

# ST. JAMES'S PLACE



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ST. JAMES'S PLACE PLC HALF YEAR REPORT 2013

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**ST. JAMES'S PLACE**  
WEALTH MANAGEMENT

# Summary Half Year Results

## Funds under management +29%

2013: £39.9 billion

2012: £30.9 billion

## Net inflow of funds under management +32%

2013: £1.99 billion

2012: £1.51 billion

## Gross inflow of funds under management +22%

2013: £3.3 billion

2012: £2.7 billion

## Partnership numbers +12%

2013: 1,905

2012: 1,702

## IFRS profit before shareholder tax +53%

2013: £90.1 million

2012: £58.9 million

## EEV new business profit +26%

2013: £152.4 million

2012: £120.6 million

## EEV operating profit +39%

2013: £233.6 million

2012: £167.8 million

## Cash result +84%

2013: £82.6 million

2012: £44.9 million

### Dividend (pence per share)

Increase of

50%

2013 6.38

2012 4.25

### IFRS Net Assets per Share (pence)

Increase of

17%

2013 165.8

2012 141.7

### EEV Net Assets per Share (pence)

Increase of

26%

2013 524.1

2012 414.6

# St. James's Place Wealth Management New Business Figures

For the Six Months to 30 June 2013

## TOTAL LONG-TERM SAVINGS

	Unaudited 3 Months to 30 June			Unaudited 6 Months to 30 June		
	2013	2012	Change	2013	2012	Change
	£' Million	£' Million	%	£' Million	£' Million	%
<b>NEW PREMIUMS</b>						
<b>New Regular Premiums</b>						
– Investment	3.0	2.3	30%	6.3	2.3	174%
– Pensions	25.6	43.9	(42%)	56.2	66.0	(15%)
– Protection	6.1	4.9	24%	11.2	9.9	13%
	34.7	51.1	(32%)	73.7	78.2	(6%)
<b>New Single Premiums</b>						
– Investment	597.0	471.4	27%	1,128.1	881.3	28%
– Pensions	619.3	558.5	11%	1,200.2	1,080.1	11%
	1,216.3	1,029.9	18%	2,328.3	1,961.4	19%
<b>Unit Trust Sales</b>						
(including PEPs and ISAs)	710.7	471.2	51%	1,200.1	795.4	51%

	Unaudited 3 Months to 30 June			Unaudited 6 Months to 30 June		
	2013	2012	Change	2013	2012	Change
	£' Million	£' Million	%	£' Million	£' Million	%
<b>NEW BUSINESS ('APE')</b>						
<b>(RP + 1/10TH SP)</b>						
Investment	133.7	96.6	38%	239.1	170.0	41%
Pensions	87.5	99.8	(12%)	176.2	174.0	1%
Protection	6.1	4.9	24%	11.2	9.9	13%
<b>Total</b>	<b>227.3</b>	<b>201.3</b>	<b>13%</b>	<b>426.5</b>	<b>353.9</b>	<b>21%</b>

# St. James's Place Wealth Management New Business Figures

For the Six Months to 30 June 2013

## MANUFACTURED LONG-TERM SAVINGS

	Unaudited 3 Months to 30 June			Unaudited 6 Months to 30 June		
	2013	2012	Change	2013	2012	Change
	£' Million	£' Million	%	£' Million	£' Million	%
<b>NEW PREMIUMS</b>						
<b>New Regular Premiums</b>						
– Investment	3.0	2.3	30%	6.3	2.3	174%
– Pensions	24.3	22.2	9%	43.1	40.0	8%
– Protection	0.6	0.7	(14%)	1.2	1.4	(14%)
	27.9	25.2	11%	50.6	43.7	16%
<b>New Single Premiums</b>						
– Investment	537.5	446.8	20%	1,035.8	838.2	24%
– Pensions	506.7	466.6	9%	997.5	932.6	7%
	1,044.2	913.4	14%	2,033.3	1,770.8	15%
<b>Unit Trust Sales</b>						
(including PEPs and ISAs)	710.7	471.2	51%	1,200.1	795.4	51%

	Unaudited 3 Months to 30 June			Unaudited 6 Months to 30 June		
	2013	2012	Change	2013	2012	Change
	£' Million	£' Million	%	£' Million	£' Million	%
<b>NEW BUSINESS ('APE')</b>						
<b>(RP + 1/10TH SP)</b>						
Investment	127.8	94.1	36%	229.9	165.7	39%
Pensions	74.9	68.9	9%	142.8	133.3	7%
Protection	0.6	0.7	(14%)	1.2	1.4	(14%)
<b>Total</b>	<b>203.3</b>	<b>163.7</b>	<b>24%</b>	<b>373.9</b>	<b>300.4</b>	<b>24%</b>
<b>% of total new business</b>	<b>89%</b>	<b>81%</b>		<b>88%</b>	<b>85%</b>	

# St. James's Place Wealth Management New Business Figures

For the Six Months to 30 June 2013

## NON MANUFACTURED LONG-TERM SAVINGS

### For the three months:

- Investment premiums of £59.5 million (2012: £24.6 million), amounting to £5.9 million (2012: £2.5 million) on an APE basis.
- Pension single premiums of £112.6 million (2012: £91.9 million) and regular premiums of £1.3 million (2012: £21.7 million), amounting to £12.6 million (2012: £30.9 million) on an APE basis.
- Protection business of £5.5 million regular premiums (2012: £4.2 million).
- Total new business, on an APE basis, of £24.0 million (2012: £37.6 million).

### For the six months:

- Investment premiums of £92.3 million (2012: £43.1 million), amounting to £9.2 million (2012: £4.3 million) on an APE basis.
- Pension single premiums of £202.7 million (2012: £147.5 million) and regular premiums of £13.1 million (2012: £26.0 million), amounting to £33.4 million (2012: £40.7 million) on an APE basis.
- Protection business of £10.0 million regular premiums (2012: £8.5 million).
- Total new business, on an APE basis, of £52.6 million (2012: £53.5 million).





# Interim Management Report

# Interim Management Report

## Chief Executive's Statement

I am very pleased to be able to report another strong performance from St. James's Place.

We have delivered another good set of new business numbers influenced by the addition of good quality advisers to the Partnership in recent years and the continued growth from existing Partners.

Alongside those new business numbers, through a combination of the positive performance of our clients' investment funds, supported by more stable market conditions, and the continued retention of existing funds under management, we continue to experience substantial growth in the cash returns from those longer term funds much as we had expected.

At the heart of our business are the long term relationships that our Partners build with clients, working with them over time to understand their financial needs and goals and helping them to achieve them.

The results we are reporting in this interim report demonstrate that the focus we place on those long term relationships with both our Partners and clients over time, delivers extremely good value for our stakeholders.

### **New Business and Funds Under Management**

The first six months of the year saw growth in new business of 21% on an APE (annual premium equivalent) basis.

New single investment and pension business at £3.5 billion was 28% higher than the same period in 2012, which combined with the continued retention of existing client funds, resulted in net inflows of £2.0 billion up 32% over the prior period.

Total funds under management as at 30 June 2013, of £39.9 billion, were up 29% over the twelve months and 15% higher than the start of the year.

### **Financial Performance**

On an IFRS ('International Financial Reporting Standard') basis, profit before shareholder tax increased to £90.1 million (2012: £58.9 million) up 53%.

On an EEV ('European Embedded Value') basis operating profits were up 39% to £233.6 million (2012: £167.8 million) reflecting the good growth in new business and a very strong positive experience variance. Investment markets and particularly the managers who manage our client funds delivered good returns in the first six months of 2013 resulting in an increase in total pre-tax profit of £444.6 million compared to £220.5 million in the first six months of 2012.

Similarly, the higher stock markets and strong growth in funds under management in earlier years is as expected continuing to increase the cash results we're able to report. Consequently, the underlying cash result for the six months at £66.9 million was some 60% higher than the £41.9 million recorded in the first six months of 2012.

There was an additional £15.7 million of other cash inflow in the six months driven primarily from a one-off reinsurance contract, which provides for a total cash result of £82.6 million.

### **Dividend**

In my 2012 full year statement we guided shareholders, based on our confidence in the profile of the expected cash emergence from the retention of longer term funds under management, to expect a similarly significant increase in the 2013 dividend to the 33% growth we have delivered in the last three years.

As noted above the growth in the cash result, helped by the investment return of our funds, has been particularly strong in the first six months of the year and the Board has decided to increase the interim dividend by 50% to 6.38p and shareholders can expect similar growth in the full year dividend.



# Interim Management Report

## Chief Executive's Statement *continued*

Looking forward we intend to maintain our progressive dividend policy in line with the underlying performance of the business.

The interim dividend for 2013 will be paid on 25 September to shareholders on the register at the close of business on 30 August. A Dividend Reinvestment Plan ('DRP') continues to be available for shareholders.

### **Clients**

As I mentioned earlier, our business is focussed on supporting the long-term and trusted relationships that our Partners build with our clients, working with them over time to understand their financial goals and to help them to achieve them.

We measure our performance in these areas by tracking the retention rates of our funds under management, and the amount of new investments and referrals we receive from existing clients. In addition, we commission regular surveys of our clients and seek feedback from them at every opportunity.

An essential element of maintaining long term relationships with clients is our ability to deliver above average investment returns for them. We believe our distinct investment management approach giving us access, sometimes exclusively, to some of the best fund managers in the world, gives us an excellent platform to do that.

Our clients now have access to over 30 leading investment managers, chosen from across the world, to manage their funds. The most recent appointments, Magellan Financial Group based in Sydney, and Edgepoint Investment Group, based in Toronto are perfect examples. We are confident that the strength and breadth of our fund offering provides an excellent platform upon which to continue to grow our funds under management in the coming years.

In the meantime, the global economic environment continues to improve, albeit slowly. In particular the recovery in the US economy observed through more job creation and an uplift in house prices has been well received by investors. Consequently equity markets, with the exception of Emerging Markets, produced positive returns in first half of the year. The FTSE 100 index returned 5.4% in capital terms and 7.6% including reinvested dividends and the majority of our clients, depending on their portfolios, will have enjoyed better returns.

### **The St. James's Place Partnership**

We've always believed that our approach of promoting our services exclusively through our dedicated adviser team, The St. James's Place Partnership, uniquely positions the company within the UK wealth management market.

Our ability to attract the highest quality advisers to the Partnership, typically growing the Partnership between 5% and 7% each year, is one of the major contributors to the recent growth of the business. It is also an important indicator of our future growth prospects. During the first half of the year we have been able to take advantage of a dislocation in the advice market, largely caused by the impact of regulatory and legislative changes in recent years, and have attracted a higher than usual number of advisers. At the 30 June the Partnership had grown to 1,905 Partners, up 6.5% since the beginning of the year. Going forward, we expect recruitment to return to normal growth levels.

To supplement our normal recruitment activity, at the beginning of 2012 we launched our new Academy programme. Progress to date has been very pleasing and we have just completed the initial training of our fifth cohort, bringing the total within the programme to 91. In addition, we are facilitating the development of the next generation of some of our existing Partners who aspire to join the family business.

We anticipate that some of the Academy Partners will begin to graduate into the Partnership during the latter part of this year.

# Interim Management Report

## Chief Executive's Statement *continued*

### **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 would like to take this opportunity to thank everyone connected with St. James's Place for their contribution to these results and for their continued enthusiasm, dedication and commitment.

### **Outlook**

Looking forward, everything we understand about our marketplace tells us that there has never been a greater need for reliable advice delivered by a trusted adviser and backed by a reputable company.

Against this backdrop, the scale and strength of the company's advice led approach to wealth management, twinned with a proven investment management proposition, positions St. James's Place uniquely to benefit from the long term demographic and market opportunities in wealth management and reinforces our confidence in our ability to continue our growth in line with our medium term objectives.



**David Bellamy**

*Chief Executive Officer*

30 July 2013

# Interim Management Report

## Chief Financial Officer's Report

During the first half of the year, our financial performance has been strong across all key measures, continuing the positive trend we have seen in recent years.

In his CEO statement, David has commented on the strong levels of new business, the record funds under management and the strong growth in the Partnership. In this statement I will comment on the other financial measures.

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 positive IFRS and cash results reflect the benefit from the growth and retention of funds under management seen in earlier years.

In addition to the positive outcome of underlying trading activity in the first six months the results have been impacted by the following developments:

Firstly, during the period, 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), thus removing both the insurance and persistency risk on this business from the balance sheet.

As a result, there has been a one-off increase of £18.3 million in the post-tax cash result, reflecting the release of the associated prudent solvency reserves together with the realisation of the capitalised value of expected future margins. This treaty has also provided a positive contribution of £8.9 million to the pre-tax IFRS profit.

Secondly, we have placed a value on 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 £38.4 million (undiscounted) has been established and within the EEV there is a resultant positive experience variance of £32.0 million pre-tax (discounted). We expect the benefit to be realised in the cash result in future years.

Finally, as noted in the 2012 Financial Review, the introduction of the new regulatory rules on adviser charging at the start of the year, has changed the nature of a number of cash flows which are described where appropriate in the Financial Review. The two principal impacts are, firstly the loss of tax relief on the adviser charge reducing the value of the UK life company's investment bond new business, and secondly the acceleration of cash earnings on certain pension business thus reducing a previous element of strain.

The overall impact of these developments on the financial results is outlined in the following section and more detailed information can be found in the Financial Review which is included on pages 12 to 31.

### **Financial Results**

#### ***IFRS Profit before shareholder tax***

The Board regards the profit before shareholder tax as the best measure of the performance of the business on an IFRS basis.

