ST. JAMES'S PLACE PLC

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PRESS RELEASE

25 February 2014

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

STRONG GROWTH IN ALL ASPECTS OF THE BUSINESS, RESULTING IN A 50% INCREASE IN DIVIDEND

St. James's Place plc ("SJP"), the wealth management group, today issues its annual results for the year ended 31 December 2013:

	2013 £m	2012 £m	Growth £m
Underlying cash result	139.9	84.0	67%
Total cash result	168.8	91.7	84%
Profit before shareholder tax	190.7	134.6	42%
EEV new business profit	327.2	276.8	18%
EEV operating profit	462.7	365.9	26%
EEV net asset value per share	575.3p	461.0p	25%

New business highlights:

- Total new single investments of £7.2 billion (2012: £5.9 billion) up 22%
- Net inflow of funds under management of £4.3 billion (2012: £3.35 billion) up 28%
- Funds under management of £44.3 billion (2012: £34.8 billion) up 27%

Strategic initiatives:

- Continued expansion of Academy; planned launch of a regional programme
- In advanced talks to acquire international adviser business in Asia
- Back office infrastructure investment to enhance service delivery and achieve economies of scale

Full year dividend:

- Full year dividend 15.96 pence per share, up 50%
- A dividend increase in the range of 30 to 40% anticipated in 2014

David Bellamy, Chief Executive Officer, commented:

"2013 will be remembered as one of the most significant years in our history. Quite apart from the strong performance in all aspects of our business, it was a year in which we became a wholly independent FTSE company for the first time. It was also a year in which we made some important decisions affecting our back office infrastructure, to further enhance service delivery and achieve economies of scale, alongside investment in our distribution capabilities in the UK and overseas.

As I have said recently, there is a reassuring consistency about our business, which is most clearly demonstrated by the sustained growth in our funds under management over the last five years. Over this period of changing economic and market conditions, funds under management have grown by a compound 22% pa to £44 billion at the end of 2013.

The continuing growth and maturity in funds under management has, as expected, translated into strong growth in profits and the underlying cash result. I am therefore pleased to confirm that the Board proposes a final dividend of 9.58 pence per share, taking the total dividend for the year to 15.96 pence per share, up 50% on 2012.

Looking forward, everything we understand about our marketplace tells us that there is a growing need for trustworthy, personal, advice. Whilst there is always room for improvement, I am encouraged by the results from our recent annual client survey that show higher levels of overall client satisfaction, as well as higher levels of satisfaction in levels of service, communication and advocacy relative to both the feedback given in previous years and the wider marketplace. It's clear that our clients place great value on our approach to the management of their wealth and the long lasting relationships forged with our Partners and supported by the company. This will continue to be our focus.

Alongside that, I am confident that the growth we achieved in 2013, in both new investments and Partner numbers maintains the momentum in our business and bodes well for our future growth."

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An interview with David Bellamy, discussing today's results, will be available later today on www.sjp.co.uk

Analyst presentation 10.30 am (GMT)

Bank of America Merrill Lynch Financial Centre,
2 King Edward Street,
London EC1A 1HQ

Alternatively, if you are unable to attend but would like to watch a livestream of the presentation on the day, please click on the link below or via our website
http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16532/32968/Lobby/default.htm

There will also be a Dial in:

Conference call dial in details:
UK & International Number: +44 (0) 20 3139 4830
Participant Pin Code: 40183265#

Replay details (available for 7 days)
UK & International Number: +44 (0) 20 3426 2807
Audio Playback Reference: 645519#

CHIEF EXECUTIVE'S STATEMENT

2013 will be remembered as one of the most significant years in our history. Quite apart from the strong performance in all aspects of our business, it was also a year in which we became a wholly independent FTSE company for the first time having attracted a number of new institutional shareholders as the Lloyds Banking Group (LBG) sold their 57% holding in us.

As well as thanking Lloyds for their support in recent years, I would like to thank our existing shareholders who have increased their holdings in us. I would also like to take this opportunity to welcome our new shareholders and thank them for investing in us.

It was also a year in which we made some important decisions for the future, affecting our back office infrastructure and our distribution capabilities. I comment further on both these initiatives later in this statement.

Against this backdrop, and with the benefit of improved sentiment for investments, I am very pleased to report another record year that saw our funds under management increase by £9.5 billion to a new record high of £44.3 billion.

As I have said previously, there is a reassuring consistency about our business, which is most clearly demonstrated by the sustained growth in our funds under management over the last five years. Over this period of changing economic and market conditions, funds under management have grown by a compound 22% pa through new business and investment performance to £44 billion at the end of 2013.

New Business and Funds Under Management

New single investments of £7.2 billion were 22% higher than 2012, with clients choosing to invest broadly evenly across our life, pension and unit trust / ISA investment tax wrappers. Alongside those new investments, our Partners once again did an excellent job of looking after clients and this is demonstrated by the continued strong retention of existing funds enabling us to report net inflows of £4.3 billion, up 28% on the previous year. As I mentioned above, those net inflows, together with very healthy growth in most equity markets enabled us to report growth in funds under management of 27% to £44.3 billion.

Clients

At the heart of this sustained growth is the importance we place on maintaining long lasting relationships with our Partners and clients and serving them well.

We are very clear that if we do this well, we will maintain our strong retention record and attract new clients and investments through referrals and introductions. That was further evidenced last year by the introduction of over 45,000 clients to St. James's Place.

We also regularly seek feedback from our clients and Partners. For example, each year we commission the independent research specialists, Ledbury Research, to conduct a review amongst a random sample of clients. Whilst there is always room for improvement, the results of their latest review, carried out at the end of 2013, were very encouraging with clients reporting higher levels of overall satisfaction, levels of service, communication and advocacy relative to both the feedback given in previous years and the wider marketplace.

Such research, together with the direct contact we maintain with clients reassures us that our clients value the importance we place on looking after their wealth through our distinct approach to investment management.

Investment Management

Over the last 12 months, the slowly improving economic backdrop and the continued low interest rates have been key to the growth in investment markets in the UK, US and Europe, albeit at the expense of savers in traditional bank and building society accounts.

In the UK, the combination of economic policy and, in particular, of keeping interest rates low for so long, appears to be finally bearing fruit, with signs that the economy is improving. The key indicators on growth and employment are looking more positive now than at any time in the last five years.

Stock markets in the major economies performed strongly last year, with the FTSE 100 index up 14% in capital growth, 19% with dividends reinvested. Slightly higher growth was seen in the US and Europe, enabling investors in equities to enjoy improved returns as companies continue to return to stronger growth and profitability; the main exception being the lower growth seen in stock markets of the emerging economies and the Far East. That said, the Japanese stock market had an excellent year, making significant gains, albeit these were offset somewhat by the weakness of the currency.

Against this backdrop, St. James's Place equity based and managed funds also did very well last year, providing strong double-digit returns for the majority of our clients who were invested in them. The general sentiment toward investment today is far more positive than it has been for a number of years and at a time when access to trusted advice is increasingly in short supply, I believe our Partners are very well positioned to provide highly personalised advice to investors on how best to achieve their investment objectives.

The St. James's Place Partnership

In 2013, alongside the impressive financial results, we continued to attract high quality advisers to join us. The near 10% increase in the size of the Partnership to 1,958 was very encouraging and bears testimony to the outstanding reputation that we have built for both the quality of our client proposition and the level of support and development our Partners receive. Increasing the number of Partners and providing them with the tools and support to deliver high quality outcomes for clients is one of the key drivers to our achieving our long term growth objectives.

Whilst we are confident that we can continue to attract established high quality advisers, we are conscious of the fact that very few companies are investing in the development of new advisers. In recognition of this we have invested in our new Academy programme. Re-launched in 2012, we saw a further 60 students join the Academy last year bringing the total to over 100. Alongside them, we also saw 40 Next Generation students (sons and daughters of existing Partners) begin their careers with us via the Academy. If all goes according to plan, we can expect around 50 or so students to graduate as either Partners or advisers during the course of the next year. We also aim to attract a further 50-60 new entrants to the Academy during 2014 and are planning to expand the programme through the introduction of regional based Academies the first of which will begin in Manchester later this year.

We now offer the most comprehensive geographic access to wealth management advice in the UK. Notwithstanding the fact that we remain very focused on our UK business, we see an opportunity to expand our services overseas to the expatriate community. This is an area that we have been exploring for some time and I am pleased to confirm that we are close to completing the acquisition of a well-respected adviser business which has an existing team of advisers in Singapore, Hong Kong and Shanghai specialising in the provision of financial advice to members of the expatriate community in the Far East. This is an exciting development for us that we believe sits perfectly with our comprehensive investment approach and, subject to regulatory approval, the acquisition should be finalised in the first few months of 2014.

‘Back-office’ Administration

In 2013 we embarked on one of the most significant developments in our back office for some time. The first step combines our two major back offices under one management, and that was completed at the start of 2014. IFDS, which already administers our unit trust and ISA business, has now taken on the management of the team in Craigforth who administer our other onshore investment business.

The second step will be to put in place one unified, client-centric computer system that will be available to all the back-offices, enabling them to deliver improved service and improved efficiency for the business.

Financial Performance

I’m pleased to say that the business’s financial performance has been very positive in 2013.

On an International Financial Reporting Standards (IFRS) basis, profit before shareholder tax increased to £190.7 million (2012: £134.6 million).

Our European Embedded Value (EEV) basis operating profit for 2013 was £462.7 million (2012: £365.9 million) reflecting good growth in new business and s strong positive experience variance.

The Chief Financial Officer’s Report and Financial Review, on pages 8 to 42, provides a comprehensive presentation of the financial results for the year.

Dividend

Leading on from these profit results, we continue to see a growing cash result, a trend that is expected to continue with the increasing maturity of funds under management.

Consequently, given our ongoing confidence in the profile of the future cash emergence, we announced at the time of our interim results a 50% increase in the 2013 interim dividend and indicated that the full year dividend would be increased by a similar amount.

I am therefore pleased to confirm the underlying cash result was up 67% to £139.9 million and, in line with this statement, we are pleased to confirm the 50% increase in the final dividend of 9.58p pence per share, bringing the full year dividend to 15.96p per share.

Furthermore, given our ongoing confidence in the cash emergence going forward, we anticipate a dividend increase in the range of 30 to 40% in 2014. Beyond that we fully intend to continue with a progressive dividend policy, growing the future dividend in line with the underlying performance of the business.

The final dividend for 2013, subject to approval of shareholders at our AGM, will be paid on 16 May to shareholders on the register at the close of business on 11 April and as with last year, a Dividend Reinvestment Plan (“DRP”) continues to be available for shareholders.

Partners and Employees

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

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

The St. James’s Place Foundation

The St. James’s Place Foundation has always been an important part of the Group’s culture and we were delighted to celebrate the 21st anniversary of the Foundation in 2013 by raising a further £4.5 million, enabling us to support over 600 charitable projects. This was very much a collective effort by the whole SJP community, including employees, Partners, suppliers and others connected to SJP. I would like to thank them all for helping to raise such an impressive sum.

Outlook

I am confident that the growth we achieved in 2013, in both new investments and Partner numbers, bodes well for the continued momentum in our business and for future growth in line with our medium term objectives.

David Bellamy
Chief Executive
24 February 2014

CHIEF FINANCIAL OFFICER'S REPORT

The financial performance of the Group in 2013 was very strong across all financial measures continuing the positive trend we have seen in recent years

We have previously commented on the growth in the size of the Partnership and the record £7.2 billion of new investments which, together with the continuing excellent retention of client funds and strong investment markets, have led to a 27% growth in funds under management to a record £44.3 billion. In this statement I will comment on the other financial results and as usual additional information is provided in the Financial Review on pages 14 to 42 which accompanies this report.

2013 saw LBG sell their 57% shareholding through three successful share placings in the market which resulted in some £2 billion of our shares being acquired by both new and existing shareholders. I would like to join David in thanking our existing shareholders who acquired additional shares and in welcoming our new shareholders.

Financial results

As shareholders are aware we report our results on both an IFRS and EEV basis as well as providing further detail on the cash emerging from the business. Further analysis on these measures is provided on pages 14 and 15.

It is worth noting that, whilst the EEV result is primarily driven by the current year events (particularly new business and investment performance), the IFRS and cash results are the cumulative effect of all previous years. Hence this year's very positive growth in IFRS and cash result reflects the impact of growth and retention of funds under management seen in earlier years.

As I commented in my Interim report there were also a number of developments during the year which impacted the results.

Firstly, the UK life company entered into a new reinsurance treaty to reinsure the company's remaining exposure of its closed book of Protection business (life assurance, critical illness and PHI). This treaty resulted in the removal of both the insurance and persistency risk on this business from the balance sheet together with a one-off increase in the cash result of £18.3 million and a positive contribution of £8.9 million to the IFRS result.

Secondly, we were able to place a value on some historic capital losses within the Group which we now regard as being capable of utilisation over the medium term. Within the IFRS result a deferred tax asset of £27.9 million (undiscounted) has been established and within the EEV there was a resultant positive experience variance of £22.8 million post-tax (discounted). We expect the benefit to be realised in the cash result in future years.

Finally, the introduction of the new regulatory rules on adviser charging at the start of 2013, has changed the nature of a number of cash flows. The two principal impacts were, firstly, application of surrender penalties to all new pension business, resulting in an acceleration of cashflow from the first six years, and secondly, the loss of tax relief on the advice cost, which reduces the value of certain business.

Looking now at the performance of the key financial measures.

Profit before shareholder tax on an IFRS basis

The Board regards the Profit before shareholder tax as the best measure of the performance of the business on an IFRS basis and the table below provides the five year record of the financial result under this measure.

As can be seen in Table A below, profit on this measure was £190.7 million, up 42% over the prior year. This continues the impressive growth we have seen year on year resulting in cumulative growth of 282% over the period. This sustained growth reflects the increasing cash result, driven by higher funds under management and the increasing maturity of the business.

Table A: Profit before shareholder tax

	Profit before shareholder tax £'Million	**Growth**
2013	190.7	42%
2012	134.6	23%
2011	109.7	30%
2010	84.2	69%
2009	49.9	(23%)*

** Growth affected by economic conditions*

EEV result

The three key measures within the EEV results are the new business profit, the operating profit and the net asset value per share. The development of these measures over the last five years is shown in Table B.

Table B: Key EEV financial measures

	EEV new business contribution	EEV operating profit	EEV net asset value per share
	£'Million	£'Million	Pence
2013	327.2	462.7	575.3
2012	276.8	365.9	461.0
2011	246.0	371.5	385.0
2010	217.8	332.6	352.9
2009	155.4	228.9	284.5

The new business profit at £327.2 million was up 18% during the year and has grown in each of the years since 2009, doubling over the period. The growth in new business profit reflects increasing new business volumes, positive business mix and expense management.

The operating profit increased by 26% during the year to £462.7 million reflecting both the growth in the new business profit together with strong positive experience variance in the year.

The net asset value per share on an EEV basis at the end 2013 was 575.3 pence, some 25% higher than the start of the year and has more than doubled over the period.

Cash result

The Group's underlying cash result is principally dependent on the value of client funds under management. Since much of our business does not generate net cash in the first six years, the level of cash result will increase as a result of new business from six years ago becoming cash generative.

