



# **ST. JAMES'S PLACE PLC**

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## **PRESS RELEASE**

27 February 2019

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018**

#### **CONTINUED BUSINESS GROWTH UNDERPINS 12.5% INCREASE IN FULL YEAR DIVIDEND**

St. James's Place plc ("SJP"), the wealth management group, today issues its annual results for the year ended 31 December 2018:

#### **Financial highlights**

- EEV new business profit £852.7 million (2017: £779.8 million) – up 9%
- EEV operating profit £1,002.0 million (2017: £918.5 million) – up 9%
- IFRS profit before shareholder tax £211.9 million (2017: £186.1 million) – up 14%
- Underlying cash result £309.0 million (2017: £281.2 million) – up 10%
- Underlying cash earnings per share of 58.7 pence (2017: 53.6 pence per share) – up 10%

#### **Dividend**

- Final dividend of 29.73 pence per share (2017: 27.45 pence per share); full year dividend of 48.22 pence per share (2017: 42.86 pence per share), growth of 12.5%

#### **Other highlights**

- Gross inflows of £15.7 billion (2017: £14.6 billion)
- Net inflow of funds under management of £10.3 billion (2017: £9.5 billion)
- Funds under management of £95.6 billion (2017: £90.7 billion)
- We are now represented by 3,954 qualified advisers across the Partnership

**Andrew Croft, Chief Executive Officer, commented:**

“I am pleased to report a good set of results for 2018, building on an exceptional outcome in 2017 and despite a difficult external environment in the last quarter of the year. This demonstrates once again the resilience of our business.

The financial performance of the business reflects the progression of funds under management together with the contribution of new inflows in the year, resulting in good growth across all our key financial metrics. The Board proposes a final dividend of 29.73 pence per share, making for a full year dividend of 48.22 pence per share, growth of 12.5%, marginally above the growth of the underlying cash result in recognition of the very strong strategic progress during the year.

It is pleasing to see a recovery in the global stock markets at the start of 2019 which, together with on-going net inflows during January and February have, at the time of writing, taken our funds under management to some £102 billion. The business continues to perform well relative to the industry. However, challenging external factors, like those currently being experienced, are not in our control and the pace of fund flows has moderated compared with last year. I would note though that the inflows for the same period last year represent a very strong comparative and March typically accounts for around 50% of the first quarter’s flows.

Irrespective of these external factors, the fundamentals of our clients’ financial planning requirements remain unchanged. With a continued focus on achieving the best possible outcomes for our clients through the provision of trusted face-to-face financial advice and our distinctive investment management approach, together with the continued growth in the size of the St. James’s Place Partnership, we remain extremely well placed to continue to grow our business.”

The details of the announcement are attached.

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Analyst presentation at 10:15am for 10:30am at:

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

to be held in the King Edward Hall

*Alternatively, if you are unable to attend but would like to watch a livestream of the presentation on the day,  
please refer to the link below or via our website:*

(Live and On-demand):

<https://www.investis-live.com/st-jamess-place/5c41e48cf56276120071d8ae/ebsd> [investis-live.com]

There will also be a Dial-in:

United Kingdom (Local) : 020 3936 2999  
All other locations : +44 20 3936 2999

Participant Access Code : 188093 - this must be entered in order for participants to gain access to the conference. Participants' requested details will be taken before being placed into the conference.

Replay information:

A recording will be available until Wednesday 6th March 2019

UK: 020 3936 3001  
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## CHIEF EXECUTIVE'S REPORT

### Introduction

This is my second report to shareholders as Chief Executive and I am pleased to say the business has performed well during the year, building on an exceptional outcome in 2017 and despite a difficult external environment in the last quarter of the year.

All of our key financial metrics have grown, the Partnership is stronger and larger, and we have made good progress with our multi-year back office infrastructure project.

### Business performance and dividend

I am pleased to report another good set of results that once again demonstrate the resilience of our business. In 2018 we achieved full-year gross inflows of £15.7 billion, which represents growth of 8% over 2017, while net inflows were also 8% higher at £10.3 billion. We have now achieved compound growth in gross inflows of 18% p.a. over 2, 5 and 10 years whilst over the same periods compound growth in net inflows has been some 20% p.a.

Those net inflows, partially offset by weaker investment markets, provided for funds under management at the end of 2018 of £95.6 billion, growth of 5.4%.

The financial performance of the business reflects the progression of funds under management together with the contribution of new inflows, resulting in good growth across all the key metrics measured by the Board. The Chief Financial Officer's report and Financial Review on pages 8 to 33 provide a comprehensive analysis of the financial performance for the year.

Shareholders will recall that the Board considers the underlying cash result to be a key measure the Board considers when determining the dividend. Indeed, we announced a year ago that we would expect dividends to be set using a c.80% pay-out ratio to the underlying cash result.

With this in mind, the Board proposes a final dividend of 29.73 pence per share, making for a full year dividend of 48.22 pence per share, growth of 12.5%, marginally above the growth of the Underlying cash result in recognition of the very strong strategic progress during the year.

The final dividend, subject to approval of shareholders at our AGM, will be paid on 24 May 2019 to shareholders on the register at the close of business on 5 April 2019. A Dividend Reinvestment Plan continues to be available for shareholders.

### Clients

The success of St. James's Place continues to be built on establishing and maintaining long lasting, highly personal relationships with, and between, our Partners and clients and serving them well.

At its core, this means we seek to achieve the best possible outcome for our clients through sound financial planning advice provided by our highly skilled advisers, together with our distinctive investment management approach. Thus helping our clients to fulfil their ambitions and aspirations.

It is pleasing then that clients of St. James's Place see real value in their relationship with the business, as highlighted in the results of our biennial Wealth Account Survey. Our survey, which was carried out following receipt of Annual Wealth Account Statements in early 2019, has so far received some 34,000 responses and it indicates that overall client satisfaction remains high. 89% of clients tell us that they are either satisfied or very satisfied with the overall relationship and encouragingly, more than 94% of clients said that they would recommend St. James's Place to others with 55% suggesting that they had already done so. When asked to describe our proposition in terms of value for money, 96% of the clients who responded, said reasonable, good or excellent. We will build upon these excellent results by seeking further improvements to our standards of service and proposition, ensuring clients continue to receive high quality, face-to-face advice they can trust and demonstrable value creation for their wealth.

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

The St. James's Place Partnership now numbers 3,954 advisers, an 8% increase over the year as we welcomed a net 293 new advisers through a combination of our experienced adviser recruitment channels and our Academy initiatives. In 2018 we invested some £10 million in our Academy and Next Generation Academy – an investment that will play an important and growing role in developing our next generation of financial advisers. Last year 142 people graduated from these academies and at the end of the year there were 379 individuals in the programme. We are also pleased that 50 Partner Support Staff became fully diploma qualified having passed through our Paraplanning Academy in 2018.

Looking ahead, we will continue to seek to attract high-quality, experienced advisers to the Partnership as we cement our position as a 'go to' place for successful financial advisers through the commitment we make to supporting their clients and their businesses. In addition, we will further expand the capacity of our Academy programmes with the ambition of enrolling 14 new cohorts and graduating around 170 advisers into the Partnership in 2019.

The Partnership is a key differentiator for St. James's Place and we will continue to ensure we provide the support for our advisers so that they can, in turn, support clients.

### **Investment Markets and our Investment Management Approach**

2018 proved to be a challenging one for investors. The market started weakly, recovered in the second quarter, held steady in the third, before seeing a sharp correction in the final quarter, resulting in investment returns for the year as a whole being negative across almost all asset classes.

A number of factors lay behind the selloff: Brexit concerns, US-China trade tensions; slowing growth in China and potentially, in the US; the end of the Trump tax-cuts stimulus to corporate earnings; and, perhaps above all, worries over the tightening monetary policy with the US Federal Reserve raising interest rates four times during the course of the year.

Against this backdrop our Portfolios pared back in line with equity markets in the last three months of the year, taking them negative for the year albeit they protected clients from the worst of the market fall.

Towards the end of the year, we launched the Diversified Assets fund, managed by Kohlberg Kravis Roberts & Co. L.P. (KKR) in New York. This strategy offers our clients the opportunity to access private market assets that are typically only available to institutional investors. We also further improved our approach to responsible investing with a change of strategy and subsequent refocusing and renaming of the Ethical fund as the Sustainable & Responsible Equity fund, now managed by Kirsteen Morrison and David Winborne of Impax Asset Management. The other changes made last year saw us add Wellington, who bring a more diverse approach to the Alternative Assets fund, and two very different but complementary managers in GMO and Jennison have been appointed as co-managers of the Balanced Managed fund. These two bring increased diversity and flexibility, as well as scalability in the case of GMO, to our range of managers.

After the downturn of late 2018, markets posted a strong first month in 2019, a recovery that has been reflected across all our Portfolios, reflecting a growing belief that initial global growth fears had been overdone. Irrespective of any future short-term volatility, we remain confident that our investment approach will continue to support clients in realising their long-term goals.

### **Investment for growth**

We continue to look to the future through our continued investment into St. James's Place Asia and Rowan Dartington, both of which are performing well and complementing our business. In 2018, we grew adviser headcount in Asia to 133 and increased St. James's Place funds under management to some £625 million and total funds under administration to over £1 billion.

Rowan Dartington is also growing in scale, with funds under management now totalling £2.3 billion, and its proposition is expanding both geographically – it is now present in Hong Kong with entry into Singapore planned for 2019 – and in terms of capability as the business explores new opportunities, including international multi-currency portfolios and portfolio lending services. We will also continue to explore 'bolt on' acquisitions where we see both complementary fit and value.

### **Back office infrastructure**

2018 was a year of significant progress in our programme to transform our back-office administration onto Bluedoor. During the year we successfully migrated a £24 billion tranche of our accumulation-stage pensions business as well as all of our £5 billion pensions drawdown book. This means that we now administer around 77% of all new business on Bluedoor, and 63% of total funds under management. Such migration programmes are complex and the progress in 2018 was the result of considerable work from our third-party suppliers, our own administration centres, and our Field and Cirencester teams. Last week we launched a new investment bond on the platform. I would like to thank everyone involved in these migrations for their hard work and for giving up many weekends.

2019 will be another year of intense activity as we focus first on migrating the remaining tranches of our pensions business before migrating our existing investment bond business.

From the outset, our priority has been to manage this transformation safely, ensuring that clients, the Partnership, and our business suffer minimal disruption as we execute this multi-phase process. That will remain our overriding priority as we continue through the latter phases of this project.

Once we have completed the project our business processing will be on a modern 21<sup>st</sup> century platform which will provide us with the scalability to accommodate our growing business needs as well as enable us to improve service to clients.

## **The St. James's Place Charitable Foundation and community engagement**

Helping people in need is a very important part of the St. James's Place culture, with our whole community committed to supporting charitable causes and making a positive and lasting difference to the lives of those in need. In 2018, some £10 million was raised for the Foundation, a sum which includes the Company matching every £1 raised. Since 1992, we have now raised and distributed over £80 million in support of thousands of charities. We are proud of the fact that some 90% of advisers and employees of St. James's Place now give to the Charitable Foundation through their pay or earnings, complementing the additional fundraising activities undertaken by staff and advisers.

Our desire to achieve a positive social impact extends beyond our commitment to the Charitable Foundation and includes engaging with the communities in which our business operates and those communities that need a helping hand. As a wealth management business we are particularly well placed to contribute positively to financial education across the UK and we support the efforts of the Partnership and our employees to allow them to commit their time and expertise to such activities.

### **Board changes**

As previously announced David Lamb has recently retired after 27 years with the Company and the last 12 as a Board Director. I would personally like to thank David for his 27 years of invaluable service to the Company.

I am also delighted that David has agreed to continue to chair our Investment Committee in a non-executive capacity.

I also thank Sarah Bates who stepped down from the Board after 14 years as a director and the last four as Chair, and I look forward to working with Iain Cornish who has succeeded Sarah as Chair.

### **Our community**

The strength and continued growth of the business is due to the hard work and dedication of The Partnership, their teams, our management teams and all our employees and administration support teams.