Profit for the six months was £90.1 million, up 53% over the prior period (30 June 2012) result of £58.9 million. As noted above the current year result includes the one-off £8.9 million arising from the new reinsurance treaty and excluding this item the result was £81.2 million.

The growth in IFRS profit mirrors the growth in underlying post tax cash, with both of them reflecting the increasing maturity of the funds under management. This is a trend which should continue.

# Interim Management Report

## Chief Financial Officer's Report *continued*

### **EEV result**

The EEV result is primarily driven by the current year new business, retention, expenses and investment returns.

The EEV new business profit at £152.4 million (30 June 2012: £120.6 million) was up 26% during the period. This growth reflects the increase in new business volumes, a more favourable business mix and continued expense management. However, as noted earlier there has also been a reduction in the UK life company's investment bond new business value.

The operating profit for the period was £233.6 million some 39% higher than the £167.8 million for the same period last year. In addition to the contribution from the new business profit there was also a very positive experience variance of £39.3 million reflecting continued better than assumed retention of client funds and the recognition of the capital losses noted in my introduction.

Given the very strong investment return of our investment funds the net asset value per share on an EEV basis at the end of the period at 524.1 pence, was 26% higher than the 2012 half year value of 414.6p.

### **Cash result**

The underlying cash result for the six months at £66.9 million (30 June 2012: £41.9 million) was up 60%. The increase principally reflects the growing income from the funds under management added in earlier years, but the acceleration of cash earnings on certain pension business noted above means that the strain from new business has also reduced.

The overall cash result at £82.6 million was up 84% (30 June 2012: £44.9 million), benefitting from the new reinsurance treaty covered earlier.

### **Dividend**

As previously indicated, the funds under management added in past years will start to provide a positive cash contribution in the future, and the increasing emergence of cash will enable us to deliver a growing dividend.

At the time of the 2012 final results we indicated that, after three consecutive years of 33% dividend growth, shareholders could expect a similar significant increase in the 2013 dividend. At the same time we also said that, beyond 2013, we intended to maintain our progressive dividend policy in line with the underlying performance of the business.

Given the strong cash result in the period the Board have decided to increase the interim dividend by 50% to 6.38p, and is planning to increase the full year dividend by a similar amount.

Thereafter, we intend to continue with our progressive dividend policy by growing the dividend in line with the underlying performance of the business.

### **Capital**

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

Our prudent investment policy for shareholder assets has removed much of the market risk and provided for a stable and increasingly resilient solvency position over recent years.

As a result of the recent reinsurance transaction we have now also removed much of the remaining insurance risk from our balance sheet thus protecting shareholder assets further.

# Interim Management Report

## Chief Financial Officer's Report *continued*

### **Future Developments**

We have commenced an investment programme working with our key outsourced providers to bring together and enhance our 'back office' systems to both accommodate continued growth and achieve future efficiency savings.

Whilst the major systems development costs will be borne by an outsourced provider, we will incur our own internal project costs over the next couple of years.

This internal expenditure will be more than covered from the cash released by the reinsurance treaty and, hence, this investment for the future is not expected to impact our progressive dividend policy.

### **Concluding Remarks**

2013 has started as another strong year of financial performance for the Group across all measures.

The post-tax cash result was particularly strong in the six months and benefitted from the growth and retention of funds under management, not only in the current year, but more importantly from that experienced in earlier years. This trend is expected to continue and, supported by business opportunities such as the reinsurance transaction, we expect to be able to invest in our business and still progressively grow dividends to shareholders.

The business is in good shape and the strong recruitment over the last few years, in particular during the first six months of 2013, should help us attract new client investments.



### **Andrew Croft**

*Chief Financial Officer*

30 July 2013

# Interim Management Report

## 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, invest in growing the Partnership and invest in acquiring new funds under management.

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

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 26).

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

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

### Presentation of Financial Results

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

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

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



# Interim Management Report

## Financial Review *continued*

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**, which reflects the profit before tax adjusted for tax in respect of policyholders. We believe this method provides the most useful measure 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 cashflow' valuation. Our embedded value is based on the EEV principles, which were set out as an industry standard by the Chief Financial Officers ('CFO') Forum in 2004.

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

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

Since the cash result can be impacted by timing variances and capitalised impacts of changes in solvency requirements management believes it is also useful to present an **underlying cash result** excluding these effects. Neither of these cash result measures should be confused with the IFRS cash flow statement which is prepared in accordance with IAS 7 and disclosed on page 47.

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

# Interim Management Report

## Financial Review *continued*

### Section 1: International Financial Reporting Standards (IFRS)

As noted above the Board regard the IFRS profit before shareholder tax as the best measure of the IFRS operating performance for the year. It provides a measure of performance which recognises the emergence of profits in line with the provision of services, and is comparable with other businesses. The detailed IFRS result is shown on pages 44 to 64 and is summarised in the table below.

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
<b>Profit before shareholder tax</b>	<b>90.1</b>	58.9	134.6
Shareholder tax	18.1	(12.8)	(27.5)
<b>IFRS profit after tax</b>	<b>108.2</b>	46.1	107.1

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

#### Profit before Shareholder Tax

The profit before shareholder tax for the six months was £90.1 million, up 53% on the prior period result (30 June 2012) of £58.9 million.

Included in the 2013 result is 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 profit before shareholder tax, excluding this one-off item, was £81.2 million and the key driver of the improved result compared with last year was higher income from funds under management.

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

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Life business	81.1	52.6	111.7
Unit Trust business	25.3	13.1	33.5
Distribution business	(2.1)	2.0	5.3
Other	(14.2)	(8.8)	(15.9)
<b>Profit before shareholder tax</b>	<b>90.1</b>	58.9	134.6

#### Life business

The Life business profit for the six months to 30 June 2013 was £81.1 million (30 June 2012: £52.6 million) which was 54% higher than the prior period. As noted above the UK life company entered into a reinsurance treaty which resulted in a one-off positive of £8.9 million. Excluding this amount the life profit was £72.2 million and the principal contributor to this rise in profit was the higher income from funds under management.

#### Unit Trust business

The Unit Trust business profit for the six months was £25.3 million (30 June 2012: £13.1 million), also higher than the same period last year. As above, the principal contributor to this rise in profit was the higher income from funds under management.

# Interim Management Report

## Financial Review *continued*

### **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 combined 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 period this result will depend upon the level of new business and expenses.

In the first six months there was a small negative contribution of £2.1 million (30 June 2012: profit £2.0 million). The result reflects higher expenses in 2013 associated with the strong increase in Partner numbers, up 6.5%, in the period. The benefit from this investment in recruitment will be seen in future periods.

### **Other**

Other operations made a negative contribution of £14.2 million (30 June 2012: loss of £8.8 million). Included within this figure is the £5.3 million (30 June 2012: £4.0 million) development costs related to our investment proposition and regulatory change, £3.2 million (30 June 2012: £3.4 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 £6.0 million.

### **Shareholder Tax**

The actual tax rate in each of the periods is impacted by significant one-off items and events such as a change in corporation tax rate. Therefore, to assist shareholders, the table below provides a high level analysis of shareholder tax, and a more detailed analysis is included in Note 4 to the condensed half year financial statements.

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Expected shareholder tax	<b>(19.5)</b>	(13.7)	(33.7)
Recognition of capital losses	<b>38.4</b>	–	–
Market related tax effects	–	(3.1)	(4.0)
Other tax adjustments	<b>(0.8)</b>	0.3	2.0
Corporation tax rate change	–	3.7	8.2
<b>Actual shareholder tax</b>	<b>18.1</b>	(12.8)	(27.5)
Expected shareholder tax rate	<b>21.6%</b>	23.3%	25.0%
Actual shareholder tax rate	<b>(20.1)%</b>	21.7%	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 4 to the condensed half year financial statements.

As a result of the refinement of the method of estimation of the policyholder tax, the **market related tax effects** will normally be zero in future. The **other tax adjustments** are also typically small.

The impact of **corporation tax rate changes** on deferred tax reduced the tax charge in the prior period. However in 2013, despite further reductions in Corporation tax being announced, none of these were enacted by 30 June and therefore these changes will be adopted in the full year numbers. The impact is expected to be a further reduction in the level of shareholder tax of some £7 million.

The overall impact of these effects is to reverse the tax charge on an IFRS basis from £19.5 million and change it to a tax credit of £18.1 million (30 June 2012: from £13.7 million to £12.8 million).

# Interim Management Report

## Financial Review *continued*

### 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 period. It starts from the cash result, which can be found on pages 23 to 25.

Six Months Ended 30 June 2013	Notes	In-Force	New Business	Total
		£' Million	£' Million	£' Million
Cash result	1	107.6	(25.0)	82.6
DIR amortisation	2	56.9	2.9	59.8
DAC amortisation	3	(50.3)	(2.9)	(53.2)
PVIF amortisation	4	(1.2)	–	(1.2)
DIR on new business	2	–	(26.1)	(26.1)
DAC on new business	3	–	20.2	20.2
Share options	5	(3.2)	–	(3.2)
IFRS deferred tax impacts	6	29.2	–	29.2
Other IFRS	7	0.1	–	0.1
<b>IFRS profit after tax</b>		<b>139.1</b>	<b>(30.9)</b>	<b>108.2</b>

Six Months Ended 30 June 2012	Notes	In-Force	New Business	Total
		£' Million	£' Million	£' Million
Cash result	1	78.7	(33.8)	44.9
DIR amortisation	2	47.7	2.7	50.4
DAC amortisation	3	(37.3)	(2.7)	(40.0)
PVIF amortisation	4	(1.2)	–	(1.2)
DIR on new business	2	–	(67.4)	(67.4)
DAC on new business	3	–	70.0	70.0
Share options	5	(3.4)	–	(3.4)
IFRS deferred tax impacts	6	(10.1)	–	(10.1)
Other IFRS	7	(0.8)	–	(0.8)
Corporation tax rate change	8	3.7	–	3.7
<b>IFRS profit after tax</b>		<b>77.3</b>	<b>(31.2)</b>	<b>46.1</b>

# Interim Management Report

## Financial Review *continued*

Twelve Months 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
<b>IFRS profit after tax</b>		<b>168.5</b>	<b>(61.4)</b>	<b>107.1</b>

The IFRS profit after tax from the business in-force at the start of the year increased to £139.1 million (30 June 2012: £77.3 million).

This result reflects both the significant increase in the cash result together with the establishment of a £38.4 million deferred tax asset reflecting the value placed on capital losses within the Group which we now regard as being capable of utilisation in the medium term.

The strong growth in the cash result itself reflects an increase in the underlying cash result from the higher net income from funds under management, the benefit of earlier recognition of some cashflows resulting from the adoption of new regulatory rules on adviser charging and a one-off benefit of £18.3 million from a new reinsurance treaty entered into by the UK life company. The £18.3 million one-off benefit in the cash result was partially offset in the IFRS result, giving an overall benefit in IFRS profit after tax of £10.6 million. Further detail on the cash result is provided below.

The loss associated with the new business activities during the six months was £30.9 million (30 June 2012: £31.2 million) and should be viewed as an investment for future profits.

### Notes

- These figures are explained in the analysis of the post-tax cash result in Section 3.
- DIR: IFRS requires any initial profit from a long-term product 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.
  - The amortisation of the opening deferred income reserve, which increases profit for the period, was £56.9 million (30 June 2012: £47.7 million) in the first six months. The release in a particular year will depend upon the value of DIR at the start of the year and the remaining life of the policies to which the DIR relates or the remaining surrender penalty period. The expected release for the full year is £113.8 million.
  - The deferral of the initial profit associated with new business sales in the period, which in the first six months reduced the IFRS result by £26.1 million (30 June 2012: £67.4 million).

The introduction at the start of 2013 of the new regulatory rules on adviser charging has changed the nature of a number of cash flows. In particular, that part of the initial profit which is used to meet adviser charges (including Partner remuneration), is no longer regarded as a cash flow associated with the long-term business, but is instead a direct client payment for advice. Consequently in respect of the adviser charge there is no initial profit to defer, and the DIR on new business in the current year is therefore significantly lower.

The current year deferral of £26.1 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 an on-going six month period. If all the new business in the first half of the year had been advised on after the start of the year we estimate that the DIR on new business in the first half would have been c.£21 million.

# Interim Management Report

## Financial Review *continued*

3. DAC: Specific new business acquisition expenses associated with a long-term product are required to be deferred in the year they arise and then amortised in future years over the life of the policies to which the costs relate. This treatment of these acquisition expenses gives rise to two adjustments to arrive at the IFRS result.
- (a) The amortisation of the opening DAC, which reduces profit for the period, was £50.3 million (30 June 2012: £37.3 million) in the first six months. The charge in a particular period will depend upon the value of the DAC at the start of the year and the remaining life of the policies to which the DAC relates. The expected amortisation charge for the half year was £42.6 million. However, the reassurance of the Protection business resulted in the impairment of the associated Insurance DAC and the impact of this was £7.7 million on profit after tax. The expected charge for the full year is now £90.5 million.
- (b) The deferral of the specific acquisition costs, which were incurred in the first six months of the year, increased IFRS profits by £20.2 million (30 June 2012: £70.0 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 described in Note 2 above, the adoption of the new regulatory rules on adviser charging at the start of 2013 has changed the nature of a number of cash flows. In particular, the adviser charge (including Partner remuneration) is no longer regarded as an expense associated with the long-term business but is rather a direct client payment for advice. Consequently in respect of the adviser charge there is no expense to defer and the DAC on new business in the current year is therefore significantly lower.

