents at 1 January | 2,253 5 | 1,929 2 |
| Effect of exchange rate fluctuations on cash held | (91 6) | 105 4 |
| **Cash and cash equivalents at 31 December** | 1,711 1 | 2,253 5 |

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

The notes and information on pages 66 to 96 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 adopted the following new and amended IFRSs as of 1 January 2009

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with the definition of vesting conditions and accounting treatment of cancellation by the 'counterparty' to the share based payment Specifically, where employees cease to save in a SAYE scheme, unless a new scheme has been entered into as a direct replacement, the cessation will be accounted for as an acceleration of vesting and will therefore result in an accelerated charge in the Group's financial statements The impact of the amendment is not material to the Group or Company's financial statements

IFRS 7 (amendment) 'Financial instruments – Disclosures' (effective 1 January 2009) The amendment requires enhanced disclosures about fair value measurement by level of a fair value measurement hierarchy The change in accounting policy results in additional disclosures, which can be seen in Note 27 to the Group financial statements

IFRS 8 (new) 'Operating segments' (effective 1 January 2009) The new standard results in changes to the way operating segments are disclosed Segments are now disclosed in line with the information regularly reviewed by the 'Chief Operating Decision Maker' The resultant disclosure can be seen in Note 3 to the Group Accounts

IAS 1 (amendment) 'Presentation of financial statements' (effective 1 January 2009) The revised standard requires 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income, together with a number of terminology changes The resulting 'Consolidated Statement of Comprehensive Income' replaces the previous 'Consolidated Income Statement' The amendment impacts on presentation only, and there is no impact on the reported results or financial position of the Group

The following new standard has been published and is mandatory for the Group's accounting periods beginning on or after 1 January 2010 but the Group has not early adopted the standard

IFRIC 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009) This interpretation provides guidance on accounting for arrangements whereby an entity distributes non cash assets to shareholders either as a distribution of reserves or as dividends The Group and Company will apply IFRIC 17 from 1 January 2010 It is not expected to have a material impact on the Group or Company's financial statements

The Group financial statements also comply with the revised Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006), in so far as these requirements do not contradict IFRS requirements

BASIS OF PREPARATION

As discussed in the Directors' Report, the going concern basis has been adopted in preparing these accounts

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, and liabilities classified as investment contracts, insurance contracts and third party holdings in unit trusts, which are held at fair value

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income 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 judgements 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

Judgements 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

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 subsidiaries 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

*(i) Insurance Contracts*

Insurance contracts are contracts that transfer significant insurance risk The Group's product range includes a variety of term assurance and whole of life protection contracts involving significant insurance risk transfer

*(ii) Investment Contracts*

Contracts that do not transfer significant insurance risk are treated as investment contracts The majority of the business written by the Group is unit linked investment business and is classified as investment contracts

### (c) Long-term Business

*(i) Insurance Premium Revenue*

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, including dealing margins from unit trusts, which exceed the level of recurring fees and relate to the future provision of services, are deferred These are amortised over the anticipated period in which services will be provided

*(iii) Policy Claims and Benefits*

For insurance contracts, death claims are accounted for on notification of death 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 principally represents the investment return credited to policyholders

*(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, net of any impairment losses, are deferred and then 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 attributable 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, net of any impairment losses, are amortised on a straight-line basis over the expected lifetime of the Group's investment contracts All other costs are recognised as expenses when incurred

*(v) Insurance Contract Liabilities*

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

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 1 ACCOUNTING POLICIES *CONTINUED*

*(vi) Investment Contract Liabilities*

All the Group's investment contracts are unit linked 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 future tax to be paid or recovered in respect of capital gains and losses in the unit linked funds, discounted to reflect the time period over which such gains and losses are expected to be realised for tax purposes, is also reflected in the measurement of unit linked liabilities Investment contract liabilities are recognised when units are first allocated to the policyholder, they are derecognised when units allocated to the policyholder have been cancelled

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 and Investment Contract Receivables and Payables*

Insurance and investment contract receivables and payables are initially recognised at fair value and subsequently at amortised cost less impairment losses

### (d) Reinsurance

Reinsurance premiums are accounted for when due for payment and reinsurance recoveries are accounted for in the same period as the related claim

Reinsurance assets represent amounts recoverable from reinsurers in respect of outstanding claims and in respect of insurance contract liabilities, net of any future reinsurance premiums payable and after allowance for any impairment losses

### (e) Fee and Commission Income

Fee and 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) Expenses

*(i) Commission*

Commission expense is recognised in respect of manufactured insurance and investment business, together with third party products Commission comprises initial commission (paid at policy outset within the 'initial period'), renewal commission (payable on regular contributions) and trail commission (based on funds under management and payable on the policy anniversary) Initial and renewal commission are recognised in line with the associated premium income, but initial commission on insurance and investment contracts may be deferred as set out in accounting policy (c) (iv) Trail commission is recognised on an accruals basis

Commission in respect of some insurance and investment business may be paid in advance on renewal premiums and accelerated by up to five years The unearned element of this accelerated commission is recognised as an asset within other receivables Should the contributions reduce or stop within the initial period, any unearned commission is clawed back

*(ii) 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

### (h) 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

*(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 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 charge is a separate adjustment within the income statement based on the movement in current and deferred income taxes in respect of income, gains and expenses The allocation between shareholders and policyholders is based on the returns recognised within these categories

### (i) Dividends
Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are paid, and, for the final dividend, when approved by the Company's shareholders at the Annual General Meeting ('AGM')

### (j) 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 present value of 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, net of any impairment losses, and it is amortised as profits emerge 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

### (k) Property and Equipment
Items of property and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy Note (p) The deemed cost of owner occupied property is the fair value determined by an 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 |

### (l) 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)

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 1. ACCOUNTING POLICIES *CONTINUED*

### (m) 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

### (n) 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

### (o) Other Receivables

Other receivables are stated at amortised cost less impairment losses

### (p) Impairment Policy

Formal reviews to assess the recoverability of deferred acquisition costs on insurance and investment contracts, the acquired value of in-force business and loans 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 at each balance sheet date 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 the present value of its estimated future cash flows

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

### (q) Cash and 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 they are an integral part of the Group's cash management

### (r) 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 Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate 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

### (s) Borrowings

Borrowings are measured initially at fair value, net of directly attributable 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

### (t) Other Payables

Other payables are stated at amortised cost

### (u) 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, since the underlying investment portfolios are managed on a fair value basis, and they are presented in the balance sheet as net asset value attributable to unit holders Income attributable to the third party interests is accounted for within investment income, offset by a corresponding change in investment contract benefits

### (v) 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

*(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

### (w) 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

### (x) Foreign Currency Translation
The Group's presentational and functional currency is Pounds Sterling

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

### (y) Segment Reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Company

### (z) 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 of contracts between insurance and investment business Contracts with a significant degree of insurance risk are treated as insurance All other contracts are treated as investment contracts The Group has also elected to treat all assets backing linked and non-unit linked contracts as fair value through profit or loss although some of the assets in question may ultimately be held to maturity

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

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

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

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *CONTINUED*

### Measurement of Insurance Contract Liabilities

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

- the lapse assumption, which is set prudently based on an investigation of experience during the year,
- the level of expenses, which is based on actual expenses in 2009 and expected long term rates,
- the mortality and morbidity rates, which are based on the results of an investigation of experience during the year, and
- the assumed rate of investment return, which is based on current gilt rates

Greater detail on the assumptions applied is shown in Note 19

### Acquisition Expenses

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

### Amortisation and Recoverability of Deferred Acquisition Costs ('DAC') and Deferred Income ('DIR')

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

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

Deferred acquisition costs relating to insurance and investment contracts are tested annually for recoverability by reference to expected future income levels

### Acquired In-force Business

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

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

### Valuing Capital Losses in Unit Funds

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

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

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

## 3 SEGMENT REPORTING

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009 IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance Due to the nature of the Group's internal reporting, there is considered to be no difference between the previous segments reported under business and geographical segments and those now required to be reported under the new standard The Group's reportable segments under IFRS 8 are therefore as follows

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

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

3 Other – offering financial products such as annuities, mortgages and stakeholder pensions, from third party providers

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

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

SEGMENT INCOME

**Annual Premium Equivalents ('APE')**

APE, being regular premiums plus one tenth of single premiums, is the income measure that is monitored on a monthly basis by the chief operating decision maker

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| Life business | 310 9 | 288 6 |
| Unit trust business | 89 2 | 68 5 |
| Other business | 40 7 | 61 9 |
| **Total APE** | 440 8 | 419 0 |
| **Adjustments to IFRS basis** | | |
| **Life business** | | |
| Exclude investment business APE | (306 2) | (281 9) |
| Difference between insurance business APE and premium receivable | 80 8 | 87 1 |
| Less insurance premium income ceded to reinsurers | (30 5) | (33 9) |
| Net movement on deferred income | (5 5) | (7 9) |
| Investment income (primarily in unit linked funds) | 2,523 3 | (2,322 2) |
| **Unit trust business** | | |
| Exclude unit trust APE | (89 2) | (68 5) |
| Fee income (dealing profit and management fees) | 89 6 | 81 4 |
| Net movement on deferred income | (23 0) | (16 8) |
| Investment income | 0 4 | 2 5 |
| **Other business** | | |
| Difference between APE and income receivable | (0 6) | (16 5) |
| Investment income on third party holdings in consolidated unit trusts | 180 1 | (77 7) |
| Other investment income | 2 3 | 6 6 |
| Other operating income | 0 9 | 6 6 |
| **Total adjustments** | 2,422 4 | (2,641 2) |
| **Net income** | 2,863 2 | (2,222 2) |

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

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

**3 SEGMENT REPORTING** *CONTINUED*

SEGMENT PROFIT

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

EEV operating profit before tax is monitored on a monthly basis by the chief operating decision maker The components of the EEV operating profit are included in more detail in the Supplementary Information on EEV Basis within the Annual Report and Accounts on pages 105 to 113

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Life business | 175 1 | 174 1 |
| Unit trust business | 74 3 | 50 8 |
| Other business | (20 5) | (20 6) |
| **EEV operating profit before tax** | 228 9 | 204 3 |
| Investment return variance | 148 2 | (320 6) |
| Economic assumption changes | (13 9) | 0 4 |
| EEV profit/(loss) before tax | 363 2 | (115 9) |
| Adjustments to IFRS basis | | |
| Movement in life value of in-force | (234 8) | 19 1 |
| Movement in unit trust value of in-force | (99 9) | 65 4 |
| **IFRS profit/(loss) before tax** | 28 5 | (31 4) |

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **IFRS segment result** | | |
| Life business | | |
| – Shareholder | 53 6 | 83 2 |
| – Policyholder tax gross up | (21 4) | (112 1) |
| Unit trust business | 16 8 | 18 1 |
| Other business | (20 5) | (20 6) |
| **Operating profit/(loss) and profit/(loss) before tax** | 28 5 | (31 4) |

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

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Interest income | 4 0 | 17 5 |
| Depreciation | 3 4 | 3 8 |