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

### **Outlook**

It is pleasing to see a recovery in the global stock markets at the start of 2019 which, together with on-going net inflows during January and February have, at the time of writing, taken our funds under management to some £102 billion. The business continues to perform well relative to the industry. However, challenging external factors, like those currently being experienced, are not in our control and the pace of fund flows has moderated compared with last year. I would note though that the inflows for the same period last year represent a very strong comparative and March typically accounts for around 50% of the first quarter's flows.

Irrespective of these external factors, the fundamentals of our clients' financial planning requirements remain unchanged. With a continued focus on achieving the best possible outcomes for our clients through the provision of trusted face-to-face financial advice and our distinctive investment management approach, together with the continued growth in the size of the St. James's Place Partnership, we remain extremely well placed to continue to grow our business.

Andrew Croft  
Chief Executive  
26 February 2019

## CHIEF FINANCIAL OFFICER'S REPORT

*During a year of increasing market and political uncertainty the business has delivered resilient growth in financials and built the Partnership strongly.*

As already stated in the Chief Executive's Report, Gross and Net Inflows in 2018 both grew by 8% and we completed the year with £95.6 billion of funds under management. This represents growth of 5.4% compared to 31 December 2017, despite the impact of reductions in values on global markets in the final quarter of 2018.

Our financial business model remains straightforward and unchanged. We attract and then retain funds under management on which we receive an annual management fee. The continued strong growth in funds under management is therefore a significant positive indicator, particularly in combination with surrender rates under 5%.

During the year, as in previous years, we have also continued to invest in the future of the business. This investment is reflected in our results and is expected to result in additional medium and long-term growth together with more efficient administration systems and processes.

### Financial Results

Whilst our financial business model remains straightforward, the impact of having a significant life insurance company at the heart of the Group results in accounting complexity under IFRS. For this reason, in our Financial Review on pages 11 to 33, we continue to supplement IFRS information with EEV information as well as further detail on the way in which cash emerges within the business. The detailed results are presented in the Financial Review which shows strong results on every measure, but there are a number of factors that merit emphasis:

1. Our contribution to the Financial Services Compensation Scheme for 2018 pre-tax was £15.7 million (2017: £21.2 million). This negatively impacted post tax results for the group by £12.8 million in 2018 (2017: £17.1 million).
2. We continue to invest in growing the Partnership and the number of advisers within it. In particular we invested £8.4 million post tax in our Academy and Next Generation Academy (2017: £6.6 million) and saw 142 qualified advisers graduate during the year.
3. Our Asia and DFM operations are medium to long-term investments and progressing in line with our expectations. During the year, investment in these areas of future growth amounted to £26.8 million post tax (2017: £22.0 million). We now have 133 advisers in Asia, and DFM investment managers in all of our key Group Locations. Our DFM business is already contributing positively to EEV profit and Asia is expected to do so shortly.
4. Our back-office infrastructure initiative has been a multi-year project and in 2018 we had progressed to the point where approximately 77% new business was written using the new Bluedoor system. By 31 December 2018, 63% of all funds under management were recorded on the new platform (2017: 31%). Costs in 2018 were £35.8 million post tax (2017: £21.7 million). This reflects the significant activity levels during the year which resulted in the successful migration of the majority of our pensions business onto the Bluedoor system.



## **Dividend**

The Board has recommended a final dividend of 29.73 pence per share, an increase of 8% which will consume £157.4 million. This will provide for a full year dividend of 48.22 pence per share, growth of 12.5%.

## **Capital and Solvency**

We continue to manage the balance sheet prudently to ensure the Group's solvency is maintained safely. This is important not only for the safeguarding of our clients' assets, but also to ensure we can maintain returns to shareholders.

We assess our solvency against a management solvency buffer (MSB). For the year ended 31 December 2018 we reviewed the level of our MSB and concluded that it was appropriate to maintain the MSB for the Life businesses at £355.0 million. This gives a total Group MSB of £491.0 million when combined with the MSB held for our other regulated entities. Solvency II net assets are £1,108.0 million at 31 December 2018 (31 December 2017: £1,095.1 million), well in excess of the Group MSB.

We provide information on our Solvency II position on page 31. Our solvency ratio at 31 December 2018, prior to the payment of the proposed final dividend, is 143% (31 December 2017: 139%) which demonstrates the financial strength of the business.

## **Concluding Remarks**

The business fundamentals and financials are in very good shape. 2018 was a challenging year but the business showed itself to be very resilient and continued to grow. The growth in our Partnership, combined with increasing demand for advice and only a modest increase in the number of advisers in the marketplace, are all factors that result in a positive long-term environment for the Group even if other challenging external factors slow the pace of growth in the short term.

Craig Gentle  
Chief Financial Officer  
26 February 2019

## Key financial information

	<b>Year Ended 31 December 2018</b>	Year Ended 31 December 2017
<b>FUM-based metrics</b>		
Gross inflows (£'Billion)	15.7	14.6
Net inflows (£'Billion)	10.3	9.5
Total FUM (£'Billion)	95.6	90.7
Total FUM in gestation (£'Billion)	33.5	30.6
<b>IFRS-based metrics</b>		
IFRS profit before shareholder tax (£'Million)	211.9	186.1
IFRS profit after tax (£'Million)	173.5	145.8
Underlying profit before shareholder tax (£'Million)	278.6	245.1
IFRS basic earnings per share (EPS) (Pence)	33.0	27.8
IFRS diluted EPS (Pence)	32.4	27.4
IFRS net asset value per share (Pence)	192.5	200.0
Dividend per share (Pence)	48.22	42.86
<b>Cash result-based metrics</b>		
Operating cash result (£'Million)	342.8	315.2
Underlying cash result (£'Million)	309.0	281.2
Cash result (£'Million)	268.7	252.6
Underlying cash result basic EPS (Pence)	58.7	53.6
Underlying cash result diluted EPS (Pence)	57.8	52.7
<b>EEV-based metrics</b>		
EEV operating profit (£'Million)	1,002.0	918.5
EEV operating profit after tax basic EPS (Pence)	158.0	143.9
EEV operating profit after tax diluted EPS (Pence)	155.4	141.5
EEV net asset value per share (Pence)	1,109.0	1,067.5
<b>Solvency-based metrics</b>		
Solvency II net assets (£'Million)	1,108.0	1,095.1
Management solvency buffer (£'Million)	491.0	461.9
Solvency II free assets (£'Million)	1,060.1	944.1
Solvency ratio (Percentage)	143%	139%

## **FINANCIAL REVIEW**

This Financial Review provides analysis of the Group's financial position and performance. Funds under Management (FUM) is a key driver of ongoing profitability on all measures, and so information on growth in FUM is provided in Section 1. Section 2 analyses the performance of the business using three different bases: International Financial Reporting Standards (IFRS), the Cash result, and European Embedded Value (EEV). Section 3 addresses Solvency, which is an important area given the multiple regulated activities carried out within the Group.

The Review is therefore split into the following sections:

Section 1: Funds under Management (FUM)

1.1 FUM analysis

1.2 Gestation

Section 2: Performance Measurement

2.1 International Financial Reporting Standards (IFRS)

2.2 Cash result

2.3 European Embedded Value (EEV)

Section 3: Solvency

### **THE FINANCIAL MODEL**

The Group's strategy is to attract and retain retail Funds Under Management (FUM) on which we receive an annual management fee for as long as clients remain invested. 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 FUM. The Group also generates income through an initial margin on new business.

The level of net annual management fee income depends on the level of client funds and the level of asset values. In addition, around half of our business does not generate net Cash result in the first six years, which we describe as funds in 'gestation'. This deferral of cash generation means that the level of Group income will increase as a result of new business six years ago maturing from gestation to become cash generative.

Group expenditure is carefully managed with clear targets set for growth in Establishment and Operational Development expenses during the year. Many other expenses increase with business levels and are met from margins in the products, thereby having no net impact on the cash result. The Group is also investing to support long-term growth through St. James's Place Asia, Rowan Dartington, our back-office infrastructure programme, and other Strategic Initiatives.

## SECTION 1: FUNDS UNDER MANAGEMENT

### 1.1 FUM analysis

Our financial business model is to attract and retain FUM on which we receive an annual management fee. As a result, the level of income we receive is ultimately dependent on the value of our FUM, and so its growth is a clear driver of future growth in profits. The key drivers for FUM are:

- Our ability to attract new funds in the form of Gross Inflows;
- Our ability to retain FUM by keeping unplanned withdrawals at a low level; and
- Net investment returns.

The following table shows how FUM evolved during 2018 and 2017:

	2018				2017
	Investment £'Billion	Pension £'Billion	UT/ISA & DFM <sup>(1)</sup> £'Billion	Total £'Billion	Total £'Billion
Opening FUM	28.31	36.15	26.29	90.75	75.31
Gross inflows	2.41	8.76	4.53	15.70	14.60
Net investment return	(1.60)	(1.98)	(1.90)	(5.48)	6.20
Regular income withdrawals and maturities	(0.51)	(1.12)	-	(1.63)	(1.52)
Surrenders and part surrenders	(0.99)	(1.09)	(1.71)	(3.79)	(3.57)
Matching strategy disinvestment	-	-	-	-	(0.27)
<b>Closing FUM</b>	<b>27.62</b>	<b>40.72</b>	<b>27.21</b>	<b>95.55</b>	<b>90.75</b>
<b>Net inflows</b>	<b>0.91</b>	<b>6.55</b>	<b>2.82</b>	<b>10.28</b>	<b>9.51</b>
<b>Implied surrender rate as a percentage of average FUM</b>	<b>3.5%</b>	<b>2.8%</b>	<b>6.4%</b>	<b>4.1%</b>	<b>4.3%</b>

(1) Rowan Dartington Group FUM is included within 'UT/ISA & DFM'. It had closing FUM of £2.31 billion at 31 December 2018 (31 December 2017: £2.11 billion), gross inflows of £0.54 billion for the year (2017: £0.49 billion) and outflows of £0.10 billion (2017: £0.10 billion).

The following table shows the robust growth in Net Inflows over the past six years, which combined with strong retention has resulted in consistent growth in FUM. FUM has more than doubled over a five-year period:

Year	FUM as at 1 January £'Billion	Net inflows £'Billion	Investment return £'Billion	Other movements <sup>(1)</sup> £'Billion	FUM as at 31 December £'Billion
2018	90.7	10.3	(5.4)	-	95.6
2017	75.3	9.5	6.2	(0.3)	90.7
2016	58.6	6.8	8.7	1.2	75.3
2015	52.0	5.8	0.8	-	58.6
2014	44.3	5.1	2.6	-	52.0
2013	34.8	4.3	5.2	-	44.3

(1) Other movements in 2017 related to the matching strategy disinvestment, and in 2016 related to the acquisition of the Rowan Dartington Group.

The table below provides a geographical and segmental analysis of funds under management at 31 December:

	<b>31 December 2018</b>		31 December 2017	
	<b>£'Billion</b>	<b>% of total</b>	£'Billion	% of total
North American Equities	20.7	22%	20.0	22%
Fixed Income Securities	18.6	19%	16.7	19%
UK Equities	17.7	18%	19.3	21%
Asia and Pacific Equities	10.2	11%	8.5	9%
European Equities	10.1	11%	10.5	12%
Cash	6.7	7%	6.6	7%
Alternative Investments	4.6	5%	2.6	3%
Property	3.0	3%	2.9	3%
Other	4.0	4%	3.6	4%
<b>Total</b>	<b>95.6</b>	<b>100%</b>	<b>90.7</b>	<b>100%</b>

## 1.2 Gestation

Due to our product structure, at any given time there is a significant amount of FUM that has not yet started to contribute to the Cash result.

When we attract new FUM there is a new business margin that emerges at the point of investment, which is a surplus of income over and above the initial costs incurred at the outset. Within our Cash result presentation, this margin arising from new business is recognised as it arises, but it is deferred under IFRS.

Once the new business margin has been recognised the pattern of future emergence of cash from ongoing annual management fees differs by product. Broadly, annual management fees from unit trust and ISA business begin contributing positively to the Cash result from day 1, whilst investment and pensions business enter a six-year gestation period during which no net income from FUM is included in the Cash result. Once this business has reached its six-year maturity point, it starts contributing positively to the Cash result, and will continue to do so in each year that it remains with the Group.