The current year deferral of £20.2 million however, includes some business that was issued in 2013 but advised on before that date and therefore is accounted for under the old method. This figure is therefore not representative of an on-going six month period. If all the new business in the first half of the year had been advised on after the start of the year we estimate that the DAC on new business in the first half would have been c.£13 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 first six months was £1.2 million (30 June 2012: £1.2 million). The charge for the full year is expected to be £2.5 million.
5. Share options: this figure is the notional cost that is associated with the various share option schemes.
6. IFRS deferred tax: Under IFRS a deferred tax asset is established for future tax benefits that are expected to emerge. Included in this figure is the establishment of a £38.4 million deferred tax asset reflecting the value placed on capital losses within the Group which we now regard as being capable of being utilised in the medium term. This deferred tax asset will be reduced as the benefit emerges through the cash result in future years.
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 reporting period. In the 2013 Budget further reductions in the Corporation tax rate were announced. Rates will reduce from 23% to 21% on 1 April 2014 and to 20% on 1 April 2015. These changes were not substantively enacted by the time of reporting, but will be adopted in the full year results. This is expected to have a further positive impact on the IFRS profit after tax of some £7 million (31 December 2012: £8.2 million).

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

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
<b>IFRS profit before tax</b>	<b>249.5</b>	85.0	251.8
Policyholder tax	<b>(159.4)</b>	(26.1)	(117.2)
<b>Profit before shareholder tax</b>	<b>90.1</b>	58.9	134.6
Shareholder tax	<b>18.1</b>	(12.8)	(27.5)
<b>IFRS profit after tax</b>	<b>108.2</b>	46.1	107.1

In 2013 the **IFRS profit before tax** for the six months was £249.5 million (30 June 2012: £85.0 million) with the principal contribution to the change being the increase in the amount of policyholder tax from £26.1 million in 2012 to £159.4 million in 2013.



# Interim Management Report

## Financial Review *continued*

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

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

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Purchased value of in-force*	32.0	34.1	33.3
Deferred acquisition costs*	727.1	699.8	757.1
Deferred income*	(488.3)	(471.0)	(519.2)
Other IFRS net assets	118.1	79.4	87.8
Solvency net assets	462.7	368.2	403.5
<b>Total IFRS net assets</b>	<b>851.6</b>	<b>710.5</b>	<b>762.5</b>

\* Net of deferred tax

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	Pence	Pence	Pence
Net asset value per share	165.8	141.7	150.4

### Section 2: European Embedded Value (EEV)

Life business and wealth management business differ 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 result is shown on pages 34 to 41.

Total EEV operating profit for the first six months of the year, at £233.6 million, was 39% higher than the comparable 2012 result of £167.8 million.

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Life business	184.2	132.4	293.9
Unit Trust business	65.7	42.2	82.6
Distribution business	(2.1)	2.0	5.3
Other	(14.2)	(8.8)	(15.9)
<b>EEV operating profit</b>	<b>233.6</b>	<b>167.8</b>	<b>365.9</b>
Investment return variance	209.5	54.9	190.4
Economic assumption changes	1.5	(2.2)	(3.7)
<b>EEV profit before tax</b>	<b>444.6</b>	<b>220.5</b>	<b>552.6</b>
Tax	(88.0)	(46.8)	(114.5)
Corporation tax rate change	18.9	18.7	21.6
<b>EEV profit after tax</b>	<b>375.5</b>	<b>192.4</b>	<b>459.7</b>

# Interim Management Report

## Financial Review *continued*

### EEV Operating Profit

#### *Life Business*

The life business operating profit has increased to £184.2 million (30 June 2012: £132.4 million) and a full analysis of the result is shown below:

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
New business contribution	97.6	87.5	208.9
Profit from existing business			
- unwind of the discount rate	45.0	39.2	76.9
- experience variance	40.1	4.5	6.9
- operating assumption change	–	–	(1.7)
Investment income	1.5	1.2	2.9
<b>Life business EEV operating profit</b>	<b>184.2</b>	<b>132.4</b>	<b>293.9</b>

The **new business contribution** for the six months at £97.6 million (30 June 2012: £87.5 million) was some 12% higher than the prior year reflecting the usual operational gearing arising from the growth in new business and expenses. The current year contribution also reflects a negative impact of some £5-6 million from the loss of tax relief on adviser charges within the UK life company's 'I-E' tax computation, as these charges are now paid by the client rather than the company.

The **unwind of the discount rate** for the six months was £45.0 million (30 June 2012: £39.2 million). The unwind is as usual calculated based on the opening discount rate.

The **experience variance** in the six month period was a positive £40.1 million (30 June 2012: £4.5 million positive variance). The key contributor to the positive variance in the current year was a £32.0 million pre-tax (£25.5 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 £14.1 million, with the balance made up by a number of small positive and negative variances.

There was no change made to the **operating assumptions** (30 June 2012: £nil).

The **investment income** for the six months was slightly higher at £1.5 million (30 June 2012: £1.2 million), reflecting the increasing level of underlying assets.

#### *Unit Trust business*

The unit trust operating profit was £65.7 million (30 June 2012: £42.2 million) and a full analysis of the result is shown in the following table:

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
New business contribution	54.8	33.1	67.9
Profit from existing business			
– unwind of the discount rate	11.5	9.7	19.1
– experience variance	(0.8)	(0.8)	(2.3)
– operating assumption change	–	–	(2.6)
Investment income	0.2	0.2	0.5
<b>Unit Trust business EEV operating profit</b>	<b>65.7</b>	<b>42.2</b>	<b>82.6</b>

# Interim Management Report

## Financial Review *continued*

**New business contribution** at £54.8 million (30 June 2012: £33.1 million) was 66% higher than the prior period as a result of the new business growth exceeding the growth in associated expenses.

The **unwind of the discount rate** was £11.5 million (30 June 2012: £9.7 million).

There was a small negative **experience variance** of £(0.8) million (30 June 2012: £(0.8) million) which is accounted for by a number of small positive and negative items in each year.

There was no change made to the **operating assumptions** (30 June 2012: £nil).

### ***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 the first half of 2013, world stock markets have advanced with, for example, the MSCI £ world index increasing by some 16.2%. 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 £209.5 million for the period.

In the comparative period there was a positive investment variance of £54.9 million, reflecting the lower level of stock market growth.

### **Economic Assumption Changes**

There was a small positive variance of £1.5 million arising from changes in the economic basis adopted at the period end (30 June 2012: £(2.2) million).

### **EEV Profit before Tax**

The total profit before tax for the six months at £444.6 million was more than double the prior period (30 June 2012) figure of £220.5 million. The major contributor to the increase was the higher investment return variance in the current year.

### **Tax**

The tax charge at £88.0 million (30 June 2012: £46.8 million) 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 £375.5 million (30 June 2012: £192.4 million). The principal reason for the variation is the change in investment return variance.

# Interim Management Report

## Financial Review *continued*

### New Business Margin

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

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

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

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
<b>Life business</b>			
New business contribution (£' m)	97.6	87.5	208.9
APE (£' m)	306.5	274.4	594.8
Margin (%)	31.8	31.9	35.1
PVNBP (£' m)	2,270.0	1,991.2	4,424.4
Margin (%)	4.3	4.4	4.7
<b>Unit Trust business</b>			
New business contribution (£' m)	54.8	33.1	67.9
APE (£' m)	120.0	79.5	148.5
Margin (%)	45.7	41.6	45.7
PVNBP (£' m)	1,200.1	795.4	1,484.7
Margin (%)	4.6	4.2	4.6
<b>Total business</b>			
New business contribution (£' m)	152.4	120.6	276.8
APE (£' m)	426.5	353.9	743.3
Margin (%)	35.7	34.1	37.2
PVNBP (£' m)	3,470.1	2,786.6	5,909.1
Margin (%)	4.4	4.3	4.7

The Life business margin has reduced slightly from 4.4% to 4.3% on a PVNBP basis and marginally from 31.9% to 31.8% on the APE basis.

In both cases, these reflect 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), and a positive impact from the growth in new business being greater than growth in expenses (the operational gearing). In addition the margin on the APE basis also reflects a further positive impact from a change in business mix within the current year, as there has been an increase in the proportion of higher margin manufactured business.

The Unit Trust margin has increased from 4.2% to 4.6% on a PVNBP basis and from 41.6% to 45.7% on an APE basis, reflecting growth in new business volumes exceeding growth in expenses (operational gearing).

The combined margin has increased marginally over the prior period both on an APE basis and on a PVNBP basis.

# Interim Management Report

## Financial Review *continued*

### 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:

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Value of in-force			
– Life	1,776.2	1,374.3	1,549.3
– Unit Trust	453.8	335.5	383.5
Solvency net assets	462.7	368.2	403.5
<b>Total embedded value</b>	<b>2,692.7</b>	<b>2,078.0</b>	<b>2,336.3</b>

  

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	Pence	Pence	Pence
Net asset value per share	524.1	414.6	461.0

### Section 3: Cash Result and Capital

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

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Underlying cash result	66.9	41.9	84.0
Reinsurance transaction	18.3	–	–
Variance	(2.6)	3.0	7.7
<b>Cash result</b>	<b>82.6</b>	<b>44.9</b>	<b>91.7</b>

During the first six months of the year, the **underlying cash result** was £66.9 million (30 June 2012: £41.9 million) up nearly 60%. This strong growth was driven by increased net income from funds under management, but also benefitted from earlier recognition of some cashflows as a result of the adoption of new regulatory rules on adviser charging.

The overall **cash result** was £82.6 million (30 June 2012: £44.9 million) which was 84% higher than the prior period and benefitted from a new reinsurance treaty entered into by the UK life company. This treaty reinsures that company's remaining insurance and persistency risk of its closed book of Protection business and resulted in a one-off profit of £18.3 million. This profit reflects the release of the associated prudent solvency reserves together with the realisation of the capitalised expected future margins.

# Interim Management Report

## Financial Review *continued*

The cash result is a combination of the cash emerging from the business in force at the start of the year less the cash flows associated with the new business activity during the period. The tables and commentary below provide an analysis of the cash result, identifying the different contributions from the business in-force at the start of the year, and the new business activity during the period.

Six Months Ended 30 June 2013	Note	In-Force £' Million	New Business £' Million	Total £' Million
Net annual management fee	1	146.2	7.0	153.2
Unwind of surrender penalties	2	(53.5)	(4.1)	(57.6)
Net income from funds under management		92.7	2.9	95.6
Margin arising from new business	3	–	18.5	18.5
Establishment expenses	4	(4.3)	(38.6)	(42.9)
Development expenses	5	–	(4.1)	(4.1)
Regulatory fees	6	(0.4)	(3.7)	(4.1)
Shareholder interest (regulated companies)	7	1.6	–	1.6
Shareholder interest (non-regulated companies)	7	2.0	–	2.0
Miscellaneous	8	0.3	–	0.3
Underlying cash result		91.9	(25.0)	66.9
Reinsurance transaction	10	18.3	–	18.3
Variance	9	(2.6)	–	(2.6)
<b>Cash result</b>		<b>107.6</b>	<b>(25.0)</b>	<b>82.6</b>

Six Months Ended 30 June 2012	Note	In-Force £' Million	New Business £' Million	Total £' Million
Net annual management fee	1	112.6	5.3	117.9
Unwind of surrender penalties	2	(40.6)	(1.7)	(42.3)
Net income from funds under management		72.0	3.6	75.6
Margin arising from new business	3	–	3.1	3.1
Establishment expenses	4	(3.8)	(34.0)	(37.8)
Development expenses	5	–	(2.7)	(2.7)
Regulatory fees	6	(0.4)	(3.8)	(4.2)
Shareholder interest (regulated companies)	7	1.1	–	1.1
Shareholder interest (non-regulated companies)	7	1.4	–	1.4
Miscellaneous	8	5.4	–	5.4
Underlying cash result		75.7	(33.8)	41.9
Variance	9	3.0	–	3.0
<b>Cash result</b>		<b>78.7</b>	<b>(33.8)</b>	<b>44.9</b>



# Interim Management Report

## Financial Review *continued*

Twelve Months Ended 31 December 2012	Note	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)	(70.0)	(77.8)
Development expenses	5	–	(7.2)	(7.2)
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	9	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 2% compared to that used for the prior period.

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% of funds under management (before tax).

The level of net annual management fee was some 30% higher than the same period in 2012. This increase reflects the higher daily funds under management in the first six months of 2013.

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. In other words there is a cost which offsets the annual management fee above. This is known as the 'unwind' of the surrender penalty.

Like the net annual management fee, the unwind of surrender penalties has increased due to growth in funds under management. However, the increase is adjusted by the fact that the funds under management added six years ago have completed the surrender penalty period.

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.

The adoption of the new regulatory rules on adviser charging, at the start of 2013, has resulted in the requirement to recognise the surrender penalty on all pension business. This has reduced a previous element of cash strain and has resulted in an increase in the margin arising from new business, to £18.5 million in the period from £3.1 million in 2012.

4. Establishment expenses: These are the expenses of running the Group's infrastructure as shown in the table on page 29. In line with the rest of this table they are presented after allowance for tax.

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 costs represent the expenditure associated with the on-going development in our investment proposition, together with the costs associated with regulatory change.

6. Regulatory fees: This relates to the fees payable to the Regulatory bodies and the FSCS levy for the period.

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

The 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. It will include miscellaneous product charges and the income and expenses included within the other operations of the business.

9. Variance: This reflects variances in the cash result in a year due to the impact of actual experience on insurance reserves, as well as variances in the settlement of tax related liabilities between the policyholders (unit-linked funds), the shareholder and HMRC. The low level of variances in the periods were attributable to a number of small positive and negative factors.