SEGMENT ASSETS

**Funds Under Management ('FUM')**

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

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **Total FUM** | 21,400 0 | 16,300 0 |
| Exclude external holdings in non-consolidated unit trusts | (3,207 2) | (2,645 2) |
| Add balance sheet liabilities in unit linked funds | 49 0 | 209 6 |
| Adjustments for other balance sheet assets excluded from FUM | | |
| DAC | 642 4 | 564 9 |
| PVIF | 54 1 | 57 7 |
| Property and equipment | 10 4 | 12 2 |
| Deferred tax assets | 187 0 | 143 7 |
| Fixed income securities | 53 3 | 49 3 |
| Collective Investment Schemes | 163 7 | 173 7 |
| Reinsurance assets | 36 8 | 32 2 |
| Insurance and investment contract receivables | 17 4 | 14 9 |
| Income tax assets | 18 6 | 32 4 |
| Other receivables | 146 6 | 140 6 |
| Cash and cash equivalents | 67 2 | 61 7 |
| Other adjustments | 59 4 | 44 6 |
| **Total adjustments** | (1,701 3) | (1,107 7) |
| **Total assets** | 19,698 7 | 15,192 3 |

## 4 OTHER INVESTMENT RETURN

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Dividend income | 349 1 | 385 8 |
| Interest income | 140 6 | 102 3 |
| Rental income | 30 7 | 34 6 |
| Net realised (losses)/gains | (114 5) | 107 3 |
| Net unrealised gains/(losses) | 2,120 1 | (2,943 1) |
| Income/(loss) attributable to third party holdings in unit trusts | 180 1 | (77 7) |
| **Total other investment return** | 2,706 1 | (2,390 8) |

## 5 EXPENSES

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

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Employee costs (see Note 6) | 46 5 | 41 0 |
| Depreciation | 3 4 | 3 8 |
| Amortisation of acquired value of in-force business | 3 6 | 3 3 |
| Amortisation of DAC | 65 9 | 55 7 |
| Payment under operating leases | 10 7 | 10 6 |
| 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 3 | 0 4 |
| – Other services pursuant to legislation | – | – |

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 6 EMPLOYEE COSTS

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| Wages and salaries | 38 6 | 33 7 |
| Social security costs | 4 6 | 4 1 |
| Pension costs in relation to defined contribution schemes | 3 3 | 3 2 |
| **Total employee benefits** | 46 5 | 41 0 |
| Average number of persons employed by the Group during the year | 669 | 669 |

The above information includes Directors' remuneration Details of the Directors' remuneration, share options, pension entitlements and interests in shares are disclosed in the Remuneration Report on pages 55 to 59

The total cost of employer contributions to defined contribution personal pension plans for the Group's employees during the year was £3 3 million (2008 £3 2 million)

The cost of share awards and options for employees was £4 3 million (2008 £5 1 million)

## 7 INCOME TAXES

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| **Policyholder tax** | | |
| Overseas withholding taxes | 16 1 | 22 5 |
| Deferred tax on eligible unrelieved foreign tax | 8 4 | (8 4) |
| Deferred tax on unrelieved expenses | | |
| – Current year credit | (3 4) | (2 8) |
| – Prior year credit | 5 4 | – |
| Deferred tax on unrealised gains and capital losses in unit linked funds | (42 4) | (120 1) |
| UK corporation tax | | |
| – Current year charge | – | 1 5 |
| – Prior year credit | (5 5) | (4 8) |
| **Total policyholder tax credit for the year** | (21 4) | (112 1) |
| | | |
| **Shareholder tax** | | |
| UK corporation tax | | |
| – Current year charge (28%) | 3 0 | 0 8 |
| – Prior year charge (28 5%) | (1 1) | (2 6) |
| – Overseas taxes | 0 4 | 2 0 |
| | 2 3 | 0 2 |
| Deferred tax on pension business losses | | |
| – Current year credit | 1 1 | (2 5) |
| – Prior year credit | (2 7) | (3 4) |
| Deferred tax charge on other items | | |
| – Current year charge | 10 1 | 19 3 |
| – Prior year credit | (0 7) | – |
| **Total shareholder tax charge for the year** | 10 1 | 13 6 |

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

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **Reconciliation of tax charge** | | |
| Profit/(loss) before tax | 28 5 | (31 4) |
| Tax at 28% (2008 28 5%) | 8 0 | (8 9) |
| Effects of | | |
| Deferred tax on unrelieved expenses current year | (3 4) | (2 8) |
| Deferred tax on unrelieved expenses prior year | 5 4 | – |
| Overseas withholding tax in unit linked funds | 10 0 | 12 9 |
| Deferred tax in respect of unit linked funds | (30 6) | (86 8) |
| Shareholder deduction for policyholder tax | 1 5 | (0 4) |
| Adjustments to reserves | 1 2 | 0 6 |
| Policyholder tax rate differential | 4 5 | (6 1) |
| Prior year items | (9 9) | (10 9) |
| Change in tax rate | – | (0 3) |
| Other adjustments | 2 0 | 4 2 |
| **Total tax credit for the year** | (11 3) | (98 5) |

The policyholder tax rate differential relates to the effect of the difference between the shareholder tax rate of 28% and the policyholder tax rate of 20%

## 8 EARNINGS PER SHARE

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | Pence | Pence |
| Basic earnings per share ('EPS') | 8 3 | 14 2 |
| Diluted EPS | 8 2 | 14 1 |

The EPS calculations are based on the following figures

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **Earnings** | | |
| Profit after tax (*for both basic and diluted EPS*) | 39 8 | 67 1 |
| Adjustments | – | – |
| Adjusted profit (*for both basic and diluted EPS*) | 39 8 | 67 1 |
| **Weighted average number of shares** | | |
| Weighted average number of ordinary shares in issue (*for basic EPS*) | 477 3 | 473 6 |
| Adjustments for outstanding share options | 6 7 | 2 5 |
| Weighted average number of ordinary shares (*for diluted EPS*) | 484 0 | 476 1 |

# 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 2009 | Year Ended 31 December 2008 | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|---|---|
| | Pence per Share | Pence per Share | £ Million | £ Million |
| Final dividend in respect of previous financial year | 2.55 | 2 55 | 12 2 | 12 1 |
| Interim dividend in respect of current financial year | 1 84 | 1 84 | 8 8 | 8 7 |
| **Total** | 4 39 | 4 39 | 21 0 | 20 8 |

The Directors have recommended a final dividend of 2 66 pence per share (2008 2 55 pence) This amounts to £12 8 million (2008 £12 2 million) and will, subject to shareholder approval at the AGM, be paid on 18 May 2010 to those shareholders on the register as at 5 March 2010

## 10 INTANGIBLE ASSETS

| | Deferred Acquisition Costs | | | | | |
|---|---|---|---|---|---|---|
| | Life Business – Insurance DAC | Life Business – Investment DAC | Unit trust Business – Investment DAC | Total DAC | Acquired Value of In-force Business | Total |
| | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million |
| **Cost** | | | | | | |
| At 1 January 2008 | 79 2 | 462 1 | 109 6 | 650 9 | 73 4 | 724 3 |
| Additions | 8 0 | 103 4 | 24 6 | 136 0 | – | 136 0 |
| At 31 December 2008 | 87 2 | 565 5 | 134 2 | 786 9 | 73 4 | 860 3 |
| **At 1 January 2009** | **87 2** | **565 5** | **134 2** | **786 9** | **73 4** | **860 3** |
| **Additions** | **6 3** | **106 9** | **30 2** | **143 4** | **–** | **143 4** |
| **At 31 December 2009** | **93 5** | **672 4** | **164 4** | **930 3** | **73 4** | **1,003 7** |
| **Amortisation** | | | | | | |
| At 1 January 2008 | 52 5 | 94 1 | 19 7 | 166 3 | 12 4 | 178 7 |
| Charge for the year | 9 3 | 37 5 | 8 9 | 55 7 | 3 3 | 59 0 |
| At 31 December 2008 | 61 8 | 131 6 | 28 6 | 222 0 | 15 7 | 237 7 |
| **At 1 January 2009** | **61 8** | **131 6** | **28 6** | **222 0** | **15 7** | **237 7** |
| **Charge for the year** | **9 6** | **45 8** | **10 5** | **65 9** | **3 6** | **69 5** |
| **At 31 December 2009** | **71 4** | **177 4** | **39 1** | **287 9** | **19 3** | **307 2** |
| **Carrying value** | | | | | | |
| At 1 January 2008 | 26 7 | 368 0 | 89 9 | 484 6 | 61 0 | 545 6 |
| At 31 December 2008 | 25 4 | 433 9 | 105 6 | 564 9 | 57 7 | 622 6 |
| **At 31 December 2009** | **22 1** | **495 0** | **125 3** | **642 4** | **54 1** | **696 5** |
| Current | | | | | | 58 0 |
| Non current | | | | | | 638 5 |
| | | | | | | 696 5 |
| **Outstanding amortisation period** | | | | | | |
| At 31 December 2008 | 6 years | 14 years | 14 years | | 17 years | |
| **At 31 December 2009** | **6 years** | **14 years** | **14 years** | | **16 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

## 11 PROPERTY AND EQUIPMENT

| | Fixtures, Fittings, Computers and Office Equipment | Motor Vehicles | Land and Buildings | Total |
|---|---|---|---|---|
| | £ Million | £ Million | £ Million | £ Million |
| **Cost** | | | | |
| At 1 January 2008 | 23 8 | 2 0 | 1 2 | 27 0 |
| Additions | 5 2 | 0 7 | – | 5 9 |
| Disposals | – | (1 0) | (0 1) | (1 1) |
| At 31 December 2008 | 29 0 | 1 7 | 1 1 | 31 8 |
| **At 1 January 2009** | **29 0** | **1 7** | **1 1** | **31 8** |
| **Additions** | **0 9** | **0 3** | **1 5** | **2 7** |
| **Disposals** | **–** | **(1 9)** | **–** | **(1 9)** |
| **At 31 December 2009** | **29 9** | **0 1** | **2 6** | **32 6** |
| **Depreciation** | | | | |
| At 1 January 2008 | 15 6 | 1 0 | – | 16 6 |
| Charge for the year | 3 3 | 0 5 | – | 3 8 |
| Disposals | – | (0 8) | – | (0 8) |
| At 31 December 2008 | 18 9 | 0 7 | – | 19 6 |
| **At 1 January 2009** | **18 9** | **0 7** | **–** | **19 6** |
| **Charge for the year** | **3 2** | **0 2** | **–** | **3 4** |
| **Disposals** | **–** | **(0 8)** | **–** | **(0 8)** |
| **At 31 December 2009** | **22 1** | **0 1** | **–** | **22 2** |
| **Net book value** | | | | |
| At 1 January 2008 | 8 2 | 1 0 | 1 2 | 10 4 |
| At 31 December 2008 | 10 1 | 1 0 | 1 1 | 12 2 |
| **At 31 December 2009** | **7 8** | **–** | **2 6** | **10 4** |