The following table shows an analysis of FUM, split between mature FUM that is contributing net income to the Cash result and FUM in gestation which is not yet contributing, as at the year-end for the past five years:

Position as at:	<b>Mature FUM contributing to the Cash result</b>	<b>Gestation FUM that will contribute to the Cash result in the future</b>	<b>Total FUM</b>
	<b>£'Billion</b>	<b>£'Billion</b>	<b>£'Billion</b>
31 December 2018	62.1	33.5	95.6
31 December 2017	60.1	30.6	90.7
31 December 2016	50.2	25.1	75.3
31 December 2015	39.4	19.2	58.6
31 December 2014	35.9	16.1	52.0

The proportion of new business that moves into gestation has increased over the past five years as follows:

	<b>Proportion of Gross inflows into gestation</b>
	<b>%</b>
2018	59.4
2017	56.5
2016	53.8
2015	53.5
2014	51.5

The increasing proportion of Gross Inflows moving into gestation FUM is attributable to the strength of pensions inflows in recent years, in part reflecting the positive impact to our business from pensions freedom. The long-term nature of this type of investment results in a long post-gestation period of Cash result emergence.

The following table gives an indication, for illustrative purposes, of the way in which the gestation balance of £33.5 billion at 31 December 2018 may start to contribute to the Cash result over the next six years and beyond. It assumes a composite margin of 0.77% and that gestation FUM values at 31 December 2018 remain unchanged. It does not factor in surrenders.

	<b>Gestation FUM future contribution to the Cash result</b>
	<b>£'Million</b>
2019	27.9
2020	58.7
2021	96.3
2022	140.5
2023	194.6
2024 onwards	258.1

## **SECTION 2: PERFORMANCE MEASUREMENT**

In line with statutory reporting requirements we report profits assessed on an IFRS basis. However, given the long-term nature of the business, the significant difference between IFRS profit and the way cash emerges from the business, and the complications of including policyholder tax, we believe the IFRS result does not provide an easy guide to performance. We therefore present our financial performance and position under three different bases, using a range of alternative performance measures (APMs) to complement our IFRS reporting. The three different bases, which are consistent with those presented last year, are:

- International Financial Reporting Standards (IFRS);
- Cash result; and
- European Embedded Value (EEV).

APMs are not defined by the relevant financial reporting framework (which for the Group is IFRS), but we use them to provide greater insight to the financial performance, financial position and cash flows of the Group and the way it is managed. A complete Glossary of Alternative Performance Measures is set out on pages 80 to 84, in which we define each APM used in our Financial Review, explain why it is used and, if applicable, explain how the measure can be reconciled to the IFRS financial statements.

### **2.1 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

IFRS reporting is a statutory requirement, and so although the level of non-cash accounting adjustments is such that IFRS does not reflect the pattern of cash emergence in the Group, there are two measures used that are based upon it. These are:

- Profit before shareholder tax; and
- Underlying profit.

Further information on these IFRS-based measures is set out below, on pages 15 to 17.

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

This is a profit measure based on IFRS which removes the impact of policyholder tax.

As a Group with a UK life insurance company at its heart, the Group is required to account for policyholder tax as part of its own corporation tax arrangements, despite it being unrelated to the performance of the business. The policyholder tax expense or credit is matched by an equivalent deduction or credit from the relevant funds, which is recorded within fee and commission income in the IFRS statement of comprehensive income. Policyholder tax does not therefore impact the Group's overall profit after tax. As a result, profit before shareholder tax, but after policyholder tax, is a useful metric.

The following table demonstrates the way in which profit before shareholder tax is presented in the IFRS consolidated statement of comprehensive income on page 46:

	<b>Year Ended 31 December 2018</b>	Year Ended 31 December 2017
	<b>£'Million</b>	£'Million
<b>IFRS (loss)/profit before tax</b>	<b>(84.6)</b>	<b>342.1</b>
Policyholder tax	296.5	(156.0)
<b>IFRS profit before shareholder tax</b>	<b>211.9</b>	<b>186.1</b>
Shareholder tax	(38.4)	(40.3)
<b>IFRS profit after tax</b>	<b>173.5</b>	<b>145.8</b>

Shareholder tax reflects the tax charge attributable to shareholders and is closely related to the performance of the business.

### **Underlying profit**

This is profit before shareholder tax (as calculated above) adjusted to remove the impact of accounting for deferred acquisition costs (DAC), deferred income (DIR) and the purchased value of in-force business (PVIF).

IFRS requires certain up-front expenses incurred and income received to be deferred. The deferred amounts are initially recognised on the statement of financial position as a DAC asset and DIR liability, which are subsequently amortised to the statement of comprehensive income over a future period. Substantially all of the Group's deferred expenses are amortised over a 14-year period, and substantially all deferred income is amortised over a six-year period.

The impact of accounting for DAC, DIR and PVIF in the IFRS result is that there is a significant accounting timing difference between the emergence of accounting profits and actual cash-flows. For this reason, underlying profit is considered to be a helpful metric. The following table demonstrates the way in which IFRS profit reconciles to Underlying profit:

	<b>Year ended 31 December 2018</b>	Year ended 31 December 2017
	<b>£'Million</b>	£'Million
<b>IFRS profit before shareholder tax</b>	<b>211.9</b>	<b>186.1</b>
Remove the impact of movements in DAC/DIR/PVIF	66.7	59.0
<b>Underlying profit before shareholder tax</b>	<b>278.6</b>	<b>245.1</b>



The impact of movements in DAC, DIR and PVIF on IFRS profit before shareholder tax is further analysed as follows:

	Year ended 31 December 2018 £'Million	Year ended 31 December 2017 £'Million
Amortisation of DAC	(98.2)	(98.7)
DAC on new business for the year	33.7	36.9
<b>Net impact of DAC</b>	<b>(64.5)</b>	<b>(61.8)</b>
Amortisation of DIR	149.9	150.4
DIR on new business for the year	(148.9)	(144.4)
<b>Net impact of DIR</b>	<b>1.0</b>	<b>6.0</b>
<b>Amortisation of PVIF</b>	<b>(3.2)</b>	<b>(3.2)</b>
<b>Movement in year</b>	<b>(66.7)</b>	<b>(59.0)</b>

#### Net impact of DAC

The scale of the £64.5 million negative overall impact of DAC on the IFRS result is largely due to changes arising from the 2013 Retail Distribution Review (RDR). After this change, the level of expenses that qualified for deferral reduced significantly, but the large balance accrued previously is still being amortised. As deferred expenses are amortised over a 14-year period there is a significant transition period, which could last for another six to seven years, over which the amortisation of pre-RDR expenses previously deferred will significantly outweigh new post-RDR expenses deferred despite significant business growth, resulting in a net negative impact on IFRS profits.

#### Net impact of DIR

Similarly to DAC, in 2013 the RDR reduced the amount of income that qualified for deferral. This meant that amortisation of pre-RDR income has exceeded the post-RDR income deferred in each year since 2013 despite significant business growth. However, as most of the deferred income is amortised over a six-year period, this effect is now reversing with income deferred expected to exceed income amortised in 2019. This is reflected in the small net impacts from DIR in recent years: the impact was a positive £1.0 million in 2018 (2017: positive £6.0 million).

## 2.2 CASH RESULT

The Cash result is used by the Board to assess and monitor the level of cash profit (net of tax) generated by the business. It is based on IFRS with adjustments made to exclude certain non-cash items, such as DAC, DIR, deferred tax and non-cash-settled share option costs. Further details, including the full definition of the Cash result, can be found in the Glossary of Alternative Performance Measures on page 81. Although the Cash result should not be confused with the IAS 7 consolidated statement of cash-flows, it provides a helpful alternative view of the way in which cash is generated and emerges within the Group.

The Cash result reconciles to Underlying profit, as presented in Section 2.1, as follows:

	2018		2017	
	Before shareholder tax	After tax	Before shareholder tax	After tax
	£'Million	£'Million	£'Million	£'Million
<b>Underlying profit</b>	<b>278.6</b>	<b>227.9</b>	<b>245.1</b>	<b>193.9</b>
Non-cash-settled share-based payments	33.4	33.4	30.5	30.5
Deferred tax impacts	-	31.8	-	15.0
Other	(24.8)	(24.4)	14.7	13.2
<b>Cash result</b>	<b>287.2</b>	<b>268.7</b>	<b>290.3</b>	<b>252.6</b>

The increase in **non-cash-settled share-based payments** reflects the recent strong performance of the Group.

The most significant **deferred tax impact** in 2018 and 2017 is recognition in the Cash result of the benefit from realising tax relief. This has already been recognised under IFRS, and hence Underlying profit, through the establishment of deferred tax assets. More information can be found in Note 7 on pages 61 to 64.

**Other** predominantly represents the change in tax charge discounting. This represents a timing difference between the tax liability due to HMRC and tax deductions charged to clients. The size of the difference will increase as markets grow, and decrease as markets fall. This timing difference is adjusted out of the Cash result, which therefore does not reflect the positive effect arising in the IFRS result as a consequence of falls in markets during the year.

The following table shows an analysis of the Cash result using three different measures:

- **Operating cash result**  
This measure represents the regular emergence of cash from day to day business operations.
- **Underlying cash result**  
This measure includes the cost of a number of strategic investments which are being incurred and expensed in the year, but which are expected to create long-term value.
- **Cash result**  
This measure includes the short-term costs associated with the back-office infrastructure project together with other items of a one-off nature.

## Consolidated Cash result (presented post tax)

	Note	2018		2017	
		In-Force £'Million	New Business £'Million	Total £'Million	Total £'Million
<b>Operational</b>					
Net annual management fee	1	633.4	61.2	694.6	623.2
Reduction in fees in gestation period	2	(306.5)	-	(306.5)	(266.1)
<b>Net income from FUM</b>	<b>3</b>	<b>326.9</b>	<b>61.2</b>	<b>388.1</b>	<b>357.1</b>
Margin arising from new business	4	-	140.8	140.8	129.4
Establishment expenses	5	(17.3)	(153.3)	(170.6)	(150.4)
Operational development expenses	5	-	(20.1)	(20.1)	(15.6)
Regulatory fees and FSCS levy	5	(2.1)	(18.8)	(20.9)	(23.9)
Academy <sup>(1)</sup>	5	-	(8.4)	(8.4)	(6.6)
Shareholder interest	6	14.1	-	14.1	9.9
Tax relief from capital losses	7	29.7	-	29.7	12.1
Miscellaneous	8	(9.9)	-	(9.9)	(3.4)
<b>Operating cash result</b>		<b>341.4</b>	<b>1.4</b>	<b>342.8</b>	<b>308.6</b>
Asia	9	-	(16.7)	(16.7)	(15.1)
DFM	9	-	(10.1)	(10.1)	(6.9)
Strategic development costs	9	-	(7.0)	(7.0)	(5.4)
<b>Underlying cash result</b>		<b>341.4</b>	<b>(32.4)</b>	<b>309.0</b>	<b>281.2</b>
Back-office infrastructure development costs	9			(35.8)	(21.7)
Variance	10			(4.5)	(6.9)
<b>Cash result</b>				<b>268.7</b>	<b>252.6</b>

(1) Academy costs have been reclassified in 2018 into the Operating cash result. Previously they were included as part of Investments, which are outside of the Operating cash result. This reflects the fact that the Academy is now a core part of the Group's adviser recruitment model and its graduates are contributing strongly to FUM growth. To enable like-for-like comparison, the 2017 comparative has been restated accordingly.