The first column in the table below shows how the underlying cash arising from the business in-force at the valuation date (in-force business) has grown by 30% in the year.

Nearly 30% of funds under management are currently not yet generating any positive cash flow. However, they are expected to become cash generative once they reach the end of their sixth year, at which time they will support future strong organic growth in the cash arising from the in-force.

Column 2 of the table shows the underlying level of cash earnings that is 're-invested' in acquiring new business. Despite the new business growth during the period, the level of the investment required has not increased over the last five years. Indeed in 2013 there was a positive effect from the regulatory changes which has actually reduced the strain. The reduction in the level of investment required means shareholders can now expect an improved return on the investment, with an expected internal rate of return of c. 28.4%.

The net effect of growing the cash arising from the in-force business whilst keeping the level of cash invested in new business relatively flat, is growth in the underlying cash result. As can be seen from Table C the underlying cash result was up 67% in the year – a fourth successive year of significant growth, a trend that is expected to continue.

Table C: Cash result

	Cash arising on in-force business	**Cash invested in acquiring new business**	**Underlying cash result**	**Growth**
	£'Million	**£'Million**	**£'Million**	
2013	188.2	(48.3)	139.9	67%
2012	144.5	(60.5)	84.0	33%
2011	125.4	(62.4)	63.0	54%
2010	102.3	(61.4)	40.9	74%
2009	88.8	(65.3)	23.5	(2%)

The underlying cash result is an important indicator for investors as this is the key determinant in setting the annual dividend to shareholders. The continuing strong growth in this measure has enabled the board to increase the dividend significantly in recent years.

In addition to the underlying cash result there were positive variances during the year totalling £28.9 million. The main contributor to this exceptional level of variances was the impact of the reinsurance transaction noted earlier. In addition there were a number of other positive and negative items totalling a positive £10.6 million.

The total post tax cash result for the year was therefore £168.8 million compared with £91.7 million for the prior year.

Dividend

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

This combination means the cash available for corporate purposes and to return to shareholders is increasing. Consequently the Board has been able to follow a strategy of increasing the dividend each year.

Having increased the dividend by 33% in each of the three previous years, at the time of the interim results we declared an increase in the 2013 interim dividend of 50% and indicated that the full year dividend would be increased by a similar amount. Therefore, the Board have proposed a full dividend increase of 50%.

Furthermore, given our ongoing confidence in the cash emergence going forward, we anticipate a dividend increase in the range of 30 to 40% in 2014. Beyond that we fully intend to continue with a progressive dividend policy, growing the future dividend in line with the underlying performance of the business.

Table D: Dividend

	Dividend per share Pence	Growth
31 December 2013	15.96	50%
31 December 2012	10.64	33%
31 December 2011	8.0	33%
31 December 2010	6.0	33%
31 December 2009	4.5	2.5%

Capital

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

The Group continues to be capitalised well in excess of regulatory solvency requirements, and the surplus solvency assets remain invested prudently in cash, AAA rated money market funds and UK government securities. The relative lack of balance sheet or market risk, together with this prudent investment policy has provided for an increasingly resilient solvency position over recent years, despite the difficult financial and market environment recently experienced. At the year end the total Group solvency net assets were £507.6 million, well in excess of the combined solvency requirement of £66.4 million of the regulated entities within the Group.

Future developments

We have commenced an investment programme working with our key ‘back-office’ administration provider to enhance our ‘back office’ systems to accommodate both continued growth and achieve future efficiency savings. Whilst the major systems development costs will be borne by the administration provider under a new long-term contract, we will incur our own internal project costs over the next couple of years and this is covered in more detail in Section 5 of the Financial Review.

Over a similar timeframe, national regulators are required to implement the new EU Solvency II regulations. We are well prepared for implementation and do not believe the Group will be adversely impacted.

Concluding remarks

2013 has been another strong year of financial performance for the Group with the highlight being the strong underlying post-tax cash result which has benefited from the growth and retention of funds under management, not only in the current year, but more importantly from that experienced in earlier years.

The business remains in good shape. As it continues to mature we expect further growth in the profits and in particular increasing cash emergence. This developing cash result has enabled the Board not only to increase the 2013 dividend by 50% but also to indicate a further significant increase in the 2014 dividend.

Andrew Croft
Chief Financial Officer
24 February 2014

FINANCIAL REVIEW

The Financial Model

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

The level of income is dependent on the level of client funds and asset values. In addition, since a proportion of our business does not generate net cash in the first six years, the level of income will increase as a result of new business from six years ago becoming cash generative. This deferral of cash generation means the business always has six years' worth of funds "in the gestation period" (see page 34).

Group expenditure is carefully managed with clear targets set for growth in establishment expenses in the year. Other expenses increase with business levels and are met from margins in the products (see page 39). In addition, the Group will incur development expenditure through investment in new client services, computer systems and other corporate initiatives.

A small proportion of Group expenditure is required to support management of existing funds, but the majority of expenditure is investment in growing the Partnership and acquiring new funds. The resulting new business is expected to generate income for an average of 14 years, and is expected to provide a good return on the investment (see page 35).

As the business matures, the proportion of the cash emergence from the existing business required to support the acquisition of new business is reducing. This has resulted in strong growth in both cash emergence and IFRS profits.

Given the high level of investment in new business generation each year, neither the cash emergence nor the IFRS profit provides an easy guide to the profits likely to emerge in the future or the total economic value of the business. However, consideration of the contribution to profits from just the in-force business does provide a good indication of the underlying value being generated by the business and results using the EEV methodology (described below) are also useful in assessing the economic value of our business.

Presentation of financial results

Management believes it is important for investors to appreciate not only the short term net income position of our business, but also the full, long-term potential. We therefore complement our statutory IFRS reporting with additional disclosure on an embedded value basis (using EEV principles). This measure assesses the discounted value of all future cash flows and we believe it better reflects the full economic value of the performance of the business. We also provide analysis of the sources of cash emergence in the year, which we refer to as the cash result.

These three measures, which are described in more detail below, provide investors with different perspectives on the performance of the business in a particular year. We believe the additional disclosure will assist them in making their own assessment of the value of the business.

The **IFRS result** is the approach required for statutory reporting purposes. The standards require that profits are recognised in line with the provision of services and therefore broadly in line with the cash emergence from a contract. However, for long term business it seeks to spread some of the initial cash flows over the whole duration of the contract through the use of intangible assets and liabilities (known as DAC – Deferred Acquisition Costs and DIR – Deferred Income Reserve) and recognises the value of certain future cash flows, particularly deferred tax.

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

adjusted for tax paid on behalf of policyholders. We believe this measure provides the most useful indication of IFRS operating performance in the period.

In arriving at the profit before shareholder tax it is necessary to estimate the analysis of the total tax charge between that payable in respect of policyholders and that payable by shareholders. Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders, with the balance being treated as tax in respect of policyholders. This is a refinement to the estimation approach previously used. The Directors consider that this refined approach both more appropriately reflects the tax that is borne by shareholders on their profits and simplifies the approach for investors.

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

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

Finally, the **cash result** measure has been developed with the aim of assisting investors seeking to understand the sources of cash emergence. It is based on IFRS, but removes non-cash items such as DAC, DIR and deferred tax. It is also adjusted to reflect a level of regulatory solvency constraint on profits emerging from regulated companies such as our insurance businesses in line with that required by the UK regulators. The effect is to create a measure which more reflects the underlying cash generated by the business and which can be used by the Board in determining the dividend payments to shareholders.

Since the cash result can be impacted by one off items, timing variances and capitalised impacts of changes in solvency requirements management believes it is also useful to present an **underlying cash result** excluding these effects. Neither of these cash result measures should be confused with the IFRS cash flow statement which is prepared in accordance with IAS 7 and disclosed on page 65.

Section 1 below provides detail on the 2013 developments impacting on the financial result, sections 2-4 below provide a commentary on the performance of the business on the IFRS, EEV and Cash Result bases, whilst Section 5 covers other matters of interest to shareholders.

SECTION 1: DEVELOPMENTS IN 2013 IMPACTING THE FINANCIAL RESULT

As noted in the Chief Financial Officer's Report, there were three developments of note during the year which had significant impacts on the Financial Statements and the same developments will also affect emergence of profit in future years. Comment on the impact is included in the detailed notes in the following sections, but to assist readers, a full analysis is also presented in this section.

1. Reinsurance Transaction

In early 2013 the UK life assurance company entered into a new reinsurance treaty to reinsure the company's remaining exposure on its closed book of Protection business (life assurance, critical illness and PHI). This treatment resulted in the removal of both the insurance and persistency risk on this business from the balance sheet.

The transaction resulted in a one-off release of the prudent solvency reserves and realisation of the capitalised value of the expected future margins. Since the EEV measure already reflects future profits the impact on EEV operating profit was small. By contrast, the impact on the Cash result was a one-off increase of £18.3 million in the year, due to the impact of immediate recognition of the value of future profits. Since the IFRS approach had already recognised some value for the future cashflows through a DAC asset the net impact was a positive contribution of £8.9 million to the profit before shareholder tax.

As a result of the transaction the protection business will no longer contribute to profit on any measure. Our analysis presents the impact of the transaction as being effective at the start of the year and so the result in 2013 reflects the expected lower ongoing level of profit.

2. Group capital losses tax asset

During 2013 the company was able to place a value on old capital losses within the Group. These are now regarded as being capable of utilisation over the medium term and so the expected value was disclosed in the interim reporting. In the second half of the year further work has resulted in a refinement and reduction of our estimate of the benefit and, at the same time, the implementation of changes in the corporation tax rate has also reduced the overall benefit assumed in the IFRS accounts. We are now fully reflecting the value of these losses in the IFRS result though a deferred tax asset of £27.9 million (undiscounted) so there should be no further impact on IFRS profit in future years. The same tax asset is valued at £22.8 million (discounted) in the post-tax EEV, and so contributed £28.6 million to the pre-tax EEV operating profit in the year.

The Group didn't utilise any of these capital losses in 2013 but expects to recognise positive impacts, of loss utilisation, in the Cash result in the next few years (which will emerge through the Miscellaneous line).

3. Changes due to the Retail Distribution Review

New regulatory rules, following on from the Retail Distribution Review (RDR), came into force at the start of 2013. A key change was the introduction of "adviser charging", with the requirement that any advice should be the cost of the client rather than a product manufacturer. This change affected the nature of a number of cash flows, and there were three consequential impacts affecting the financials:

1. The application of surrender penalties has been extended to all new pension business, resulting in acceleration of cashflow from the first six years
2. Advice is now paid for by the client and so there is no initial charge or expenses to be deferred within the IFRS result through the DAC and DIR
3. Advice costs are no longer expenses of the UK life company and so tax relief is no longer available within the life company's tax computation.
   (Historically the tax relief was spread over seven years so the impact depends on the reporting method).

The impacts of these changes is summarised in the following table:

	Cash Result	**IFRS**	**EEV**
Application of surrender penalties	The acceleration of the cashflow reduces a previous new business strain and generates an increase in the new business margin. The positive impact is only an acceleration of cashflow, and so the benefit is offset in the following six years by an increase in the unwind of surrender penalties	The additional new business margin arising from the acceleration of the cashflow is deferred through the DIR, so the positive impact in the Cash result is offset and the overall impact on profit is small. The impact on future years is also small. *(Note that the impact of this change alone is a significant increase in the DIR on new business,* ***but*** *see also "DAC and DIR" below.)*	The earlier realisation of the cashflow results in a small increase in new business contribution. This small impact is reflected in the new business margin and future new business contribution.
DAC and DIR	Not relevant	Since the advice related cashflows are no longer deferred, they don't actually contribute to DAC and DIR, and so the new business DAC and DIR adjustments are much smaller than in prior years. The effect of the application of surrender penalties change above on the DIR is therefore reversed and there is a further overall reduction in income deferral which exceeds the reduction in expense deferral. The impact of all the changes is therefore an increase in the cash result which is partially mitigated by the new (lower) level of DIR exceeding the new level of DAC. Overall from these effects there is an increase in IFRS profit after tax of c.£20m in 2013, which will grow in line with new business in future years but offset by the additional unwind of surrender penalties noted in the Cash result.	Not relevant

Loss of tax relief on advice cost	Although tax relief is no longer available on the advice cost, the spreading effect means that the negative impact on the Cash result is only fully recognised over seven years. During that period the impact is expected to be a reduction of profit growth by £3-4 million each year. This is reflected in a number of lines within the Cash result analysis but principally through a reduction in the margin arising from new business, recognising the full impact, offset by the unwinding of prior years' tax relief through the Miscellaneous line	The full impact of tax relief on expenses is reflected in the IFRS result through recognition of a deferred tax asset. The loss of the tax relief therefore gets fully reflected as well and results in a reduction of c.£11m in IFRS profit after tax in 2013. Within our analysis of the IFRS result, the reduction will be reflected incrementally in the Cash result over seven years, with the offsetting balance of the negative impact reflected in the IFRS deferred tax impacts line.	The full capitalised effect of the loss of tax relief on all future advice costs is reflected in the new business contribution. The impact in 2013 is a reduction of c.£20-25 million. Future new business will reflect the new lower level of new business margin.
Overall	The Cash result has increased significantly in 2013 over 2012 as a result of the increase in margin arising from new business. In future years the impact of the increase in margin arising from new business will be offset by an increase in the unwind of surrender penalties, and growth in the Cash result will also be slowed by the cumulative impact of the loss of tax relief on advice costs.	The positive impact on the Cash result in 2013 is largely mitigated by adjustments in the IFRS result, and so the IFRS profit after tax has increased only slightly above the trend from 2012 (after taking into account one-offs). Future profits growth will slow slightly compared to the profits growth trajectory of recent years, mitigating the positive uplift in 2013.	The New business contribution has reduced in the year, resulting in a corresponding reduction in the new business margin. Future EEV profits will reflect the lower level of new business contribution.

SECTION 2: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Board regards the profit before shareholder tax as the best measure of the IFRS operating performance for the year. It provides a measure of performance which recognises the emergence of profits in line with the provision of services, and is comparable with other businesses. The detailed IFRS result is shown on pages 62 to 83 and is summarised in the table below.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Profit before shareholder tax	190.7	134.6
Shareholder tax	(0.4)	(27.5)
IFRS profit after tax	190.3	107.1

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

Profit before shareholder tax

The profit before shareholder tax for the year was £190.7 million, up 42% on the prior year result of £134.6 million.

As commented on in Section 1, the 2013 result included a one-off amount of £8.9 million, arising from a new reinsurance treaty entered into by the UK life company. This treaty has reinsured the remaining insurance and persistency risk associated with that company's closed book of Protection business and the profit reflects the release of the associated prudent solvency reserves together with the realisation of the capitalised value of the expected future margin.

The key driver of the improved result was the increase in income derived from higher funds under management. During 2013, the average level of funds under management exceeded £39.5 billion, and was some 25% higher than in the prior year.

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	170.6	111.7
Unit Trust business	53.9	33.5
Distribution business	(6.1)	5.3
Other	(27.7)	(15.9)
Profit before shareholder tax	190.7	134.6

Life business
The Life business profit for the year was £170.6 million (2012: £111.7 million) which was 53% higher than the prior year.