## 12 DEFERRED TAX ASSETS

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Life business – unrelieved expenses | **55 7** | 57 7 |
| Life business – net capital losses in unit linked funds | **41 9** | – |
| Life business – EUFT | **–** | 8 4 |
| Life business – pension business | **7 5** | 5 9 |
| Life business – deferred income | **34 5** | 34 4 |
| Unit trust business – deferred income | **39 3** | 32 8 |
| Other | **8 1** | 4 5 |
| **Total deferred tax assets** | **187 0** | **143 7** |

A deferred tax asset on capital losses on eligible investments of £41 9 million (2008 £nil) was recognised at the balance sheet date and has been modelled on a prudent basis with the losses being reversed in a reasonable timeframe

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 13 INVESTMENT PROPERTY

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Balance at 1 January | 410 6 | 642 5 |
| Additions | 85 1 | 82 1 |
| Disposals | (99 2) | (128 2) |
| Changes in fair value | 5 2 | (185 8) |
| **Balance at 31 December** | 401 7 | 410 6 |

Investment property is held within unit linked funds and is deemed current

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 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Rental income | 30 7 | 34 6 |
| Direct operating expenses | 2 3 | 3 0 |

At the year end contractual obligations to purchase, construct or develop investment property amounted to £5 6 million (2008 £21 3 million)

## 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 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **Assets** | | |
| Investment property | 401 7 | 410 6 |
| Investments | | |
| – Equities | 11,855 9 | 8,921 5 |
| – Fixed income securities | 1,820 7 | 939 9 |
| – Investment in Collective Investment Schemes | 1,576 8 | 1,058 1 |
| – Currency forwards | 19 6 | 0 5 |
| Deferred tax asset | 41 9 | – |
| Other receivables | 81 9 | 86 5 |
| Cash and cash equivalents | 1,541 9 | 2,156 0 |
| **Total assets** | 17,340 4 | 13,573 1 |
| **Liabilities** | | |
| Financial liabilities | | |
| – Currency forwards | – | 126 6 |
| Deferred tax liabilities | – | 0 5 |
| Other payables | 49 0 | 82 4 |
| **Total liabilities** | 49 0 | 209 5 |
| **Net assets held to cover linked liabilities** | 17,291 4 | 13,363 6 |

## 15 NET ASSET VALUE 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 2009 £ Million | 31 December 2008 £ Million |
|---|---|---|
| Investments – equities | 505 5 | 269 0 |
| Investments – fixed income securities | 375 5 | 20 8 |
| Investments – Collective Investment Schemes | 13 2 | 7 5 |
| Cash and cash equivalents | 102 0 | 35 8 |
| Other receivables | 6 5 | 2 8 |
| Other payables | (1 0) | (0 1) |
| **Net asset value attributable to unit holders** | **1,001 7** | 335 8 |

## 16 OTHER RECEIVABLES

| | 31 December 2009 £ Million | 31 December 2008 £ Million |
|---|---|---|
| St James's Place Partnership loans | 70 7 | 59 3 |
| Prepayments | 8 6 | 8 5 |
| Unearned commission | 26 2 | 22 0 |
| Miscellaneous | 30 5 | 31 7 |
| Unit linked funds (including outstanding security sales) | 81 9 | 86 5 |
| Dealing debtor | 17 1 | 21 9 |
| **Total other receivables** | **235 0** | 229 9 |
| Current | 160 5 | 153 0 |
| Non-current | 74 5 | 76 9 |
| | 235 0 | 229 9 |

The fair value of loans and receivables included in other receivables is not materially different from amortised cost St James's Place Partnership loans are interest bearing, repayable on demand and secured against the future renewal income streams of that Partner

## 17 CASH AND CASH EQUIVALENTS

| | 31 December 2009 £ Million | 31 December 2008 £ Million |
|---|---|---|
| Cash at bank | 110 0 | 86 8 |
| Bank overdrafts | (42 8) | (25 1) |
| Cash and cash equivalents held outside unit linked and unit trust funds | 67 2 | 61 7 |
| Balances held within unit linked funds | 1,541 9 | 2,156 0 |
| Balances held within unit trust funds | 102 0 | 35 8 |
| **Total cash and cash equivalents** | **1,711 1** | 2,253 5 |

All cash and cash equivalents are deemed current

## 18 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

Insurance risk appetite and risk management strategies, together with the terms and conditions of the insurance contracts offered by the Group are discussed in the Risk and Risk Management section, on page 26

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 19 INSURANCE CONTRACT LIABILITIES

| | 2009 £ Million | 2008 £ Million |
|---|---|---|
| Balance at 1 January | 338 4 | 405 4 |
| Movement in unit linked liabilities | 41 3 | (53 3) |
| Movement in non-unit linked liabilities | | |
| – New business | 0 2 | 0 3 |
| – Existing business | (1 7) | (0 7) |
| – Other assumption changes | 3 4 | (1 3) |
| – Experience variance | 6 5 | (12 0) |
| Total movement in non-unit linked liabilities | 8 4 | (13 7) |
| **Balance at 31 December** | **388 1** | 338 4 |
| Unit linked | 321 8 | 280 5 |
| Non unit linked | 66 3 | 57 9 |
| | 388 1 | 338 4 |
| Current | 66 9 | 48 8 |
| Non-current | 321 2 | 289 6 |
| | 388 1 | 338 4 |

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

### ASSUMPTIONS USED IN THE CALCULATION OF LIABILITIES

The principal assumptions used in the calculation of the liabilities are

| Assumption | Description |
|---|---|
| Interest rate | The valuation interest rate is calculated by reference to the long-term gilt yield at 31 December 2009 and the specific gilts backing the liabilities The specific rates used are between 3 0% and 4 1% depending on the tax regime (2 1% and 3 4% at 31 December 2008) |
| Mortality | Mortality is based on Company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers There has been no change since 2006 |
| Morbidity<br>Critical Illness | Morbidity is based on Company experience The shape is unchanged since last year, but the level has been increased by 9% Sample annual rates per £ for a male non smoker are |

| Age | Rate 2009 | Rate 2008 |
|---|---|---|
| 25 | 0 000760 | 0 000703 |
| 35 | 0 001334 | 0 001235 |
| 45 | 0 003189 | 0 002953 |

| Assumption | Description |
|---|---|
| Morbidity<br>Permanent Health Insurance | Morbidity is based on Company experience The shape is unchanged since last year, but the level has been increased by 9% Sample annual rates per £ income benefit p a for a male non-smoker are |

| Age | Rate 2009 | Rate 2008 |
|---|---|---|
| 25 | 0 00548 | 0 00510 |
| 35 | 0 01447 | 0 01345 |
| 45 | 0 03138 | 0 02918 |

| Assumption | Description |
|---|---|
| Expenses | Contract liabilities are calculated allowing for the actual costs of administration of the business The assumption has been increased to allow for inflation but is otherwise unchanged |

| Product | Annual Cost 2009 | Annual Cost 2008 |
|---|---|---|
| Protection business | £34 22 | £33 01 |

| Assumption | Description |
|---|---|
| Persistency | Allowance is made for a prudent level of lapses within the calculation of the liabilities The rates have not changed in 2009 Sample annual lapse rates are |

| 2008 and 2009 | Lapses Year 1 | Lapses Year 5 | Lapses Year 10 |
|---|---|---|---|
| Protection | 7% | 9% | 8% |

SENSITIVITY ANALYSIS

The table below sets out the sensitivity of the profit on insurance business and net assets to 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

| | Change in Assumption | Change in Profit Before Tax 2009 | Change in Profit Before Tax 2008 | Change in Net Assets 2009 | Change in Net Assets 2008 |
|---|---|---|---|---|---|
| | % | £ Million | £ Million | £ Million | £ Million |
| **Sensitivity analysis** | | | | | |
| Withdrawal rates | –10% | (3 4) | (2 9) | (2 6) | (2 3) |
| Expense assumptions | –10% | 1 5 | 1 5 | 1 2 | 1 2 |
| Mortality/morbidity | –5% | 0 4 | 0 4 | 0 3 | 0 3 |

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

## 20 REINSURANCE ASSETS

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Reinsurers' share of insurance contract liabilities | | |
| – Long-term insurance contract liability | 32.1 | 24 1 |
| – Claims outstanding | 4 7 | 8 1 |
| **Reinsurance assets** | 36 8 | 32 2 |
| Current | 9 8 | 11 0 |
| Non current | 27 0 | 21 2 |
| | 36 8 | 32 2 |

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

| | 2009 | 2008 |
|---|---|---|
| | £ Million | £ Million |
| Reinsurance assets at 1 January | 32 2 | 32 9 |
| Reassurance component of net change in claims provision | (3 4) | 1 7 |
| Reassurance component of change in insurance liabilities | 8 0 | (2 4) |
| **Reinsurance assets at 31 December** | 36 8 | 32 2 |

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 21 OTHER PROVISIONS

| | Endowments | Office Restructuring | Other Provisions | Total |
|---|---|---|---|---|
| | £ Million | £ Million | £ Million | £ Million |
| At 1 January 2009 | 0 2 | 4 7 | 8 0 | 12 9 |
| Charged to the consolidated income statement | (0 1) | (1 1) | (7 6) | (8 8) |
| Additional provisions | – | 0 7 | – | 0 7 |
| **At 31 December 2009** | **0 1** | **4 3** | **0 4** | **4 8** |
| Current | 0 1 | 3 0 | 0 4 | 3 5 |
| Non-current | – | 1 3 | – | 1 3 |
| | 0 1 | 4 3 | 0 4 | 4 8 |

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

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

The remaining £0 4 million (2008 £8 0 million) relates to sundry miscellaneous items

## 22 INVESTMENT CONTRACT BENEFITS

| | 2009 | 2008 |
|---|---|---|
| | £ Million | £ Million |
| Balance at 1 January | 13,109 8 | 14,144 0 |
| Deposits | 2,626 5 | 2,401 8 |
| Withdrawals | (926 7) | (977 5) |
| Investment contract benefits (principally representing investment income) | 2,364 9 | (2,536 2) |
| Less investment contract benefits attributable to third party holdings in unit trusts | (180 1) | 77 7 |
| **Balance at 31 December** | **16,994 4** | **13,109 8** |
| Current | 1,257 6 | 642 4 |
| Non-current | 15,736 8 | 12,467 4 |
| | 16,994 4 | 13,109 8 |

## 23. BORROWINGS

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Bank loan | 2 6 | 7 8 |

The fair value of the outstanding bank loan is not materially different from amortised cost This figure includes £750,000 (2008 £nil) which is secured on property disclosed in Note 11 to the accounts

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, 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 Partner's loan is secured against the future renewal income streams of that Partner

NEW LOANS

The guarantee can be terminated at any time by the Company giving three months' notice At 31 December 2009, the balance of Bank of Scotland loans covered by this guarantee was £66 0 million (31 December 2008 £65 3 million)