## Notes to the Cash result

1. The **net annual management fee** is the net manufacturing margin that the Group retains from FUM after payment of the associated costs (for example, investment advisory fees and Partner remuneration). Broadly speaking the Group receives an average net annual management fee of 0.77% (post tax) of FUM (2017: 0.77% (post tax)).
2. As noted on page 13 however, our investment and pension business product structure means that these products do not generate net Cash result (after the initial margin) during the first six years, (the gestation period). This is reflected in the **reduction in fees in gestation period** line. Further information is provided in Section 1.2 on pages 13 and 14.
3. **Net income from FUM** reflects Cash result income from FUM that has reached maturity.
4. **Margin arising from new business** is the net positive Cash result impact of new business in the year, reflecting gross inflows and production related expenses. The driver for this income line is gross inflows and the result is expected to move broadly in line with the pattern of gross inflows attracted.
5. **Establishment expenses, operational development expenses, regulatory fees and FSCS levy** represent the expenses of running the Group. **Academy** expenses represent the cost of running our Academy and Next Generation Academy. More detail is provided in Section 2.2.2.
6. **Shareholder interest** is the income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.
7. In recent years, a deferred tax asset has been established in IFRS for historic capital losses which are regarded as being capable of utilisation over the medium-term. The tax asset is ignored for Cash result purposes as it is not fungible, but instead the cash benefit realised when losses are utilised is shown in the **tax relief from capital losses** line. Utilisation during the year of £29.7 million tax value (2017: £12.1 million) was ahead of our expected rate of c. £10-12 million benefit in a year, largely because investment market conditions have meant that accelerated relief has been available.
8. **Miscellaneous** represents the cash flow of the business not covered in any of the other categories. It includes ongoing administration expenses and associated policy charges, utilisation of the deferred tax asset in respect of prior years' unrelieved expenses (due to structural timing differences in the life company tax computation) and movements in the fair value of renewal income assets.
9. **Asia, DFM, strategic development costs** and **back-office infrastructure costs** reflect significant investments in developing our business for the future. Each of these investments are expected to result in either additional funds (Asia and DFM) or operational improvements (back-office infrastructure) in the future. Advice margin and fund management fees generated in Asia, and all fees generated by DFM, are also reflected in these lines.
10. **Variance** reflects a number of small non-recurring items incurred during the year. In 2017 this specifically included 25th anniversary costs, such as the impact of double matching for the Charitable Foundation.

## 2.2.1 Derivation of the Cash result

The Cash result is derived from the IFRS consolidated statement of financial position in a two-stage process:

### *Stage 1: Solvency II Net Assets Balance Sheet*

Firstly, the IFRS consolidated statement of financial position is adjusted for a number of material balances that reflect policyholder interests in unit-linked liabilities together with the underlying assets that are held to match them. Secondly, it is adjusted for a number of non-cash ‘accounting’ balances such as DIR, DAC and associated deferred tax. The result of these adjustments is the Solvency II Net Assets Balance Sheet and the following table shows the way in which it has been calculated for 2018.

31 December 2018	<b>IFRS Balance Sheet</b>	<b>Adjustment 1</b>	<b>Adjustment 2</b>	<b>Solvency II Net Assets Balance Sheet</b>	<b>Solvency II Net Assets Balance Sheet: 2017</b>
	£'Million	£'Million	£'Million	£'Million	£'Million
<b>Assets</b>					
Goodwill	15.6	-	(15.6)	-	-
Deferred acquisition costs	558.5	-	(558.5)	-	-
Purchased value of in-force business	24.0	-	(24.0)	-	-
Computer software	1.4	-	(1.4)	-	-
Property and equipment	28.5	-	-	28.5	26.4
Deferred tax assets	147.1	-	(35.5)	111.6	144.1
Reinsurance assets	82.8	-	(82.8)	-	-
Other receivables	1,952.3	(1,059.1)	(3.1)	890.1	1,122.4
Income tax assets	9.7	-	-	9.7	-
Investment property	1,820.7	(1,820.7)	-	-	-
Equities	56,077.9	(56,077.9)	-	-	-
Fixed income securities	21,966.0	(21,960.6)	-	5.4	46.1
Investment in Collective Investment Schemes	4,756.1	(3,459.1)	-	1,297.0	1,416.8
Derivative financial instruments	508.8	(508.8)	-	-	-
Cash and cash equivalents	6,877.6	(6,629.1)	-	248.5	274.7
<b>Total assets</b>	<b>94,827.0</b>	<b>(91,515.3)</b>	<b>(720.9)</b>	<b>2,590.8</b>	<b>3,030.5</b>
<b>Liabilities</b>					
Borrowings	348.6	-	-	348.6	279.9
Deferred tax liabilities	172.9	-	(18.4)	154.5	430.4
Insurance contract liabilities	508.1	(421.2)	(86.9)	-	-
Deferred income	648.3	-	(648.3)	-	-
Other provisions	22.7	-	-	22.7	20.0
Other payables	1,290.8	(277.7)	(56.2)	956.9	1,079.7
Investment contract benefits	67,796.1	(67,796.1)	-	-	-
Derivative financial instruments	517.4	(517.4)	-	-	-
Net asset value attributable to unit holders	22,502.9	(22,502.9)	-	-	-
Income tax liabilities	-	-	-	-	125.3
Preference shares	0.1	-	-	0.1	0.1
<b>Total liabilities</b>	<b>93,807.9</b>	<b>(91,515.3)</b>	<b>(809.8)</b>	<b>1,482.8</b>	<b>1,935.4</b>
<b>Net assets</b>	<b>1,019.1</b>	<b>-</b>	<b>88.9</b>	<b>1,108.0</b>	<b>1,095.1</b>

**Adjustment 1** nets out the policyholder interest in unit-linked assets and liabilities. **Adjustment 2** comprises adjustment to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

*Stage 2: Movement in Solvency II Net Assets Balance Sheet*

Secondly, there are a number of movements in Solvency II net assets that do not represent cash flows for inclusion within the Cash result. The following table explains how the overall Cash result reconciles into the total movement:

	<b>Year Ended 31 December 2018</b>	Year Ended 31 December 2017
	<b>£'Million</b>	£'Million
<b>Opening Solvency II net assets</b>	<b>1,095.1</b>	<b>1,070.0</b>
Dividend paid	(242.7)	(190.0)
Issue of share capital and exercise of options	2.8	7.5
Consideration paid for own shares	(6.0)	(11.3)
Change in deferred tax	(31.8)	(15.0)
Change in tax discounting	23.4	(16.2)
Change in goodwill and intangibles	(1.5)	(2.5)
Cash result	268.7	252.6
<b>Closing Solvency II net assets</b>	<b>1,108.0</b>	<b>1,095.1</b>

## 2.2.2 Expenses

The table below provides a breakdown of the Group's expenses as presented directly in the Cash result:

	Year Ended 31 December 2018			Year Ended 31 December 2017		
	Before tax	Tax rate	After tax	Before tax	Tax rate	After tax
	£'Million	%	£'Million	£'Million	%	£'Million
Establishment expenses	210.6	19.0	170.6	186.3 <sup>(1)</sup>	19.3	150.4
Operational development costs	24.8	19.0	20.1	19.3	19.3	15.6
Regulatory fees and FSCS levy	25.7	19.0	20.9	29.5	19.3	23.9
Academy	10.4	19.0	8.4	8.2	19.3	6.6
Strategic development costs	8.8	19.0	7.0	6.7	19.3	5.4
Back-office infrastructure costs	44.1	19.0	35.8	26.8	19.3	21.7
<b>Total Cash result expenses</b>	<b>324.4</b>		<b>262.8</b>	<b>276.8</b>		<b>223.6</b>

(1) Certain 2017 expenses have been reclassified to better reflect the nature of the expense. This has resulted in a decrease of £5.5 million in Establishment expenses and increases of £2.8 million in Asia expenses and £2.6 million in Other.

**Establishment costs** have increased year on year as additional expenses are incurred to support the growth in the Partnership.

**Operational development costs** have increased in 2018 due to further investment in our infrastructure, resulting in enhanced security and improved remote access for advisers. There has also been investment in our online communication tools to improve collaboration.

The costs of operating in a regulated sector include **regulatory fees** and the **Financial Services Compensation Scheme (FSCS) levy**. On a post-tax basis, these are as follows:

	Year Ended 31 December 2018	Year Ended 31 December 2017
	£'Million	£'Million
FSCS levy	12.8	17.1
Regulatory fees	8.1	6.8
<b>FSCS levy and regulatory fees</b>	<b>20.9</b>	<b>23.9</b>

Our position as a market-leading provider of advice means we make a very substantial contribution to supporting the FSCS, thereby providing protection for clients of other businesses in the sector that fail. Over the last few years, the levy has been at an elevated level but we remain hopeful that it will return to a more normalised level in future.

For the 2018/19 funding year the FSCS shortened the compensation levy period from 12 months to nine months, which aligns the compensation levy period with the FSCS's financial year. As a result, the post-tax levy expense of £12.8 million recognised in the year to 31 December 2018 reflects the levy for a nine-month period, whereas the £17.1 million post-tax levy expense recognised in the year to 31 December 2017 was in respect of a 12 month period. From the 2019/20 funding year onwards, the compensation levy period will again be 12 months.

**Academy** costs have increased in 2018 as a result of expansion of the programme both geographically and in terms of the number of individuals recruited into the programme.

Costs associated with our Bluedoor **back-office infrastructure** programme have increased in 2018 due to increased levels of migrations taking place during the year, alongside planning for the final key migration of bond business in 2019.

## Reconciliation to IFRS Expenses

There are a number of other expenses which are included within the Cash result but not directly referenced. This is because expense items that vary with business volumes are matched against the relevant income source. For example, payments to Partners and other performance related costs are matched against net annual management fees and new business margin.

In addition there are other IFRS expenses that are not included in the Cash result by definition, such as non-cash-settled share-based payment expenses and DAC amortisation.

The following table reconciles the expenses presented explicitly in the Cash result to the IFRS expenses as set out in the statement of comprehensive income on page 46:

	<b>Year Ended</b> <b>31 December 2018</b> <b>£'Million</b>	<b>Year Ended</b> <b>31 December 2017</b> <b>£'Million</b>
<b>Total Cash result expenses before tax</b>	<b>324.4</b>	<b>276.8</b>
Asia expenses	21.3	18.4 <sup>(1)</sup>
DFM expenses	24.5	18.7
Other performance related costs	137.2	133.5
Payments to Partners	781.9	709.0
Investment expenses	106.1	83.4
Third-party administration	100.4	89.9
Amortisation of DAC and PVIF, net of additions	67.7	65.0
Share-based payments expenses	34.1	32.7
Other	43.9	40.2 <sup>(1)</sup>
<b>Total IFRS Group expenses before tax</b>	<b>1,641.5</b>	<b>1,467.6</b>

(1) Certain 2017 expenses have been reclassified to better reflect the nature of the expense. This has resulted in a decrease of £5.5 million in Establishment expenses and increases of £2.8 million in Asia expenses and £2.6 million in Other.

**Asia expenses** and **DFM expenses** have both increased during the year as investment is required to support their growth. Such investment will continue going forwards.

**Other performance related costs**, for both Partners and employees, vary with the level of new business and the operating profit performance of the business.

**Payments to Partners, investment expenses** and **third-party administration** costs are met by corresponding charges to clients, and so any variation in them from changes in the volumes of new business or the level of the stock markets does not impact the profitability of the Group.

**Other** expenses include interest expense and bank charges, the operating costs of acquired independent financial advisers (IFAs) and donations to the St. James's Place Charitable Foundation.



## 2.3 EUROPEAN EMBEDDED VALUE (EEV)

Wealth management differs from most other businesses, in that the expected shareholder income from client investment activity emerges over a long period in the future. We therefore complement the IFRS and Cash results by providing additional disclosure on an EEV basis, which brings into account the net present value of the expected future cash flows. We believe that a measure of total economic value of the Group's operating performance is useful to investors.

As in previous reporting, our EEV continues to be calculated on a basis determined in accordance with the EEV principles originally issued in May 2004 by the Chief Financial Officers Forum (CFO Forum) and supplemented in both October 2005 and, following the introduction of Solvency II, in April 2016.

Many of the principles and practices underlying EEV are similar to the requirements of Solvency II. In the prior year, we had made a number of small changes to our EEV methods and assumptions to align them as closely as possible to Solvency II. These changes were reflected in the Economic assumption changes line.