10. Reinsurance transaction: During the period a reinsurance treaty was entered into by the UK life company which reinsured the company's remaining insurance and persistency risk of its closed book of Protection business. As a result of the transaction 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. It should be noted that the previous annual profit from this reinsured business, which was included in miscellaneous, will no longer emerge in future periods.

# Interim Management Report

## Financial Review *continued*

### 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 life assurance existing business and all the life assurance new business has a surrender penalty which unwinds during the first six years, meaning that this business does not contribute to the cash result until year seven. The table below provides an estimated breakdown of the single premium business over the last six years where these surrender penalties apply. These premiums are not yet generating income within the cash result.

Year	With surrender penalties
	£ Billion
2007	0.8
2008	1.4
2009	1.6
2010	2.1
2011	2.2
2012	2.4
2013 Half Year	1.7
Total	12.2

The total business not yet contributing to the cash result is £12.2 billion\* which is just under a third of the total funds under management at 30 June 2013. Once this business reaches the end of the surrender period the cash result will increase. For illustrative purposes, if all the business was now at this level of maturity then the annual post-tax cash result (based on 0.75% post-tax earnings from funds under management would be some £91 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 24, the cash outflow from new business activity during the first half was £25.0 million (30 June 2012: £33.8 million) and can be viewed as an investment for future income. This has reduced significantly compared with 2012 due to a higher margin arising from new business reflecting the earlier recognition of certain cashflows following the adoption of the new regulatory rules on adviser charging.

This investment will generate income in future periods, which we anticipate will significantly exceed the initial cash outflow 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 assessing the value from the new business activity.

# Interim Management Report

## Financial Review *continued*

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
Post-tax investment in new business (£' Million)	<b>(25.0)</b>	(33.8)	(60.5)
Post-tax present value of expected future cash returns (£' Million)	<b>146.7</b>	128.5	278.8
Post-tax present value of expected profit from investment (£' Million)	<b>121.7</b>	94.7	218.3
Gross inflow of funds under management (£' Billion)	<b>3.3</b>	2.7	5.6
Investment as % of gross inflow*	<b>0.8%</b>	1.3%	1.1%
New business margin (% of APE)	<b>35.7%</b>	34.1%	37.2%
Cash payback period (years)	<b>4</b>	5	4
Internal rate of return (net of tax)	<b>28.3%</b>	21.0%	22.5%

\*The investment as a percentage of net inflow of funds under management was 1.3% compared with 2.2% for the comparative period and 1.8% for the complete year

As we now expect to see an increasing margin from new business the overall cost of new business activity in a period is not expected to increase and depending upon new business levels could reduce further.

### Capital Position

The capital position of the Group, calculated on the regulatory basis ('solvency net assets') and allowing for the regulatory solvency requirement is shown in the table below as at 30 June 2013.

The Group continues to be well capitalised in excess of the solvency requirements and the assets are invested prudently in short term bank deposits, AAA money market funds and government backed securities.

Comparison with previous valuations would show that the Group solvency position has remained stable despite market volatility, reflecting the low appetite for market, credit and liquidity risks in relation to solvency.

	Life	Other Regulated	Other	Total
	£' Million	£' Million	£' Million	£' Million
<b>Solvency position</b>				
Solvency net assets	221.5	34.9	206.3	462.7
Solvency requirement	47.9	16.3		
Solvency ratio	462%	214%		

### Analysis of solvency net assets

UK government gilts	83.3	–	–	83.3
AAA rated money market funds	308.1	49.3	46.7	404.1
Bank balances	95.1	64.1	57.6	216.8
Liquid assets	486.5	113.4	104.3	704.2
Fixed assets	–	–	4.0	4.0
Other assets and liabilities	(265.0)	(78.5)	98.0	(245.5)
Solvency net assets	221.5	34.9	206.3	462.7

### Reconciliation to IFRS net assets

Solvency net assets	221.5	34.9	206.3	462.7
– Purchased VIF	32.0	–	–	32.0
– DAC and DIR	275.8	(37.0)	–	238.8
– Other	116.3	1.8	–	118.1
Total IFRS net assets	645.6	(0.3)	206.3	851.6

# Interim Management Report

## Financial Review *continued*

Included within the 'other' capital resources is an implied reserve that is being built up to cover one years' dividend cost. At 30 June 2013 the amount set aside to date was £59.0 million.

### Analysis of Liquid Assets

As noted in the table above the Group has liquid assets of £704.2 million and these amounts are held in Government backed debt, AAA rated money market funds and bank deposits. A further analysis of the holdings is provided below.

Holding Name	£ Million	£ Million
<b>UK government gilts</b>		
8% UK Treasury 27/09/2013	7.0	
2.5% UK Treasury 07/03/2014	5.3	
2.5% UK Treasury Index Linked 26/07/2016	12.1	
2.5% UK Treasury Index Linked 17/07/2024	18.1	
2% UK Treasury Index Linked 26/01/2035	22.7	
4.25% UK Treasury 07/12/2055	4.4	
3.5% War Loan	13.7	83.3
<b>AAA rated money market funds</b>		
BlackRock	76.1	
HSBC	69.8	
Insight	69.9	
Legal & General	60.0	
RBS	68.3	
Scottish Widows	60.0	404.1
<b>Bank balances</b>		
UK banks*	213.1	
Others	3.7	216.8
		704.2

\* Barclays (£52.8 million), Lloyds TSB (£49.9 million), HSBC (£37.3 million), NatWest (£35.4 million), RBS (£23.7 million), Bank of Scotland (£12.5 million) and Co-op (£1.5 million)

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

### Solvency II

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

### Share Options Maturity

At 30 June 2013 there were 9.0 million share options outstanding under the various share option schemes which, if exercised, will provide up to £22.6 million (30 June 2012: £44.1 million), of future capital for the Company.

# Interim Management Report

## Financial Review *continued*

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 Dec 2013	2.42	7.5	18.1
2014	2.42	0.2	0.6
2015	2.81	1.0	2.9
2016	3.88	0.3	1.0
		9.0	22.6

### Section 4: Other Matters

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

### Expenses

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

	Note	6 Months Ended 30 June 2013 £' Million	6 Months Ended 30 June 2012 £' Million	12 Months Ended 31 December 2012 £' Million
<b>Paid from policy margins</b>				
Partner remuneration	1	177.7	141.5	307.0
Investment expenses	1	49.5	43.4	89.4
Third party administration	1	17.7	13.7	32.6
		244.9	198.6	429.0
<b>Direct expenses</b>				
Other new business related costs	2	32.4	27.7	59.5
Establishment costs	3	56.0	49.6	102.4
Development costs	4	5.3	4.0	10.3
Regulatory levy	5	5.4	5.6	12.0
Contribution from third party product sales	6	(8.8)	(9.5)	(21.4)
		90.3	77.4	162.8
		335.2	276.0	591.8

#### Notes

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

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

- The other new business related costs, such as Partner incentivisation, vary with the level of new business – determined on our internal measure. As new business rises or falls these costs will move in the corresponding direction.
- Establishment costs are the running costs of the Group's infrastructure and are relatively fixed in nature in the short term, although subject to inflationary increases. These costs will increase as the infrastructure expands to manage the higher number of existing clients and the growth in the Partnership.

The growth in establishment expenses during the year was higher than our original expectation as a consequence of increased expense associated with the high level of Partner recruitment activity in the period.

In addition, now that the Academy has been established and will be business as usual going forward, we are no longer regarding the associated costs as a development cost and consequently the day to day running costs are now included within establishment expenses. The costs for the first half of the year were £1.3 million with a similar additional cost expected in the second half of the year.

# Interim Management Report

## Financial Review *continued*

4. Development costs represent the expenditure associated with the on-going development in our investment proposition and the costs associated with regulatory change. We expect total costs for the year to be around £6.0 million.

We have commenced an investment programme working with our key outsourced providers to bring together and enhance our 'back office' systems to both, prepare us for continued growth and achieve future efficiency savings. We anticipate spend on this project of some £5.0 million in the second half of the year.

5. The regulatory costs represent the fees payable to the regulatory bodies of £3.0 million (30 June 2012: £2.5 million), together with our required contribution to the Financial Services Compensation Scheme of £2.4 million (30 June 2012: £3.1 million).
6. Contribution from third party product sales reflects the net income received from wealth management sales of £4.4 million (30 June 2012: £4.2 million), sales of stakeholder products of £0.5 million (30 June 2012: £0.5 million) and sales through the Protection Panel of £3.9 million (30 June 2012: £4.8 million).

During 2013, £0.8 million of software development costs were capitalised as an intangible asset in accordance with IAS 38. This asset will be amortised over the following four years.

### Movement in Funds Under Management

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

	*6 Months Ended 30 June 2013	*6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Billion	£' Billion	£' Billion
Opening funds under management	34.8	28.5	28.5
New money invested	3.3	2.7	5.6
Investment return	3.2	0.9	3.0
	41.3	32.1	37.1
Regular withdrawals / maturities	(0.4)	(0.4)	(0.7)
Surrenders / part surrenders	(1.0)	(0.8)	(1.6)
Closing funds under management	39.9	30.9	34.8
Implied surrender rate as % of average funds under management	5.0%	5.2%	4.9%
Net inflow of funds	1.99	1.51	3.35
Net inflow as % of opening funds under management	5.7%	5.3%	11.8%

\* Annualised figures

Shareholders will be pleased to note that the continued strong retention of funds under management, together with the level of new money invested, provides for **net inflow of funds** of £1.99 billion (30 June 2012: £1.51 billion).

This net inflow represents 5.7% (30 June 2012: 5.3%) of opening funds under management and can be viewed as the organic growth in funds.

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

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

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

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

# Interim Management Report

## Financial Review *continued*

### Analysis of Funds Under Management

The following table provides an analysis of the funds under management at 30 June 2013 split by geographic and asset type.

	FUM	% of total
	£Billion	
UK Equities	11.6	29%
European Equities	4.3	11%
North American Equities	7.6	19%
Asia & Pacific Equities	3.9	10%
Property	1.0	2%
Fixed Interest	5.6	14%
Alternative Investments	1.3	3%
Cash	3.0	8%
Other	1.6	4%
Total	39.9	100%

### Related Party Transactions

The related party transactions during the first six month period are set out in Note 16 to the condensed half year statements.



# Interim Management Report

## Principal Risks and Uncertainties

A comprehensive review of the principal risks and uncertainties facing the business, and the Group's approach to managing these risks and uncertainties, are outlined on pages 30 to 33 of the 2012 Annual Report under the Risk and Risk Management section. These

principal risks and uncertainties have not changed materially since the 2012 Annual Report. A summary of those principal key risks and uncertainties which could impact the Group for the remainder of the current financial year are outlined below.

<i><b>Risk/uncertainty</b></i>	<b>Description</b>
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.
Distribution capability	The Group's distribution strength may be eroded due to an inability to recruit and retain Partners of the appropriate quality.
Ethos	Changes to the SJP ethos and culture adversely impact the continuing success of the business.
Investment Management Approach	Our approach to investment management may fail to deliver expected returns to clients of the Group.
Market Changes	A new entrant or competitor in the adviser-based wealth management market has an impact on the success of SJP's business.
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.
Regulatory, legislative and tax environment	That the Group could face a fine or regulatory censure from failure to comply with applicable regulations, or that changes in the wider regulatory, legislative or tax environment could have an adverse impact on the Group's business.
Retail Distribution Review	Market adjustments following the implementation of the changes adversely impact the Group.
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.
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.
Market	The risk of loss due to the impact of movement in the value of equity or other assets markets.
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.
Economic environment	A major and prolonged economic downturn, a Euro area country/countries default or stock market crash leads to a significant under-performance of the business plan.

Financial Statements

# European Embedded Value ('EEV') Basis



# European Embedded Value ('EEV') Basis

## Consolidated Statement of Income

The following 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.