EXISTING LOANS

Under the terms of the assignment agreement with the Bank of Scotland, the assigned loans remain legally in the name of the Group and the outstanding balance of £1 8 million is thus shown as both an asset under other receivables and a financial liability under borrowing

## 24 DEFERRED TAX LIABILITIES

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| On deferred acquisition costs | 168 7 | 147 2 |
| On acquired value of in-force business | 15 1 | 16 1 |
| Within unit linked funds | – | 0 5 |
| Other | 4 0 | 5 0 |
| **Total deferred tax liabilities** | 187 8 | 168 8 |

Deferred tax liabilities of £7 0 million as at 31 December 2009 (2008 £8 7 million) have not been recognised in respect of taxes that would be payable on the remittance of earnings from overseas subsidiaries Unremitted earnings totalled £45 2 million at 31 December 2009 (2008 £56 1 million)

## 25 DEFERRED INCOME

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Life business | 260 9 | 255 4 |
| Unit trust business | 140 2 | 117 2 |
| **Total deferred income** | 401 1 | 372 6 |
| Current | 71 0 | 74 0 |
| Non current | 330 1 | 298 6 |
| | 401 1 | 372 6 |

## 26 OTHER PAYABLES

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Accruals | 34 2 | 25 9 |
| Unit trust dealing creditor | 0 4 | 14 8 |
| Miscellaneous | 58 8 | 38 0 |
| Unit linked funds (including outstanding security purchases) | 49 0 | 82 4 |
| **Total other payables** | 142 4 | 161 1 |

All other payable balances are considered current

The fair value of financial liabilities in 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 seeks to manage risk through the operation of unit linked business whereby the policyholder bears the financial risk In addition, shareholder assets are invested in highly rated investments

Under IFRS 7, the Group is required to analyse their exposure to the following risks

- Credit risk
- Liquidity risk
- Market risk
- Currency risk

These risks and the Group's strategies for managing them are described in the Risk and Risk Management section, beginning on page 22

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The categories and carrying values of the financial assets and financial liabilities held in the Group's balance sheet are summarised in the table below

| | 31 December 2009 | | | | 31 December 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial Assets at Fair Value Through Profit and Loss (i) | Loans and Receivables | Financial Liabilities at Fair Value Through Profit and Loss (i) | Financial Liabilities Measured at Amortised Cost | Financial Assets at Fair Value Through Profit and Loss (i) | Loans and Receivables | Financial Liabilities at Fair Value Through Profit and Loss (i) | Financial Liabilities Measured at Amortised Cost |
| | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million |
| **Financial assets** | | | | | | | | |
| Equities | 12,361 4 | | | | 9,190 5 | | | |
| Fixed income securities | 2,249 5 | | | | 1,009 9 | | | |
| Investment in Collective Investment Schemes | 1,753 7 | | | | 1,239 4 | | | |
| Currency forwards | 19 6 | | | | 0 5 | | | |
| Other receivables (ii) | | | | | | | | |
| – St James's Place Partnership loans | | 70 7 | | | | 59 3 | | |
| – Other | | 129 5 | | | | 140 1 | | |
| Total other receivables | | 200 2 | | | | 199 4 | | |
| Cash and cash equivalents | 1,711 1 | | | | 2,253 5 | | | |
| **Total financial assets** | 18,095 3 | 200 2 | | | 13,693 8 | 199 4 | | |
| **Financial liabilities** | | | | | | | | |
| Investment contract benefits | | | 16,994 4 | | | | 13,109 8 | |
| Borrowings | | | | 2 6 | | | | 7 8 |
| Currency forwards | | | – | | | | 126 6 | |
| Other payables | | | | 142 4 | | | | 161 1 |
| Net asset value attributable to unit holders | 1,001 7 | | | | 335 8 | | | |
| **Total financial liabilities** | 1,001 7 | | 16,994 4 | 145 0 | 335 8 | | 13,236 4 | 168 9 |

Notes

(i) All financial assets and liabilities at fair value through profit and loss are designated as such upon initial recognition

(ii) Other financial assets have been reclassified to exclude prepayments and unearned commission from other receivables

The carrying value of the unit linked investment contract liabilities may differ from the amount contractually required to pay at maturity Maturity values of the financial liabilities vary with future policyholder investment and withdrawals as well as investment return, coupled with the impact of capital losses in the funds The contractual value required to be paid to policyholders as at 31 December 2009 would be £66 0 million lower than the investment contract benefits stated above

## INCOME, EXPENSE, GAINS AND LOSSES ARISING FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The income, expense, gains and losses arising from financial assets and financial liabilities are summarised in the table below

| | Year Ended December 2009 | | | | Year Ended December 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial Assets at Fair Value Through Profit and Loss [i] | Loans and Receivables | Financial Liabilities at Fair Value Through Profit and Loss [i] | Financial Liabilities Measured at Amortised Cost | Financial Assets at Fair Value Through Profit and Loss [i] | Loans and Receivables | Financial Liabilities at Fair Value Through Profit and Loss [i] | Financial Liabilities Measured at Amortised Cost |
| | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million |
| **Financial assets** | | | | | | | | |
| Unit linked assets | 2,704 1 | | | | (2,413 8) | | | |
| Fixed income securities | (2 1) | | | | 5 6 | | | |
| Investment in Collective Investment Schemes | 1 7 | | | | 10 5 | | | |
| Other receivables | | | | | | | | |
| – St James's Place Partnership loans | | 1 6 | | | | 1 7 | | |
| Total other receivables | | 1 6 | | | | 1 7 | | |
| Cash and cash equivalents [ii] | 0 7 | | | | 3 7 | | | |
| **Total financial assets** | 2,704 4 | 1 6 | | | (2,394 0) | 1 7 | | |
| **Financial liabilities** [iii] | | | | | | | | |
| Investment contract benefits | | | 2,323 0 | | | | (2,536 2) | |
| Borrowings | | | | – | | | | – |
| Net asset value attributable to unit holders | | | 180 1 | | | | (77 7) | |
| **Total financial liabilities** | | | 2,503 1 | | | | (2,613 9) | |

Notes

(i) All financial assets and liabilities at fair value through profit and loss are designated as such upon initial recognition

(ii) The majority of the return from cash and cash equivalents is included within unit linked assets

(iii) None of the change in the fair value of financial liabilities at fair value through profit and loss is attributable to changes in their credit risk

## FAIR VALUE ESTIMATION

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value measurement hierarchy

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2009

| | Level 1 | Level 2 | Level 3 | Total Balance |
|---|---|---|---|---|
| | £ Million | £ Million | £ Million | £ Million |
| **Financial assets at fair value through profit or loss** | | | | |
| Equities | 12,356 7 | | 4 7 | 12,361 4 |
| Fixed income securities | | 2,249 5 | | 2,249 5 |
| Investment in Collective Investment Schemes | 1,750 9 | | 2 8 | 1,753 7 |
| Currency forwards | | 19 6 | | 19 6 |
| Cash and cash equivalents | 1,711 1 | | | 1,711 1 |
| **Total financial assets at fair value through profit or loss** | 15,818 7 | 2,269 1 | 7 5 | 18,095 3 |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Investment contract benefits | | 16,994 4 | – | 16,994 4 |
| Net asset value attributable to unit holders | 944 7 | | | 944 7 |
| **Total financial liabilities at fair value through profit or loss** | 944 7 | 16,994 4 | – | 17,939 1 |

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 27 FINANCIAL RISK *CONTINUED*

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date, as described in the accounting policy (m) These instruments are included in Level 1 Instruments included in Level 1 comprise primarily listed equity instruments

The Group closely monitors the valuation of assets in markets that have become less liquid Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured Where it is determined that there is no active market, fair value is established using a valuation technique The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2 If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3

Specific valuation techniques used to value financial instruments include

- The use of observable prices for recent arm's length transactions
- Other techniques, such as discounted cash flow and option pricing models, are used to determine fair value for the remaining financial instruments

Note that all of the resulting fair value estimates are included in Level 2, except for certain equities and investments in Collective Investment Schemes ('CIS') as detailed below

The following table presents the changes in Level 3 equities and investments in CIS for the year ended 31 December 2009

| | £ Million |
|---|---|
| Opening balance | 3 7 |
| Additions during the year | 4 3 |
| Disposed during the year | (2 7) |
| Gains and losses recognised in the profit or loss | 2 2 |
| **Closing balance** | **7 5** |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period | 2 2 |

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

| | AAA | AA | A | Unrated | Unit Linked Funds[i] | Attributable to Unit Holders[i] | Total |
|---|---|---|---|---|---|---|---|
| | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million |
| **31 December 2009** | | | | | | | |
| Fixed income securities | 53 3 | | | | 1,820 7 | 375 5 | 2,249 5 |
| Investment in Collective Investment Schemes [ii] | 163 2 | | | 0 5 | 1,576 8 | 13 2 | 1,753 7 |
| Cash and cash equivalents | 4 0 | (0 4) | 63 6 | | 1,541 9 | 102 0 | 1,711 1 |
| Amounts due from reassurers | | | | | | | |
| – Claims outstanding | | 3 7 | 1 0 | | | | 4 7 |
| – Reassurers share of LTBF | | 31 1 | 1 0 | | | | 32 1 |
| Total amount due from reassurers | | 34 8 | 2 0 | | | | 36 8 |
| Other receivables | | | | | | | |
| – St James's Place Partnership loans | | | | 70 7 | | | 70 7 |
| – Other | | | | 41 1 | 81 9 | 6 5 | 129 5 |
| Total other receivables | | | | 111 8 | 81 9 | 6 5 | 200 2 |
| **Total** | 220 5 | 34 4 | 65 6 | 112 3 | 5,021 3 | 497 2 | 5,951 3 |

Notes

(i) Credit risk relating to unit linked and unit trust funds is borne by the policyholder/unit holder

(ii) Investment of shareholder assets in CIS refers to investment in unitised money market funds held for the longer term

| | AAA | AA | A | Unrated | Unit Linked Funds | Attributable to Unit Holders | Total |
|---|---|---|---|---|---|---|---|
| | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million |
| **31 December 2008** | | | | | | | |
| Fixed income securities | 49 2 | | | | 939 9 | 20 8 | 1,009 9 |
| Investment in Collective Investment Schemes | 173 1 | | | 0 7 | 1,058 1 | 7 5 | 1,239 4 |
| Cash and cash equivalents | 3 0 | 42 7 | 16 0 | | 2,156 0 | 35 8 | 2,253 5 |
| Amounts due from reassurers | | | | | | | |
| – Claims outstanding | 0 6 | 7 5 | | | | | 8 1 |
| – Reassurers share of LTBF | 0 7 | 23 4 | | | | | 24 1 |
| Total amount due from reassurers | 1 3 | 30 9 | | | | | 32 2 |
| Other receivables | | | | | | | |
| – St James's Place Partnership loans | | | | 59 3 | | | 59 3 |
| – Other | | | | 50 8 | 86 5 | 2 8 | 140 1 |
| Total other receivables | | | | 110 1 | 86 5 | 2 8 | 199 4 |
| **Total** | 226 6 | 73 6 | 16 0 | 110 8 | 4,240 5 | 66 9 | 4,734 4 |