The table below and accompanying notes summarise the profit before tax of the combined business:

	Note	Year Ended 31 December 2018 £'Million	Year Ended 31 December 2017 £'Million
Funds management business	1	1,151.6	1,044.4
Distribution business	2	(38.9)	(31.9)
Back-office infrastructure development		(44.1)	(26.8)
Other		(66.6)	(67.2)
<b>EEV operating profit</b>		<b>1,002.0</b>	<b>918.5</b>
Investment return variance	3	(460.9)	340.8
Economic assumption changes	4	(15.1)	29.8
<b>EEV profit before tax</b>		<b>526.0</b>	<b>1,289.1</b>
Tax		(89.7)	(229.2)
<b>EEV profit after tax</b>		<b>436.3</b>	<b>1,059.9</b>

## Notes to the EEV result

### 1. Funds management business EEV operating profit

The funds management business operating profit has increased to £1,151.6 million (2017: £1,044.4 million) and a full analysis of the result is shown below:

	<b>Year Ended 31 December 2018</b>	Year Ended 31 December 2017
	<b>£'Million</b>	£'Million
New business contribution	852.7	779.8
Profit from existing business		
- unwind of the discount rate	242.3	209.5
- experience variance	24.5	3.8
- operating assumption change	25.9	44.0
Investment income	6.2	7.3
<b>Funds management EEV operating profit</b>	<b>1,151.6</b>	<b>1,044.4</b>

The **new business contribution** for the year at £852.7 million (2017: £779.8 million) was 9.3% higher than the prior year, reflecting both the increase in new business and operational economies of scale achieved as fixed expenses are spread across more new business.

The **unwind of the discount rate** for the year increased to £242.3 million (2017: £209.5 million), reflecting the higher opening value of in-force business. The **experience variance** during the year was £24.5 million (2017: £3.8 million), reflecting positive retention experience. The impact of **operating assumption changes** in the year was a positive £25.9 million, reflecting economies of scale emerging from our administration tariff. The more significant benefit of £44.0 million in 2017 also included a positive impact from higher retention assumptions.

### 2. Distribution business

The distribution loss includes the positive gross margin arising from advice income less payments to advisers offset by the costs of investment in growing the Partnership, building the distribution capabilities in Asia and a charge of £11.3 million for the FSCS levy (2017: £18.9 million).

### 3. 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 FUM, a small difference can result in a large positive or negative variance.

The typical investment return on our funds during the period was negative 4.3% after charges, compared to the assumed investment return of positive 1.8%. This resulted in a negative investment return variance of £460.9 million (2017: positive £340.8 million).

### 4. Economic assumption changes

The negative variance of £15.1 million arising in the year (2017: positive £29.8 million) reflects the negative effect from the increase in the long-term inflation rate.

## New Business Margin

The largest single element of the EEV operating profit (analysed in the previous section) is the new business contribution. 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 (the 'margin'). This is calculated as the new business contribution divided by the gross inflows, and is expressed as a percentage.

The table below presents the margin before tax from our manufactured business:

	<b>Year Ended 31 December 2018</b>	Year Ended 31 December 2017
<b>Life business</b>		
<u>Investment</u>		
New business contribution (£'Million)	129.0	130.2
Gross inflows (£'Billion)	2.41	2.49
Margin (%)	5.4	5.2
<u>Pension</u>		
New business contribution (£'Million)	454.2	363.5
Gross inflows (£'Billion)	8.76	7.26
Margin (%)	5.2	5.0
<b>Unit Trust and DFM business</b>		
New business contribution (£'Million)	269.5	286.1
Gross inflows (£'Billion)	4.53	4.85
Margin (%)	6.0	5.9
<b>Total business</b>		
New business contribution (£'Million)	852.7	779.8
Gross inflows (£'Billion)	15.70	14.60
Margin (%)	5.4	5.3
Post-tax margin (%)	4.5	4.4

The overall margin for the year was higher at 5.4% (2017: 5.3%) reflecting operational economies of scale achieved during the year.

## Economic assumptions

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

	<b>Year Ended</b> <b>31 December 2018</b>	<b>Year Ended</b> <b>31 December 2017</b>
	%	%
Risk-free rate	1.4	1.4
Inflation rate	3.4	3.2
Risk discount rate (net of tax)	4.5	4.5
Future investment returns:		
- Gilts	1.4	1.4
- Equities	4.4	4.4
- Unit-linked funds	3.7	3.7
Expense inflation	3.8	3.6

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

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

## EEV Sensitivities

The table below shows the estimated impact on the 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 £'Million	Post-tax £'Million	Post-tax £'Million
<b>Value at 31 December 2018</b>		852.7	707.1	5,871.5
100bp reduction in risk-free rates, with corresponding change in fixed interest asset values	1	(23.4)	(19.5)	(95.4)
10% increase in withdrawal rates	2	(60.3)	(50.0)	(302.3)
10% reduction in market value of equity assets	3	-	-	(586.5)
10% increase in expenses	4	(20.6)	(17.2)	(70.7)
100bp increase in assumed inflation	5	(25.3)	(21.1)	(108.3)

### Notes to the EEV sensitivities

- (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.
- (2) The 10% increase is applied to the withdrawal rate. For instance, if the withdrawal rate is 8% then a 10% increase would reflect a change to 8.8%.
- (3) For the purposes of this 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%.
- (4) For the purposes of this sensitivity only non-fixed elements of the expenses are increased by 10%.
- (5) This reflects a 100bp increase in the assumed RPI underlying the expense inflation calculation.

	Change in new business contribution		Change in European Embedded Value
	Pre-tax £'Million	Post-tax £'Million	Post-tax £'Million
100bp reduction in risk discount rate	98.6	81.7	441.1

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.

## Analysis of the EEV result

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

	<b>31 December 2018</b>	31 December 2017
	<b>£'Million</b>	£'Million
Value of in-force business	4,763.5	4,552.6
Solvency II net assets	1,108.0	1,095.1
<b>Total embedded value</b>	<b>5,871.5</b>	<b>5,647.7</b>

  

	<b>31 December 2018</b>	31 December 2017
	<b>Pence</b>	Pence
<b>Net asset value per share</b>	<b>1,109.0</b>	<b>1,067.5</b>

The EEV result above reflects the specific terms and conditions of our products. Our pension business is split between two portfolios. Our current product, the Retirement Account, was launched in 2016 and incorporates both pre-retirement and post-retirement phases of this investment in the same product. Earlier business was written in our separate Retirement Plan and Drawdown Plan products, targeted at the each of the two phases separately, and therefore has a slightly shorter term and lower new business margin.

Our experience is that much of our Retirement Plan business converts into Drawdown business at retirement, but, in line with the EEV guidelines, we are required to defer recognition of the additional value from the Drawdown Plan until it is crystallised. If instead we were to assess the future value of Retirement Plan business (beyond the immediate contract boundary) in a more holistic fashion, in line with Retirement Account business, this would result in an increase of approximately £350 million to our embedded value.

### SECTION 3: SOLVENCY

St. James's Place has a business model and risk appetite that results in underlying assets being held that fully match with our obligations to clients. Our clients can access their investments 'on – demand' and because the encashment value is matched, movements in equity markets, currency markets, interest rates, mortality, morbidity and longevity have very little impact on our ability to meet liabilities. We also have a prudent approach to investing shareholder funds and surplus assets in cash, AAA-rated money market funds and highly rated government securities. The overall effect of the business model and risk appetite is a resilient solvency position capable of enabling liabilities to be met even through adverse market conditions.

Our Life businesses are subject to the Solvency II capital regime which applied for the first time in 2016. Given the relative simplicity of our business compared to many, if not most, other organisations that fall within the scope of Solvency II, we have continued to manage the solvency of the business on the basis of holding assets to match client unit-linked liabilities plus a Management Solvency Buffer (MSB). This has ensured that, not only can we meet client liabilities at all times (beyond the Solvency II requirement of a '1 in 200 years' event), but we also have a prudent level of protection against other risks to the business. At the same time, we have ensured that the resulting capital held meets with the requirements of the Solvency II regime, to which we are ultimately accountable.

For the year ended 31 December 2018 we reviewed the level of our MSB, and concluded that it was appropriate to maintain the MSB for the Life businesses at £355.0 million.

The Group's overall Solvency II net assets position, MSB and management solvency ratios are as follows:

31 December 2018	<b>Life<sup>(1)</sup></b>	<b>Other Regulated</b>	<b>Other<sup>(2)</sup></b>	<b>Total</b>	2017 Total
	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>
Solvency II net assets	366.4	200.6	541.0	1,108.0	1,095.1
MSB	355.0	136.0	-	491.0	461.9
Management solvency ratio	103%	147%			

(1)..After payment of year-end intragroup dividend.

(2) Before payment of the Group final dividend.

Solvency II net assets reflect the assets of the Group in excess of those matching clients' unit-linked liabilities. It includes a £111.6 million (2017: £144.1 million) deferred tax asset which is not immediately fungible, although we expect it will be utilised over the next ten years. The actual rate of utilisation will depend on business growth and external factors, particularly investment market conditions.

## Solvency II Balance Sheet

Whilst we focus on Solvency II net assets and the MSB to manage solvency, we provide additional information about the Solvency II free asset position for information. The presentation starts from the same Solvency II net assets, but includes recognition of an asset in respect of the expected value of in-force cash flows (VIF) and a risk margin (RM) reflecting the potential cost to secure the transfer of the business to a third party. The Solvency II net assets, VIF and RM comprise the 'own funds', which is assessed against a solvency capital requirement (SCR), reflecting the capital required to protect against a range of '1 in 200' stresses. The SCR is calculated on the standard formula approach. No allowance has been made for transitional provisions in the calculation of technical provisions or the SCR.

An analysis of the Solvency II position for our Group, split by regulated and non-regulated entities at the year end is presented in the table below:

<b>31 December 2018</b>	<b>Life<sup>(1)</sup></b>	<b>Other Regulated</b>	<b>Other<sup>(2)</sup></b>	<b>Total</b>	<b>2017 Total</b>
	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>
Solvency II net assets	366.4	200.6	541.0	1,108.0	1,095.1
Value of in-force (VIF)	3,388.8	-	-	3,388.8	3,244.3
Risk margin	(989.4)	-	-	(989.4)	(946.1)
<b>Own funds (A)</b>	<b>2,765.8</b>	<b>200.6</b>	<b>541.0</b>	<b>3,507.4</b>	<b>3,393.3</b>
Solvency capital requirement (B)	(2,364.7)	(82.6)	-	(2,447.3)	(2,449.2)
<b>Solvency II free assets</b>	<b>401.1</b>	<b>118.0</b>	<b>541.0</b>	<b>1,060.1</b>	<b>944.1</b>
<b>Solvency ratio (A/B)</b>	<b>117%</b>	<b>243%</b>		<b>143%</b>	<b>139%</b>

(1) After payment of year-end intragroup dividend.

(2) Before payment of the Group final dividend.

The solvency ratio after payment of the proposed Group final dividend is 137% at the year end (2017:133%).



## Solvency II Sensitivities

The table below shows the estimated impact on the Solvency II free assets, the SCR and the solvency ratio from changes in various assumptions underlying the Solvency II calculations. In each case, only the indicated item is varied relative to the restated values.

The solvency ratio is not very sensitive to changes in experience or assumptions, and can move counter-intuitively depending on circumstances, as demonstrated by the sensitivity analysis presented below:

	Note	Solvency II free assets £'Million	Solvency II capital requirement £'Million	Solvency ratio %
<b>Value at 31 December 2018</b>		1,060.1	2,447.3	143%
100bp reduction in risk free rates, with corresponding change in fixed interest asset values	1	959.1	2,452.2	139%
10% increase in withdrawal rates	2	1,091.4	2,298.3	147%
10% reduction in market value of equity assets	3	983.6	2,202.1	145%
10% increase in expenses	4	1,004.1	2,449.0	141%
100bp increase in assumed inflation	5	977.5	2,454.5	140%

### Notes to the Solvency II sensitivities

(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.

(2) The 10% increase is applied to the lapse rate. For instance, if the lapse rate is 8% then a 10% increase would reflect a change to 8.8%.

(3) For the purposes of this 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%.

(4) For the purposes of this all expenses are increased by 10%.

(5) This reflects a 100bp increase in the assumed RPI underlying the expense inflation calculation.

## **RISK AND RISK MANAGEMENT**

### **Overview and Culture**

The St. James's Place Group is exposed to a wide variety of risks due to its business activities and the industry in which it operates. In addition, the Group is also exposed to a number of external factors and threats. Under the leadership, direction and oversight of our Board, these risks are carefully managed, contributing to our competitive advantage and helping us to achieve our client and business objectives.