	Note	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
		£' Million	£' Million	£' Million
Life business		184.2	132.4	293.9
Unit Trust business		65.7	42.2	82.6
Distribution business		(2.1)	2.0	5.3
Other		(14.2)	(8.8)	(15.9)
<b>Operating profit</b>		<b>233.6</b>	<b>167.8</b>	<b>365.9</b>
Investment return variances		209.5	54.9	190.4
Economic assumption changes		1.5	(2.2)	(3.7)
<b>EEV profit on ordinary activities before tax</b>		<b>444.6</b>	<b>220.5</b>	<b>552.6</b>
<b>Tax</b>				
Life business		(69.4)	(36.6)	(89.5)
Unit Trust business		(22.8)	(12.0)	(28.9)
Distribution business		0.5	(0.6)	(1.3)
Other		3.7	2.4	5.2
Corporation tax rate change		18.9	18.7	21.6
		(69.1)	(28.1)	(92.9)
<b>EEV profit on ordinary activities after tax</b>		<b>375.5</b>	<b>192.4</b>	<b>459.7</b>
EEV profit attributable to non-controlling interests		(0.1)	—	—
EEV profit attributable to equity share holders		375.6	192.4	459.7
<b>EEV profit on ordinary activities after tax</b>		<b>375.5</b>	<b>192.4</b>	<b>459.7</b>
<b>Dividends</b>		<b>32.6</b>	<b>23.9</b>	<b>45.3</b>
		Pence	Pence	Pence
<b>Basic earnings per share</b>	V	<b>74.0</b>	39.0	92.4
<b>Diluted earnings per share</b>	V	<b>73.0</b>	38.5	90.8
<b>Operating profit basic earnings per share</b>	V	<b>37.0</b>	26.8	58.5
<b>Operating profit diluted earnings per share</b>	V	<b>36.5</b>	26.4	57.5

## Consolidated Statement of Changes in Equity

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
<b>Opening equity on an EEV basis</b>	<b>2,336.3</b>	1,899.5	1,899.5
Post-tax profit for the period	<b>375.5</b>	192.4	459.7
Issue of share capital	<b>12.4</b>	9.0	19.3
Retained earnings credit in respect of share option charges	<b>3.2</b>	3.4	5.4
Retained earnings credit in respect of proceeds from exercise of share options of shares held in trust	–	–	0.1
Dividends paid	<b>(32.6)</b>	(23.9)	(45.3)
Consideration paid for own shares	<b>(2.3)</b>	(2.4)	(2.4)
Non-controlling interests arising on purchase of subsidiaries during the year	<b>0.2</b>	–	–
<b>Closing equity on an EEV basis</b>	<b>2,692.7</b>	2,078.0	2,336.3

## Consolidated Statement of Financial Position

	30 June 2013	30 June 2012*	31 December 2012*
	£' Million	£' Million	£' Million
<b>Assets</b>			
Intangible assets			
– Deferred acquisition costs	928.7	908.7	971.6
– Value of long-term business in-force			
– long-term insurance	1,419.3	1,066.0	1,223.6
– unit trusts	453.8	335.5	383.5
– Computer software	11.2	10.2	11.7
– Customer list	–	0.7	3.0
	<b>2,813.0</b>	2,321.1	2,593.4
Property and equipment	4.0	4.9	3.6
Deferred tax assets	221.1	214.8	190.9
Investment property	604.2	552.1	597.6
Investments	34,624.2	25,549.3	29,585.5
Reinsurance assets	70.9	38.1	38.6
Insurance and investment contract receivables	53.9	40.5	46.5
Income tax assets	225.1	28.3	85.2
Other receivables	602.0	615.9	526.1
Cash and cash equivalents	3,337.5	2,663.5	3,080.1
<b>Total assets</b>	<b>42,555.9</b>	32,028.5	36,747.5
<b>Liabilities</b>			
Insurance contract liability provisions	456.1	398.5	424.0
Other provisions	9.6	10.6	9.2
Financial liabilities	30,933.8	24,157.2	27,271.0
Deferred tax liabilities	419.2	209.5	259.1
Insurance and investment contract payables	48.4	22.3	24.9
Deferred income	579.0	562.7	616.5
Income tax liabilities	241.9	43.0	77.2
Other payables	365.8	393.6	435.8
Net asset value attributable to unit holders	6,809.3	4,153.1	5,293.5
Preference shares	0.1	–	–
<b>Total liabilities</b>	<b>39,863.2</b>	29,950.5	34,411.2
<b>Net assets</b>	<b>2,692.7</b>	2,078.0	2,336.3
<b>Equity</b>			
Share capital	77.1	75.2	76.0
Share premium	139.0	118.2	127.7
Treasury shares reserve	(7.5)	(9.2)	(8.9)
Miscellaneous reserves	2.3	2.3	2.3
Retained earnings	2,481.7	1,891.5	2,139.2
<b>Shareholders' equity</b>	<b>2,692.6</b>	2,078.0	2,336.3
Non-controlling interests	0.1	–	–
<b>Total equity</b>	<b>2,692.7</b>	2,078.0	2,336.3
	Pence	Pence	Pence
<b>Net assets per share</b>	<b>524.1</b>	414.6	461.0

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



# European Embedded Value ('EEV') Basis

## Notes to the EEV Basis Results

### I. BASIS OF PREPARATION

The interim supplementary information on pages 34 to 41 shows the Group's results for the six months ended 30 June 2013 as measured on a European Embedded Value ('EEV') basis. For interim reporting purposes the disclosure has been reduced from that which would be required under the EEV Principles. The results of the life, pension and investment business, including unit trust business, undertaken by the Group are measured 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 in October 2005 (together 'the EEV Principles'), with the exception of:

- **New Business**

Consistent with prior reporting periods, 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 treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis.

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

### II. METHODOLOGY AND ASSUMPTIONS

The methodology used to derive the European Embedded Values at 30 June 2013 is otherwise unchanged from that used at the end of 2012 (and also from that used at 30 June 2012) and is set out in detail on pages 150 and 151 of the 2012 Report and Accounts.

Apart from the assumptions set out below, there have been no changes to assumptions from those used at the end of 2012 and set out in detail on pages 151 and 152 of the 2012 Report and Accounts.

#### Economic Assumptions

The principal economic assumptions used within the cash flows at 30 June 2013 are set out below.

	30 June 2013	30 June 2012	31 December 2012
Risk free rate	2.5%	1.8%	1.8%
Inflation rate	2.8%	2.5%	2.5%
Risk discount rate (net of tax)	5.6%	4.9%	4.9%
Future investment returns:			
– Gilts	2.5%	1.8%	1.8%
– Equities	5.5%	4.8%	4.8%
– Unit-linked funds:			
– Capital growth	1.8%	1.2%	1.2%
– Dividend income	3.0%	2.9%	2.9%
– Total	4.8%	4.1%	4.1%
Expense inflation	3.6%	3.3%	3.4%

The risk free rate is set by reference to the yield on ten year gilts. Other investment returns are set by reference to the risk free rate. The dividend income level is based on market experience and the difference in the overall growth in the funds is assumed to be capital growth.

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

Notes to the EEV Basis Results *continued*

## III. COMPONENTS OF EEV PROFIT

## Life business

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
New business contribution	97.6	87.5	208.9
Profit from existing business			
– Unwind of discount rate	45.0	39.2	76.9
– Experience variances	40.1	4.5	6.9
– Operating assumption changes	–	–	(1.7)
Investment income	1.5	1.2	2.9
<b>Operating profit before tax</b>	<b>184.2</b>	<b>132.4</b>	<b>293.9</b>
Investment return variances	165.8	43.5	139.5
Economic assumption changes	–	(2.0)	(3.5)
<b>Profit before tax</b>	<b>350.0</b>	<b>173.9</b>	<b>429.9</b>
Attributed tax	(69.4)	(36.6)	(89.5)
Corporation tax rate change	15.2	14.8	14.7
<b>Profit after tax</b>	<b>295.8</b>	<b>152.1</b>	<b>355.1</b>

New business contribution after tax is £78.2 million (30 June 2012: £69.1 million and 31 December 2012: £165.2million).

## Unit Trust business

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
New business contribution	54.8	33.1	67.9
Profit from existing business			
– Unwind of discount rate	11.5	9.7	19.1
– Experience variances	(0.8)	(0.8)	(2.3)
– Operating assumption changes	–	–	(2.6)
Investment income	0.2	0.2	0.5
<b>Operating profit before tax</b>	<b>65.7</b>	<b>42.2</b>	<b>82.6</b>
Investment return variances	43.7	11.4	50.9
Economic assumption changes	1.5	(0.2)	(0.2)
<b>Profit before tax</b>	<b>110.9</b>	<b>53.4</b>	<b>133.3</b>
Attributed tax	(22.8)	(12.0)	(28.9)
Corporation tax rate change	3.7	3.9	6.9
<b>Profit after tax</b>	<b>91.8</b>	<b>45.3</b>	<b>111.3</b>

New business contribution after tax is £43.6 million (30 June 2012: £25.7 million and 31 December 2012: £53.1 million).



# European Embedded Value ('EEV') Basis

## Notes to the EEV Basis Results *continued*

### III. COMPONENTS OF EEV PROFIT *continued*

#### Combined Life and Unit Trust business

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
New business contribution	152.4	120.6	276.8
Profit from existing business			
– Unwind of discount rate	56.5	48.9	96.0
– Experience variances	39.3	3.7	4.6
– Operating assumption changes	–	–	(4.3)
Investment income	1.7	1.4	3.4
<b>Operating profit before tax</b>	<b>249.9</b>	<b>174.6</b>	<b>376.5</b>
Investment return variances	209.5	54.9	190.4
Economic assumption changes	1.5	(2.2)	(3.7)
<b>Profit before tax</b>	<b>460.9</b>	<b>227.3</b>	<b>563.2</b>
Attributed tax	(92.2)	(48.6)	(118.4)
Corporation tax rate change	18.9	18.7	21.6
<b>Profit after tax</b>	<b>387.6</b>	<b>197.4</b>	<b>466.4</b>

New business contribution after tax is £121.8 million (30 June 2012: £94.8 million and 31 December 2012: £218.3 million).

### IV. SENSITIVITIES

The table below shows the estimated impact on the combined life and unit trust reported value of new business and EEV to changes in various EEV calculated assumptions. 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.

	Note	Change in new business contribution		Change in European Embedded Value
		Pre-tax	Post-tax	Post-tax
		£' Million	£' Million	£' Million
<b>Value at 30 June 2013</b>		152.4	121.8	2,692.7
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	(1.6)	(1.3)	2.6
10% reduction in withdrawal rates	2	13.8	11.0	140.2
10% reduction in expenses		2.9	2.4	28.1
10% reduction in market value of equity assets	3	–	–	(252.4)
5% reduction in mortality and morbidity	4	–	–	–
100bp increase in equity expected returns	5	–	–	–
100bp increase in assumed inflation	6	(2.7)	(2.2)	(20.3)

Notes to the EEV Basis Results *continued***IV. SENSITIVITIES** *continued*

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	19.8	15.8	186.5

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. The sensitivity assumes a change in the risk discount rate, combined with no change in the underlying risk free rate.

**V. EARNINGS PER SHARE**

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	Pence	Pence	Pence
Basic earnings per share	<b>74.0</b>	39.0	92.4
Diluted earnings per share	<b>73.0</b>	38.5	90.8
Operating profit basic earnings per share	<b>37.0</b>	26.8	58.5
Operating profit diluted earnings per share	<b>36.5</b>	26.4	57.5

# European Embedded Value ('EEV') Basis

## Notes to the EEV Basis Results *continued*

### V. EARNINGS PER SHARE *continued*

The calculation of diluted earnings per share is based on the following figures:

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
<b>Earnings</b>			
Profit after tax ( <i>for both basic and diluted EPS</i> )	375.5	192.4	459.7
Operating profit after tax ( <i>for both basic and diluted EPS</i> )	187.7	132.2	291.0
<b>Weighted average number of shares</b>			
Weighted average number of ordinary shares in issue ( <i>for basic EPS</i> )	507.3	492.9	497.7
Adjustments for outstanding share options	7.1	7.5	8.5
Weighted average number of ordinary shares ( <i>for diluted EPS</i> )	514.4	500.4	506.2

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

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
<b>IFRS profit before tax</b>	249.5	85.0	251.8
Tax attributable to policyholder returns	(159.4)	(26.1)	(117.2)
Profit before tax attributable to shareholders' returns	90.1	58.9	134.6
Add back: amortisation of acquired value of in-force business	1.6	1.6	3.2
Movement in life value of in-force (net of tax)	195.7	115.8	273.4
Movement in unit trust value of in-force (net of tax)	70.3	29.7	77.7
Tax gross up of movement in value of in-force	86.9	14.5	63.7
<b>EEV profit before tax</b>	444.6	220.5	552.6
	30 June 2013	30 June 2012	31 December 2012
	£' Million	£' Million	£' Million
<b>IFRS net assets</b>	851.6	710.5	762.5
Less: acquired value of in-force	(41.6)	(44.8)	(43.2)
Add: deferred tax on acquired value of in-force	9.6	10.8	9.9
Add: life value of in-force	1,419.3	1,066.0	1,223.6
Add: unit trust value of in-force	453.8	335.5	383.5
<b>EEV net assets</b>	2,692.7	2,078.0	2,336.3

# Independent Review Report to St. James's Place plc – European Embedded Value

## INTRODUCTION

We have been engaged by the company to review the interim supplementary information in the half year report for the six months ended 30 June 2013, which comprises the Consolidated Statement of Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Financial Position as at 30 June 2013 and related notes prepared on the European Embedded Value ('EEV') basis on pages 34 to 41. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the interim supplementary information.

## DIRECTORS' RESPONSIBILITIES

The half year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim supplementary information in accordance with the EEV basis set out in note I.

## OUR RESPONSIBILITY

Our responsibility is to express to the company a conclusion on the interim supplementary information in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim supplementary information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim supplementary information in the half year report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with the EEV basis set out in note I.