FINANCIAL ASSETS THAT ARE EITHER PAST DUE OR IMPAIRED

Loans to St James's Place Partnership disclosed in the tables above are shown net of an impairment provision of £8 7 million (2008 £8 6 million) The amount of the impairment loss recognised within Administration Expenses in the income statement was £0 1 million (2008 £1 6 million) The factors considered in determining the impairment include default history, the nature or type of the Partner loan, exposure levels to individual Partners and whether the individual Partner is active or has left

There are no other financial assets that are impaired, would otherwise be past due or impaired whose terms have been renegotiated or are past due but not impaired

CONTRACTUAL MATURITY ANALYSIS

The following table sets out the contractual maturity analysis of the Group's financial assets and financial liabilities as at 31 December 2009

| | Up to 1 Year | 1 – 5 Years | Over 5 Years | Total excl Unit Linked Funds and Other Unit Holders | Unit Linked Funds* | Attributable to Unit Holders* | Total |
|---|---|---|---|---|---|---|---|
| | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million |
| **31 December 2009** | | | | | | | |
| **Financial assets** | | | | | | | |
| Equities | | | | – | 11,855 9 | 505 5 | 12,361 4 |
| Fixed income securities | 3 1 | 50 2 | | 53 3 | 1,820 7 | 375 5 | 2,249 5 |
| Investment in Collective Investment Schemes | 163 7 | | | 163 7 | 1,576 8 | 13 2 | 1,753 7 |
| Currency forwards | | | | – | 19 6 | | 19 6 |
| Other receivables | | | | | | | |
| – St James's Place Partnership loans | 17 0 | 39 6 | 14 1 | 70 7 | | | 70 7 |
| – Other | 41 1 | | | 41 1 | 81 9 | 6 5 | 129 5 |
| Total other receivables | 58 1 | 39 6 | 14 1 | 111 8 | 81 9 | 6 5 | 200 2 |
| Cash and cash equivalents | 67 2 | | | 67 2 | 1,541 9 | 102 0 | 1,711 1 |
| **Total financial assets** | 292 1 | 89 8 | 14 1 | 396 0 | 16,896 8 | 1,002 7 | 18,295 5 |
| **Financial liabilities** | | | | | | | |
| Investment contract benefits | | | | – | 16,994 4 | | 16,994 4 |
| Borrowings | | 0 8 | 1 8 | 2 6 | | | 2 6 |
| Currency forwards | | | | – | | | – |
| Other payables | 92 4 | | | 92 4 | 49 0 | 1 0 | 142 4 |
| **Total financial liabilities** | 92 4 | 0 8 | 1 8 | 95 0 | 17,043 4 | 1 0 | 17,139 4 |

* Financial liabilities included under unit linked funds and (net assets) attributable to unit holders are deemed to have a maturity of up to one year since the corresponding unit linked liabilities are repayable and transferable on demand In practice the contractual maturities of the assets may be longer than one year but the majority of assets held within the unit linked and unit trust funds are highly liquid and the Group also actively monitors fund liquidity

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 27 FINANCIAL RISK *CONTINUED*

The table below sets out comparative contractual maturity analysis as at 31 December 2008

| | Up to 1 Year | 1 – 5 Years | Over 5 Years | Total excl Unit Linked Funds and Other Unit Holders | Unit Linked Funds* | Attributable to Unit Holders* | Total |
|---|---|---|---|---|---|---|---|
| | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million | £ Million |
| **31 December 2008** | | | | | | | |
| **Financial assets** | | | | | | | |
| Equities | | | | – | 8,921 5 | 269 0 | 9,190 5 |
| Fixed income securities | 13 4 | 3 2 | 32 6 | 49 2 | 939 9 | 20 8 | 1,009 9 |
| Investment in Collective Investment Schemes | 173 8 | | | 173 8 | 1,058 1 | 7 5 | 1,239 4 |
| Currency forwards | | | | – | 0 5 | – | 0 5 |
| Other receivables | | | | | | | |
| – St James's Place Partnership loans | 7 3 | 23 6 | 28 4 | 59 3 | | | 59 3 |
| – Other | 50 8 | | | 50 8 | 86 5 | 2 8 | 140 1 |
| Total other receivables | 58 1 | 23 6 | 28 4 | 110 1 | 86 5 | 2 8 | 199 4 |
| Cash and cash equivalents | 61 7 | | | 61 7 | 2,156 0 | 35 8 | 2,253 5 |
| **Total financial assets** | **307 0** | **26 8** | **61 0** | **394 8** | **13,162 5** | **335 9** | **13,893 2** |
| **Financial liabilities** | | | | | | | |
| Investment contract benefits | | | | – | 13,109 8 | | 13,109 8 |
| Borrowings | | | 7 8 | 7 8 | | | 7 8 |
| Currency forwards | | | | – | 126 6 | | 126 6 |
| Other payables | 78 6 | | | 78 6 | 82 4 | 0 1 | 161 1 |
| **Total financial liabilities** | **78 6** | | **7 8** | **86 4** | **13,318 8** | **0 1** | **13,405 3** |

* Financial liabilities included under unit linked funds and attributable to unit holders are deemed to have a maturity up to one year as they are repayable or transferable on demand

Other financial assets have been reclassified to exclude prepayments and unearned commission from other receivables

### SENSITIVITY ANALYSIS TO MARKET RISKS

The majority of the Group's business is unit linked and the direct associated market risk is therefore borne by policyholders (although there is a secondary impact as shareholder income is dependent upon the markets) Financial assets and liabilities held outside unitised funds primarily consist of fixed interest securities, units in money market funds, cash and cash equivalents, and other assets and liabilities The fixed interest securities are held to match non-linked liabilities and the liability values move broadly in line with the matching asset values such that fair value interest rate risk is immaterial, although these is some residual risk due to imperfect matching Cash held in unitised money market funds and at bank is valued at par and is unaffected by movement in interest rates Other assets and liabilities are similarly unaffected by market movements

As a result of these combined factors, the Group's financial assets and liabilities held outside unitised funds are not materially subject to market risk, and movements at the balance sheet date in interest rates and equity values have an immaterial impact on the Group's profit after tax and equity Future profits from annual management charges may be affected by movements in interest rates and equity values

## 28 CAPITAL MANAGEMENT AND ALLOCATION

It is the Group's policy to maintain a strong capital base in order to

- protect policyholders' and creditors' interests,
- support the development of its business and create shareholder value, and
- meet regulatory requirements at all times

Within the Group each subsidiary manages its own capital in the context of the Group capital plan Capital generated in excess of planned requirements is returned to the Group's parent, St James's Place plc, normally by way of dividends The Group capital plan is monitored by the Finance Capital Management Committee on behalf of the St James's Place plc Board

The Group's policy is for each Company to hold the higher of

- the Company's internal assessment of the Capital required, and
- the capital requirement of the relevant supervisory body plus a specified margin over this to absorb changes

Generally, because of the nature of the business and the current regulatory rules, the higher requirement is that of the supervisory body plus the specified margin

The following entities are under supervisory regulation and have to maintain a minimum level of regulatory capital

| Entity | Regulatory Body and Jurisdiction |
|---|---|
| St James's Place UK plc | FSA Long-term insurance business |
| St James's Place International plc | Irish Financial Regulator Life insurance business |
| St James's Place Unit Trust Group Ltd | FSA UCITS Management Company |
| St James's Place Wealth Management plc | FSA Personal Investment Firm |
| St James's Place Reinsurance Ltd | Irish Financial Regulator Reinsurance |
| St James's Place Reassurance (2009) Ltd | FSA Insurance Special Purpose Vehicle |
| St James's Place Wealth Management (Monaco) SAM | Monaco Commission for Control of Financial Activities |
| St James's Place Trust Company Jersey Ltd | Jersey Financial Services Commission |
| St James's Place Wealth Management (PCIS) Ltd | FSA Securities and Futures |

The FSA regulatory requirement for St James's Place UK plc ('SJPUK'), which makes up the majority of the Group capital requirement, includes the prescribed minimum solvency margin requirement (the Capital Resources Requirement ('CRR')) and an assessment of the risks faced under the business, known as the Individual Capital Assessment The capital requirement is assessed and monitored by the Actuarial Committee, a committee of the St James's Place UK plc Board

There has been no material change in the Group's management of capital during the period and all regulated entities exceed the minimum solvency requirements at the balance sheet date

CAPITAL COMPOSITION

The principal forms of capital are included in the following balances on the consolidated balance sheet

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Share capital | 72 3 | 71 9 |
| Share premium | 90 5 | 86 3 |
| Other reserves | (5 4) | (10 7) |
| Retained earnings | 382 4 | 360 5 |
| | 539 8 | 508 0 |

The above assets do not all qualify as regulatory capital Analysis of the assets which do qualify as regulatory capital is given in Section 3 of the Financial Commentary on page 19 The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period

## 29 SHARE CAPITAL

| | Number of Ordinary Shares | Share Capital |
|---|---|---|
| | | £ Million |
| At 1 January 2008 | 476,485,853 | 71 5 |
| – Scrip dividend | 860,179 | 0 1 |
| – Exercise of options | 2,206,828 | 0 3 |
| At 31 December 2008 | 479,552,860 | 71 9 |
| – Scrip dividend | 798,315 | 0 1 |
| – Exercise of options | 1,680,612 | 0 3 |
| **At 31 December 2009** | **482,031,787** | **72 3** |

The total authorised number of ordinary shares is 605 million (2008 605 million), with a par value of 15 pence per share (2008 15 pence per share) All issued shares are fully paid

Financial Statements

# Notes to the Consolidated Accounts under International Financial Reporting Standards
*continued*

### 30 SHARE-BASED PAYMENTS

During the year ended 31 December 2009 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 may 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 – the Remuneration Committee of the Group Board may make awards of performance shares to the Executive Directors and other senior managers Two-thirds of shares awarded to Directors are subject to an earnings growth condition of the Group and one-third of shares awarded to Directors are subject to a comparative total shareholder return condition, both measured over a 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 page 53 Awards made to senior managers are largely only subject to the earnings growth condition of the Group
- Executive and sales management 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 The last award under these schemes was made in 2005
- Partner share option schemes – these were 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 The last award under these schemes was made in 2007
- Partner performance share plan – a new scheme was launched in January 2008 whereby Partners are entitled to purchase shares in the future at nominal value (15 pence) The number of shares the Partners are entitled to purchase will depend on their personal sales production in the year of the award and validation over the following three years