We do not, and cannot, seek to eliminate risk entirely, rather we seek to understand our risks fully and manage them appropriately. The emphasis is on applying effective risk management strategies, so all material risks are identified, and managed or mitigated within agreed risk appetite. Risk management is embedded within our culture and therefore is a core aspect of decision-making. Our Risk Management Framework is specifically designed to manage risks important to our clients, shareholders, advisers, regulators and employees, whilst providing reasonable assurance against material financial misstatement or loss.

Risk management, solvency projections and stress and scenario testing form a key part of the business planning process, including decisions on strategic developments, pricing and dividend payments.

### **Risk Appetite**

The Board chooses carefully the risks it accepts and those it seeks to limit or avoid. These choices are set out in detail in our Group Risk Appetite Statement, which is reviewed at least annually by the risk committees of the Board (the 'Risk Committee') and Executive Board ('Group Risk Executive Committee') and ultimately agreed by the Board. The Risk Appetite Statement aligns the Group's strategic objectives with the outcomes-based approach and the overarching Risk Management Framework.

In particular, it articulates risks that are:

- sought (where we are receptive to that risk);
- minimised (where we are highly averse to that risk and aim to reduce the exposure as far as possible); or
- managed (where we accept that some risk is unavoidable or uneconomic to mitigate entirely and where we therefore aim to manage exposure through prudent and pragmatic controls).

Risk appetite can and will change over time, sometimes rapidly as economic and business environment conditions change, and therefore the statement is an evolving document. A comprehensive suite of indicators is reported regularly to enable the Risk Committee, on behalf of the Board, to monitor that the Group remains within its accepted appetite.

The Risk Appetite Statement includes a risk appetite scale. This scale has several risk acceptance levels, ranging from no appetite for taking risk at all, through to acceptance of a risk. The level of risk we are willing to accommodate will vary dependent on individual risk scenarios. The decisions the Board takes when setting appetite will be based on understanding the likelihood and impact of a risk materialising.

## **Risk Management Framework**

The Board, through the Risk Committee, takes an active role in overseeing the Risk Management Framework, for which it is responsible. This framework is the combined processes by which the Group identifies, assesses, measures, manages and monitors the risks that may impact on the successful delivery of its objectives.

The Group's Own Risk and Solvency Assessment (ORSA) is a central part of this framework.

The Risk Committee comprises Independent Non-executive Board members and is responsible for ensuring a risk culture (of effective risk identification and management) is fostered across the Group.

The Risk Committee is supported by the Executive Board, Group Risk Executive Committee and Risk and Compliance functions at Group and local levels. It is these supporting functions which take the lead in ensuring an appropriate framework is in place, ensuring on-going development and co-ordination of risk management within the Group. The Committees provide an escalation route to the Board for any risks which have or which are likely to materialise, and which may pose a threat to us being able to remain within our risk appetite. Executive sub-committees of the Executive Board also provide support for the management of risks in their areas of responsibility.

The Risk Management Framework is built around the outcomes which are key to our organisation. These are:

**CLIENTS** – *That we deliver positive outcomes for our increasing population of clients.*

**PARTNERSHIP** – *That we continue to grow and develop the Partnership.*

**PEOPLE** – *That we treat all of our stakeholders well.*

**REGULATORS** – *That we are compliant, have an open and honest relationship with our regulators and protect our reputation.*

**FINANCIAL AND SHAREHOLDERS** – *That we deliver sustainable growth in reported profits on all measures.*

These outcomes focus attention on those things that are of greatest importance, and hence indicate where risk management activity should be focused. When doing this, current risk priorities as well as emerging risks are considered across all objectives. The Risk Management Framework also provides clarity of ownership, enabling us to identify the key individuals within the Group who have responsibility for managing these risks.

Within these outcomes, indicators are used to monitor performance against risk appetite. An Executive Board member is assigned to own each of the risk appetite statements and related indicators. They are accountable for managing the associated risks within agreed thresholds and regularly reporting to the Executive Board. This enables the Board to maintain effective oversight of all outcomes, and to manage any conflicts of interest that arise between them. With regards to emerging risks, these are monitored regularly by the Group Risk and Compliance function and assessed as to whether they are increasing, decreasing or static in terms of their impact on the Group and/or our stakeholders. It will be a combination of these indicators and the perceived future risks to the Group that will determine the principal risks at any point in time.

### **‘Three lines of defence’ model**

Complementary to the above, there is also a ‘bottom-up’ element to our framework. This means each division of the Group is responsible for the identification, management and quarterly reporting of its own risks (first line of defence).

The divisions are responsible for ensuring each risk is assessed by considering its potential impact and the likelihood of its occurrence (impact assessments are completed against financial and non-financial metrics). The divisions are also responsible for establishing appropriate controls as a core part of the risk management process.

The Group Risk and Compliance function provides independent oversight, through support, challenge and monitoring activity of the divisional risk management processes (second line of defence).

Our Group Internal Audit function provides more holistic assurance, via reviews and assessments (third line of defence).

Underpinning the three lines of defence and to ensure effective risk management, the Group maintains a comprehensive suite of governance policies to support the Risk Management Framework. These policies are reviewed at least annually to ensure they remain appropriate and effective.

### **Own Risk and Solvency Assessment (ORSA)**

We provide financial advice and also manufacture and distribute products in different jurisdictions, and therefore we are governed by a range of financial services regulations. As such, we have relationships with regulators in the UK, Ireland, Singapore and Hong Kong. At Group level we are classified as an insurance group and are subject to the Solvency II insurance regulation. A key part of this regulation requires a consistent approach to risk management across the Group supported by an annual ORSA (considering both the Group and the individual insurance entities).

The ORSA process is grounded within the business strategy and activities contributing to this operate as an annual cycle. As directed by the boards of the EU insurance entities (SJPUK and SJPI) and the Board of the Company, the cycle comprises:

- comprehensive risk assessments, providing understanding of the risks each business unit faces, how they are managed and how they might change (in the context of the strategic plan); and
- quantitative analysis of the capital required to protect the sustainability of the Company (projecting how this may develop over our planning period of five years).

Similar risk-based capital adequacy assessments are performed for the other regulated non-insurance entities. The assessment activities range from stress and scenario testing, through loss event recording and analysis, to recovery and resolution planning. Stress testing is undertaken across a broad range of scenarios, including market shocks, mass lapse events, new business growth scenarios and, particularly, operational risk events.

The regulatory solvency capital requirements allow for at least a ‘1 in 200-year’ risk event, so we focus on reasonably foreseeable scenarios for the insights they can provide about how the business might react to stress conditions, as well as considering other, more extreme scenarios.

Our results show that the Group maintains strong levels of free assets, even under extreme but plausible scenarios, which demonstrates its resilience to adverse conditions. For example, previous analysis of more severe ‘stress tests’ investigating liquidity, which could be a key risk in stressed conditions, indicated the Group can reasonably expect to have sufficient liquid funds to be able to meet its liabilities over the planning period. This is supported by our liquidity risk policy which outlines the approach and controls in place to manage liquidity risk, the primary control being to hold corporate and surplus assets in deep and liquid markets.

The outcome of these activities, assists us when considering the calculation and allocation of risk capital to all the major risks in the Group (in the insurance companies in particular), and the adequacy of the capital position. This process ensures our continued confidence that the regulated entities remain strongly capitalised.

The ORSA has proved to be a useful process for making consideration of risk appetite more prominent in decisions by management, including those reviewed by the Risk Committee. The ORSA continues to evolve and further strengthen risk management processes throughout the Group.

## **Internal Control**

The internal control environment is built upon a strong control culture, underpinned by our Code of Ethics and organisational delegation of responsibility using the ‘three lines of defence’ model, as described above. The purpose of this method of internal control is to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

There is delegated responsibility to implement and maintain effective controls, such that the Group operates within the risk appetite agreed by the Board. The Audit Committee, on behalf of the Board, monitors the effectiveness of internal controls across all business areas, primarily through the outcomes of the independent assurance assignments undertaken by Internal Audit.

### *Control Self-Assessment (CSA)*

In addition to the risk impact assessments, the CSA is a core element of our governance process. Assessments are a continuous activity, through which business areas review their controls regularly, signing off on their efficiency (against a standard set of control statements).

These are formally summarised annually and collectively these control statements embody the elements for us to maintain a control framework across five components (as laid down in the internationally accepted COSO control standards):

- control environment;
- risk assessment;
- control activities;
- information and communication; and
- monitoring activities.

This annual summary contributes to the year-end Internal Control Evaluation exercise (undertaken by Internal Audit as part of the assurance provision to the Audit Committee).

The controls activity is valued in the organisation, as it provides confidence that business areas can meet their objectives, clarity to support decision making, and agility in adapting to change and complexity.

## *Financial Reporting Processes*

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

- extensive documentation, operation and assessment of controls in key risk areas;
- monthly review and approval of all financial accounting data including data generated by our outsource providers; and
- formal review of financial statements by senior management, for both individual companies and the consolidated Group.

## **Principal Risks and Uncertainties**

The following tables summarise the principal risks and uncertainties that are inherent within both the Group's business model and the market in which we operate. These are the risks which could have a material impact on the key strategic outcomes in the five areas set out on page 35. The Board and the boards of the insurance entities have responsibility for assessing their main risks and these are monitored on a regular basis by the Risk Committee, the Executive Board, the SJPUK and SJPI boards, the SJPI Risk and Compliance Committee, the SJPI Singapore Branch Executive Management Committee and the Board of SJPI (Hong Kong) Limited.

Against each of the principal risks, consideration is given to the level of exposure and the extent to which the risk can be mitigated, with the risk being assigned a weighting (and a justification for this). For example, the Group believes that the accumulation of reputational issues through the risks set out below presents a significant exposure yet is difficult to further mitigate beyond the processes currently in place across the business. Conversely, the risk of regulatory breaches may pose higher exposure (i.e. fines may directly correlate to the Funds under Management), but can be directly mitigated through processes, controls and systems.

In addition to the above, the political environment, including Brexit, is an area of increasing uncertainty and therefore a principal risk to our business through investor sentiment and the wider economy. We believe that the direct impact on our operations will be limited due to our business model. In particular we have minimal exposure to market risk through our matching strategy, in addition, investments are also globally diverse. We have considered and made appropriate arrangements where potential operational issues following a no-deal Brexit could occur, although the business has a very minimal operational exposure.

The indirect impact on the economy, and therefore investor sentiment, cannot be determined with any precision because of the current uncertainties both around Brexit and the wider political environment. It is these indirect outcomes which could impact upon our business. Stress and scenario testing has been performed which demonstrates that the businesses is highly resilient to changes in the domestic economy.

We are focused on understanding the degree to which the various outcomes might impact the business. For instance, understanding how market uncertainty and volatility could impact client decisions and behaviours. This allows us to consider how they might be mitigated. We continually monitor the changing environment, to ensure our analysis and scenario testing remains current. However, we also consider worst case scenarios to facilitate planning for all eventualities. Although scenarios of political change, including Brexit, can drive changes in risk, the potential impacts on our business would manifest in ways which we are familiar with, notably market risk, persistency risk, changes in new business levels and operational risks. We cover these risks more specifically in the tables in the following pages.