## PricewaterhouseCoopers LLP

*Chartered Accountants*

30 July 2013

Bristol

Notes:

- (a) The interim financial information is published on the website of St. James's Place plc, [www.sjp.co.uk](http://www.sjp.co.uk). The maintenance and integrity of the St. James's Place plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# International Financial Reporting Standards ('IFRS') Basis

# International Financial Reporting Standards ('IFRS') Basis

## Condensed Consolidated Statement of Comprehensive Income

	Note	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
		£' Million	£' Million	£' Million
Insurance premium income		29.2	32.0	66.1
Less premiums ceded to reinsurers		(35.9)	(12.8)	(26.9)
<b>Net insurance premium income</b>		<b>(6.7)</b>	19.2	39.2
Fee and commission income		477.2	299.8	643.1
Other investment return		3,394.0	1,221.8	3,576.7
Other operating income		0.6	0.8	1.2
<b>Net income</b>	3	<b>3,865.1</b>	1,541.6	4,260.2
Policy claims and benefits				
– Gross amount		(25.7)	(24.5)	(52.6)
– Reinsurers' share		10.0	11.0	21.0
<b>Net policyholder claims and benefits incurred</b>		<b>(15.7)</b>	(13.5)	(31.6)
Change in insurance contract liabilities				
– Gross amount		(32.1)	(4.5)	(30.0)
– Reinsurers' share		32.2	(0.9)	(0.4)
<b>Net change in insurance contract liabilities</b>		<b>0.1</b>	(5.4)	(30.4)
<b>Net change in investment contract benefits</b>		<b>(3,192.9)</b>	(1,183.4)	(3,415.2)
Fees, commission and other acquisition costs		(328.8)	(196.1)	(409.0)
Administration expenses		(76.7)	(56.6)	(119.0)
Other operating expenses		(1.6)	(1.6)	(3.2)
		(407.1)	(254.3)	(531.2)
<b>Profit before tax</b>	3	<b>249.5</b>	85.0	251.8
Tax attributable to policyholders' returns	4	(159.4)	(26.1)	(117.2)
<b>Profit before tax attributable to shareholders' returns</b>		<b>90.1</b>	58.9	134.6
Total tax expense		(141.3)	(38.9)	(144.7)
Less: tax attributable to policyholders' returns	4	159.4	26.1	117.2
Tax attributable to shareholders' returns	4	18.1	(12.8)	(27.5)
<b>Profit for the period</b>	3	<b>108.2</b>	46.1	107.1
Profit attributable to non-controlling interests		(0.1)	–	–
Profit attributable to equity shareholders		108.3	–	–
<b>Profit for the period</b>	3	<b>108.2</b>	46.1	107.1
		Pence	Pence	Pence
<b>Basic earnings per share</b>	6	<b>21.3</b>	9.4	21.5
<b>Diluted earnings per share</b>	6	<b>21.0</b>	9.2	21.2

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

The Group has no other gains or losses during the current or previous financial periods and therefore a separate consolidated statement of comprehensive income has not been presented.



# International Financial Reporting Standards ('IFRS') Basis

## Condensed Consolidated Statement of Changes in Equity

	Note	Attributable to equity shareholders						Non-controlling Interests	Total
		Share Capital	Share Premium	Treasury Shares Reserve	Retained Earnings	Misc Reserves	Total		
		£ Million	£ Million	£ Million	£ Million	£ Million	£ Million		
At 31 December 2011		74.0	110.4	(8.5)	500.1	2.3	678.3	–	678.3
Total comprehensive income for the period					46.1		46.1		46.1
Dividends paid	7				(23.9)		(23.9)		(23.9)
Issue of share capital									
– Exercise of options		1.2	7.8				9.0		9.0
Consideration paid for own shares				(2.4)			(2.4)		(2.4)
Own shares vesting charge				1.7	(1.7)		–		–
P&L reserve credit in respect of share option charges					3.4		3.4		3.4
<b>At 30 June 2012</b>		<b>75.2</b>	<b>118.2</b>	<b>(9.2)</b>	<b>524.0</b>	<b>2.3</b>	<b>710.5</b>	<b>–</b>	<b>710.5</b>
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
Total comprehensive income for the period					108.3		108.3	(0.1)	108.2
Dividends paid	7				(32.6)		(32.6)		(32.6)
Issue of share capital									
– Exercise of options		1.1	11.3				12.4		12.4
Consideration paid for own shares				(2.3)			(2.3)		(2.3)
Own shares vesting charge				3.7	(3.7)		–		–
P&L reserve credit in respect of share option charges					3.2		3.2		3.2
<b>At 30 June 2013</b>		<b>77.1</b>	<b>139.0</b>	<b>(7.5)</b>	<b>640.6</b>	<b>2.3</b>	<b>851.5</b>	<b>0.1</b>	<b>851.6</b>

Miscellaneous reserves represent other non-distributable reserves.



# International Financial Reporting Standards ('IFRS') Basis

## Condensed Consolidated Statement of Financial Position

	Note	30 June 2013	30 June 2012*	31 December 2012*
		£' Million	£' Million	£' Million
<b>Assets</b>				
Intangible assets				
– Deferred acquisition costs	9	928.7	908.7	971.6
– Acquired value of in-force business		41.6	44.8	43.2
– Computer software		11.2	10.2	11.7
– Customer list		–	0.7	3.0
		981.5	964.4	1,029.5
Property and equipment		4.0	4.9	3.6
Deferred tax assets	10	221.1	214.8	190.9
Investment property		604.2	552.1	597.6
Investments				
– Equities		25,745.4	18,267.3	21,472.8
– Fixed income securities		5,654.0	4,245.1	5,117.0
– Investment in Collective Investment Schemes		3,126.3	3,009.4	2,909.6
– Derivative financial instruments		98.5	27.5	86.1
Reinsurance assets		70.9	38.1	38.6
Insurance and investment contract receivables		53.9	40.5	46.5
Income tax assets		225.1	28.3	85.2
Other receivables		602.0	615.9	526.1
Cash and cash equivalents		3,337.5	2,663.5	3,080.1
<b>Total assets</b>	3	<b>40,724.4</b>	<b>30,671.8</b>	<b>35,183.6</b>
<b>Liabilities</b>				
Insurance contract liabilities		456.1	398.5	424.0
Other provisions	11	9.6	10.6	9.2
Financial liabilities				
– Investment contracts		30,733.1	24,085.8	27,147.4
– Borrowings		80.3	41.8	70.7
– Derivative financial instruments		120.4	29.6	52.9
Deferred tax liabilities	12	428.8	220.3	269.0
Insurance and investment contract payables		48.4	22.3	24.9
Deferred income	13	579.0	562.7	616.5
Income tax liabilities		241.9	43.0	77.2
Other payables		365.8	393.6	435.8
Net asset value attributable to unit holders		6,809.3	4,153.1	5,293.5
Preference shares		0.1	–	–
<b>Total liabilities</b>		<b>39,872.8</b>	<b>29,961.3</b>	<b>34,421.1</b>
<b>Net assets</b>		<b>851.6</b>	<b>710.5</b>	<b>762.5</b>
<b>Equity</b>				
Share capital	15	77.1	75.2	76.0
Share premium		139.0	118.2	127.7
Treasury shares reserves		(7.5)	(9.2)	(8.9)
Miscellaneous reserves		2.3	2.3	2.3
Retained earnings		640.6	524.0	565.4
Shareholders' equity		851.5	710.5	762.5
Non-controlling interests		0.1	–	–
<b>Total equity</b>		<b>851.6</b>	<b>710.5</b>	<b>762.5</b>
		Pence	Pence	Pence
<b>Net assets per share</b>		<b>165.8</b>	<b>141.7</b>	<b>150.4</b>

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

# International Financial Reporting Standards ('IFRS') Basis

## Condensed Consolidated Statement of Cash Flows

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012*	12 Months Ended 31 December 2012*
	£' Million	£' Million	£' Million
<b>Cash flows from operating activities</b>			
Profit before tax for the period	249.5	85.0	251.8
Adjustments for:			
Depreciation	0.6	1.2	2.3
Impairment losses	–	–	0.4
Amortisation of acquired value of in-force business	1.6	1.6	3.2
Amortisation of computer software	1.3	–	0.6
Fair value gains on non-operating investments	–	0.2	–
Share based payment charge	3.2	3.4	5.4
<b>Changes in operating assets and liabilities</b>			
Decrease/(increase) in deferred acquisition costs	42.9	(43.6)	(106.5)
Increase in investment property	(6.6)	(1.2)	(46.7)
Increase in investments	(5,038.7)	(3,016.9)	(7,053.1)
(Increase)/decrease in reinsurance assets	(32.3)	0.9	0.4
(Increase)/decrease in insurance and investment contract receivables	(7.4)	4.0	(2.0)
Increase in other receivables	(50.7)	(53.2)	(30.0)
Increase in insurance contract liability provisions	32.1	4.5	30.0
Increase in provisions	0.4	7.5	6.1
Increase in financial liabilities (excluding borrowings)	3,653.1	1,844.7	4,929.6
Increase/(decrease) in insurance and investment contract payables	23.5	(7.6)	(5.0)
(Decrease)/increase in deferred income	(37.5)	25.8	79.6
(Decrease)/increase in other payables	(70.0)	17.2	59.4
Increase in net assets attributable to unit holders	1,515.8	1,475.2	2,615.6
<b>Cash generated from operations</b>	280.8	348.7	741.1
Income taxes (paid)/received	(12.0)	7.7	18.0
<b>Net cash generated from operating activities</b>	268.8	356.4	759.1
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	(1.0)	(0.8)	(0.9)
Movement of intangible assets	2.2	(1.8)	(6.0)
<b>Net cash used in investing activities</b>	1.2	(2.6)	(6.9)
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital	12.4	8.7	19.3
Consideration paid for own shares	(2.3)	(2.4)	(2.4)
Proceeds from exercise of options over shares held in trust	–	–	0.1
Proceeds from issue of non-redeemable preference shares	0.1	–	–
Acquisition of non-controlling interests	0.1	–	–
Additional borrowings	10.0	11.0	70.0
Repayment of borrowings	(0.4)	(13.0)	(43.1)
Dividends paid	(32.6)	(23.9)	(45.3)
<b>Net cash used in financing activities</b>	(12.7)	(19.6)	(1.4)
Net increase in cash and cash equivalents	257.3	334.2	750.8
Cash and cash equivalents at beginning of period	3,080.1	2,329.3	2,329.3
Effect of exchange rate fluctuations	0.1	–	–
<b>Cash and cash equivalents at end of period</b>	3,337.5	2,663.5	3,080.1

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

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

### 1. BASIS OF PREPARATION

This condensed set of consolidated half year financial statements for the six months ended 30 June 2013, which comprise the half year financial statements of St. James's Place plc (the 'Company') and its subsidiaries (together referred to as the 'Group'), has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and should be read in conjunction with the full year 2012 Report & Accounts.

#### Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Interim Statement on pages 6 to 8. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 12 to 31.

As shown on page 27 of the Financial Review, the Group's capital position is strong and well in excess of regulatory requirements. The long-term nature of the business results in considerable positive cash flows, arising from existing business. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

As required by the Disclosure and Transparency Rules of the Financial Services Authority, this condensed set of financial statements has been prepared applying the accounting policies and standards that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2012, with the exception of:

- **Accounting policy for reinsurance assets**

The accounting policy for reinsurance assets has been amended to reflect only amounts recoverable from reinsurers in respect of insurance contract liabilities. Amounts recoverable from reinsurers in respect of claims and amounts payable in respect of future reinsurance premiums are reported as part of insurance and investment contract receivables and payables, respectively. There is no impact on the Group's reported results from this change.

- **Transactions with non-controlling interests**

As a result of the acquisition of subsidiaries during the period, the Group now recognises non-controlling interests. The treatment of transactions with non-controlling interests depends on whether, as a result of the transaction, the Group alters control of the subsidiary. Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions; any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent entity. Where the Group loses control of the subsidiary, at the date when control is lost the amount of any non-controlling interest in that former subsidiary is derecognised and any investment retained in the former subsidiary is remeasured to its fair value; the gain or loss that is recognised in profit or loss on the partial disposal of the subsidiary includes the gain or loss on the remeasurement of the retained interest.

- **Adoption of IFRS 10**

Unit Trusts are now being accounted for as a subsidiary when the Group holds more than 30% of the units.

These condensed half year financial statements were prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee.

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### **2. SIGNIFICANT ACCOUNTING POLICIES** *continued*

In preparing these condensed half year financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2012.

The following new and amended standards, which the Group have adopted as of 1 January 2013, have had a material impact on the Group's reported results:

IFRS 10 Consolidated Financial Statements  
IFRS 10 Amendment – Consolidated Financial Statements

The following new and amended standards, which the Group have adopted as of 1 January 2013, have not had any material impact on the Group's reported results:

IAS 12 Amendment – Income Taxes  
IAS 28 Revised – Investments in associates and joint ventures  
IFRS 7 Amendment – Financial Instruments: Disclosure  
IFRS 9 Amendments – Financial Instruments  
IFRS 12 Disclosures of Interests in Other Entities  
IFRS 12 Amendment – Disclosures of Interests in Other Entities  
IFRS 13 Fair Value Measurement  
Annual Improvements to IFRSs 2009 – 2011 Cycle

As at 30 June 2013, the following standards and interpretation, which are relevant to the Group but have not been applied in the financial statements, were in issue but not yet effective:

IAS 1 Amendment – Presentation of Financial Statements  
IAS 32 Amendment – Financial Instruments: Presentation  
IFRS 9 Amendment – Financial Instruments  
IFRIC Interpretation 21 – Levies

The adoption of the above standards and interpretation is not expected to have any material impact on the Group's results reported within the financial statements other than requiring additional disclosure or alternative presentation.

#### **2(a). 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 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.