The principal contributor to this rise in profit was the increase in income derived from higher funds under management. The result also benefited from impact of the UK life company entering into a reinsurance treaty which resulted in a one-off positive impact of £8.9 million (as noted above).

Unit Trust business
The Unit Trust business profit for the year was £53.9 million (2012: £33.5 million) which was also higher than the same period last year. As above, the principal contributor to this rise in profit was the increase in income arising from higher funds under management.

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

The Distribution business loss for the year was £6.1 million (2012: profit of £5.3 million). The result reflects higher expenses in 2013 associated with the strong increase in Partner numbers (up 9.5% in the period). The benefit from this investment in recruitment will be seen in future periods with the overall loss being mitigated by higher levels of income arising from the additional Partners. The result was also impacted by levies to the Financial Services Compensation Scheme of £5.5 million (2012: £6.2 million). Whilst the overall impact on the Group of the regulatory changes in 2013 was neutral, changes in the nature of the cashflows resulted in limited reallocations of both income and expense across the Group, which also contributed to the loss in the year.

Other
Other operations contributed a loss of £27.7 million (2012: loss of £15.9 million). Included within this figure is the £8.1 million (2012: £6.0 million) development costs related to our Back-office infrastructure project and regulatory change, £7.8 million (2012: £5.4 million) for the cost of expensing share options, and one-off costs in relation to the reduction in the Lloyds Banking Group ("LBG") shareholding on 11 March 2013 of £6.2 million.

Shareholder tax

The tax reported under IFRS each year is impacted by a variety of effects, both current and future, particularly one-off events such as the change in corporation tax rate. Therefore, to assist shareholders, the table below provides a high level analysis of shareholder tax and the implied tax rate. A more detailed analysis is included in Note 5 to this announcement.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Expected shareholder tax	(41.9)	(33.7)
Recognition of capital losses	27.9	-
Market related tax effects	-	(4.0)
Other tax adjustments	1.6	2.0
Corporation tax rate change	12.0	8.2
Actual shareholder tax	(0.4)	(27.5)
Expected shareholder tax rate	22.0%	25.0%
Actual shareholder tax rate	0.2%	20.4%

The **expected shareholder tax** principally reflects the current corporation tax rate applicable and will vary from year to year depending upon the emergence of profit between the different tax regimes which apply to the St. James's Place Group companies. More detail is included in Note 5 to this announcement.

As commented on in Section 1, the recognition of the future effect of Group capital losses reduced the shareholder tax recognised in the year by £27.9 million.

The refinement of the method of estimation of policyholder tax during the year means the **Market related tax effects** will normally be zero in future. The **other tax adjustments** are also typically small.

The impact of the **corporation tax rate change** on deferred tax has been a recurring feature in recent years and reduced the tax charge in both years. The impact on shareholder tax in 2012 reflects implementation of corporation tax rate reductions totalling 2%, from 25% to 23%. The impact in 2013 reflects the implementation of a 2% reduction from 23% to 21% effective from April 2014 and a further 1% reduction to 20% effective from April 2015.

The overall impact of all of the above effects is to decrease the tax charge reported in the IFRS results to £0.4 million (2012: £27.5 million). However it is worth noting that the current year tax charge in the year was £38.3 million (see Note 5 on page 75)

IFRS profit after tax

The following additional analysis of the IFRS profit after tax result identifies the different contributions from the business in-force at the start of the year, and the new business added during the year. It starts from the cash result, which can be found on pages 31 to 34.

Year Ended 31 December 2013

	Notes	**In-Force**	**New Business**	**Total**
		£'Million	£'Million	£'Million
Cash result	1	221.1	(52.3)	168.8
DIR amortisation	2	113.7	1.8	115.5
DAC amortisation	3	(91.5)	(1.8)	(93.3)
PVIF amortisation	4	(2.5)	-	(2.5)
DIR on new business	2	-	(48.9)	(48.9)
DAC on new business	3	-	31.5	31.5
Share options	5	(7.8)	-	(7.8)
IFRS deferred tax impacts	6	14.6	-	14.6
Other IFRS	7	0.4	-	0.4
Corporation tax rate change	8	12.0	-	12.0
IFRS profit after tax		**260.0**	**(69.7)**	**190.3**

Year Ended 31 December 2012

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

The IFRS profit after tax from the business in-force at the start of the year increased to £260.0 million (2012: £168.5 million). This reflects both the increase in the underlying cash result as a result of the increase in income from higher funds under management but also the positive impact from recognition of the future tax benefit of capital losses (£27.9 million).

The loss associated with acquiring new business for the year was £69.7 million (2012: £61.4 million loss) and should be viewed as an investment for future profits. The IFRS method seeks to spread some initial cashflows over the whole duration of the contract and therefore the positive impact of the higher initial margin, which is evident in the lower cash result for new business, is reversed through the DIR. The increase in the cost of new business therefore reflects the underlying higher (non-deferrable) expenses in the year, particularly development expenses and investment in the business.

Notes

1. These figures are explained in the analysis of the post-tax cash result in Section 4.

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

(a) The amortisation of the opening deferred income, which increases profit for the period, was £113.7 million (2012: £93.6 million) in the current year. The release in a particular year will depend upon the value of DIR at the start of the year and the remaining life of the policies to which the DIR relates or the remaining surrender penalty period. The expected amortisation charge for 2014 is £107.9 million.

(b) The deferral of the initial profit associated with new business sales reduced the IFRS result by £48.9 million in 2013 (2012: £155.9 million). The deferral of profit in any particular year will be dependent upon the level of new business.

As commented on in Section 1, the introduction of the new regulatory rules on adviser charging has resulted in a significant reduction in the level of DIR on new business in the current year.

The current year deferral of £48.9 million does however, include some business that was issued in 2013 but advised on before that date and therefore it is accounted for under the old method. This figure is therefore not representative of the on-going position. If all the new business had been advised on after the start of the year we estimate that the DIR on new business in the year would instead have been c.£35 million.

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

(a) The amortisation of the opening DAC, which reduces profit for the period, was £91.5 million (2012: £74.7 million) in the current year. The charge in a particular period normally depends upon the value of the DAC at the start of the year and the remaining life of the policies to which the DAC relates. However the 2013 result was also affected by the transaction to reassure the Protection business which resulted in an impairment of the associated insurance DAC with an additional negative impact of £9.6 million post-tax. The expected amortisation charge for 2014 is £82.3 million.

(b) The deferral of the specific acquisition costs, which were incurred in the current period, increased IFRS profits by £31.5 million (2012: £155.0 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.

As commented on in Section 1, the adoption of the new regulatory rules on adviser charging at the start of 2013 has resulted in a significant reduction in the level of DAC on new business in the current year.

The current year deferral of £31.5 million does however, include some business that was issued in 2013 but advised on before that date and therefore it is accounted for under the old method. This figure is therefore not representative of the on-going position. If all the new business had been advised on after the start of the year we estimate that the DAC on new business in the year would instead have been c.£21 million.

4. PVIF: The IFRS balance sheet includes an asset representing purchased value of in-force ("PVIF"). This asset is amortised over the remaining life of the policies associated with this asset. The amortisation charge for the year was £2.5 million (2012: £2.4 million). The charge for 2014 is expected to be £2.6 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 tax benefits that are expected to emerge in future. The asset then unwinds as the tax benefits are recognised in the cash result. Historically these movements have contributed small adjustments to the IFRS profit after tax result. However in in 2013 the result was impacted by both:
- the establishment of a £27.9 million deferred tax asset, recognising the future benefit from capital losses within the Group which we now regard as being capable of being utilised in the medium term, and
- loss of tax relief on advice costs as a result of RDR

Further comment on these developments is included in Section 1. Overall the impact on IFRS profit after tax was to increase profit by £14.6 million (2012: £8.3 million charge)

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

8. Corporation tax rate change: the above adjustments are all shown net of deferred tax rates prevailing at the end of each year, and this £12.0 million (2012: £8.2 million) reflects the effect on the deferred tax assets and liabilities of the change in the tax rate from 23% to 21% in 2014 and also the further change to 20% in 2015.

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

IFRS profit before tax

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
IFRS profit before tax	461.2	251.8
Policyholder tax	(270.5)	(117.2)
Profit before shareholder tax	190.7	134.6
Shareholder tax	(0.4)	(27.5)
IFRS profit after tax	190.3	107.1

In 2013 the **IFRS profit before tax** for the year was £461.2 million (2012: £251.8 million) with the principal contribution to the change being the movement in the policyholder tax from a £117.2 million charge in 2012 to a £270.5 million charge in 2013.

The **policyholder tax** reflects the movement in the provision within the unit linked funds for UK tax payable. The increase in the provision arises principally as a result of the increase in the stock markets during 2013. The movement between the reporting dates has resulted in a tax charge of £270.5 million.

Analysis of IFRS Assets and Net Assets per Share

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Purchased value of in-force*	32.0	33.3
Deferred acquisition costs*	720.8	757.1
Deferred income*	(466.7)	(519.2)
Other IFRS net assets	112.4	87.8
Solvency net assets	507.6	403.5
Total IFRS net assets	906.1	762.5

* net of deferred tax

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence	Pence
Net asset value per share	175.9	150.4

SECTION 3: EUROPEAN EMBEDDED VALUE (EEV)

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

The table below and accompanying notes summarise the profit before tax of the combined business. The detailed results are shown on pages 50 to 61 and include information about the sensitivity of the results to key assumptions on page 59 and 60.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	365.7	293.9
Unit Trust business	130.8	82.6
Distribution	(6.1)	5.3
Other	(27.7)	(15.9)
EEV operating profit	462.7	365.9
Investment return variance	344.2	190.4
Economic assumption changes	10.6	(3.7)
EEV profit before tax	817.5	552.6
Tax	(161.9)	(114.5)
Corporation tax change	18.9	21.6
EEV profit after tax	674.5	459.7

Total EEV operating profit for the year, at £462.7 million, was 26% higher than the 2012 result of £365.9 million.

EEV operating profit

Life business

The Life business operating profit has increased to £365.7 million in the year (2012: £293.9 million) mainly due to the significant contribution from experience variances in the year. A full analysis of the result is shown below:

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
New business contribution	213.6	208.9
Profit from existing business		
- unwind of the discount rate	89.4	76.9
- experience variance	53.9	6.9
- operating assumption change	4.6	(1.7)
Investment income	4.2	2.9
Life business EEV operating profit	365.7	293.9

The small increase in the **new business contribution** for the year to £213.6 million (2012: £208.9 million) reflects the positive impact of the growth in new business being greater than the growth in the associated expenses (the operational gearing), but is offset by a negative impact of some £20-25 million from the loss of tax relief on advice costs. (See comment in Section 1)

The **unwind of the discount rate** was £89.4 million (2012: £76.9 million), principally reflecting the higher opening asset.

The **experience variance** in the year was £53.9 million (2012: £6.9 million). The key contributor to the positive variance in the current year was a £28.6 million pre-tax (£22.8 million post tax) value placed on capital losses within the Group, which we now regard as being capable of utilisation in the medium term. In addition the continued strong retention of client funds contributed a further positive variance of £26.8 million pre-tax, with the balance made up by a number of small positive and negative variances.

There was a small positive **operating assumption change** of £4.6 million (2012: £1.7 million negative variance).

The **investment income** for the year was £4.2 million (2012: £2.9 million) and reflects an assumed interest rate earned on our free assets.

Unit Trust business
The Unit Trust operating profit was £130.8 million (2012: £82.6 million) and a full analysis of the result is shown below:

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
New business contribution	113.6	67.9
Profit from existing business		
- unwind of the discount rate	22.7	19.1
- experience variance	(6.5)	(2.3)
- operating assumption change	-	(2.6)
Investment income	1.0	0.5
Unit Trust business EEV operating profit	130.8	82.6

New business contribution at £113.6 million (2012: £67.9 million) was 67% higher than the prior year as a result of the strong new business growth in the period and control of growth in associated expenses.

The **unwind of the discount rate** was £22.7 million (2012: £19.1 million), principally reflecting the higher opening asset.

There was a small negative **experience variance** of £6.5 million (2012: £2.3 million negative variance) which is accounted for by a number of small positive and negative items in both years.

There were no **operating assumption changes** during the year (2012: £2.6 million negative variance).

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

Investment return variance

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

During 2013, world stock markets rose, with, for example, the MSCI £ world index increasing by some 24.3%. This was reflected in the investment return on our funds, which comfortably exceeded the assumed investment return. As a result there was a positive investment return variance of £344.2 million for the year.

In the prior year there was a positive investment variance of £190.4 million, reflecting the lower level of stock market growth.

Economic assumption changes

There was a positive variance of £10.6 million arising from changes in the economic basis adopted at the year end and in particular increases in 'real' yields above inflation (2012: £3.7 million negative variance).

EEV profit before tax

The total EEV profit before tax for the year was £817.5 million (2012: £552.6 million). The increase represents both the growth in the operating profit and the higher investment variance in 2013.

Tax

The tax charge at £161.9 million (2012: £114.5 million charge) was higher than 2012 reflecting the higher profit before tax.

Corporation tax rate change

A further 1% reduction in the Corporation tax rate (from 21% to 20% in 2015) was announced in the 2013 Budget which has resulted in a further reduction in the future expected tax cost of £18.9 million. This reduction has been shown as a negative tax charge.

EEV profit after tax

The EEV profit after tax was £674.5 million (2012: £459.7 million). The principal reason for the variation is the change in investment return variance.

New Business Margin

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

The table below presents margin results based on each of the two main measures of new business performance used by the insurance sector. In a small change to previous practice, APE margin in the table has been presented to disclose the new business margin on just our own manufactured business as this is considered to be of greater importance to our investors and moves the measure to be consistent with the PVNBP margin calculation.

- Annual Premium Equivalent (APE) – calculated as the sum of regular premiums plus 1/10th single premiums

- Present Value of New Business Premium (PVNBP) – calculated as single premiums plus the present value of expected premiums from regular premium business, allowing for lapses and other EEV assumptions

	Year Ended 31 December 2013	Restated* Year Ended 31 December 2012
Life business		
New business contribution (£' m)	213.6	208.9
APE (£'m)	532.9	488.7
Margin (%)	40.1	42.7
PVNBP (£'m)	4,758.0	4,424.4
Margin (%)	4.5	4.7
Unit Trust business		
New business contribution (£' m)	113.6	67.9
APE (£'m)	230.0	148.5
Margin (%)	49.4	45.7
PVNBP (£'m)	2,300.2	1,484.7
Margin (%)	4.9	4.6
Total business		
New business contribution (£' m)	327.2	276.8
APE (£'m)	762.9	637.2
Margin (%)	42.9	43.4
PVNBP (£'m)	7,058.2	5,909.1
Margin (%)	4.6	4.7

*The prior year APE figures have been restated to exclude non-manufactured business.
The Life business margin has decreased from 4.7% to 4.5% on a PVNBP basis and marginally from 42.7% to 40.1% on the APE basis.

In both cases, the movement reflects the net effect of a negative impact from the loss of tax relief on adviser charges within the UK life company's "I-E" tax computation (as these adviser charges are now being paid direct by the client and not by the company), partially offset by the positive impact of growth in new business being greater than growth in expenses (the operational gearing).