Share options outstanding under the various share option schemes at 31 December 2009 amount to 31 0 million shares (2008 32 9 million) Of these, 27 0 million are under option to Partners of the St James's Place Partnership, 2 2 million are under option to executives and senior management (including 0 03 million under option to Directors as disclosed in the Remuneration Report on page 57) and 1 8 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 made in 2008 and 2009

| | SAYE | Executive Deferred Bonus | Executive Performance Share Plan | Partner Performance Share Plan |
|---|---|---|---|---|
| **Awards in 2008** | | | | |
| Date of grant | 28 March | 5 March | Various | –[(1)] |
| Number granted | 901,292 | 1,196,061 | 1,847,290 | – |
| **Awards in 2009** | | | | |
| Date of grant | 27 March | 4 March | Various | 24 February |
| Number granted | 1,634,068 | 490,932 | 2,131,754 | 3,320,000 |
| Contractual life | 3 5 years | 3 years | 3 5 years | 4 years |
| Vesting conditions | 3 year saving period | 3 years service and achievement of personal targets in some instances | 3 years service and achievement of earnings and TSR targets | Sales production for year of award and subsequent validation over following 3 years |

Notes
(1) The initial allocation for the 2008 award was finalised in 2009

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 | Partner Performance Share Plan |
|---|---|---|---|---|
| **Valuation model** | Black Scholes | Black Scholes | Monte Carlo | Black Scholes |
| **Awards in 2008** | | | | |
| Fair value (pence) | 95 68(ii) | 263 50 | 161 61/266 25(iv) | 247 8 |
| Share price (pence) | 260 00 | 263 50 | 266 25 to 274 75(v) | 276 0 |
| Exercise price (pence) | 213 00 | 0 00 | 0 00 | 0 15 |
| Expected volatility (% p a )(i) | 40 | N/A | 38 | 31 |
| Expected dividends (% p a ) | 1 7 | N/A(iii) | N/A | 1 4 |
| Risk free interest rate (% p a ) | 4 1 | N/A | N/A | 4 5 |
| Volatility of competitors (% p a ) | N/A | N/A | 24 to 50 | N/A |
| Correlation with competitors (%) | N/A | N/A | 45 | N/A |
| **Awards in 2009** | | | | |
| Fair value (pence) | 59 14(ii) | 182 5 | 124 45/190 0(iv) | 166 25 |
| Share price (pence) | 168 00 | 182 5 | 176 0 to 190 0(v) | 190 0 |
| Exercise price (pence) | 150 00 | 0 00 | 0 00 | 0 15 |
| Expected volatility (% p a)(i) | 50 | N/A | 50 | 50 |
| Expected dividends (% p a ) | 2 5 | N/A(iii) | N/A | 2 5 |
| Risk-free interest rate (% p a ) | 1 9 | N/A | N/A | 1 9 |
| Volatility of competitors (% p a ) | N/A | N/A | 29 to 62 | N/A |
| Correlation with competitors (%) | N/A | N/A | 40 | N/A |

Notes

(i) Expected volatility is based on an analysis of the Company s historic share price volatility over a period (typically three or five years) which is commensurate with the expected term of the options or the awards

(ii) In 2008 and 2009 the vesting period for the SAYE plan was three years The vesting period may be extended by up to six months in order to catch up on missed contributions (up to a maximum of six)

(iii) Dividends payable on the shares during the restricted period are paid out during the restricted period for the executive deferred bonus schemes and no dividend yield assumption is therefore required

(iv) 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

(v) Awards were made under the executive performance share plan on five and three separate occasions during 2008 and 2009 respectively

(vi) There were no awards made in 2008 or 2009 for the executive share option schemes or the sales management share option schemes

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

## 30 SHARE-BASED PAYMENTS *CONTINUED*

| | Year Ended 31 December 2009 Number of Options | Year Ended 31 December 2009 Weighted Average Exercise Price | Year Ended 31 December 2008 Number of Options | Year Ended 31 December 2008 Weighted Average Exercise Price |
|---|---|---|---|---|
| **SAYE.** | | | | |
| Outstanding at start of year | 1,201,870 | £2 20 | 2,145,435 | £1 41 |
| Granted | 1,634,068 | £1 50 | 901,292 | £2 13 |
| Forfeited | (782,064) | £2 13 | (413,609) | £2 83 |
| Exercised | (286,214) | £2 30 | (1,431,248) | £0 79 |
| Expired | – | | – | |
| Outstanding at end of year | 1,767,660 | £1.56 | 1,201,870 | £2 20 |
| Exercisable at end of year | – | | 8,614 | £1 58 |
| **Executive Share Options** | | | | |
| Outstanding at start of year | 2,307,319 | £1 78 | 2,634,178 | £1 75 |
| Granted | – | | – | |
| Forfeited | (10,000) | £2 38 | (70,886) | £1 92 |
| Exercised | (146,601) | £1 53 | (255,973) | £1 50 |
| Expired | – | | – | |
| Outstanding at end of year | 2,150,718 | £1 79 | 2,307,319 | £1 78 |
| Exercisable at end of year | 1,839,071 | £1 69 | 1,628,298 | £1 63 |
| **Sales Management Share Options** | | | | |
| Outstanding at start of year | 172,250 | £1 67 | 246,000 | £1 59 |
| Granted | – | | – | |
| Forfeited | (32,500) | £1 79 | (56,250) | £1 38 |
| Exercised | (58,750) | £1 31 | (17,500) | £1 51 |
| Expired | – | | – | |
| Outstanding at end of year | 81,000 | £1 89 | 172,250 | £1 67 |
| Exercisable at end of year | 81,000 | £1 89 | 172,250 | £1 67 |
| **Partner Share Options** | | | | |
| Outstanding at start of year | 29,234,437 | £2 31 | 29,953,911 | £2 30 |
| Granted | – | | – | |
| Forfeited | (1,255,583) | £2 46 | (76,451) | £2 64 |
| Exercised | (1,027,140) | £1 69 | (643,023) | £1 52 |
| Expired | – | | – | |
| Outstanding at end of year | 26,951,714 | £2 33 | 29,234,437 | £2 31 |
| Exercisable at end of year | 24,144,756 | £2 29 | 11,896,035 | £1 73 |

The average share price during the year was 205 6 pence (2008 231 71 pence)

The SAYE plan options outstanding at 31 December 2009 had exercise prices of 150 pence, 194 pence, 213 pence and 370 pence and a weighted average remaining contractual life of 2 2 years

The options outstanding under the executive share option schemes at 31 December 2009 had exercise prices ranging from 85 5 pence to 257 pence and a weighted average remaining contractual life of 3 4 years

The options outstanding under the sales management share option schemes at 31 December 2009 had exercise prices ranging from 169 5 pence to 242 pence and a weighted average remaining contractual life of 4 6 years

The options outstanding under the Partner share option schemes at 31 December 2009 had exercise prices ranging from 81 5 pence to 465 pence and a weighted average remaining contractual life of 4 6 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 40% correlated and that the comparator index has volatilities ranging between 29% p a and 62% p a

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 2009 therefore include an allowance for the actual performance of the Company's share price relative to the index over the period between 1 January 2009 and the various award dates

CHARGE TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The table below sets out the charge to the consolidated statement of comprehensive income in respect of the share-based payment awards

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Share-based payment expense | 8 6 | 14 9 |

### 31 FINANCIAL COMMITMENTS

At 31 December 2009 the Group had the following annual commitments under non-cancellable operating leases in connection with the rental of office buildings and office equipment with varying lease end dates ranging from 2010 to 2027

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Within one year | 0 3 | 1 5 |
| Between two and five years | 3 0 | 2 6 |
| In more than five years | 8 2 | 7 0 |
| **Total financial commitments** | **11 5** | **11 1** |

### 32 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH LBG AND LBG GROUP COMPANIES

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

- Commission of £1 1 million (2008 £2 9 million) was receivable from the sale of banking services for St James's Place Bank (a division of Halifax plc)
- Commission of £0 8 million (2008 £0 9 million) was receivable from the sale of pensions offered by Clerical Medical
- Commission of £2 3 million (2008 £4 0 million) was receivable from the sale of Halifax, Cheltenham & Gloucester, Bank of Scotland, Birmingham Midshires, Scottish Widows and The Mortgage Business mortgages
- Commission of £0 7 million (2008 £0 7m) was receivable from Bank of Scotland Annuity Service
- Commission of £10,000 (2008 £53,000) was receivable from Bank of Scotland in respect of corporate banking income in 2009
- During the year, deposits were placed with Bank of Scotland on normal commercial terms At 31 December 2009 these deposits amounted to £46 2 million (2008 £34 9 million)
- Amounts lent by, or assigned to, the Bank of Scotland to members of the St James's Place Partnership, under guarantee by St James's Place, totalled £66 0 million (2008 £65 3 million)

# Notes to the Consolidated Accounts under International Financial Reporting Standards *continued*

**32 RELATED PARTY TRANSACTIONS** *CONTINUED*

- Amounts lent by the Bank of Scotland to the Group totalled £2 6 million (2008 £7 8 million)
- Fees of £22,000 (2008 £21,000) were payable to Insight Investment Management Limited in respect of investment management services to the St James's Place Tracker Unit Trust The outstanding balance payable at 31 December 2008 was £2,000 (2008 £nil)
- Fees of £1 3 million (2008 £2 5 million) were payable to Invista Real Estate Investment Management Limited (55% owned by LBG) in respect of investment management services for the property portfolio of the St James's Place UK life and pension funds The outstanding balance payable at 31 December 2008 was £0 5 million (2008 £0 3 million)
- Tax fees of £25,530 (2008 £22,637) in respect of annual tax compliance and ad hoc tax advice were charged by LBG plc to certain unit trusts
- Fees of £50,000 (2008 £50,000) were payable to LBG in respect of the services of non-executive St James's Place Board Directors

St James's Place Board Directors have been included in a Directors' and officers' insurance policy negotiated on a Group basis by LBG

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The compensation paid to key management personnel, being the Board of Directors of St James's Place, is set out in the Remuneration Report on page 55 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 St James's Place during 2009 was £1 5 million (2008 £1 5 million)

**33 PARENT COMPANY**

The company regarded by the Directors as the ultimate parent company is LBG, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which Group accounts are drawn up and of which the Company is a member Copies of the Group accounts may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN

LBG was the ultimate controlling party as at 31 December 2009 and has been the ultimate controlling party of the company since its acquisition of HBOS plc on 19 January 2009

**34 PRINCIPAL SUBSIDIARIES**

The principal subsidiaries of the Group are listed in Note 2 to the Parent Company accounts on page 101 In addition, the Group accounts consolidate the following unit trusts

St James's Place Allshare Income Unit Trust
St James's Place Alternative Assets Unit Trust
St James's Place Cash Unit Trust
St James's Place Cautious Unit Trust
St James's Place Continental European Unit Trust
St James's Place Corporate Bond Unit Trust
St James's Place Ethical Unit Trust
St James's Place Far East Unit Trust
St James's Place Gilts Unit Trust
St James's Place High Octane Unit Trust
St James's Place Investment Grade Corporate Bond Unit Trust
St James's Place North American Unit Trust
St James's Place Tracker Unit Trust
St James's Place Worldwide Opportunities Unit Trust

All of these unit trusts are managed in the United Kingdom

# Parent Company Accounts
on UK GAAP Basis

# 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 2009, which comprise the Parent Company Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

### OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

### OTHER MATTERS

We have reported separately on the group financial statements of St James's Place plc for the year ended 31 December 2009

**Craig Gentle (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
23 February 2010

Notes

(a) The financial statements are published on the website of St James's Place plc, www sjp co uk The maintenance and integrity of the St James's Place plc website is the responsibility of the directors the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

# Balance Sheet of Parent Company

| | Note | 31 December 2009 £ Million | 31 December 2008 £ Million |
|---|---|---|---|
| **Assets** | | | |
| Investment in subsidiaries | 2 | **360 7** | 352 1 |
| Income tax assets | | **0 4** | 1 7 |
| **Total assets** | | **361 1** | 353 8 |
| **Liabilities** | | | |
| Amounts owed to Group undertakings | | **57 8** | 106 5 |
| Other creditors | | – | – |
| **Total liabilities** | | **57 8** | 106 5 |
| **Net assets** | | **303 3** | 247 3 |
| **Shareholders' equity** | | | |
| Share capital | 4 | **72 3** | 71 9 |
| Share premium | 5 | **90 5** | 86 3 |
| Share option reserves | 5 | **49 3** | 40 7 |
| Other reserves | 5 | **0 1** | 0 1 |
| Retained earnings | 5 | **91 1** | 48 3 |
| **Total shareholders' equity** | | **303 3** | 247 3 |

The financial statements on pages 99 to 102 were approved by the Board of Directors on 23 February 2010 and signed on its behalf by

**D Bellamy**
Chief Executive

**A Croft**
Finance Director

The notes and information on pages 100 to 102 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 408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these financial statements

As discussed in the Directors' Report the going concern basis has been adopted in preparing these accounts

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

SIGNIFICANT ACCOUNTING POLICIES

**(a) Investment Return**

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

**(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**

Investments in subsidiaries are carried at cost after impairment losses, plus the cost of share awards granted by the Company of its own shares

**(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

**(f) Impairment Losses**

The carrying amounts of the assets are reviewed at each balance sheet date 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 the present value of its estimated future cash flows

## 2 INVESTMENT IN SUBSIDIARIES

| | 2009 | 2008 |
|---|---|---|
| | £ Million | £ Million |
| At 1 January | 352 1 | 337 2 |
| Movement in the year | 8 6 | 14 9 |
| **At 31 December** | **360 7** | 352 1 |

Movement in the year represents the cost of share options granted by the Company

PRINCIPAL SUBSIDIARY UNDERTAKINGS AT 31 DECEMBER 2009

| | |
|---|---|
| **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 *(incorporated in Ireland)* |
| **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 |
| **Internal reassurance** | St James's Place Reinsurance Limited *(incorporated in Ireland)* |
| | St James's Place Reassurance (2009) 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

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 and liquidity 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 directly subject to market and credit 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 29 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 2008 | 82 2 | 41 5 | 25 8 | 0 1 | 149 6 |
| Profit for the year | | 27 6 | | | 27 6 |
| – Dividends | | (20 8) | | | (20 8) |
| – Issue of share capital | | | | | |
| – Scrip dividend | 2 0 | | | | 2 0 |
| – Exercise of options | 2 1 | | | | 2 1 |
| Cost of share options expensed in subsidiary | | | 14 9 | | 14 9 |
| At 31 December 2008 | 86 3 | 48 3 | 40 7 | 0 1 | 175 4 |
| Profit for the year | | 63 8 | | | 63 8 |
| – Dividends | | (21 0) | | | (21 0) |
| – Issue of share capital | | | | | |
| – Scrip dividend | 1 4 | | | | 1 4 |
| – Exercise of options | 2 8 | | | | 2 8 |
| Cost of share options expensed in subsidiary | | | 8 6 | | 8 6 |
| **At 31 December 2009** | **90 5** | **91 1** | **49 3** | **0 1** | **231.0** |

## 6 AUDITOR'S REMUNERATION

The total audit fee in respect of the Group is set out in Note 5 on page 75 of the consolidated financial statements The audit fee charged to the Company for the year ended 31 December 2009 is £1,000 (2008 £1,000)

## 7 RELATED PARTY TRANSACTIONS AND BALANCES

At the year end the following related party balances existed

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| *Investments in Group companies* | | |
| St James's Place Partnership Limited | **42 0** | 42 0 |
| St James's Place Wealth Management Group plc | **136 9** | 128 3 |
| St James's Place Investments plc | **181 8** | 181 8 |
| *Intragroup creditors* | | |
| St James's Place Investments plc | **57 8** | 106 5 |

During the year, the Company received £63 4 million (2008 £27 5 million) dividends from subsidiary undertakings

## 8 DIRECTORS' EMOLUMENTS

The Directors' responsibilities relate primarily to the trading companies of the Group and accordingly their costs are recharged to those companies and none is met by the Parent Company

# Supplementary Information
on European Embedded Value Basis

# Independent Auditors' Report

## to the Directors of St James's Place plc ('the Company') on the Supplementary Information on European Embedded Value Basis

We have audited the Supplementary Information on the European Embedded Value Basis for the year ended 31 December 2009 that comprise the Consolidated Statement of Income – European Embedded Value basis, Consolidated Statement of Changes in Equity - European Embedded Value basis, Consolidated Statement of Financial Position – European Embedded Value basis and the relevant notes ('the Supplementary Information'), which have been prepared in accordance with the European Embedded Value ('EEV') basis set out in Note I – Basis of Preparation and which should be read in conjunction with the Group's financial statements

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Supplementary Information on the EEV basis in accordance with the EEV basis set out in Note I – Basis of Preparation Our responsibility, as set out in our letter of engagement agreed with you dated 17 December 2009, is to audit the Supplementary Information in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our letter of engagement dated 17 December 2009 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

### SCOPE OF THE AUDIT OF THE SUPPLEMENTARY INFORMATION

An audit involves obtaining evidence about the amounts and disclosures in the Supplementary Information sufficient to give reasonable assurance that the Supplementary Information is free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Supplementary Information

### OPINION ON THE SUPPLEMENTARY INFORMATION

In our opinion, the Supplementary Information for the year ended 31 December 2009 have been properly prepared in all material respects in accordance with the European Embedded Value basis set out in Note I – Basis of Preparation

**PricewaterhouseCoopers LLP**
Chartered Accountants
Bristol
23 February 2010

Notes

(a) The financial statements are published on the website of St James's Place plc www sjp co uk The maintenance and integrity of the St James's Place plc website is the responsibility of the directors, the audit work does not involve consideration of these matters and, accordingly we accept no responsibility for any changes that may have occurred to the supplementary information since they were initially presented on the website

(b) Legislation in the United Kingdom governing the preparation and dissemination of Supplementary Information may differ from legislation in other jurisdictions

# Consolidated Statement of Income

## 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

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| Life business | **175.1** | 174.1 |
| Unit trust business | **74.3** | 50.8 |
| Other | **(20.5)** | (20.6) |
| **Operating profit** | **228.9** | 204.3 |
| Investment return variances | **148.2** | (320.6) |
| Economic assumption changes | **(13.9)** | 0.4 |
| **EEV profit/(loss) on ordinary activities before tax** | **363.2** | (115.9) |
| **Taxation** | | |
| Life business | **(67.5)** | 11.6 |
| Unit trust business | **(32.7)** | 13.2 |
| Other | **2.1** | 3.7 |
| | **(98.1)** | 28.5 |
| **EEV profit/(loss) on ordinary activities after tax** | **265.1** | (87.4) |

The notes and information on pages 108 to 113 form part of this supplementary information

# Consolidated Statement of Changes in Equity

## European Embedded Value Basis

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **Opening equity shareholders' funds on an EEV basis** | **1,114 3** | 1,203 3 |
| Post tax profit/(loss) for the year | **265 1** | (87 4) |
| Issue of share capital | **4 6** | 4 5 |
| P&L reserve credit in respect of share option charges | **8 6** | 14 9 |
| P&L reserve credit in respect of proceeds from exercise of share options of shares held in trust | **0 1** | 0 1 |
| Dividends paid | **(21 0)** | (20 8) |
| Consideration paid for own shares | **(0 3)** | (0 3) |
| **Closing equity shareholders' funds on an EEV basis** | **1,371 4** | 1,114 3 |

The notes and information on pages 108 to 113 form part of this supplementary information

# Consolidated Statement of Financial Position

## European Embedded Value Basis

| | Year Ended 31 December 2009 £ Million | Year Ended 31 December 2008 £ Million |
|---|---|---|
| **Assets** | | |
| Intangible assets | | |
| – Deferred acquisition costs | 642 4 | 564 9 |
| – Value of long-term business in-force | | |
| – Long-term insurance | 649 1 | 495 8 |
| – Unit trusts | 221 5 | 152 1 |
| | 1,513 0 | 1,212 8 |
| Property and equipment | 10 4 | 12 2 |
| Deferred tax assets | 187 0 | 143 7 |
| Investment property | 401 7 | 410 6 |
| Investments | 16,384 2 | 11,440 3 |
| Reinsurance assets | 36 8 | 32 2 |
| Insurance and investment contract receivables | 17 4 | 14 9 |
| Income tax assets | 18 6 | 32 4 |
| Other receivables | 235 0 | 229 9 |
| Cash and cash equivalents | 1,711 1 | 2,253 5 |
| **Total assets** | 20,515 2 | 15,782 5 |
| **Liabilities** | | |
| Insurance contract liabilities | 388 1 | 338 4 |
| Other provisions | 4 8 | 12 9 |
| Financial liabilities | 16,997 0 | 13,244 2 |
| Deferred tax liabilities | 172 7 | 152 7 |
| Insurance and investment contract payables | 21 5 | 22 9 |
| Deferred income | 401 1 | 372 6 |
| Income tax liabilities | 14 5 | 27 6 |
| Other payables | 142 4 | 161 1 |
| Net asset value attributable to unit holders | 1,001 7 | 335 8 |
| **Total liabilities** | 19,143 8 | 14,668 2 |
| **Net assets** | 1,371 4 | 1,114 3 |
| **Shareholders' equity** | | |
| Share capital | 72 3 | 71 9 |
| Share premium | 90 5 | 86 3 |
| Other reserves | 1,208 6 | 956 1 |
| **Total shareholders' equity** | 1,371 4 | 1,114 3 |
| | Pence | Pence |
| **Net assets per share** | 284 5 | 232 4 |

The supplementary information on pages 105 to 113 was approved by the Board of Directors on 23 February 2010 and signed on its behalf by

D Bellamy
Chief Executive

A Croft
Finance Director

The notes and information on pages 108 to 113 form part of this supplementary information

# Notes to the European Embedded Value Basis

## I BASIS OF PREPARATION

The supplementary information on pages 105 to 113 shows the Group's results as measured on a European Embedded Value ('EEV') basis This includes results for the life, pension and investment business, including unit trust business The valuation is undertaken on a basis determined in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum, a group of chief financial officers from 19 major European insurers as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 (together 'the EEV Principles') The treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis The objective 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 ON EXISTING BUSINESS