The principal risks and uncertainties, the business outcomes on which they impact, and the high-level controls and processes through which we aim to mitigate them, are set out in the following tables. Although all of the risks identified in the previous year's report are still applicable to our business, we have sought to rationalise and focus our reporting on our principal risks this year. Within all of the risks below, reputational and investor relations impact is considered (so these have not been individually drawn out below);

## Non-Financial Risks

<b>Risk</b>	<b>Description</b>	<b>Outcome</b>	<b>Management and Controls</b>
Systemic advice failure	Clients rely on their SJP advisers for the provision of initial and ongoing advice. Failures in the quality of advice or documentation of advice could lead to redress costs, reputational damage and regulatory intervention.	Clients	There are many processes in place to mitigate this risk, including detailed advice guidance with appropriate governance around changes and updates, appropriate incentive structures, adviser training and accreditation, compliance procedures, monitoring processes and quality checking. The Group guarantees the suitability of advice given by advisers and also has appropriate professional indemnity insurance in place.
Outsourcing failure	The Group's business model involves the outsourcing of administration and custodial services to third parties. Poor service from, or failure of, one of these third parties could lead to disruption of services to clients, reputational damage and profit impacts.	Clients, Financials and Shareholders	<p>We maintain close working relationships with our outsourcing partners, who are central to our business model. This enables us to work effectively and efficiently together. Service level agreements are in place and performance is monitored against these.</p> <p>With any significant migration programme such as the Bluedoor administration system, implementation is backed up with a project focus on outcomes and an understanding of associated operational risks. Group Risk and Internal Audit work closely with the programme teams, with the Executive Board overseeing project readiness risk assessments and audits along with contingency plans.</p> <p>We also work closely with our outsourcing business partners to understand any material changes to their businesses which may impact us, with regular reviews including monitoring of the outsourced company's financial strength. In the case of an extreme event, all our relationships are governed by formal agreements with notice periods. The business continuity arrangements of each outsourcer are also regularly tested and improved, and scenario analysis is carried out.</p>

<b>Risk</b>	<b>Description</b>	<b>Outcome</b>	<b>Management and Controls</b>
Cyber Risk and Information Security	Cyber risk, which could include loss of data, system control or system availability, continues to be one of the top risks facing individuals and organisations. A successful cyber-attack could result in disruption or distress for clients, advisers, and employees, as well as resulting in reputational damage and regulatory censure.	Clients, Advisers, Financials and Shareholders	The leading cause of information security incidents are individuals unknowingly or inadvertently enabling the attack, so awareness is the most effective defence. We maintain an active and on-going awareness programme on information security threats and how to prevent or respond to them for employees and advisers. This is supported by system maintenance, data leakage (prevention and detection) technologies and vulnerability testing. In addition an incident reporting system ensures a rapid response if an incident does occur. We also ensure our outsourcing partners have robust information security programmes in place and use secure means for transmitting data to and from these organisations.
Investment performance fails to meet client expectations	Our approach to investment management may fail to deliver expected returns to clients of the Group or the range of products and services offered may become inappropriate for client needs.	Clients	We offer a broad range of funds and portfolios, which allows client diversification and mitigates our new business, persistency and market risks. We actively manage and monitor the performance of our investment managers through the Investment Committee (which is supported by respected independent investment research consultancies) and review the ongoing suitability of portfolio asset allocation through the Portfolio Committee. We perform ongoing due diligence and appropriateness reviews on third-party products at least annually.
Adviser proposition, recruitment and retention	Group products are distributed, and ongoing advice is provided, exclusively through the SJP Partnership. Inadequacies in the adviser proposition, range of products, technology or services offered to the Partnership may result in inefficiencies and frustration, with consequent loss of advisers and client impact, or inability to recruit sufficient, high-quality new advisers or field management.	Advisers	The adviser proposition is an area of continual focus, with outputs from regular adviser surveys and other adviser feedback being reflected on an ongoing basis. We employ a number of specialist managers specifically to manage the recruitment and retention of high-quality advisers, and a dedicated senior management team oversees the SJP Academy, which broadens our recruitment streams. Formal retention strategies are in place to ensure that, wherever possible, we retain good quality and experienced advisers. All recruitment and retention activity is closely monitored. Business Sale and Purchase Agreements incentivise Partners to build up high-quality sustainable practices and enable the Company to manage succession of the Partnership, thereby ensuring continuity of service to clients and funds under management.



<b>Risk</b>	<b>Description</b>	<b>Outcome</b>	<b>Management and Controls</b>
Regulatory, legislative and tax environment	<p>The nature of the Group is such that it falls under the influence of regulators and legislators in multiple jurisdictions. Transformative regulatory, or indeed political changes, could impact adversely on our current business model.</p> <p>The Group could face a fine or regulatory censure from failure to comply with current and/or future regulations, with increased supervisory intrusion, disruption to business and potential for changes to the business model.</p>	Regulators	Regulatory and legislative change is largely a risk which cannot be mitigated, although the Group seeks to engage with regulators and policy makers in an open and constructive manner, with the aim that key issues impacting the Group are taken into consideration in the drafting of changes. Our governance structures, management committees and compliance monitoring activities seek to ensure we remain compliant with regulation.
Competition and charge pressure	The competitive environment in which we operate continues to evolve with the need for dependable wealth management advice increasing whilst regulation and technology are changing the nature and accessibility of available information. Competitor activity in the adviser-based wealth management market may result in a reduction in new business volumes, reduced retention of existing business with the resulting impact on ongoing advice fees, pressure on margins for both new and existing business, and the potential loss of advisers and key employees.	Financials and Shareholders	This risk is mitigated through ensuring our business is run efficiently, being responsive to the needs of our clients and advisers and seeking continual improvements to processes. Charges are benchmarked against competitors and competitor activity is monitored allowing action to be taken in a timely manner if required. The Group offers a diversified product range, including manufactured and third-party products. We have a proven track record in adviser and employee acquisition and retention. Our more established advisers often have significant equity stakes in their practices and their ability to access these is structured to aid retention. Similarly, variable remuneration of key employees is structured to aid retention.
Funding availability	Pressure on funding availability may limit the Group's ability to provide business loans to Partners to make strategic investments.	Financials and Shareholders	A debt funding policy is in place, with committed funds available through the revolving credit facility and securitisation. Credit approved bank lending facilities are available to support business loans to Partners. Further corporate borrowing requires approval at Board level.
People and culture	People and the distinctive culture of the Group play an important part in its success. Poorly managed recruitment, expansion, succession, culture and resourcing may lead to loss of valued individuals, lack of diversity, increased risk of errors, and failure to deliver on the business plan.	People	This risk is mitigated through effective recruitment processes, leadership, succession planning, the implementation of executive and management development initiatives and regular surveys and consultation groups. The latter enable us to monitor the sentiment of our staff and advisers and identify any potential adverse impacts upon, or trends within, our culture, and respond appropriately.

## Financial Risks

Risk	Description	Outcome	Management and Controls
Insurance risk	<p>A reduction in funds under management owing to poor retention would reduce future Annual Management Charge income. This may arise from factors such as changes in the economic climate, poor investment performance, competitor activity, or reputational damage to the Group.</p> <p>Adverse mortality or disability experience, in particular higher death claims following an incident or widespread illness, or longer-term increases in mortality rates, would reduce future profits.</p>	Financials and Shareholders	<p>Retention risk is managed through the long-term relationships between advisers and clients. In particular, advisers keep clients informed during periods of market volatility, and lower risk funds and portfolios are available, with no charges for switching. The Investment Management Approach involves monitoring of fund manager performance, and changes are made where appropriate.</p> <p>Mortality and disability risk is substantially reduced through the use of reinsurance with low retention. Mortality risk benefit on investment products are generally limited to 1% of invested assets. Most risk deductions are reviewable and an increase in reinsurance rates would be passed on to clients through increases to charges and/or premiums on a regular basis. Experience analysis is performed.</p>

## Viability Statement

In accordance with provision C.2.2. of the UK Corporate Governance Code, the Directors have assessed the Group's current financial position and future prospects over a five-year period and have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of this assessment.

In reaching this conclusion the Directors have considered several different strands of work, including:

- the Business Plan and associated strategy documents and the Group's capacity and capability to deliver the plan;
- an assessment of the economic, regulatory, competitive and risk environment which was carried out as part of the Board's strategy review process;
- the Group's ORSA process, which is summarised in the section above; and
- operational risks, mitigating actions and the control environment.

A planning period of five years is used both in medium-term business planning and for the ORSA, as it reflects the horizon over which the Board sets medium-term strategy. Due to our product structure, investment and pension business does not generate net cash in the first six years. By using a planning horizon of five years, we assess our viability based on revenues generated on business we have today rather than relying on assumed growth.

The ORSA was particularly useful in assessing viability as it has a similar purpose and requires a comprehensive assessment of risk management and risk capital requirements of the business in excess of a 1 in 200-year risk calibration.

From the principal risks on pages 39 to 42 for the purposes of assessing the resilience of the Group's business model, the key risks have been identified. The assessment indicated that none of the identified individual key risks in isolation would compromise the Group's viability financially but could indirectly impact areas such as client satisfaction or reputation.

However, severe but plausible scenarios are also used to assess the impact of the risks. This informs business planning in the longer term, whether that is in the development of new controls, processes or systems or influencing corporate strategy for proposition or financial safeguarding.

This programme of stress testing allows the Group to model the potential impact of a variety of external and internal events. For instance, some of the stress scenarios explore the impact of a 'combination' of plausible events, adding further weight to the assessments.

Consideration is given to factors or events that impact on our funds under management, investment growth, retention of clients and ability to attract new clients in addition to the effects of a market downturn. A combination of these factors will be used to form scenarios which will then be tested, providing for more extreme combinations of events. Therefore, assumptions are robustly analysed to predict both the immediate impact of an event along with the impact over the longer term (in the wake of the event).

In addition to these more extreme 'combination' scenarios, assessments are also completed based on more current/topical or emerging risk exposures affecting the Group or financial services more generally, including: a significant data loss through a cyber-attack; a prolonged outsourcer failure; a substantial increase in expenses, without an equivalent increase in income; significant and prolonged stock market falls; and extreme and unprecedented mass lapses.

Activities in the risk management framework (stress testing, controls management and Key Risk Indicator monitoring), ORSA, capital adequacy assessments along with strategic planning by the Board, contribute to a robust assessment of the principal risks facing the Group.

The Board considers that the Group's risk culture is well embedded (as demonstrated in the risk management processes) and having considered both the current and future market environment and assessed the results of ongoing comprehensive operational risk scenario testing and financial stress testing, the Board believes that the business model remains appropriate and that the Group will be able to remain in operation and meet its liabilities as they fall due over the five year assessment period. The Board will ensure that the Group maintains a robust risk management process, including business continuity planning and considers that it will continue to meet its liabilities over the planning period. This is further supported by the resilience that the Group has demonstrated over recent years in a variety of different external conditions. We plan for 'severe but plausible' events, exploring (but not limited to) the following areas: the market (understanding the effects on asset value and investment growth); persistency (understanding the effects of varying lapse volumes and withdrawals); new business (exploring the effects of slowed or increased volumes); and expenses (focusing on the impact of increased costs). The Directors believe that the risk planning and management processes and culture, allow for a robust and effective risk management environment, providing the assurance needed for the Directors to remain confident in the Group's outlook.

## CHAIR'S REPORT

2018 was a year of robust performance during which St. James's Place built further on its strong momentum of recent years. The fact that this was achieved during a year of mounting political and economic uncertainty for the UK, coupled with volatile global investment markets, is further testament to the resilience of the St. James's Place business model.

An ageing population, an increasing need for individuals to take responsibility for their own pension, care and protection planning, and the complexity of the choices which face them in doing so, continue to underpin the growth in demand for trusted face-to-face financial advice.

St. James's Place has continued to focus on supporting the Partnership in building trusted and durable relationships with clients to help them achieve their financial goals. It is during uncertain and changing times that guidance, assurance and advice become even more important. Client value is about far more than price. Our clients recognise this and we must continue to demonstrate the value that we are delivering to them.

The business model has remained adaptable and robust for over 26 years but that is only because we have consistently invested in it and continue to do so. During 2018, good progress was made in the longer term development of the business, with further growth in the Academy, Rowan Dartington and our ventures in Hong Kong, Singapore and Shanghai, and we achieved some important milestones in the migration to a new back-office administration platform. We also invested significantly in adviser and staff training and development and in wider technology supporting the Partnership in the delivery of client service.

Based on this strong business performance, continued high levels of client retention and our confidence in the Group's future prospects, the Board is pleased to propose a final dividend of 29.73 pence per share, an increase of 8%. This makes a full year dividend of 48.22 pence per share, an increase of 12.5%, representing 82.6% of the Underlying cash result.

### **Succession**

There were a number of significant changes to the composition of the Board last year.

In January 2018, Andrew Croft took over as CEO from David Bellamy who retired from the Board, and Craig Gentle succeeded Andrew as CFO. The business has adapted seamlessly to this long-planned management transition.

In October, my predecessor Sarah Bates also stood down after 14 years on the Board, the last four of which were as Chair.