The Unit Trust margin has increased from 4.6% to 4.9% on a PVNBP basis and from 45.7% to 49.4% on an APE basis, reflecting growth in new business volumes exceeding growth in expenses (operational gearing).

The marginal decrease over the prior year on both the measures for the manufactured business reflects the respective proportions of life and unit trust business.

In addition to our manufactured business, there was an additional £102.3 million (APE) of non-manufactured new business, resulting in a combined APE margin for the year of 37.8% (2012: 37.2%). The improved margin reflects the lower proportion of non -manufactured business in 2013.

Analysis of the European Embedded Value and Net Assets per Share

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

	Year Ended 31 December 2013 £' Million	Year Ended 31 December 2012 £' Million
Value of in-force		
- Life	1,950.2	1,549.3
- Unit Trust	506.3	383.5
Solvency net assets	507.6	403.5
Total embedded value	2,964.1	2,336.3

	Year Ended 31 December 2013 Pence	Year Ended 31 December 2012 Pence
Net asset value per share	575.3	461.0

SECTION 4: CASH RESULT AND CAPITAL

In addition to presenting the financial performance on the IFRS and EEV basis, we also provide an analysis of the sources of cash emergence in the year which we refer to as the cash result. The cash result is based on the IFRS result, but removes non-cash items such as DAC, DIR and deferred tax. It is also adjusted to reflect a level of regulatory solvency constraint on profits emerging from regulated companies such as our insurance businesses in line with that required by the UK regulators. The effect is a measure which more reflects the underlying cash emergence of the business, and which is available to pay dividends. An **underlying cash result** is also presented, stripping out the effects of one off items, timing variances and capitalised impacts of changes in solvency requirements.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Underlying cash result	139.9	84.0
Reinsurance transaction	18.3	-
Variance	10.6	7.7
Cash result	168.8	91.7

In 2013, the **underlying cash result** was £139.9 million (2012: £84.0 million) some 67% higher than the prior year, principally due to an increase in the net income from funds under management. In both years there were positive variances, and so the overall **cash result** increased to £168.8 million (2012: £91.7 million) up 84%.

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

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

Year Ended 31 December 2013	**Notes**	**In-Force**	**New Business**	**Total**
		£'Million	£'Million	£'Million
Net annual management fee	1	290.5	27.0	317.5
Unwind of surrender penalties	2	(103.4)	(15.9)	(119.3)
Net income from funds under management		187.1	11.1	198.2
Margin arising from new business	3	-	37.8	37.8
Establishment expenses	4	(8.6)	(78.4)	(87.0)
Development expenses	5	-	(10.8)	(10.8)
Regulatory Fees	6	(0.9)	(8.0)	(8.9)
Shareholder interest (regulated companies)	7	3.3	-	3.3
Shareholder interest (non-regulated companies)	7	4.1	-	4.1
Miscellaneous	8	3.2	-	3.2
Underlying cash result		188.2	(48.3)	139.9
Reinsurance transaction	9	18.3	-	18.3
Variance	10	14.6	(4.0)	10.6
Cash result		221.1	(52.3)	168.8

Year Ended 31 December 2012	Notes	In-Force	New Business	Total
		£'Million	£'Million	£'Million
Net annual management fee	1	231.1	22.2	253.3
Unwind of surrender penalties	2	(85.5)	(10.7)	(96.2)
Net income from funds under management		145.6	11.5	157.1
Margin arising from new business	3	-	13.3	13.3
Establishment expenses	4	(7.8)	(68.4)	(76.2)
Development expenses	5	-	(8.8)	(8.8)
Regulatory Fees	6	(0.9)	(8.1)	(9.0)
Shareholder interest (regulated companies)	7	2.4	-	2.4
Shareholder interest (non-regulated companies)	7	3.1	-	3.1
Miscellaneous	8	2.1	-	2.1
Underlying cash result		144.5	(60.5)	84.0
Variance	10	7.7	-	7.7
Cash result		152.2	(60.5)	91.7

Notes

Since all numbers are expressed after tax, they are impacted by the prevailing tax rate for each year. In 2013 the tax rate has reduced by 1% compared to the prior year.

1. The net annual management fee: This is the manufacturing margin the Group retains from the funds under management after payment of the associated costs (e.g. investment advisory fees and Partner remuneration). Broadly speaking the Group retains around 1% before tax (0.77% after tax) of funds under management.

   The level of net annual management fee was some 25% higher than 2012. This increase is in line with the growth in funds under management which averaged £39.5 billion in 2013 compared to £31.5 billion in 2012.

2. Unwind of surrender penalties: This relates to the reserving methodology applied to the surrender penalties within the charging structure of the single premium life bonds and pensions. At the outset of the product we establish a liability net of the outstanding surrender penalty which would apply if the policy were to be encashed.

   As the surrender penalty reduces to zero, so the liability to the policyholder is enhanced by increasing their funds by 1% per annum over the first six years of the product life, to correspond to this 'unwind' of the surrender penalty. In other words there is a cost which offsets the annual management fee above.

   Like the net annual management fee, the unwind of surrender penalties increases with the impact of investment growth of funds under management. However the increase is also increased by new funds but offset by the fact that the funds added six years ago have completed the surrender penalty period.

   As commented on in Section 1, the level of unwind of surrender penalties will increase in future years due to the application of surrender penalties being extended to all pension business. This will act as a slight brake on the future growth in **net income from funds under management.**

3. Margin arising from new business: This is the cash impact of new business in the year after taking into account the directly attributable expenses.

As commented on in Section 1, as part of the implementation of the RDR rules the application of surrender penalties was extended to all pension business. This resulted in a significant increase in the margin arising from new business. However, as also noted in Section 1 the positive impact has been offset by loss of tax relief on advice costs. The overall impact was still an increase in the margin arising from new business, to £37.8 million in the year from £13.3 million in 2012.

The impact of this increase in the margin was the key driver of the reduction in the cost of investment in new business in the year.

4. Establishment expenses: These are the expenses of running the Group's infrastructure as shown in the table on page 39. In line with the rest of this table they are presented after allowance for tax. These expenses were 13% higher in the current year.

   The post-tax figure in this analysis has increased at a slightly higher rate than shown on the aforementioned table due to the impact of differing tax rates between the two reporting periods.

5. Development expenses: These represent the sum of the other expenditure noted in the table on page 39 (eg developments, the cost of regulatory change and academy). The impact on the cash result in the year was £10.8 million (2012: £8.8 million).

6. Regulatory fees: This relates to the fees payable to the Regulatory bodies and the FSCS levy for the year. The regulatory fees payable in the year were £8.9 million (2012: £9.0 million).

7. Shareholder interest arising from regulated and non-regulated business: This is the actual income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.

   The small increase in interest received reflects the increased level of assets invested.

8. Miscellaneous: This represents the cash flow of the business not covered in any of the other categories.

   In addition to the income and expenses from other operations of the business, this item has historically included the emerging profit of the group's protection (life, critical illness and PHI) business. As commented on in Section 1, as a result of the Reassurance transaction in the year, the emerging profits were capitalised and are reflected elsewhere. This item has therefore reduced by c.£3m compared to prior years.

   This item also reflects the impact of structural timing differences in the life company tax computation. As a consequence of the loss of tax relief on advice costs commented on in Section 1, this item reflects the benefit of the unwind of the outstanding tax relief on historic advice costs. The positive impact in 2013 is expected to reduce by c.£1-2m per annum over the next 6 years. However the item will instead benefit from the positive impact of utilisation of the Group capital losses during this period.

9. Reinsurance transaction: As commented on in Section 1, there has been a one-off impact on the cash result of £18.3 million, reflecting the release of the associated prudent solvency reserves together with the realisation of the capitalised value of expected future margins.

10. Variance: This reflects variances in the cash result in a year due to the impact of actual experience (including economic assumptions changes and investment performance) on insurance reserves, as well as variances in the settlement of tax related liabilities between the policyholders (unit-linked funds), the shareholder and HMRC.

    In 2013 the impact of strong investment performance, improvements in real yields and some assumption changes contributed to a significant reduction in insurance reserves, releasing additional profit of £5.1 million. The result also benefitted by £6.0 million from utilisation of brought forward pension losses and by nearly £10 million from other tax variance effects.

    The positive impacts were offset by a £4.0 million (post tax) cost of Back office infrastructure costs and £4.6 million (post-tax) cost associated with LBG.

    The overall impact in the year was an increase in the result of £10.6 million.

    The variance of £7.7 million in 2012 included £4.0 million from a modification to the calculation of the surrender penalty position.

Return on In-Force business

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

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

In addition, a proportion of the new business has a surrender penalty which unwinds during the first six years, and consequently this business does not make a meaningful contribution to the cash result until year seven. The table below provides an estimated breakdown of the single premium business over the last six years where these surrender penalties apply. These premiums are not yet generating income within the cash result.

Year	With surrender penalties £' Billion
2008	1.4
2009	1.6
2010	2.1
2011	2.2
2012	2.4
2013	3.5
Total	13.2

The total business not yet contributing to the cash result is £13.2 billion* which is nearly 30% of the total funds under management at 31 December 2013. Clearly the potential of this business depends on retention of our clients, however, for illustration purposes, if all the business reached the end of the surrender period then the annual post-tax cash result (based on 0.77% post-tax earnings from funds under management) would be some £102 million higher*.

*ignores stock market movements and outflows since the date of original client investment.

The Board therefore expects the cash earnings from the in-force business to increase as funds under management grow and the business matures.

Return on investment in new business

As noted in the table on page 31, £52.3 million (2012: £60.5 million) of the cash arising from the in-force business has been re-invested in acquiring the new business during the year.

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
Post-tax investment in new business (£'Million)	(52.3)	(60.5)
Post-tax present value of expected future cash returns (£'Million)	314.1	278.8
Post-tax present value of expected profit from investment (£'Million)	261.8	218.3
Gross inflow of funds under management (£'Billion)	6.8	5.6
Investment as % of gross inflow*	0.8%	1.1%
New business margin (% of manufactured APE)	42.9%	43.4%
Cash payback period (years)	4	4
Internal rate of return (net of tax)	28.4%	22.5%

* The investment as a percentage of net inflow of funds under management was 1.2% compared with 1.8% for the prior year.

The level of investment to acquire new business is not expected to increase significantly in future years and therefore the proportion of the cash generated from the in-force business that will be available to pay dividends to shareholders is expected to continue expanding.

Capital Position

In addition to presenting an IFRS balance sheet (on page 64) and an EEV balance sheet (on page 52) we believe it is beneficial to provide a balance sheet using the approach underlying our Cash result. This is because the Cash result is adjusted for non-cash items such as DAC, DIR and deferred tax. The Board therefore considers this Cash Result balance sheet provides the best indication of the free capital of the Group which could be available to pay dividends.

The following table analyses the differences between the IFRS balance sheet and the Cash result balance sheet. These adjustments include netting out assets and liabilities of the policyholder interest in unit-linked funds, and removal of a number of significant 'non-cash' adjustments (in particular DAC, DIR and deferred tax).

	IFRS Balance Sheet £'m	Adjustment 1 **£'m**	Adjustment 2 **£'m**	**Cash Result Balance Sheet £'m**	**2012**
Assets					
Deferred acquisition costs	888.8	-	(888.8)	-	-
Acquired value of in force business	40.0	-	(40.0)	-	-
Developments	8.7	-	-	8.7	14.6
Property and equipment	5.8	-	-	5.8	3.6
Deferred tax assets	181.8	-	(181.8)	-	-
Investment property	732.7	(732.7)	-	-	-
Equities	29,614.8	(29,614.8)	-	-	-
Fixed income securities	5,965.7	(5,898.0)	-	67.7	84.4
Investment in Collective Investment Schemes	3,244.3	(2,722.0)	-	522.3	321.7
Derivative financial instruments	142.9	(142.9)	-	-	-
Reinsurance assets	64.2	-	-	64.2	38.6
Insurance & investment contract receivables	49.9	-	-	49.9	46.5
Income tax assets	-	-	-	-	85.2
Other receivables	554.0	(324.0)	(4.0)	226.0	192.8
Cash & cash equivalents	3,845.7	(3,648.6)	-	197.1	182.4
Total assets	**45,339.3**	**(43,083.0)**	**(1,114.6)**	**1,141.7**	**969.8**
Liabilities					
Insurance contract liabilities	466.4	(395.0)	7.9	79.3	94.6
Other provisions	9.7	-	-	9.7	9.2
Investment contracts	33,717.5	(33,710.9)	-	6.6	54.4
Borrowings	98.7	-	-	98.7	70.8
Derivative financial instruments	87.8	(87.8)	-	-	-
Deferred tax liabilities	496.6	(39.5)	(210.5)	246.6	35.3
Insurance & investment contract payables	38.1	-	-	38.1	24.9
Deferred income	538.6	-	(538.6)	-	-
Income tax liabilities	4.9	-	-	4.9	77.3
Other payables	439.4	(314.4)		125.0	184.8
NAV attributable to unit holders	8,535.4	(8,535.4)	-	-	-
Preference shares	0.1	-	-	0.1	-
Total liabilities	**44,433.2**	**(43,083.0)**	**(741.2)**	**609.0**	**551.3**
Net Assets	**906.1**	**-**	**(373.4)**	**532.7**	**418.5**

Adjustments

1. Nets out the policyholder interest in unit-linked assets and liabilities

2. Removal of IFRS non-cash adjustments

The movement in the cash result net assets is equal to the cash result adjusted for dividends paid in the year and other changes in equity excluding the cost of share options (see page 63 - Consolidated Statement of Changes in Equity).

The table above provides an analysis of the differences between the IFRS balance sheet and the Cash result balance sheet. As in previous years we also provide an analysis of the Solvency position. The key difference between the cash result net assets (above) and the Solvency net assets is an amount of additional reserves arising from the Irish solvency regulations. These reserves include additional prudential reserves over that required by the UK regulator. As a result the Solvency position is £507.6 million, which is £25.1 million lower than the Cash result net assets of £532.7 million. (2012: £403.5 million and £418.5 million, respectively).

The Solvency position can be further analysed between regulated and non-regulated entities, and can be assessed against the solvency capital requirement as noted in the table below:

	Life	**Other Regulated**	**Other**	**Total**
	£'Million	**£'Million**	**£'Million**	**£'Million**
Solvency position				
Solvency net assets	284.2	38.9	184.5	507.6
Solvency requirement	49.3	17.1		
Solvency ratio	576%	227%		

Included within the 'other' capital resources is an implied reserve that is being built up to cover one years' dividend cost. At 31 December 2013 the amount set aside to date was £70 million compared to a full year dividend cost of £82 million.

Comparison with previous valuations would show that the Group solvency position has become increasingly resilient, despite market volatility in recent years, reflecting the Group's low appetite for market, credit and liquidity risk in relation to solvency.

The Group continues to be capitalised well in excess of regulatory solvency requirements with nearly 70% of cash result and solvency assets invested prudently in cash, AAA rated money market funds and UK government securities. Other assets (principally other receivables) are less liquid. An analysis of the liquid asset holdings is provided below.