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

### (C) ALLOWANCE FOR RISK

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

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

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

### (D) NON MARKET RISK

Best estimate assumptions have been established based on available information and when used within the market consistent calculations provide the primary evaluation of the impact of non-market risk However, some non-market operational risks are not symmetric, with adverse experience having a higher impact on the EEV than favourable experience Allowance has been made for this by increasing the risk discount rate by 0 8% (2008 0 8%)

### (E) THE RISK DISCOUNT RATE

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

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

As part of this approach, an appropriate adjustment has been made to reflect the fact that the value of tax relief on expenses does not move linearly with market movements Finally, an additional allowance for non-market risk has been made by increasing the discount rate by 0 8%

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

### (F) COST OF REQUIRED CAPITAL

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

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

### (G) NEW BUSINESS

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

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

### (H) 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)

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

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

## III. ASSUMPTIONS

### (A) ECONOMIC ASSUMPTIONS

The principal economic assumptions used within the cash flows at 31 December 2009 are set out below

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| Risk free rate | 4 2% | 3 5% |
| Inflation rate | 3 2% | 1 7% |
| Risk discount rate (net of tax) | 7 3% | 6 6% |
| Future investment returns | | |
| – Gilts | 4 2% | 3 5% |
| – Equities | 7 2% | 6 5% |
| – Unit linked funds | | |
| – Capital growth | 3 4% | 2 6% |
| – Dividend income | 3 1% | 3 3% |
| – Total | 6 5% | 5 9% |
| Expense inflation | 3 9% | 2 7% |

The risk free rate is set by reference to the yield on ten year gilts Other investment returns are set by reference to the risk free rate

The inflation rate is derived from the implicit inflation in the valuation of ten year index linked gilts This rate is increased to reflect higher increases in earnings related expenses

### (B) EXPERIENCE ASSUMPTIONS

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

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

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

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

# Notes to the European Embedded Value Basis
*continued*

### III ASSUMPTIONS *CONTINUED*

(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 26% for UK life and pensions business, 12 5% for Irish life and pensions business and 28% for unit trust business

### IV COMPONENTS OF EEV PROFIT

(A) LIFE BUSINESS

| | Note | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|---|
| | | £ Million | £ Million |
| New business contribution | 1 | 106 3 | 93 0 |
| Profit from existing business | | | |
| Unwind of discount rate | | 63 7 | 63 4 |
| Experience variances | | 2 6 | 13 7 |
| Operating assumption changes | | (2 3) | (0 9) |
| Investment income | | 4 8 | 4 9 |
| **Operating profit before tax** | | 175 1 | 174 1 |
| Investment return variances | | 104 0 | (223 0) |
| Economic assumption changes | | (12 1) | 0 9 |
| **Profit/(loss) before tax** | | 267 0 | (48 0) |
| Attributed tax | | (67 5) | 11 6 |
| **Profit/(loss) after tax** | | 199 5 | (36 4) |

Note 1 New business contribution after tax is £79 7 million (2008 £69 7 million)

(B) UNIT TRUST BUSINESS

| | Note | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|---|
| | | £ Million | £ Million |
| New business contribution | 1 | 49 1 | 30 5 |
| Profit from existing business | | | |
| Unwind of discount rate | | 14 6 | 17 1 |
| Experience variances | | 9 0 | 3 2 |
| Operating assumption changes | | 0 8 | – |
| Investment income | | 0 8 | – |
| **Operating profit before tax** | | 74 3 | 50 8 |
| Investment return variances | | 44 2 | (97 6) |
| Economic assumption changes | | (1 8) | (0 5) |
| **Profit/(loss) before tax** | | 116 7 | (47 3) |
| Attributed tax | | (32 7) | 13 2 |
| **Profit/(loss) after tax** | | 84 0 | (34 1) |

Note 1 New business contribution after tax is £35 3 million (2008 £22 0 million)

## (C) COMBINED LIFE AND UNIT TRUST BUSINESS

| | Note | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|---|
| | | £ Million | £ Million |
| New business contribution | 1 | 155 4 | 123 5 |
| Profit from existing business | | | |
| Unwind of discount rate | | 78 3 | 80 5 |
| Experience variances | | 11 6 | 16 9 |
| Operating assumption changes | | (1 5) | (0 9) |
| Investment income | | 5 6 | 4 9 |
| **Operating profit before tax** | | 249 4 | 224 9 |
| Investment return variances | | 148 2 | (320 6) |
| Economic assumption changes | | (13 9) | 0 4 |
| **Profit/(loss) before tax** | | 383 7 | (95 3) |
| Attributed tax | | (100 2) | 24 8 |
| **Profit/(loss) after tax** | | 283 5 | (70 5) |

Note 1 New business contribution after tax is £115 0 million (2008 £91 7 million)

## (D) DETAILED ANALYSIS

In order to better explain the movement in capital flows, the components of the EEV profit for the year ended 31 December 2009 are shown separately between the movement in IFRS net assets and the present value of the in-force business (VIF) in the table below All figures are shown net of tax

| | Movement in IFRS Net Assets | Movement in VIF | Movement in EEV |
|---|---|---|---|
| | £ Million | £ Million | £ Million |
| New business contribution | (50 5) | 165 5 | 115 0 |
| Profit from existing business | 102 0 | (102 0) | – |
| Unwind of discount rate | – | 58 2 | 58 2 |
| Experience variances | 7 8 | 0 8 | 8 6 |
| Operating assumption changes | (7 5) | 6 0 | (1 5) |
| Investment return | 4 4 | – | 4 4 |
| Investment return variances | (0 2) | 109 9 | 109 7 |
| Economic assumption changes | 2 2 | (13 1) | (10 9) |
| Miscellaneous | (18 4) | – | (18 4) |
| **Profit after tax** | 39 8 | 225 3 | 265 1 |

The comparative figures for 2008 are as follows

| | Movement in IFRS Net Assets | Movement in VIF | Movement in EEV |
|---|---|---|---|
| | £ Million | £ Million | £ Million |
| New business contribution | (49 3) | 141 0 | 91 7 |
| Profit from existing business | 112 5 | (112 5) | – |
| Unwind of discount rate | – | 59 9 | 59 9 |
| Experience variances | 31 9 | (20 3) | 11 6 |
| Operating assumption changes | 3 4 | (4 1) | (0 7) |
| Investment return | 3 9 | – | 3 9 |
| Investment return variances | (17 2) | (220 2) | (237 4) |
| Economic assumption changes | (1 2) | 1 7 | 0 5 |
| Miscellaneous | (16 9) | – | (16 9) |
| Profit after tax | 67 1 | (154 5) | (87 4) |

# Notes to the European Embedded Value Basis
*continued*

## V EEV SENSITIVITIES

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

| | Note | Change in New Business Contribution Pre-tax | Change in New Business Contribution Post-tax | Change in EEV Post-tax |
|---|---|---|---|---|
| | | £ Million | £ Million | £ Million |
| **Value at 31 December 2009** | | 155 4 | 115 0 | 1,371 4 |
| 100bp reduction in risk free rates, with corresponding change in fixed interest asset values | 1 | 0 2 | 0 1 | 5 7 |
| 10% reduction in withdrawal rates | | 16 5 | 12 2 | 65 5 |
| 10% reduction in expenses | | 3 3 | 2 5 | 18 6 |
| 10% reduction in market value of equity assets | 2 | – | – | (122 4) |
| 5% reduction in mortality and morbidity | 3 | – | – | 0 3 |
| 100bp increase in equity expected returns | 4 | – | – | – |

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

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

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

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

| | Note | Change in New Business Contribution Pre tax | Change in New Business Contribution Post-tax | Change in EEV Post-tax |
|---|---|---|---|---|
| | | £ Million | £ Million | £ Million |
| 100bp reduction in risk discount rate | | 23 9 | 17 7 | 91 2 |

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

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

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **IFRS profit/(loss) before tax** | 28 5 | (31 4) |
| Movement in life value of in force | 234 8 | (19 1) |
| Movement in unit trust value of in-force | 99 9 | (65 4) |
| **Total EEV profit/(loss) before tax** | 363 2 | (115 9) |

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **IFRS net assets** | 539 8 | 508 0 |
| Less acquired value of in-force | (54 1) | (57 7) |
| Add deferred tax on acquired value of in-force | 15 1 | 16 1 |
| Add life value of in-force | 649 1 | 495 8 |
| Add unit trust value of in force | 221 5 | 152 1 |
| **EEV net assets** | 1,371 4 | 1,114 3 |

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

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **Life company estimated free assets** | 82 2 | 110 8 |
| Estimated required life company solvency capital | 42 5 | 41 1 |
| Other subsidiaries, consolidation and IFRS adjustments | 415 1 | 356 1 |
| **IFRS net assets** | 539 8 | 508 0 |

| | Year Ended 31 December 2009 | Year Ended 31 December 2008 |
|---|---|---|
| | £ Million | £ Million |
| **Life company estimated free assets at 1 January** | 110 8 | 100 5 |
| Investment in new business | (65 2) | (66 0) |
| Profit from existing business | 78 6 | 74 0 |
| Dividends paid | (44 4) | – |
| Investment return | 3 8 | 3 9 |
| Movement in required solvency capital | (1 4) | (1 6) |
| **Life company estimated free assets at 31 December** | 82 2 | 110 8 |

# Shareholder Information

## ANALYSIS OF NUMBER OF SHAREHOLDERS

| Analysis by Number of Shares | Holders | % | Shares Held | % |
|---|---|---|---|---|
| 1–999 | 2,592 | 43.2 | 1,033,240 | 0.2 |
| 1,000–9,999 | 2,646 | 44.1 | 7,807,256 | 1.6 |
| 10,000–99,999 | 575 | 9.6 | 16,557,301 | 3.4 |
| 100,000 and above | 187 | 3.1 | 456,633,990 | 94.8 |
| | 6,000 | 100.0 | 482,031,787 | 100.0 |

## FINANCIAL CALENDAR

| | |
|---|---|
| Ex-dividend date for final dividend | 3 March 2010 |
| Calculation period for scrip final dividend | 3 – 9 March 2010 |
| Record date for final dividend | 5 March 2010 |
| Announcement of first quarter new business | 21 April 2010 |
| Latest date for receipt of scrip dividend mandates | 22 April 2010 |
| Annual General Meeting | 13 May 2010 |
| Payment date for final dividend | 18 May 2010 |
| Announcement of Interim Results and second quarter new business | 28 July 2010 |
| Announcement of third quarter new business | 2 November 2010 |

## 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 115.

## 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 Accounts and the Notice of General Meeting through the internet rather than receive them by post, please register at www.etreeuk.com/stjamesplace

An internet share dealing service is also available. Further information about this section can be obtained by logging on to www.computershare.com/dealing/uk

# How to Contact Us and Advisers

## How to Contact Us

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**Finance Director**
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**Auditors**
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**Registrars and Transfer Office**
**Computershare Investor Services plc**
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