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 2a. ADOPTION OF IFRS 10 – IMPACT OF CONSOLIDATION OF UNIT TRUSTS *continued*

#### *Impact on Statement of Financial Position*

Increase/(decrease)	30 June 2012	31 December 2012
	£' Million	£' Million
<b>Assets</b>		
Investments		
- Equities	1,627.0	2,481.2
- Fixed income securities	55.7	37.1
- Investment in Collective Investment Schemes	(773.2)	(1,199.5)
Other receivables	25.5	17.7
Cash and cash equivalents	61.0	83.1
<b>Total assets</b>	<b>996.0</b>	<b>1,419.6</b>
<b>Liabilities</b>		
Financial liabilities		
- Derivative financial instruments	1.1	(0.7)
Other payables	14.6	1.6
Net asset value attributable to unit holders	980.3	1,418.7
<b>Total liabilities</b>	<b>996.0</b>	<b>1,419.6</b>

#### *Impact on Statement of Comprehensive Income*

Increase/(decrease)	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million
Other investment return	49.7	169.0
<b>Net income</b>	<b>49.7</b>	<b>169.0</b>
<b>Net change in investment contract benefits</b>	<b>(49.7)</b>	<b>(169.0)</b>
<b>Profit before tax</b>	<b>–</b>	<b>–</b>
Tax attributable to policyholders' returns	–	–
<b>Profit for the period</b>	<b>–</b>	<b>–</b>

#### *Impact on Statement of Cash Flows*

	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million
<b>Changes in operating assets and liabilities</b>		
Increase in investments	(909.5)	(1,318.8)
Increase in other receivables	(25.5)	(17.7)
Increase/(decrease) in financial liabilities (excluding borrowings)	1.1	(0.7)
Increase in other payables	14.6	1.6
Increase in net assets attributable to unit holders	980.3	1,418.7
<b>Cash generated from operations</b>	<b>61.0</b>	<b>83.1</b>
<b>Net cash generated from operating activities</b>	<b>61.0</b>	<b>83.1</b>
<b>Net increase in cash and cash equivalents</b>	<b>61.0</b>	<b>83.1</b>

# Notes to the IFRS Basis Financial Statements

*continued*

## 3. 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 chief operating decision maker 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.
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 in the following pages.

The figures for segment income provided to the chief operating decision maker 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 chief operating decision maker take account of fees and commission payable by the life business and unit trust business to the distribution business.

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 3. SEGMENT REPORTING *continued*

#### Segment Income

##### Annual Premium Equivalents ('APE')

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

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012*	12 Months Ended 31 December 2012*
	£' Million	£' Million	£' Million
Life business	253.9	220.8	488.7
Unit Trust business	120.0	79.6	148.5
Distribution business	52.6	53.5	106.1
<b>Total APE</b>	<b>426.5</b>	<b>353.9</b>	<b>743.3</b>

#### Adjustments to IFRS basis

##### Life Business

Exclude investment business APE	(252.7)	(219.4)	(486.0)
Difference between insurance business APE and premium receivable	28.0	30.6	63.4
Less insurance premium income ceded to reinsurers	(35.9)	(12.8)	(26.9)
Fee income (management fees)	220.9	218.7	498.2
Net movement on deferred income	34.0	(7.5)	(43.5)
Investment income (primarily in unit linked funds)	2,873.0	1,044.4	3,016.5

##### Unit Trust business

Exclude unit trust APE	(120.0)	(79.6)	(148.5)
Fee income (dealing profit and management fees)	72.7	80.7	166.3
Net movement on deferred income	3.5	(18.3)	(36.1)
Investment income	0.1	0.2	0.3

##### Distribution business

Exclude distribution APE	(52.6)	(53.5)	(106.1)
Fee and commission income receivable	144.0	26.0	58.0
Other investment income	0.1	0.7	0.8

##### Other business

Income receivable	2.1	0.1	0.2
Investment income on third party holdings in consolidated unit trusts	518.4	174.8	555.3
Other investment income	2.4	1.8	3.8
Other operating income	0.6	0.8	1.2

<b>Total adjustments</b>	<b>3,438.6</b>	<b>1,187.7</b>	<b>3,516.9</b>
<b>Net income</b>	<b>3,865.1</b>	<b>1,541.6</b>	<b>4,260.2</b>

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

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



# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 3. SEGMENT REPORTING *continued*

#### Segment Profit

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

EEV Operating Profit before tax is monitored on a monthly basis by the chief operating decision maker.

The components of the EEV Operating Profit are included in more detail in the EEV basis results section on pages 34 to 41.

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Life business	184.2	132.4	293.9
Unit Trust business	65.7	42.2	82.6
Distribution business	(2.1)	2.0	5.3
Other business	(14.2)	(8.8)	(15.9)
<b>EEV operating profit before tax</b>	<b>233.6</b>	<b>167.8</b>	<b>365.9</b>
Investment return variance	209.5	54.9	190.4
Economic assumption changes	1.5	(2.2)	(3.7)
<b>EEV profit before tax</b>	<b>444.6</b>	<b>220.5</b>	<b>552.6</b>
Adjustments to IFRS basis			
Deduct: amortisation of acquired value of in-force	(1.6)	(1.6)	(3.2)
Movement in life value of in-force (net of tax)	(195.7)	(115.8)	(273.4)
Movement in unit trust value of in-force (net of tax)	(70.3)	(29.7)	(77.7)
Tax of movement in value of in-force	(86.9)	(14.5)	(63.7)
Profit before tax attributable to shareholders' returns	90.1	58.9	134.6
Tax attributable to policyholder returns	159.4	26.1	117.2
<b>IFRS profit before tax</b>	<b>249.5</b>	<b>85.0</b>	<b>251.8</b>

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 3. SEGMENT REPORTING *continued*

#### Cash result

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Life business	70.7	30.0	59.4
Unit Trust business	21.4	15.5	33.6
Distribution business	(1.6)	1.4	4.0
Other business	(7.9)	(2.0)	(5.3)
<b>Cash result after tax</b>	<b>82.6</b>	<b>44.9</b>	<b>91.7</b>
<b>IFRS adjustments (after tax)</b>			
Share option expense	(3.2)	(3.4)	(5.4)
Deferred acquisition costs ('DAC')	(30.1)	32.6	82.4
Deferred income ('DIR')	30.8	(19.7)	(63.8)
Acquired value of in-force ('PVIF')	(1.2)	(1.2)	(2.5)
Sterling reserves	0.1	(0.6)	5.6
IFRS tax adjustments	29.2	(6.5)	(0.9)
<b>IFRS profit after tax</b>	<b>108.2</b>	<b>46.1</b>	<b>107.1</b>
Shareholder tax (credit)/charge	(18.1)	12.8	27.5
<b>IFRS operating profit before tax</b>	<b>90.1</b>	<b>58.9</b>	<b>134.6</b>
Policyholder tax charge	159.4	26.1	117.2
<b>IFRS profit before tax</b>	<b>249.5</b>	<b>85.0</b>	<b>251.8</b>

#### IFRS segment result

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Life business			
– shareholder	81.1	52.6	111.7
– policyholder tax gross up	159.4	26.1	117.2
Unit Trust business	25.3	13.1	33.5
Distribution business	(2.1)	2.0	5.3
Other business	(14.2)	(8.8)	(15.9)
<b>Profit before tax</b>	<b>249.5</b>	<b>85.0</b>	<b>251.8</b>

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

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
Interest income	3.4	2.6	5.6
Depreciation	0.6	1.2	2.3

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 3. SEGMENT REPORTING *continued*

#### Segment Assets

#### Funds under Management ('FUM')

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

	30 June 2013	30 June 2012*	31 December 2012*
	£' Million	£' Million	£' Million
Life business	<b>31,000.0</b>	24,340.0	27,300.0
Unit Trust business	<b>8,900.0</b>	6,560.0	7,500.0
<b>Total FUM</b>	<b>39,900.0</b>	30,900.0	34,800.0
Exclude external holdings in non consolidated unit trusts	<b>(1,982.4)</b>	(2,438.0)	(2,089.5)
Add balance sheet liabilities in unit linked funds	<b>435.5</b>	287.5	499.8
Adjustments for other balance sheet assets excluded from FUM			
DAC	<b>928.7</b>	908.7	971.6
PVIF	<b>41.6</b>	44.8	43.2
Computer software	<b>11.2</b>	10.2	11.7
Goodwill	<b>–</b>	0.8	3.0
Property & equipment	<b>4.0</b>	4.9	3.6
Deferred tax assets	<b>221.1</b>	214.8	190.9
Fixed income securities	<b>83.2</b>	80.0	84.3
Collective investment schemes	<b>404.8</b>	266.8	322.4
Reinsurance assets	<b>70.9</b>	38.1	38.6
Insurance and investment contract receivables	<b>53.9</b>	40.5	46.5
Income tax assets	<b>225.1</b>	28.3	85.2
Other receivables	<b>221.4</b>	248.6	193.1
Other receivables eliminated on consolidation	<b>(88.6)</b>	–	(199.1)
Cash and cash equivalents	<b>216.8</b>	49.4	182.5
Other adjustments	<b>(22.8)</b>	(13.6)	(4.2)
<b>Total adjustments</b>	<b>824.4</b>	(228.2)	383.6
<b>Total assets</b>	<b>40,724.4</b>	30,671.8	35,183.6

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

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 4. INCOME TAXES

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
UK corporation tax			
– Current year charge	7.5	1.0	31.0
– Adjustment in respect of prior year	1.1	(0.5)	(1.3)
Overseas taxes			
– Current year charge	3.0	3.5	7.6
– Adjustment in respect of prior year	–	(0.2)	(0.3)
	11.6	3.8	37.0
Deferred tax on unrealised capital gains and losses in unit linked funds	181.0	25.5	94.5
Deferred tax on unrelieved expenses	(2.1)	9.4	7.9
Deferred tax on pensions business losses	0.7	–	–
Deferred tax on group company capital losses	(38.4)	–	–
Deferred tax charge on other items			
– Current year charge	(11.5)	5.0	15.2
– Adjustment in respect of prior year	–	(1.1)	(1.7)
Effect on deferred tax of change in tax rate	–	(3.7)	(8.2)
<b>Total tax charge for the period</b>	<b>141.3</b>	<b>38.9</b>	<b>144.7</b>
<b>Attributable to:</b>			
– policyholders	159.4	26.1	117.2
– shareholders	(18.1)	12.8	27.5
	141.3	38.9	144.7

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 future changes in the corporation tax rate from 23% to 21% on 1 April 2014 and to 20% on 1 April 2015 were not substantively enacted by the balance sheet date and hence have not been incorporated into the tax balances. The estimated effect of the future tax rate changes is a reduction of £7.0 million in the net deferred tax liability.

International Financial Reporting Standards ('IFRS') Basis  
**Notes to the IFRS Basis Financial Statements**  
*continued*

**4. INCOME TAXES** *continued*

**Reconciliation of tax charge**

	6 Months Ended 30 June 2013		6 Months Ended 30 June 2012		12 Months Ended 31 December 2012	
	£' Million		£' Million		£' Million	
Profit before tax	249.5		85.0		251.8	
Tax attributable to policyholders' returns*	(159.4)		(26.1)		(117.2)	
Profit before tax attributable to shareholders' returns	90.1		58.9		134.6	
Shareholder tax charge at corporate tax rate of 23.25% (2012: 24.5%)	21.0	23.3%	14.4	24.5%	33.0	24.5%
<b>Adjustments:</b>						
<b>Tax regime differences</b>						
Difference due to Life Insurance tax regime (deferral of E)	—		(0.3)		—	
Difference due to Life Insurance tax regime (Deferred Income Reserve)	—		0.5		2.1	
Difference due to Life Insurance tax regime (Transitional adjustment amortised)	—		—		—	
Difference due to overseas subsidiaries	(1.5)		(0.9)		(1.4)	
	(1.5)	(1.7%)	(0.7)	(1.2%)	0.7	0.5%
<b>Market related</b>						
Difference due to Life Insurance tax regime (UCG)	—		0.3		4.0	
Difference due to Life Insurance tax regime (I-E Restriction)	—		4.1		—	
Difference due to Life Insurance tax regime (Shareholder FII)	—		(1.3)		—	
	—	—%	3.1	5.3%	4.0	3.0%
<b>Other</b>						
Creation of deferred tax asset in group company capital losses	(38.4)		—		—	
Disallowed expenses	2.2		—		—	
Prior year adjustments	1.1		(1.6)		(2.6)	
Other	(2.5)		1.3		0.6	
	(37.6)	(41.7%)	(0.3)	(0.5%)	(2.0)	(1.5%)
Change in tax rate	—	—%	(3.7)	(6.3%)	(8.2)	(6.1%)
<b>Shareholder tax charge</b>	(18.1)	(20.1%)	12.8	21.7%	27.5	20.4%
<b>Policyholder tax charge</b>	159.4		26.1		117.2	
<b>Total tax charge for the period</b>	141.3		38.9		144.7	

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

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 5. BUSINESS COMBINATIONS

During the period the Group acquired the following subsidiaries in line with the Group's strategic objective of growing the Partnership:

Subsidiary undertaking	Principal Activity	% Shareholding	Date of Acquisition
Dellkirk Limited	Holding Company	100	22 January 2013
Bright Financial Services Limited	IFA*	100	22 January 2013
EW Smith & Co Independent Financial Advisers Limited	IFA*	100	22 January 2013
LP Holdco Limited	Holding Company	43.3**	24 January 2013
Lansdown Place Group Holdings Limited	Holding Company	92.4	24 January 2013
LP Wealth Management Limited	IFA*	100	24 January 2013
Lansdown Place Financial Management Limited	IFA*	100	24 January 2013
LP Auto Enrolment Solutions Limited	Auto Enrolment	100	24 January 2013
Chapman Hunter Group Limited	Holding Company	100	1 March 2013
Chapman Associates Limited	IFA*	100	1 March 2013

\* Independent Financial Adviser

\*\* In all cases the percentage shareholding is equal to voting rights except for LP Holdco Limited where 43.3% equity share capital is held but 60% of the voting interests of the company are held

The above acquisitions contributed £1.5 million to revenue and a £0.1 million loss before income tax for the period between the acquisition dates and the statement of financial position date.