Analysis of liquid assets

Holding Name	**£'Million**	**£'Million**
UK government gilts		
2.25% UK Treasury 07/03/2014	9.4	
5% UK Treasury 07/09/2014	7.4	
5.8% UK Treasury 26/07/2016	12.0	
2.5% UK Treasury Index Linked 17/07/2024	17.3	
2% UK Treasury Index Linked 26/01/2035	21.6	67.7
AAA rated money market funds		
BlackRock	112.1	
HSBC	94.4	
Insight	85.0	
Legal & General	75.0	
Scottish Widows	65.0	
JP Morgan	55.0	
RBS	34.8	
Santander	1.0	522.3
Bank balances		
UK banks*	194.5	
Others	2.6	197.1
		787.1

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

Solvency II

National Regulators are required to implement the Solvency II regulations (when finalised) on 1 January 2016. As noted previously, we do not believe the Group will be adversely impacted by the new requirements and expect to see a reduction in the total capital we are required to hold for regulatory purposes.

Share options maturity

At 31 December 2013 there were 6.8 million share options outstanding under the various share option schemes which, if exercised, will provide up to £19.1 million (2012: £34.0 million), of future capital for the Company.

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

Earliest date of exercise	**Average exercise price**	**Number of Share options outstanding**	**Potential Proceeds**
	£	Million	£' Million
Prior to 1 Jan 2014	2.80	5.3	14.8
Jan – Jun 2014	2.42	0.2	0.6
Jul – Dec 2014		-	-
Jan – Jun 2015	2.96	0.3	0.8
Jul – Dec 2015	2.75	0.8	2.0
Jan – Jun 2016	3.88	0.2	0.9
		6.8	19.1

SECTION 5: OTHER MATTERS

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

Expenses

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

	Notes	**Year Ended 31 December 2013**	Restated* Year Ended 31 December 2012
		£' Million	£' Million
Paid from policy margins and advice charges			
Partner remuneration	1	407.1	307.0
Investment expenses	1	101.8	89.4
Third party administration	1	37.7	32.6
		546.6	429.0
Direct expenses			
Other new business related costs	2	69.0	59.5
Establishment costs	3	113.4	100.2
Academy costs	4	2.7	1.9
Other development costs	5	8.5	4.6
Back office infrastructure costs	6	5.0	-
Regulatory fees	7	11.6	12.0
Regulatory change costs	8	3.1	6.0
Contribution from third party product sales	9	(20.4)	(21.4)
		192.9	162.8
		739.5	591.8

* We have changed the presentation of this analysis of group expenses to provide further information on corporate initiatives, investments and other developments. The 2012 comparative has been restated to be in a consistent format.

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 new business. As new business rises or falls these costs will move in the corresponding direction.

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

   The growth in establishment expenses during the year was higher than our original expectations as a consequence of an increase in expenditure associated with the high level of Partner recruitment in the year together with the costs relating to the higher business volumes.

   We expect establishment expenses in 2014 to increase marginally ahead of our usual 10% operating target reflecting the full year costs of the additional infrastructure added in 2013.

4. We have reverted to showing the Academy costs separately given the importance of this investment we are making for the future. The increase in the costs in 2013 reflects the increased number of students within the programme.

   2014 will see further growth in this investment as the Academy continues to expand and with the commencement of a regional academy in Manchester later in the year.

5. Other development costs represent the expenditure associated with the on-going development in our investment proposition, corporate initiatives, technology improvements and other system developments. These costs will vary year by year depending upon the extent of change and/or investment planned.

   The development expenses were £8.5 million during 2013 (2012: £4.6 million) and we expect a further increase in costs in 2014.

6. As announced in the half year report, we have commenced an investment programme working with our key outsourced provider to bring together and enhance our ‘back office’ systems, prepare us for continued growth and achieve future efficiency savings.

   As expected the project costs for 2013 were £5.0 million and we anticipate expenditure of some £10.0 million during 2014.

7. The regulatory costs represent the fees payable to the regulatory bodies of £6.1 million (2012: £5.1 million), together with our required contribution to the Financial Services Compensation Scheme of £5.5 million (2012: £6.9 million).

8. These are the one-off costs of changing our systems and process for the implementation of the adviser charging rules. As these changes have now been implemented we do not expect further expenditure in 2014.

9. Contribution from third party product new business reflects the net income received from wealth management business of £8.2 million (2012: £7.8 million), from group pension business of £0.5 million (2012: £0.9 million) and from Protection business of £11.7 million (2012: £12.7 million).

Movement in funds under management

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Billion	£' Billion
Opening funds under management	34.8	28.5
New money invested	6.8	5.6
Investment return	5.2	3.0
	46.8	37.1
Regular withdrawals / maturities	(0.7)	(0.7)
Surrenders / part surrenders	(1.8)	(1.6)
Closing funds under management	44.3	34.8
Implied surrender rate as % of average funds under management	4.7%	4.9%
Net inflow of funds	£4.30bn	£3.35bn
Net inflow as % of opening funds under management	12.4%	11.8%

Shareholders will be pleased to note that the continued strong retention of funds under management, together with the level of new money invested, provides for a **net inflow of funds** of £4.3 billion, £1.0 billion higher than the prior year. This net inflow represents 12.4% (2012: 11.8%) of opening funds under management and can be viewed as the organic growth of the business.

Noted below is an explanation of regular withdrawals, maturities and surrenders:

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

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

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

Analysis of funds under management

The following table provides an analysis of the funds under management at 31 December 2013 split by geography and asset type:

	2013 £'Billion	2012 £'Billion
UK Equities	13.3	10.6
North American Equities	8.4	4.6
European Equities	5.0	4.1
Asia & Pacific Equities	3.9	3.9
Property	1.1	0.8
Fixed Interest	6.1	5.0
Alternative Investments	1.3	1.3
Cash	3.6	3.2
Other	1.6	1.3
Total	44.3	34.8

RISK, RISK MANAGEMENT AND INTERNAL CONTROL

The mechanisms for identifying, assessing, managing and monitoring risks, including internal controls, are an integral part of the management processes of the Group. Understanding the risks we face, and managing them appropriately, enables effective decision-making, contributes to our competitive advantage and helps us to achieve our business objectives. However, in establishing the system of internal control, the Directors have regard to the materiality of relevant risks, the likelihood of risks occurring and the costs of mitigating risks. The system is therefore designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, not absolute, assurance against material financial mis-statement or loss.

Risk Management Framework

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

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

The Risk Committee is supported by a Risk Executive Committee and the Risk Management team, which take the lead in ensuring an appropriate framework is in place and that there is on-going development and co-ordination of risk management within the Group.

Ultimately, each Division of the Group is responsible for identifying, managing and reporting its own risks each quarter. Each risk is assessed by considering its potential impact and the probability of its occurrence and impact assessments are made against financial and non-financial metrics. Establishment of appropriate controls is a core part of the risk management process. The Risk Management team supports Divisional managers in these activities.

Financial Reporting Processes

Specifically in relation to the financial reporting processes, the main features of the internal control and risk management systems include:

- Extensive documentation, operation and assessment of controls in key risk areas
- Monthly review and sign-off of all financial accounting data submitted by outsourced providers and the results of all subsidiaries within the Group
- Formal review of financial statements by senior management, for both individual companies and the consolidated Group

Control Self-assessment

In 2013 the Group has introduced a process of control self-assessments to support and challenge line managers in their risk management. The process requires business areas to review their key controls and sign-off on their efficacy. Where appropriate, action plans are documented to improve the design and operation of the controls. Following a successful pilot with some key areas the process is now being rolled-out more widely.

Compliance with Corporate Governance Code and Turnbull

These processes for identifying, evaluating and managing the significant risks faced by the Group have been in place for all of the year under review and up to the date of approval of the annual report and accounts. They are regularly reviewed by Risk Committee on behalf of the Board and accords with the Guidance for Directors in C.2.1 of the UK Corporate Governance Code and with the Turnbull Guidance for Directors on Internal Control.

Risk Appetite and Risk Policies

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

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

Risk Schedules and Key Risk Indicators

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

Principal Risks and Uncertainties

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

Risk	Description	Management and Controls
Advice	Advice given by an individual Partner or authorised by the Group is deemed unsuitable leading to redress costs, potential reputational damage and prospective/retrospective regulatory intervention.	Advice guidelines are agreed by technical specialists and reviewed by Group management. These guidelines are supported by Training and Accreditation arrangements with close compliance monitoring to ensure they are followed. Appropriate incentives exist to promote Partner compliance, whilst non-compliance is subject to censure and other sanctions. The Group also has appropriate professional indemnity insurance in place.
Distribution capability	The Group's distribution strength may be eroded due to an inability to recruit and retain Partners of the appropriate quality.	We employ a number of specialist managers specifically to manage the recruitment and retention of high quality Partners. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality and experienced Partners. All recruitment and retention activity is closely monitored. We are also continuing to develop the SJP Academy, overseen by a dedicated senior management team, to broaden our recruitment streams.
Ethos	Changes to the SJP ethos and culture adversely impact the continuing success of the business.	We have a range of strategic mechanisms in place including, for example, regular surveys and consultation groups, which enable us to monitor the sentiment of our staff and Partners. We use these to identify any potential adverse impacts upon, or trends within, our culture, which allows us to respond appropriately.

Risk	Description	Management and Controls
Investment Management Approach	Our approach to investment management may fail to deliver expected returns to clients of the Group.	We actively manage and monitor the performance of our investment managers through the Investment Committee which also makes use of firms of professional advisers – led by Stamford Associates – to help them with this key task. At the same time, and to ensure clients can manage their risks as well, we offer a broad range of funds, which allows client diversification and mitigates our new business, persistency and market risks.
Market Changes	A new entrant or competitor in the adviser-based wealth management market has an impact on the success of SJP's business.	We closely monitor competitor activity and the market place, for signs of any potential new entrants or threats, for example, a crowding of the high net worth market place if firms concentrate on wealthier clients. As noted above, we have a proven track record in Partner acquisition and retention, which we believe would make it difficult for a new entrant to challenge SJP's position. In addition, more established SJP Partners often have significant equity stakes in their practices and their ability to access these is structured to aid retention.
Outsourcing	The Group's dependence on outsourcing may come under threat should any of its key investment management or administration business partners decide to exit the market, significantly revise their strategy or fail.	We are a relationship business, and believe in the value of maintaining close working relationships, particularly with our outsourcing partners who are central to our business model. Our focus on positive relationships means we are able to work effectively and efficiently together to deliver the best result. However it also provides protection as we would have warning of any material change that could significantly impact our business. In the extreme event, all our relationships are governed by formal agreements with notice periods and full exit management plans, and if required, strong alternative providers exist in the market. Business continuity arrangements of each outsourcer are also continually tested and improved and scenario analysis carried out. In recent years we have commenced an investment programme to bring our 'back office' administration systems together, to accommodate continued growth. We believe this initiative has strengthened our business administration outsourcing arrangements.

Risk	Description	Management and Controls
Regulatory, legislative and tax environment	That changes in the wider regulatory, legislative or tax environment could have an adverse impact on the Group's business and/or the Group could face a fine or regulatory censure from failure to comply with applicable regulations.	Our governance structures, management committees and compliance monitoring activities seek to ensure we remain compliant with regulation. Our active approach to maintaining an open and mutually beneficial relationship with our regulators provides intelligence to mitigate the risk of operating in a highly regulated sector. Membership of appropriate trade bodies can also provide information about proposed changes. The Group also engages the services of relevant public relations and communications consultants.
Retail Distribution Review	Further changes to the market, following the completion of the regulators' review of outcomes and other thematic work, adversely impact the Group.	During the period of implementing the original changes, the strength of the relationship with our clients was invaluable in sustaining both our clients and our business through the period of change and uncertainty. We are monitoring the regulators' activity and thinking, to mitigate as far as possible the risk of any further changes arising from the Retail Distribution Review.

Other Key Risks and Uncertainties

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

Financial risks

Risk	Description	Management and Controls
Credit	The risk of loss due to a debtor's non-payment of a loan or other line of credit, including holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions.	The Group has adopted a risk averse approach to credit risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other business objectives. Loans and advances to Partners are assessed on a prudent basis and monitored carefully.
Liquidity	The risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.	The Group is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other business objectives. Generally, free assets are invested in cash or near cash assets with strong counterparties and the Group's cash position and forecast are monitored on a monthly basis. The Group also makes use of some bank financing. In certain, unlikely, circumstances (including change of control) the terms of these agreements could mandate immediate repayment.

Risk	Description	Management and Controls
Market	The risk of loss due to the impact of movement in the value of equity or other asset markets.	The Group adopts a risk averse approach to market risk, with a stated solvency policy of not actively pursuing or accepting market risk except where necessary to support other business objectives. Generally, free assets are invested in cash or near cash to minimise market movement impact. However, future profits are dependent on annual management charges which will vary with market levels.
Insurance	The risk that arises from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. The Group assumes insurance risk by issuing insurance contracts under which it agrees to compensate the client if a specified future event occurs.	The Group has a medium appetite for insurance risk, only actively pursuing it where beneficial, or in support of strategic objectives. Historically the Group insured mortality and morbidity risks, through protection business, but much of this risk has now been fully reinsured through a combination of treaties. Work continues on an arrangement to fully reassure the remaining protection business which, if successful, would leave only a small amount of mortality risk exists on other investment and pension insurance contracts. The Group has no longevity risk as we have never written annuity business.

CHAIRMAN'S REPORT

I am pleased to be making my first report as Chairman of St. James's Place. During my time as an independent non-executive director of St. James's Place I have been fortunate enough to serve the Board in many capacities, starting with the Investment Committee and Risk Committee, but more recently as Senior Independent Director and Chair of the Remuneration Committee. In my new role I will also chair the Nomination Committee. As a result I know the Company well and am proud to have been a Board member during a period of growth for clients, shareholders and employees.

That growth has been strong, and the success has been reflected in a number of ways including the recognition given to us by various industry awards such as Britain's Most Admired Company (Top in Sector) award from Management Today, but also in the progression of our stock market ranking. As a Board, our task over the next few years is to maintain such safe and sustainable growth as is in the interests of all our stakeholders. Our challenge is threefold:

- to maintain those characteristics which have led to the success of the company over the last 23 years;
- to adapt to the changing world around us and the opportunities it provides and;
- to build the management team and approach for the next 20 years.

More information will be provided in the financial statements about how your Board works, and in particular the formal structures which are necessary and helpful in ensuring sound corporate governance. However, I believe (along with many commentators) that these structures are not, on their own, sufficient to safeguard the interests of clients and shareholders. What is necessary in addition is a set of values, a culture and an operating approach, which together support the effective stewardship of shareholders' and clients' interests. The Board must therefore be prepared to be consistent and clear-sighted in continuing its leadership, support and oversight of that culture and in particular the principle that SJP will seek to do the right thing for its clients and thus for its shareholders. This will be my main aim in providing leadership to the Board.

Board Composition

Reflecting the continuing growth of our Company and the sale of the Lloyds Banking Group ("LBG") shareholding, the Board has seen a number of changes over the last financial year.

At the end of 2013 Charles Gregson stepped down as Chairman in order to be able to devote more time to his other directorships. We are grateful for his contribution as both a Non-executive Director and then Chairman. Mike Power also stepped down at the end of the year, having been Chair of the Risk Committee and having contributed considerably to the way we think about risk over the last 9 years. However, we are pleased he will remain as an independent Non-executive Director on the board of St. James's Place International plc, the Group's Dublin-based life company. At the same time Iain Cornish became the Senior Independent Director and Chairman of the Risk Committee.

There was much change in the representation of LBG on the Board during the year. Firstly, in June, Steve Colsell was replaced by Sue Harris and Alison Hewitt. However, following the completion of the sale of the LBG shareholding, both Sue and Alison also stepped down from the Board. We are grateful for the support and insights of all those directors who have represented LBG during recent years.

Finally, as part of our process of ongoing renewal of the Board, we appointed two new Non-executive Directors. Simon Jeffreys has a wealth of audit and financial services experience and we are pleased that he will be taking over as Chair of the Audit Committee in March 2014. Roger Yates has extensive knowledge and experience, particularly of the investment industry, and we are pleased that he will be taking over as Chair of the Remuneration Committee following the AGM. We look forward to the expertise and experience they will bring to the Board.

The Future

2013 was a very significant year for SJP and its shareholders. Over the course of 12 months our shareholder base has been transformed and we have welcomed new investors from around the world. However, our ambitions for the future haven't changed. We remain a well-respected and trusted provider of high quality advice and wealth management services, and we will continue to build on that success. But we know that our success stems from our culture, and so we will continue to focus on our values, and in particular on doing the right thing for our clients and thus for our shareholders.

I look forward to working with the Board on these aspirations.

Sarah Bates
Chairman
24 February 2014

EUROPEAN EMBEDDED VALUE BASIS

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

CONSOLIDATED STATEMENT OF INCOME

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	365.7	293.9
Unit Trust business	130.8	82.6
Distribution business	(6.1)	5.3
Other	(27.7)	(15.9)
EEV operating profit	462.7	365.9
Investment return variances	344.2	190.4
Economic assumption changes	10.6	(3.7)
EEV profit before tax	817.5	552.6
Tax		
Life business	(127.5)	(89.5)
Unit Trust business	(42.3)	(28.9)
Distribution business	1.4	(1.3)
Other	6.5	5.2
Corporation tax rate change	18.9	21.6
	(143.0)	(92.9)
EEV profit after tax	674.5	459.7
EEV profit attributable to non-controlling interests	-	-
EEV profit attributable to equity share holders	674.5	459.7
EEV profit on ordinary activities after tax	674.5	459.7
	Pence	Pence
Basic earnings per share	132.4	92.4
Diluted earnings per share	130.1	90.8
Operating profit basic earnings per share	72.9	58.5
Operating profit diluted earnings per share	71.6	57.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Opening shareholders' equity on an EEV basis	**2,336.3**	**1,899.5**
EEV profit after tax for the year	674.5	459.7
Issue of share capital	15.8	19.3
Retained earnings credit in respect of share option charges	7.8	5.4
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust	0.1	0.1
Dividends paid	(65.3)	(45.3)
Consideration paid for own shares	(5.3)	(2.4)
Non-controlling interests arising on purchase of subsidiaries during the year	0.2	-
Closing shareholders' equity on an EEV basis	**2,964.1**	**2,336.3**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2013	31 December 2012*
	£' Million	£' Million
Assets		
Intangible assets		
Deferred acquisition costs	888.8	971.6
Value of long-term business in-force		
- long-term insurance	1,583.7	1,223.6
- unit trusts	506.3	383.5
Computer software	8.7	11.7
Customer list	-	3.0
	2,987.5	2,593.4
Property & equipment	5.8	3.6
Deferred tax assets	181.8	190.9
Investment property	732.7	597.6
Investments	38,967.7	29,585.5
Reinsurance assets	64.2	38.6
Insurance and investment contract receivables	49.9	46.5
Income tax assets	-	85.2
Other receivables	554.0	526.1
Cash & cash equivalents	3,845.7	3,080.1
Total assets	**47,389.3**	**36,747.5**
Liabilities		
Insurance contract liabilities	466.4	424.0
Other provisions	9.7	9.2
Financial liabilities	33,904.0	27,271.0
Deferred tax liabilities	488.6	259.1
Insurance and investment contract payables	38.1	24.9
Deferred income	538.6	616.5
Income tax liabilities	4.9	77.2
Other payables	439.4	435.8
Net asset value attributable to unit holders	8,535.4	5,293.5
Preference shares	0.1	-
Total liabilities	**44,425.2**	**34,411.2**
Net assets	**2,964.1**	**2,336.3**
Shareholders' equity		
Share capital	77.3	76.0
Share premium	142.2	127.7
Treasury share reserve	(10.2)	(8.9)
Miscellaneous reserves	2.3	2.3
Retained earnings	2,752.5	2,139.2
Total shareholders' equity on an EEV basis	**2,964.1**	**2,336.3**
	Pence	Pence
Net assets per share	575.3	461.0

* Restated to reflect the adoption of IFRS 10. See IFRS Note 2.

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

I. BASIS OF PREPARATION

The supplementary information on pages 50 to 61 shows the Group's results as measured on a European Embedded Value (EEV) basis. This includes results for the life, pension and investment business, including unit trust business. The valuation is undertaken on a basis determined in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum, a group of chief financial officers from 19 major European insurers as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 (together "the EEV Principles"). The treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis. The EEV basis recognises the long-term nature of the emergence of shareholder cash returns by reflecting the net present value of expected future cash flows.

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

II. METHODOLOGY

(a) Covered business

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

(b) Calculation of EEV on existing business

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

(c) Allowance for risk

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

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

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

(d) Non-market risk

Best estimate assumptions have been established based on available information and when used within the market consistent calculations provide the primary evaluation of the impact of non-market risk. However, some non-market operational risks are not symmetric, with adverse experience having a higher impact on the EEV than favourable experience. Allowance has been made for this by increasing the risk discount rate by 0.8% (2012: 0.8%).

(e) The risk discount rate

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

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

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

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

(f) Cost of required capital

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

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

(g) New business

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

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

(h) Operating profit

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

(i) Tax

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

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

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

III. ASSUMPTIONS

(a) Economic assumptions

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
Risk free rate	3.1%	1.8%
Inflation rate	3.2%	2.5%
Risk discount rate (net of tax)	6.2%	4.9%
Future investment returns:		
- Gilts	3.1%	1.8%
- Equities	6.1%	4.8%
- Unit linked funds		
- Capital growth	2.5%	1.2%
- Dividend income	2.9%	2.9%
- Total	5.4%	4.1%
Expense inflation	4.0%	3.4%

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

The inflation rate is derived from the implicit inflation in the valuation of 10 year index-linked gilts. This rate is increased to reflect higher increases in earnings related expenses.

(b) Experience assumptions

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

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

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

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

(c) Tax

The EEV result has been calculated allowing for tax and has been grossed up to a pre-tax level for presentation in the profit and loss account. The corporation tax rate used for this grossing up is 20.3% (2012: 21.3%) for UK life and pensions business, 12.5% (2012: 12.5%) for Irish life and pensions business and 20.5% (2012: 21.7%) for unit trust business. Future tax has been determined assuming a continuation of the current tax legislation. The reduction in tax rates for UK business reflects the changes in tax rate enacted in the year.

IV. COMPONENTS OF EEV PROFIT

(a) Life business

	Note	Year Ended 31 December 2013	Year Ended 31 December 2012
		£' Million	£' Million
New business contribution	1	213.6	208.9
Profit from existing business			
Unwind of discount rate		89.4	76.9
Experience variances		53.9	6.9
Operating assumption changes		4.6	(1.7)
Investment income		4.2	2.9
EEV operating profit		**365.7**	**293.9**
Investment return variances		271.8	139.5
Economic assumption changes		7.7	(3.5)
EEV profit before tax		**645.2**	**429.9**
Tax		(127.5)	(89.5)
Corporation tax rate change		15.2	14.7
EEV profit after tax		**532.9**	**355.1**

Note 1: New business contribution after tax is £171.4 million (2012: £165.2 million)

(b) Unit Trust business

	Note	Year Ended 31 December 2013 £' Million	Year Ended 31 December 2012 £' Million
New business contribution	1	113.6	67.9
Profit from existing business			
Unwind of discount rate		22.7	19.1
Experience variances		(6.5)	(2.3)
Operating assumption changes		-	(2.6)
Investment income		1.0	0.5
EEV operating profit		**130.8**	**82.6**
Investment return variances		72.4	50.9
Economic assumption changes		2.9	(0.2)
EEV profit before tax		**206.1**	**133.3**
Tax		(42.3)	(28.9)
Corporation tax rate change		3.7	6.9
EEV profit after tax		**167.5**	**111.3**

Note 1: New business contribution after tax is £90.3 million (2012: £53.1 million)

(c) Combined Life and Unit Trust business

	Note	Year Ended 31 December 2013 £' Million	Year Ended 31 December 2012 £' Million
New business contribution	1	327.2	276.8
Profit from existing business:			
Unwind of discount rate		112.1	96.0
Experience variances		47.4	4.6
Operating assumption changes		4.6	(4.3)
Investment income		5.2	3.4
EEV operating profit		**496.5**	**376.5**
Investment return variances		344.2	190.4
Economic assumption changes		10.6	(3.7)
EEV profit before tax		**851.3**	**563.2**
Tax		(169.8)	(118.4)
Corporation tax rate change		18.9	21.6
EEV profit after tax		**700.4**	**466.4**

Note 1: New business contribution after tax is £261.7 million (2012: £218.3 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 2013 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	(45.8)	307.6	261.8
Profit from existing business	191.4	(191.4)	-
Unwind of discount rate	-	89.6	89.6
Experience variances	41.3	(11.3)	30.0
Operating assumption changes	(5.0)	9.0	4.0
Investment return	4.2	-	4.2
Investment return variances	18.4	257.1	275.5
Economic assumption changes	3.9	4.8	8.7
Miscellaneous	(18.2)	-	(18.2)
Corporation tax rate change	-	18.9	18.9
EEV profit after tax	**190.2**	**484.3**	**674.5**

The comparative figures for 2012 are as follows:

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

V. EEV SENSITIVITIES

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

	Notes	Change in new business contribution		Change in European Embedded Value
		Pre-tax	Post-tax	Post-tax
		£' Million	£' Million	£' Million
Value at 31 December 2013		**327.2**	**261.7**	**2,964.1**
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(3.4)	(2.8)	(6.0)
10% reduction in withdrawal rates	2	29.2	23.4	155.7
10% reduction in expenses		5.8	4.6	29.5
10% reduction in market value of equity assets	3	-	-	(276.8)
5% reduction in mortality and morbidity	4	-	-	-
100bp increase in equity expected returns	5	-	-	-
100bp increase in assumed inflation	6	(5.0)	(4.0)	(20.8)

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

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

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

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

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

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

	Change in new business Contribution		Change in European Embedded Value
	Pre-tax	Post-tax	Post-tax
	£' Million	£' Million	£' Million
100bp reduction in risk discount rate	41.2	33.0	205.2

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. EARNINGS PER SHARE

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence	Pence
Basic earnings per share	132.4	92.4
Diluted earnings per share	130.1	90.8
Operating profit basic earnings per share	72.9	58.5
Operating profit diluted earnings per share	71.6	57.5

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£'Million	£'Million
Earnings		
Profit after tax *(for both basic and diluted EPS)*	674.5	459.7
Operating profit after tax *(for both basic and diluted EPS)*	371.5	291.0
	Million	Million
Weighted average number of shares		
Weighted average number of ordinary shares in issue *(for basic EPS)*	509.4	497.7
Adjustments for outstanding share options	9.2	8.5
Weighted average number of ordinary shares *(for diluted EPS)*	518.6	506.2

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
IFRS profit before tax	**461.2**	**251.8**
Tax attributable to policyholder returns	(270.5)	(117.2)
Profit before tax attributable to shareholders	190.7	134.6
Add back: amortisation of acquired value in-force business	3.2	3.2
Movement in life value of in-force (net of tax)	360.2	273.4
Movement in unit trust value of in-force (net of tax)	122.8	77.7
Tax gross up of movement in value in-force	140.6	63.7
EEV profit before tax	**817.5**	**552.6**

	31 December 2013	31 December 2012
	£'Million	£' Million
IFRS net assets	**906.1**	**762.5**
Less: acquired value of in-force	(40.0)	(43.2)
Add: deferred tax on acquired value of in-force	8.0	9.9
Add: life value of in-force	1,583.7	1,223.6
Add: unit trust value of in-force	506.3	383.5
EEV net assets	**2,964.1**	**2,336.3**

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

	31 December 2013	31 December 2012
	£' Million	£' Million
Life company estimated free assets	**234.9**	**155.7**
Estimated required life company solvency capital	49.3	43.8
Other subsidiaries, consolidation and IFRS adjustments	621.9	563.0
IFRS net assets	**906.1**	**762.5**

	31 December 2013	31 December 2012
	£' Million	£' Million
Life company estimated free assets at 1 January	**155.7**	**122.3**
Investment in new business	(28.7)	(64.4)
Profit from existing business	157.0	120.8
Dividends paid	(47.0)	(25.0)
Investment return	3.4	2.4
Movement in required solvency capital	(5.5)	(0.4)
Life company estimated free assets at 31 December	**234.9**	**155.7**

CONSOLIDATED ACCOUNTS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS BASIS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year Ended 31 December 2013	Year Ended 31 December 2012*
		£' Million	£' Million
Insurance premium income		61.2	66.1
Less premiums ceded to reinsurers		(54.3)	(26.9)
Net insurance premium income		6.9	39.2
Fee and commission income		1,013.3	643.1
Investment return		5,831.1	3,576.7
Other operating income		2.5	1.2
Net income	4	6,853.8	4,260.2
Policy claims and benefits			
- Gross amount		(50.2)	(52.6)
- Reinsurers' share		20.5	21.0
Net policyholder claims and benefits incurred		(29.7)	(31.6)
Change in insurance contract liabilities			
- Gross amount		(42.3)	(30.0)
- Reinsurers' share		25.6	(0.4)
Net change in insurance contract liabilities		(16.7)	(30.4)
Investment contract benefits		(5,449.4)	(3,415.2)
Fees, commission and other acquisition costs		(734.7)	(409.0)
Administration expenses		(158.9)	(119.0)
Other operating expenses		(3.2)	(3.2)
		(896.8)	(531.2)
Profit before tax	4	461.2	251.8
Tax attributable to policyholders' returns	5	(270.5)	(117.2)
Profit before tax attributable to shareholders' returns		190.7	134.6
Total tax expense	5	(270.9)	(144.7)
Less: tax attributable to policyholders' returns	5	270.5	117.2
Tax attributable to shareholders' returns	5	(0.4)	(27.5)
Profit for the year		**190.3**	**107.1**
Profit attributable to non-controlling interests		(0.2)	-
Profit attributable to equity shareholders		190.5	107.1
Profit for the year		**190.3**	**107.1**
		Pence	Pence
Basic earnings per share	6	37.4	21.5
Diluted earnings per share	6	36.7	21.2