The net assets, fair value adjustments and consideration for these acquisitions are summarised below (all values shown as at their acquisition dates):

	Book value	Fair value	Total
	£ Million	£ Million	£ Million
Financial assets	4.7	10.3	15.0
Cash and cash equivalents	1.3		1.3
Financial liabilities	(6.8)		(6.8)
<b>Total</b>	<b>(0.8)</b>	<b>10.3</b>	<b>9.5</b>

#### Consideration

Cash consideration	7.7
Deferred consideration	1.3
Deferred and contingent consideration	0.5
<b>Total consideration</b>	<b>9.5</b>

The non-controlling interest is calculated using the equity method:

	At acquisition
	£ Million
Fair value of non-controlling interest	0.2

The deferred and contingent consideration is payable if certain performance targets are met. The value was based on the individual Partner performances and it is expected these will be paid in full with no changes to the initially recognised amount. The carrying amount of the deferred and contingent consideration at the statement of financial position date is £0.5 million. The Group expects the remaining balance to be settled within one year from the acquisition date.

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 6. EARNINGS PER SHARE

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	Pence	Pence	Pence
Basic earnings per share	21.3	9.4	21.5
Diluted earnings per share	21.0	9.2	21.2

The calculation of diluted earnings per share is based on the following figures:

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
<b>Earnings</b>			
Profit after tax ( <i>for both basic and diluted EPS</i> )	108.2	46.1	107.1
<b>Weighted average number of shares</b>			
Weighted average number of ordinary shares in issue ( <i>for basic EPS</i> )	507.3	492.9	497.7
Adjustments for outstanding share options	7.1	7.5	8.5
Weighted average number of ordinary shares ( <i>for diluted EPS</i> )	514.4	500.4	506.2

### 7. DIVIDENDS

The following dividends have been paid by the Company:

	6 Months Ended 30 June 2013	6 Months Ended 30 June 2012	12 Months Ended 31 December 2012
	£' Million	£' Million	£' Million
2011 final dividend – 4.800 pence per ordinary share	–	23.9	23.9
2012 interim dividend – 4.250 pence per ordinary share	–	–	21.4
2012 final dividend – 6.390 pence per ordinary share	32.6	–	–
<b>Total dividends paid</b>	32.6	23.9	45.3

The Directors have resolved to pay an interim dividend of 6.38 pence per share (30 June 2012: 4.25 pence). This amounts to £32.8 million (30 June 2012: £21.4 million) and will be paid on 25 September 2013 to shareholders on the register at 30 August 2013.



# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 8. ASSETS HELD TO COVER LINKED LIABILITIES AND THIRD PARTY HOLDINGS IN UNIT TRUSTS

Included within the balance sheet are the following assets and liabilities which represent the net assets held to cover linked liabilities and those attributable to third party holdings in unit trusts ('UTMI'). The difference between these assets and liabilities and those shown in the consolidated balance sheet represents assets and liabilities held outside the unit-linked funds and the UTMI.

	30 June 2013	30 June 2012*	31 December 2012*
	£' Million	£' Million	£' Million
<b>Assets</b>			
Investment property	604.2	552.1	597.6
Investments			
– Equities	25,745.4	18,207.3	21,472.8
– Fixed income securities	5,570.8	4,165.1	5,032.6
– Investment in Collective Investment Schemes	2,718.5	2,742.6	2,587.1
– Currency forwards	67.7	11.2	57.7
– Interest rate swaps	8.1	–	1.6
– Contract for differences	18.9	16.3	20.0
– Other derivatives	3.8	–	6.8
Other receivables	380.6	367.3	333.3
Other receivables eliminated on consolidation	88.6	–	199.1
Cash and cash equivalents	3,120.7	2,614.1	2,897.7
<b>Total assets</b>	<b>38,327.3</b>	<b>28,676.0</b>	<b>33,206.3</b>
<b>Liabilities</b>			
Financial liabilities			
– Currency forwards	49.6	12.0	34.2
– Interest rate swaps	40.9	–	1.5
– Contract for differences	22.2	17.6	15.9
– Other derivatives	7.7	–	1.3
Other payables	193.9	257.9	299.1
Other payables eliminated on consolidation	121.2	–	147.9
<b>Total liabilities</b>	<b>435.5</b>	<b>287.5</b>	<b>499.9</b>
<b>Net assets held to cover linked liabilities</b>	<b>37,891.8</b>	<b>28,388.5</b>	<b>32,706.4</b>

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

### 9. DEFERRED ACQUISITION COSTS

	30 June 2013	30 June 2012	31 December 2012
	£' Million	£' Million	£' Million
Life business – insurance DAC	2.5	16.0	14.5
Life business – investment DAC	729.4	704.2	754.3
Unit Trust business – investment DAC	196.8	188.5	202.8
<b>Total deferred acquisition costs</b>	<b>928.7</b>	<b>908.7</b>	<b>971.6</b>

Amortisation of deferred acquisition costs is charged within the fees, commission and other acquisition costs line in the statement of comprehensive income.

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 10. DEFERRED TAX ASSETS

	30 June 2013	30 June 2012	31 December 2012
	£' Million	£' Million	£' Million
Life business – unrelieved expenses	78.0	74.4	75.9
Life business – net capital losses in unit linked funds	–	36.7	3.7
Life business – pension business	5.7	5.6	6.4
Life business – deferred income	34.4	36.4	40.2
Unit Trust business – deferred income	56.3	55.3	57.1
Capital losses on liquidations	38.4	–	–
Other	8.3	6.4	7.6
<b>Total deferred tax assets</b>	<b>221.1</b>	<b>214.8</b>	<b>190.9</b>

### 11. OTHER PROVISIONS

	30 June 2013	30 June 2012	31 December 2012
	£' Million	£' Million	£' Million
At beginning of period	9.2	3.1	3.1
Reclassification from Insurance and Investment Contract Payables	–	7.3	7.3
Movement in the period	0.4	0.2	(1.2)
<b>At end of period</b>	<b>9.6</b>	<b>10.6</b>	<b>9.2</b>

Other Provisions at 30 June 2013 consist of £8.6 million in respect of self-insured liabilities (30 June 2012: £7.3 million and 31 December 2012: £7.7 million), £0.6 million (30 June 2012: £2.8 million and 31 December 2012: £1.0 million) to meet obligations arising as a result of unutilised property and £0.4 million (30 June 2012: £0.5 million and 31 December 2012: £0.5 million) in respect of the policyholder costs of redress for endowment business.

As more fully set out in the summary of principal risks and uncertainties on page 32, 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, where appropriate, 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.

### 12. DEFERRED TAX LIABILITIES

	30 June 2013	30 June 2012	31 December 2012
	£' Million	£' Million	£' Million
On deferred acquisition costs	201.6	208.9	214.5
On acquired value of in-force business	9.6	10.7	9.9
Within unit-linked funds	213.3	–	40.7
Other	4.3	0.7	3.9
<b>Total deferred tax liabilities</b>	<b>428.8</b>	<b>220.3</b>	<b>269.0</b>

### 13. DEFERRED INCOME

	30 June 2013	30 June 2012	31 December 2012
	£' Million	£' Million	£' Million
Life business	334.2	332.2	368.2
Unit Trust business	244.8	230.5	248.3
<b>Total deferred income</b>	<b>579.0</b>	<b>562.7</b>	<b>616.5</b>

## Notes to the IFRS Basis Financial Statements

*continued***14. FAIR VALUE MEASUREMENT****Fair value estimation**

Financial instruments, which are held at fair value in the balance sheet, are required to have disclosed their fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets and liabilities measured at fair value:

**30 June 2013**

	Level 1	Level 2	Level 3	Total balance
	£' Million	£' Million	£' Million	£' Million
<b>Financial assets at fair value through profit or loss:</b>				
Equities	25,745.4			25,745.4
Fixed income securities		5,654.0		5,654.0
Investment in Collective Investment Schemes	3,124.6		1.7	3,126.3
Derivative financial instruments		98.5		98.5
Cash & cash equivalents	3,120.7			3,120.7
<b>Total financial assets at fair value through profit or loss</b>	<b>31,990.7</b>	<b>5,752.5</b>	<b>1.7</b>	<b>37,744.9</b>
<b>Financial liabilities at fair value through profit or loss:</b>				
Investment contract benefits		30,733.1		30,733.1
Derivative financial instruments		120.4		120.4
Net asset value attributable to unit holders	6,809.3			6,809.3
<b>Total financial liabilities at fair value through profit or loss</b>	<b>6,809.3</b>	<b>30,853.5</b>	<b>–</b>	<b>37,662.8</b>

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily listed equity instruments.

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

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

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 14. FAIR VALUE MEASUREMENT *continued*

Specific valuation techniques used to value financial instruments include:

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

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

The following table presents the changes in Level 3 equities and investments in CIS:

	2013
	£ Million
Opening balance	1.6
Transfer into/(out of) Level 3	0.2
Disposals during the year	(0.1)
<b>Closing balance</b>	<b>1.7</b>
Total gains for the year included in profit or loss for assets held at the end of the reporting period	0.1

### 15. SHARE CAPITAL

	Number	Nominal value
		£ Million
At 30 June 2012	501,264,401	75.2
Issue of shares	5,566,746	0.8
At 31 December 2012	506,831,147	76.0
Issue of shares	6,949,586	1.1
<b>At 30 June 2013</b>	<b>513,780,733</b>	<b>77.1</b>

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.

# International Financial Reporting Standards ('IFRS') Basis

## Notes to the IFRS Basis Financial Statements

*continued*

### 16. RELATED PARTY TRANSACTIONS

#### *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 period:

- Commission of £2.3 million (30 June 2012: £1.1 million and 31 December 2012: £3.3 million) was receivable in relation to the sale of various products and services offered by LBG companies.
- During the year, deposits were placed with LBG companies on normal commercial terms. At 30 June 2013 these deposits amounted to £62.5 million (30 June 2012: £89.9 million and 31 December 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 £97.0 million (30 June 2012: £84.9 million and 31 December 2012: £89.6 million).
- Amounts lent by the Bank of Scotland to the Group totalled £0.8 million (30 June 2012: £0.8 million and 31 December 2012: £0.8 million).
- Fees of £15,175 (30 June 2012: £13,125 and 31 December 2012: £26,250) were payable to LBG in respect of the services of Non-executive St. James's Place Board Directors.
- St. James's Place Board Directors have been included in a directors' and officers' insurance policy negotiated on a Group basis by LBG.

In addition, 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.

#### *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 £30.7 million (30 June 2012: £8.1 million and 31 December 2012: £21.9 million) and the total value of transactions with those non-consolidated unit trusts was £53.1 million (30 June 2012: £72.8 million and 31 December 2012: £86.3 million). Net management fees receivable from these unit trusts amounted to £13.8 million (30 June 2012: £20.2 million and 31 December 2012: £30.1 million). The value of the investment into the non-consolidated unit trusts at 30 June 2013 was £270.7 million (30 June 2012: £348.9 million and 31 December 2012: £203.4 million).

### 17. POST BALANCE SHEET EVENTS

In the 2013 budget further reductions in the corporation tax rate were announced. The rates will reduce from 23% to 21% on 1 April 2014 and to 20% on 1 April 2015. These changes were not substantially enacted by the balance sheet date but the changes will be adopted in the full year numbers. The estimated effect of the future rate changes is a reduction of £7.0m in the net deferred tax liability.

There have been no other material events subsequent to the end of the interim period that have not been reflected in the interim financial statements.

### 18. STATUTORY ACCOUNTS

The financial information shown in this publication is unaudited and does not constitute statutory accounts. The comparative figures for the financial year ended 31 December 2012 are not the Company's statutory accounts for the financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies.

The report of the auditors was unqualified and did not include a reference to any matter to which the auditors drew attention to, by way of emphasis without qualifying their report, and did not contain a statement under section 498 of the Companies Act 2006.

### 19. APPROVAL OF HALF YEAR REPORT

These condensed consolidated half year financial statements were approved by the Board of Directors on 30 July 2013.

# Independent Review Report to St. James's Place plc

## INTRODUCTION

We have been engaged by the company to review the condensed set of financial statements in the half year report for the six months ended 30 June 2013, which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and related notes. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## DIRECTORS' RESPONSIBILITIES

The half year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half year report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

## OUR RESPONSIBILITY

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

## PricewaterhouseCoopers LLP

*Chartered Accountants*

30 July 2013

Bristol

Notes:

- (a) The interim financial information is published on the website of St. James's Place plc, [www.sjp.co.uk](http://www.sjp.co.uk). The maintenance and integrity of the St. James's Place plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Responsibility Statement of the Directors in Respect of the Half Year Financial Report

The Directors confirm that this consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

The Directors of St. James's Place plc are listed in the St. James's Place plc Annual Report for 31 December 2012. A list of current Directors is maintained on the St. James's Place plc website: [www.sjp.co.uk](http://www.sjp.co.uk)

By order of the Board:



**D Bellamy**  
*Chief Executive Officer*  
30 July 2013



**A Croft**  
*Chief Financial Officer*  
30 July 2013



The background of the page is a detailed photograph of a building's facade, featuring intricate stone carvings. The carvings include floral motifs, scrolls, and a large, stylized archway. The lighting is soft, highlighting the textures and depth of the stone work. The overall tone is sepia or light brown.

## Other Information

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## Other Information

# Financial Calendar

Ex-dividend date for interim dividend	28 August 2013
Record date for interim dividend	30 August 2013
Latest date for receipt of Dividend Reinvestment Plan mandates	4 September 2013
Payment date for interim dividend	25 September 2013
Announcement of 3rd quarter new business	24 October 2013
Announcement of 4th quarter new business	23 January 2014

## Other Information

# Advisers

### **Bankers**

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***HSBC PLC***

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### **Brokers**

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### **Independent Auditors**

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