*Restated to reflect the adoption of IFRS 10. See Note 2.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity shareholders							
	Note	Share Capital	Share Premium	Treasury Shares Reserve	Retained Earnings	Misc Reserves	Total	Non-controlling Interests	Total
		£'M	£' M	£' M	£' M	£'M	£' M	£' M	£' M
At 1 January 2012		74.0	110.4	(8.5)	500.1	2.3	678.3	-	678.3
Profit and total comprehensive income for the year					107.1		107.1		107.1
- Dividends	7				(45.3)		(45.3)		(45.3)
- Exercise of options		2.0	17.3				19.3		19.3
Consideration paid for own shares				(2.4)			(2.4)		(2.4)
Own shares vesting charge				2.0	(2.0)		-		-
Retained earnings credit in respect of share option charges					5.4		5.4		5.4
Retained earnings credit in respect of proceeds from exercise of share options held in trust					0.1		0.1		0.1
At 31 December 2012		76.0	127.7	(8.9)	565.4	2.3	762.5	-	762.5
Non-controlling interests arising on the purchase of subsidiaries during the year								0.2	0.2
Profit and total comprehensive income for the year					190.5		190.5	(0.2)	190.3
- Dividends	7				(65.3)		(65.3)		(65.3)
- Issue of share capital		0.3					0.3		0.3
- Exercise of options		1.0	14.5				15.5		15.5
Consideration paid for own shares				(5.3)			(5.3)		(5.3)
Own shares vesting charge				4.0	(4.0)		-		-
Retained earnings credit in respect of share option charges					7.8		7.8		7.8
Retained earnings credit in respect of proceeds from exercise of share options held in trust					0.1		0.1		0.1
At 31 December 2013		77.3	142.2	(10.2)	694.5	2.3	906.1	-	906.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2013	31 December 2012*	1 January 2012*
		£' Million	£' Million	£' Million
Assets				
Intangible assets				
- Deferred acquisition costs		888.8	971.6	865.1
- Acquired value of in force business		40.0	43.2	46.4
- Computer software		8.7	11.7	8.4
- Customer list		-	3.0	0.9
		937.5	1,029.5	920.8
Property & equipment		5.8	3.6	5.4
Deferred tax assets		181.8	190.9	248.5
Investment property		732.7	597.6	550.9
Investments				
- Equities		29,614.8	21,472.8	17,306.3
- Fixed income securities		5,965.7	5,117.0	3,811.3
- Investment in Collective Investment Schemes		3,244.3	2,909.6	2,312.2
- Derivative Financial Instruments		142.9	86.1	30.1
Reinsurance assets		64.2	38.6	39.0
Insurance and investment contract receivables		49.9	46.5	44.5
Income tax assets		-	85.2	41.3
Other receivables		554.0	526.1	557.2
Cash & cash equivalents		3,845.7	3,080.1	2,368.1
Total assets		**45,339.3**	**35,183.6**	**28,235.6**
Liabilities				
Insurance contract liabilities	8	466.4	424.0	394.0
Other provisions	9	9.7	9.2	3.1
Financial liabilities				
- Investment contracts		33,717.5	27,147.4	22,227.3
- Borrowings		98.7	70.7	43.8
- Derivative Financial Instruments		87.8	52.9	43.4
Deferred tax liabilities		496.6	269.0	218.9
Insurance and investment contract payables		38.1	24.9	29.9
Deferred income		538.6	616.5	536.9
Income tax liabilities		4.9	77.2	12.4
Other payables		439.4	435.8	393.2
Net asset value attributable to unit holders		8,535.4	5,293.5	3,654.4
Preference shares		0.1	-	-
Total liabilities		**44,433.2**	**34,421.1**	**27,557.3**
Net assets		**906.1**	**762.5**	**678.3**
Shareholders' equity				
Share capital	10	77.3	76.0	74.0
Share premium		142.2	127.7	110.4
Treasury shares reserve		(10.2)	(8.9)	(8.5)
Miscellaneous reserves		2.3	2.3	2.3
Retained earnings		694.5	565.4	500.1
Shareholders' equity		**906.1**	762.5	678.3
Non-controlling interests		**-**	-	-
Total equity		**906.1**	**762.5**	**678.3**
		Pence	Pence	Pence
Net assets per share		175.9	150.4	137.5

*Restated to reflect the adoption of IFRS 10. See Note 2.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December 2013	Year Ended 31 December 2012*
	£' Million	£' Million
Cash flows from operating activities		
Profit before tax for the year	461.2	251.8
Adjustments for:		
Depreciation	1.6	2.3
Revaluation	0.1	0.4
Amortisation of acquired value of in-force business	3.2	3.2
Amortisation of computer software and customer list	2.5	0.6
Share based payment charge	7.8	5.4
Interest income	(22.5)	(22.9)
Interest paid	2.8	1.7
Changes in operating assets and liabilities		
Decrease / (increase) in deferred acquisition costs	82.8	(106.5)
Increase in investment property	(135.1)	(46.7)
Increase in investments	(9,382.2)	(6,125.6)
(Increase) / decrease in reassurance assets	(25.6)	0.4
Increase in insurance and investment contract receivables	(3.4)	(2.0)
Increase in other receivables	(22.4)	(3.0)
Increase in insurance contract liabilities	42.4	30.0
Increase in provisions	0.5	6.1
Increase in financial liabilities (excluding borrowings)	6,605.0	4,929.6
Increase / (decrease) in insurance and investment contract payables	13.2	(5.0)
(Decrease) / increase in deferred income	(77.9)	79.6
Increase in other payables	3.6	42.6
Increase in net assets attributable to unit holders	3,241.9	1,639.1
Cash generated from operating activities	**799.5**	**681.1**
Interest received	22.5	22.9
Interest paid	(2.8)	(1.7)
Income taxes (paid) / received	(14.8)	18.0
Net cash from operating activities	**804.4**	**720.3**
Cash flows from investing activities		
Acquisition of property & equipment	(3.8)	(0.9)
Disposal / (acquisition) of intangible assets	0.5	(3.6)
Acquisition of subsidiaries and other business combinations, net of cash acquired	(9.1)	(2.4)
Net cash from investing activities	**(12.4)**	**(6.9)**
Cash flows from financing activities		
Proceeds from the issue of share capital	15.8	19.3
Consideration paid for own shares	(5.3)	(2.4)
Proceeds from exercise of options over shares held in trust	0.1	0.1
Proceeds from issue of non-redeemable preference shares	0.1	-
Acquisition of non-controlling interests	0.2	-
Additional borrowings	30.0	70.0
Repayment of borrowings	(2.0)	(43.1)
Dividends paid	(65.3)	(45.3)
Net cash from financing activities	**(26.4)**	**(1.4)**
Net increase in cash & cash equivalents	**765.6**	**712.0**
Cash & cash equivalents at 1 January	3,080.1	2,368.1
Effect of exchange rate fluctuations on cash held	-	-
Cash & cash equivalents at 31 December	**3,845.7**	**3,080.1**

* Restated to reflect the adoption of IFRS 10. See Note 2.

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

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. BASIS OF PREPARATION

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

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

2. OTHER ACCOUNTING POLICIES

The other accounting policies used by the Group in preparing the results are consistent with those applied in preparing the statutory accounts for the year ended 31 December 2012 with the exception of the following matters which have impacted the disclosure in this announcement:

ADOPTION OF IFRS 10 – IMPACT OF CONSOLIDATION OF UNIT TRUSTS

This new standard establishes the principles to determine whether one entity controls another; where such control exists the controlling entity is required to consolidate the other entity in its financial statements. The Group has early adopted IFRS 10 with effect from 1 January 2013. Unit trusts are now therefore being accounted for as a subsidiary when the Group holds more than 30% of the units.

Comparative financial information has been restated following the early adoption of IFRS 10. The tables below show the effect on the statement of financial position, the statement of comprehensive income and the statement of cashflows. There was no impact on the earnings per share calculation.

Impact on Statement of Financial Position

Increase/(decrease)	31 December 2012	1 January 2012
	£'Million	£'Million
Assets		
Investments		
- Equities	2,481.2	1,562.9
- Fixed income securities	37.1	53.2
- Investment in Collective Investment Schemes	(1,199.5)	(690.5)
- Derivative Financial Instruments	-	1.9
Other receivables	17.7	27.0
Cash and cash equivalents	83.1	38.8
Total assets	1,419.6	993.3
Liabilities		
Financial liabilities		
- Derivative financial instruments	(0.7)	-
Other payables	1.6	16.8
Net asset value attributable to unit holders	1,418.7	976.5
Total liabilities	1,419.6	993.3

Impact on Statement of Comprehensive Income

Increase/(decrease)	Year Ended 31 December 2012
	£'Million
Other investment return	169.0
Net income	169.0
Net change in investment contract benefits	(169.0)
Profit before tax	-
Tax attributable to policyholders' returns	-
Profit for the period	-

Impact on Statement of Cash Flows

	Year Ended 31 December 2012
	£'Million
Changes in operating assets and liabilities	
Increase in investments	(391.3)
Increase in other receivables	9.3
Decrease in financial liabilities (excluding borrowings)	(0.7)
Increase in other payables	(15.2)
Increase in net assets attributable to unit holders	442.2
Cash generated from operations	44.3
Net cash generated from operating activities	44.3
Net increase in cash and cash equivalents	**43.3**
Cash & cash equivalents at 1 January	38.8
Cash & cash equivalents at 31 December	**83.1**

REGULATORY RULE CHANGES

Following the implementation of the Retail Distribution Review (RDR) on 31 December 2012, explicit advice charges are payable to St. James's Place distribution company by most clients who wish to receive advice with their investment in a St. James's Place retail investment product. St. James's Place facilitates the payment of these charges for the client, by arranging withdrawals from the client's policy, which are then recognised as income to St. James's Place distribution company. A proportion of the charge is then paid to the St. James's Place adviser ("Partner") who provides the advice (see Expenses below). The implementation of RDR has affected the following policies:

Acquisition costs
The initial advice costs are no longer an acquisition cost linked to the contractual right to benefit from providing investment management services and so they are no longer deferred as acquisition costs.

Fee and commission income

Fee and commission income comprises

i) fees charged for services related to the management of investment contracts
ii) advice charges paid by clients who wish to receive advice with their investment in a St. James's Place or third party retail investment product, and
iii) commission, due in respect of products sold on behalf of third parties.

Advice charges and commission are recognised in full on acceptance and inception of the associated policy by the relevant 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.

Expenses

Partner remuneration

Whilst the implementation of the Retail Distribution Review (RDR) on 31 December 2012 has resulted in changes to Fee and Commission income received, there is no change to treatment of Partner Remuneration.

Partner remuneration comprises initial commission and initial advice fees (IAF) (paid for initial advice, at policy outset and within an "initial period"), renewal commission and renewal advice fees (payable on regular contributions) and fund fee commission or ongoing advice fee (OAF) (based on funds under management and payable on the policy anniversary). Initial and renewal commission and advice fees are recognised in line with the associated premium income, but initial commission on insurance and investment contracts may be deferred. Fund fee commission and ongoing advice fee are recognised on an accruals basis.

Commission and advice fees 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 remuneration is recognised as an asset within other receivables. Should the contributions reduce or stop within the initial period, any unearned amount is clawed back.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements

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

Estimates

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

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

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

Measurement of insurance contract liabilities

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

- The lapse assumption, which is set prudently based on an investigation of experience during the year.
- The level of expenses, which is based on actual expenses in 2013 and expected long term rates.
- The mortality and morbidity rates, which are based on the results of an investigation of experience during the year.
- The assumed rate of investment return, which is based on current gilt yields.

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

Acquisition expenses

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

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

Deferred acquisition costs 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 income on investment contracts is amortised on a straight line basis over the surrender penalty period as income is recognised from the policy.

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

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

Acquired in-force business

There have been no new business combinations generating acquired in-force business 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 reporting date. This asset has been tested for impairment against the level of capital gains realistically expected to arise in future.

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

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

Determining the value of deferred tax assets

In line with IAS 12 the Group has recognised deferred tax assets for future tax benefits that will accrue. The asset value has taken into consideration the likelihood of appropriate future income or gains against which the tax asset can be utilised. In particular, future investment income from the existing assets will be sufficient to utilise the unrelieved expenses, and capital gains crystallising in the unit linked funds will utilise the capital losses. Tax assets in relation to deferred income will be utilised as the underlying income is recognised.

4. SEGMENT REPORTING

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

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

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

3. Distribution business – the distribution network for the St. James's Place life and unit trust products as well as financial products such as annuities, mortgages and stakeholder pensions, from third party providers.

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

4. Other – all other Group activities.

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

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

Segment Income
Annual Premium Equivalents ("APE")

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

	Year Ended 31 December 2013 £' Million	Year Ended 31 December 2012* £' Million
Life business	532.9	488.7
Unit Trust business	230.0	148.5
Distribution business	102.3	106.1
Other business	-	-
Total APE	**865.2**	**743.3**
Restatement to reconcile to IFRS basis		
Life business		
Exclude investment business APE	(530.5)	(486.0)
Difference between insurance business APE and premium receivable	58.8	63.4
Less insurance premium income ceded to reinsurers	(54.3)	(26.9)
Fee income (management fees)	460.7	498.2
Net movement on deferred income	70.8	(43.5)
Investment income (primarily in unit linked funds)	4,886.3	3,016.5
Unit Trust business		
Exclude unit trust APE	(230.0)	(148.5)
Fee income (dealing profit and management fees)	150.9	166.3
Net movement on deferred income	7.1	(36.1)
Investment income	0.3	0.3
Distribution business		
Exclude distribution APE	(102.3)	(106.1)
Fee and commission income receivable	319.2	58.0
Other investment income	0.2	0.8
Other business		
Income receivable	4.6	0.2
Investment income on third party holdings in consolidated unit trusts	939.2	555.3
Other investment income	5.1	3.8
Other operating income	2.5	1.2
Total adjustments	5,988.6	3,516.9
Net income - IFRS	**6,853.8**	**4,260.2**

* Restated to reflect the adoption of IFRS 10. See Note 2.

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

Segment Profit

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

EEV Operating Profit

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	365.7	293.9
Unit Trust business	130.8	82.6
Distribution business	(6.1)	5.3
Other business	(27.7)	(15.9)
EEV operating profit	**462.7**	**365.9**
Investment return variance	344.2	190.4
Economic assumption changes	10.6	(3.7)
EEV profit before tax	817.5	552.6
Adjustments to IFRS basis		
Deduct: amortisation of acquired value of in-force	(3.2)	(3.2)
Movement in life value of in-force (net of tax)	(360.2)	(273.4)
Movement in unit trust value of in-force (net of tax)	(122.8)	(77.7)
Tax of movement in value of in-force	(140.6)	(63.7)
Profit before shareholder tax	190.7	134.6
Tax attributable to policyholder returns	270.5	117.2
IFRS profit before tax	**461.2**	**251.8**

Cash result	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business	143.8	59.4
Unit Trust business	44.8	33.6
Distribution business	(4.7)	4.0
Other business	(15.1)	(5.3)
Cash result after tax	**168.8**	**91.7**
IFRS adjustments (after tax)		
Share option expense	(7.8)	(5.4)
Deferred acquisition costs (DAC)	(62.9)	82.4
Deferred income (DIR)	67.9	(63.8)
Acquired value of in-force (PVIF)	(2.6)	(2.5)
Sterling reserves	0.4	5.6
IFRS tax adjustments	26.5	(0.9)
IFRS profit after tax	190.3	107.1
Shareholder tax	0.4	27.5
Profit before shareholder tax	190.7	134.6
Policyholder tax	270.5	117.2
IFRS profit before tax	**461.2**	**251.8**

IFRS segment result	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Life business		
- shareholder	170.6	111.7
- policyholder tax gross up	270.5	117.2
Unit Trust business	53.9	33.5
Distribution business	(6.1)	5.3
Other business	(27.7)	(15.9)
IFRS profit before tax	**461.2**	**251.8**

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£'Million	£'Million
Shareholder interest income	7.3	5.6
Depreciation	1.6	2.3

Segment Assets

Funds under Management ("FUM")

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

	31 December 2013	31 December 2012*
	£' Million	£' Million
Life business	34,100.0	27,300.0
Unit Trust business	10,200.0	7,500.0
Total FUM	**44,300.0**	**34,800.0**
Exclude third party holdings in non-consolidated unit trusts	(1,665.6)	(2,089.5)
Add balance sheet liabilities in unit linked funds	545.6	499.8
Adjustments for other balance sheet assets excluded from FUM		
DAC	888.8	971.6
PVIF	40.0	43.2
Computer software	8.7	11.7
Goodwill	-	3.0
Property & equipment	5.8	3.6
Deferred tax assets	181.8	190.9
Fixed income securities	67.7	84.3
Collective investment schemes	523.0	322.4
Reinsurance assets	64.2	38.6
Insurance and investment contract receivables	49.9	46.5
Income tax assets	-	85.2
Other receivables	229.9	193.1
Other receivables eliminated on consolidation	(151.8)	(199.1)
Cash & cash equivalents	197.1	182.5
Other adjustments	54.2	(4.2)
Total adjustments	**1,039.3**	**383.6**
Total assets	**45,339.3**	**35,183.6**

* Restated to reflect the adoption of IFRS 10. See Note 2.

5. INCOME TAXES

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
UK corporation tax		
- Current year charge	29.0	31.0
- Adjustment in respect of prior year	2.5	(1.3)
Overseas taxes		
- Current year charge	6.8	7.6
- Adjustment in respect of prior year	-	(0.3)
	38.3	37.0
Deferred tax on unrealised capital gains and losses in unit linked funds	278.1	94.5
Deferred tax on unrelieved expenses	2.2	7.9
Deferred tax on pensions business losses	6.4	-
Deferred tax on group company capital losses	(27.9)	-
Deferred tax charge on other items		
- Current year charge	(14.2)	15.2
- Adjustment in respect of prior year	-	(1.7)
Effect on deferred tax of change in tax rate	(12.0)	(8.2)
	232.6	107.7
Total tax charge for the period	270.9	144.7
Attributable to:		
- policyholders	270.5	117.2
- shareholders	0.4	27.5
	270.9	144.7

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Deferred tax		
Balance at 1 January	78.1	(29.6)
Charge through the consolidated statement of comprehensive income	232.6	107.7
Arising on acquisitions during the year	4.1	-
Balance at 31 December	314.8	78.1

Included within the deferred tax current year charge is a credit of £1.7 million (2012: £0.1 million credit) relating to share based payments.

The change in the corporation tax rate from 23% to 21% effective from 1 April 2014 and from 21% to 20% effective from 1 April 2015 have been incorporated into the deferred tax balances and is quantified in the reconciliation of the tax charge on pages 76 and 77.

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Reconciliation of tax charge		
Profit before tax	461.2	251.8
Tax at 23.25% (2012: 24.5%)	107.2	61.7
Effects of:		
Overseas withholding tax in unit linked funds	-	6.1
Overseas rates of tax	(2.4)	(1.4)
Deferred tax in respect of unit linked funds	-	47.9
Shareholder deduction for policyholder tax	207.6	38.2
Policyholder tax rate differential	-	2.1
Group company capital losses	(27.9)	-
Share options	(2.7)	-
Disallowable expenses	1.4	-
Adjustment in respect of prior year	0.8	(2.6)
Change in tax rate	(12.0)	(8.2)
Other adjustments	(1.1)	0.9
Total tax charge for the year	**270.9**	**144.7**

The policyholder tax rate differential relates to the effect of the difference between the shareholder tax rate of 23.25% (2012: 24.5%) and the policyholder tax rate of 20%.

Reconciliation of tax charge	Year Ended 31 December 2013		Year Ended 31 December 2012	
	£'Million		£'Million	
Profit before tax	461.2		251.8	
Tax attributable to policyholders' returns*	(270.5)		(117.2)	
Profit before tax attributable to shareholders' returns	190.7		134.6	
Shareholder tax charge at corporate tax rate of 23.25% (2012: 24.5%)	44.3	23.25%	33.0	24.5%
Adjustments:				
Tax regime differences				
Difference due to Life Insurance tax regime (Deferred Income Reserve)	-		2.1	
Difference due to overseas subsidiaries	(2.4)		(1.4)	
	(2.4)	(1.3%)	0.7	0.5%
Market related				
Difference due to Life Insurance tax regime (UCG)	-		4.0	
	-	-%	4.0	3.0%
Other				
Creation of deferred tax asset on group company capital losses	(27.9)		-	
Adjustment in respect of prior year	0.8		(2.6)	
Share options	(2.7)		-	
Disallowable expenses	1.4		-	
Other	(1.1)		0.6	
	(29.5)	(15.5%)	(2.0)	(1.5%)
Change in tax rate	(12.0)	(6.3%)	(8.2)	(6.1%)
Shareholder tax charge	0.4	0.2%	27.5	20.4%
Policyholder tax charge	270.5		117.2	
Total tax charge for the year	270.9		144.7	

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

6. EARNINGS PER SHARE

	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence	Pence
Basic earnings per share	37.4	21.5
Diluted earnings per share	36.7	21.2

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
	£' Million	£' Million
Earnings		
Profit after tax (*for both basic and diluted EPS*)	190.3	107.1
Weighted average number of shares		
Weighted average number of ordinary shares in issue *(for basic EPS)*	509.4	497.7
Adjustments for outstanding share options	9.2	8.5
Weighted average number of ordinary shares *(for diluted EPS)*	518.6	506.2

7. DIVIDENDS

The following dividends have been paid by the Group:

	Year Ended 31 December 2013	Year Ended 31 December 2012	Year Ended 31 December 2013	Year Ended 31 December 2012
	Pence per Share	Pence per Share	£' Million	£' Million
Final dividend in respect of previous financial year	6.39	4.80	32.6	23.9
Interim dividend in respect of current financial year	6.38	4.25	32.7	21.4
Total dividends	**12.77**	**9.05**	**65.3**	**45.3**

The Directors have recommended a final dividend of 9.58 pence per share (2012: 6.39 pence). This amounts to £49.4 million (2012: £32.6 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 16 May 2014 to those shareholders on the register as at 11 April 2014.

8. INSURANCE CONTRACT LIABILITIES

	2013	2012
	£' Million	£' Million
Balance at 1 January	424.0	394.0
Movement in unit linked liabilities	58.5	28.7
Movement in non-unit linked liabilities		
- New business	(0.3)	(0.3)
- Existing business	6.3	3.6
- Other assumption changes	(10.3)	0.8
- Experience variance	(11.8)	(2.8)
Total movement in non-unit linked liabilities	(16.1)	1.3
Balance at 31 December	**466.4**	**424.0**
Unit linked	395.0	336.5
Non-unit linked	71.4	87.5
	466.4	424.0
Current	100.7	89.5
Non-current	365.7	334.5
	466.4	424.0

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 2013 and the specific gilts backing the liabilities. The specific rates used are between 2.5% and 3.3% depending on the tax regime (1.3% and 2.5% at 31 December 2012).
Mortality	Mortality is based on Company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. There has been no change since 2006.
Morbidity - Critical Illness	Morbidity is based on Company experience. There has been no change during 2013. Sample annual rates per £ for a male non-smoker are:

Age	Rate 2013	Rate 2012
25	0.000760	0.000760
35	0.001334	0.001334
45	0.003189	0.003189

Assumption	Description
Morbidity - Permanent Health Insurance	Morbidity is based on Company experience. There has been no change during 2013. Sample annual rates per £ income benefit p.a. for a male non-smoker are:

Age	Rate 2013	Rate 2012
25	0.00548	0.00548
35	0.01447	0.01447
45	0.03138	0.03138

Assumption	Description
Expenses	Contract liabilities are calculated allowing for the actual costs of administration of the business. The assumption has been amended to allow for changes to the underlying administration costs.

Product	Annual Cost 2013	Annual Cost 2012
Protection business	£35.69	£34.30

Assumption	Description
Persistency	Allowance is made for a prudent level of lapses within the calculation of the liabilities. The rates have not changed in 2013. Sample annual lapse rates are:

2012 & 2013	Lapses Year 1	Lapses Year 5	Lapses Year 10
Protection business	7%	9%	8%

Sensitivity analysis

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

Sensitivity analysis	Change in assumption	Change in profit before tax 2013	Change in profit before tax 2012	Change in net assets 2013	Change in net assets 2012
	%	£' Million	£' Million	£' Million	£' Million
Withdrawal rates	-10%	(1.1)	(4.7)	(1.0)	(3.8)
Expense assumptions	-10%	1.2	1.3	1.0	1.1
Mortality / morbidity	-5%	0.0	(2.9)	0.0	(2.3)

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

9. OTHER PROVISIONS AND CONTINGENT LIABILITIES

	Endowments	Office Restructuring	Other Provisions	Total
	£' Million	£' Million	£' Million	£' Million
At 1 January 2013	**0.5**	**1.0**	**7.7**	**9.2**
Utilised/released during the year	(0.1)	(1.0)	-	(1.1)
Additional provisions	-	-	1.6	1.6
At 31 December 2013	**0.4**	-	**9.3**	**9.7**
Current	-	-	6.0	6.0
Non-current	0.4	-	3.3	3.7
	0.4	-	9.3	9.7

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 represented the expected amounts payable under a number of non-cancellable operating leases for office space that the Group did not occupy. The provision was based on estimates of the rental payable until the approximate dates on which the Group expected either to have sublet the affected space or to have reached break clauses within the relevant lease agreements.

The other provisions represent a reserve in respect of self insured liabilities.

As more fully set out in the summary of principal risks and uncertainties on pages 44 to 46, the Group could in the course of its business be subject to legal proceedings and/or regulatory activity. Should any such material circumstance arise, a provision would be established based on the Board's best estimate of the amount required to settle the obligation. While there can be no assurances, the Directors do not believe, based upon information currently available to them, there is any such activity that would have a material adverse effect on the Group's financial position.

10. SHARE CAPITAL

	Number of Ordinary Shares	Share Capital
		£' Million
At 1 January 2012	493,422,751	74.0
- Exercise of options	13,408,396	2.0
At 31 December 2012	**506,831,147**	**76.0**
- Exercise of options	8,384,836	1.3
At 31 December 2013	**515,215,983**	**77.3**

The total authorised number of ordinary shares is 605 million (2012: 605 million), with a par value of 15 pence per share (2012: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,338,458 (2012: 3,052,273) shares held in the Treasury Shares Reserve with a nominal value of £0.5 million (2012: £0.5 million).

11. RELATED PARTY TRANSACTIONS

The Company and the Group have entered into related party transactions with Lloyds Banking Group plc ("LBG"), various subsidiaries of LBG and the Directors of the Company and the Group.

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

- Commission of £0.4 million (2012: £0.8 million) was receivable from the sale of banking services for St. James's Place Bank (a division of Halifax plc).
- Fees of £2.0 million (2012: £1.1 million) was receivable from the sale of pensions offered by Scottish Widows.
- Commission of £1.0 million (2012: £0.9 million) was receivable from the sale of Halifax, Cheltenham & Gloucester, Bank of Scotland, Birmingham Midshires, Scottish Widows and The Mortgage Business mortgages.
- Commission of £0.7 million (2012: £0.5 million) was receivable from Bank of Scotland Annuity Service.
- Commission of £36,380 (2012: £37,000) was receivable from Bank of Scotland in respect of corporate banking income in 2013.
- During the year, deposits were placed with Bank of Scotland and Lloyds TSB on normal commercial terms. At 31 December 2013 these deposits amounted to £63.7 million (2012: £54.7 million).
- Amounts lent by, or assigned to, the Bank of Scotland to members of the St. James's Place Partnership, under guarantee by St. James's Place, totalled £103.6 million (2012: £89.6 million).
- Amounts lent by the Bank of Scotland to the Group totalled £0.8 million (2012: £0.8 million).
- Tax fees of £26,886 (2012: £27,000) in respect of annual tax compliance and ad-hoc tax advice were charged by LBG plc to certain unit trusts.
- Fees of £41,564 (2012: £26,250) were payable to LBG in respect of the services of non-executive St. James's Place Board Directors.

During the year, Lloyds Banking Group made three separate placements of their holding in St. James's Place plc:

On 11 March 2013, Lloyds Banking Group plc placed 20% of its holding in St. James's Place plc (SJP) on the market through an accelerated book build reducing its holding from 57% to 37%. As part of this transaction, fees of £5.2 million were paid by SJP to a third party which ordinarily would have been paid by the vendor. In the Board's view this payment was in the interest of SJP and its shareholders.

On 29 May 2013, Lloyds Banking Group plc placed 15% of its holding in St. James's Place plc (SJP) on the market reducing its holding from 37% to 21%.

On 10 December 2013, Lloyds Banking Group plc placed its remaining 21% holding in St. James's Place plc (SJP) on the market reducing its holding from 21% to nil.

As at the 31 December 2013 Lloyds Banking Group plc remained a related party by virtue of their Non-executive Directorships on the St. James's Place plc board. As of 1 January 2014, due to the resignations of these Non-executive Directors, Lloyds Banking Group plc were no longer a related party.

Transactions with St. James's Place unit trusts*
In respect of the non-consolidated St. James's Place managed unit trusts that are held as investments in the St. James's Place life and pension funds, there was income recognised of £16.1 million (2012: £21.9 million income) and the total value of transactions with those non-consolidated unit trusts was £32.1 million (2012: £86.3 million). Net management fees receivable from these unit trusts amounted to £19.4 million (2012: £30.1 million). The value of the investment into the non-consolidated unit trusts at 31 December 2013 was £92.2 million (2012: £203.4 million).

*2012 comparatives restated to reflect the adoption of IFRS 10. See Note 2.

12. NON STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 2012, but is derived from those accounts. Statutory accounts for 2012 have been delivered to the registrar of companies, and those for 2013 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

13. ANNUAL REPORT

The Company's annual report and accounts for the year ended 31 December 2013 is expected to be posted to shareholders by 4 April 2014. Copies of both this announcement and the annual report and accounts will be available to the public at the Company's registered office at St. James's Place House, 1 Tetbury Road, Cirencester GL7 1FP and through the Company's website at www.sjp.co.uk.

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

The Directors confirm to the best of their knowledge that:

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

On behalf of the Board

David Bellamy
Chief Executive

Andrew Croft
Chief Financial Officer

24 February 2014