We also announced last year that David Lamb would be retiring from the Board and from his executive responsibilities in February 2019, although I am pleased to report his continuing involvement as Non-executive Chair of the Investment Committee. I am also delighted to report that Robert Gardner has joined the business as Director of Investment Management and a member of the Executive Board. Robert is well known to the business joining us from Redington where he was a co-founder and remains a non-executive director.

I welcome Robert to the business and on behalf of the shareholders, the Board and other colleagues, thank Sarah and David for their immense contributions to the success of St. James's Place over many years.

Continuity and the maintenance of a strong and distinctive culture are key elements of our strategy, and long-term succession planning for both the Executive and Non-executive members of the Board and senior management team will remain a key priority.

## **Corporate Governance and Our Wider Corporate Responsibilities**

The Board has long recognised the Group's responsibilities to all its stakeholders, including shareholders, clients, the Partnership, colleagues, third-party suppliers, the environment and of course wider society. We have always viewed the St. James's Place Charitable Foundation as a core component of our strategy and a key vehicle through which we make a contribution to wider communities. Members of the St. James's Place community raised £10.0 million in 2018, including Group matching. We have also continued to broaden our corporate responsibility activities, and these will be set out in some detail in our annual report and accounts.

I am also pleased that we have further advanced our environmental, social and governance credentials, with a particular highlight being the work we have undertaken around Responsible Investment where we became signatories to the United Nations Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code. We also joined the Investment Association's Sustainability and Responsible Investing Committee.

We made some positive progress on increasing the diversity of our workforce last year as a number of the programmes we have put in place begin to bear fruit. Focusing initially on gender diversity, in 2018 we became signatories to the Women in Finance Charter and we joined the 30% Club, while almost half of external appointments to senior roles last year were female. This is not a box-ticking exercise, and we appreciate fully the importance of attracting and developing a diverse range of talent if we are to continue to thrive in the long term. There is still a lot more to do, particularly at senior level, and this remains a priority for the Board.

Towards the end of the year we undertook an externally facilitated Board effectiveness review. This highlighted some helpful recommendations that we intend to implement in full, while confirming the strong overall performance of the Board.

### **Concluding remarks**

I believe we have continued to perform well and deliver for stakeholders in what has been a more volatile and uncertain external environment. Whilst we are not complacent and recognise that we will face periods of uncertainty from time to time, we have confidence that ours is a business that will continue to thrive and make the most of the long-term structural opportunities that are available to us, and continue to adapt and evolve to meet the challenges of the future, much as we have done in the past.

I would like to finish by offering on behalf of the Board, my sincere thanks and appreciation to the whole St. James's Place community.

Iain Cornish  
Chair  
26 February 2019

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year Ended 31 December 2018	Year Ended 31 December 2017
	Note	£'Million	£'Million
Insurance premium income		46.5	49.9
Less premiums ceded to reinsurers		(29.6)	(29.6)
<b>Net insurance premium income</b>		<b>16.9</b>	<b>20.3</b>
Fee and commission income	5	1,523.7	1,779.8
Investment return	6	(4,235.0)	7,282.5
<b>Net (expense)/income</b>		<b>(2,694.4)</b>	<b>9,082.6</b>
Policy claims and benefits			
- Gross amount		(54.0)	(61.1)
- Reinsurers' share		19.6	23.3
<b>Net policyholder claims and benefits incurred</b>		<b>(34.4)</b>	<b>(37.8)</b>
Change in insurance contract liabilities			
- Gross amount		36.5	(26.5)
- Reinsurers' share		-	2.3
<b>Net change in insurance contract liabilities</b>		<b>36.5</b>	<b>(24.2)</b>
<b>Movement in investment contract benefits</b>	6	<b>4,249.2</b>	<b>(7,210.9)</b>
<b>Expenses</b>		<b>(1,641.5)</b>	<b>(1,467.6)</b>
<b>(Loss)/profit before tax</b>	4	<b>(84.6)</b>	<b>342.1</b>
Tax attributable to policyholders' returns	7	296.5	(156.0)
<b>Profit before tax attributable to shareholders' returns</b>		<b>211.9</b>	<b>186.1</b>
Total tax credit/(expense)	7	258.1	(196.3)
Less: tax attributable to policyholders' returns	7	(296.5)	156.0
Tax attributable to shareholders' returns	7	(38.4)	(40.3)
<b>Profit and total comprehensive income for the year</b>		<b>173.5</b>	<b>145.8</b>
Loss attributable to non-controlling interests		-	(0.1)
Profit attributable to equity shareholders		173.5	145.9
<b>Profit and total comprehensive income for the year</b>		<b>173.5</b>	<b>145.8</b>
<b>Basic earnings per share</b>	14	Pence 33.0	Pence 27.8
<b>Diluted earnings per share</b>	14	32.4	27.4

The results relate to continuing operations.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable owners of the parent								
Note	Share Capital	Share Premium	Shares in Trust Reserve	Retained Earnings	Misc Reserves	Total	Non- controlling Interests	Total Equity
	£'M	£'M	£'M	£'M	£'M	£'M	£'M	£'M
At 1 January 2017	79.1	164.5	(20.9)	851.2	2.5	1,076.4	(0.8)	1,075.6
Profit/(loss) and total comprehensive income/(expense) for the year				145.9		145.9	(0.1)	145.8
Dividends	14			(190.0)		(190.0)		(190.0)
Issue of share capital	14	0.1	4.1			4.2		4.2
Exercise of options	14	0.2	3.1			3.3		3.3
Consideration paid for own shares			(11.3)			(11.3)		(11.3)
Shares sold during the year			5.5	(5.5)		-		-
Retained earnings credit in respect of share option charges				30.5		30.5		30.5
At 31 December 2017	<u>79.4</u>	<u>171.7</u>	<u>(26.7)</u>	<u>832.1</u>	<u>2.5</u>	<u>1,059.0</u>	<u>(0.9)</u>	<u>1,058.1</u>
Profit and total comprehensive income for the year				173.5		173.5	-	173.5
Dividends	14			(242.7)		(242.7)		(242.7)
Exercise of options	14	-	2.8			2.8		2.8
Consideration paid for own shares			(6.0)			(6.0)		(6.0)
Shares sold during the year			9.0	(9.0)		-		-
Retained earnings credit in respect of share option charges				33.4		33.4		33.4
At 31 December 2018	<u><u>79.4</u></u>	<u><u>174.5</u></u>	<u><u>(23.7)</u></u>	<u><u>787.3</u></u>	<u><u>2.5</u></u>	<u><u>1,020.0</u></u>	<u><u>(0.9)</u></u>	<u><u>1,019.1</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2018	As at 31 December 2017
		£'Million	£'Million
<b>Assets</b>			
Goodwill	8	15.6	15.6
Deferred acquisition costs	8	558.5	623.0
Intangible assets			
- Purchased value of in-force business	8	24.0	27.2
- Computer software	8	1.4	2.4
Property and equipment		28.5	26.4
Deferred tax assets	7	147.1	182.7
Reinsurance assets		82.8	82.8
Other receivables	10	1,952.3	1,620.0
Income tax assets		9.7	-
Investments			
- Investment property	9	1,820.7	1,630.9
- Equities	9	56,077.9	55,086.9
- Fixed income securities	9	21,966.0	17,180.7
- Investment in Collective Investment Schemes	9	4,756.1	5,903.4
- Derivative financial instruments		508.8	343.4
Cash and cash equivalents	9	6,877.6	7,280.6
<b>Total assets</b>		<b>94,827.0</b>	<b>90,006.0</b>
<b>Liabilities</b>			
Borrowings	12	348.6	279.9
Deferred tax liabilities	7	172.9	546.8
Insurance contract liabilities		508.1	544.6
Deferred income	8	648.3	646.3
Other provisions		22.7	20.0
Other payables	11	1,290.8	1,231.2
Investment contracts benefits	9	67,796.1	64,014.3
Derivative financial instruments	9	517.4	190.3
Net asset value attributable to unit holders	9	22,502.9	21,349.1
Income tax liabilities	7	-	125.3
Preference shares		0.1	0.1
<b>Total liabilities</b>		<b>93,807.9</b>	<b>88,947.9</b>
<b>Net assets</b>		<b>1,019.1</b>	<b>1,058.1</b>
<b>Shareholders' equity</b>			
Share capital	14	79.4	79.4
Share premium		174.5	171.7
Shares in trust reserve		(23.7)	(26.7)
Miscellaneous reserves		2.5	2.5
Retained earnings		787.3	832.1
Equity attributable to owners of the Parent Company		<b>1,020.0</b>	<b>1,059.0</b>
Non-controlling interests		(0.9)	(0.9)
<b>Total equity</b>		<b>1,019.1</b>	<b>1,058.1</b>
		Pence	Pence
<b>Net assets per share</b>		<b>192.5</b>	<b>200.0</b>



## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December 2018	Year Ended 31 December 2017
Note	£'Million	£'Million
<b>Cash flows from operating activities</b>		
(Loss)/profit before tax for the year	(84.6)	342.1
Adjustments for:		
Amortisation of purchased value of in-force business	8 3.2	3.2
Amortisation of computer software	8 1.1	0.9
Depreciation	6.5	5.2
Share-based payment charge	34.1	32.7
Interest income	(35.1)	(23.7)
Interest expense	6.1	4.9
Increase in provisions	2.7	2.9
Exchange rate (gains)/losses	(0.3)	1.1
<b>Changes in operating assets and liabilities</b>		
Decrease in deferred acquisition costs	8 64.5	61.8
Increase in investment property	(189.8)	(168.5)
Increase in other investments	(4,794.4)	(14,876.2)
Increase in reinsurance assets	-	(2.3)
Increase in other receivables	(330.3)	(146.0)
(Decrease)/increase in insurance contract liabilities	(36.5)	26.4
Increase in financial liabilities (excluding borrowings)	4,108.9	10,615.8
Increase/(decrease) in deferred income	8 2.0	(1.3)
Increase in other payables	57.2	48.8
Increase in net assets attributable to unit holders	1,153.8	4,317.1
<b>Cash generated from operating activities</b>	<b>(30.9)</b>	<b>244.9</b>
Interest received	35.1	23.7
Interest paid	(6.1)	(4.9)
Income taxes paid	(213.2)	(181.3)
<b>Net cash generated from operating activities</b>	<b>(215.1)</b>	<b>82.4</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(8.6)	(8.6)
Acquisition of intangible assets	8 (0.1)	(0.3)
Acquisition of subsidiaries and other business combinations, net of cash acquired	(4.1)	(5.0)
<b>Net cash used in investing activities</b>	<b>(12.8)</b>	<b>(13.9)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	2.8	3.3
Consideration paid for own shares	(6.0)	(11.3)
Additional borrowings	12 232.5	100.0
Repayment of borrowings	12 (162.2)	(101.0)
Dividends paid	14 (242.7)	(190.0)
<b>Net cash used in financing activities</b>	<b>(175.6)</b>	<b>(199.0)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(403.5)</b>	<b>(130.5)</b>
Cash and cash equivalents at 1 January	9 7,280.6	7,413.1
Exchange gains/(losses) on cash and cash equivalents	0.5	(2.0)
<b>Cash and cash equivalents at 31 December</b>	<b>9 6,877.6</b>	<b>7,280.6</b>

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### **1. ACCOUNTING POLICIES**

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

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

Within the financial statements, a number of alternative performance measures (APMs) are disclosed. An APM is a measure of financial performance, financial position or cash flows which is not defined by the relevant financial reporting framework, which for the Group is International Financial Reporting Standards (IFRSs) as adopted by the European Union. APMs are used to provide greater insight into the performance of the Group and the way it is managed by the Directors. Information on Alternative Performance Measures is provided in the Financial Review and Glossary on pages 80 to 84, which defines each APM, explains why it is used and, where applicable, how the measure can be reconciled to the IFRS financial statements.

### **2. OTHER ACCOUNTING POLICIES**

The other accounting policies used by the Group in preparing the results are consistent with those applied in preparing the statutory accounts for the year ended 31 December 2017 with the exception of the following matters which have impacted the disclosure in this announcement.

#### **ADOPTION OF IFRS 9 – FINANCIAL INSTRUMENTS (AND ASSOCIATED AMENDMENTS TO VARIOUS OTHER STANDARDS)**

On 1 January 2018, the Group adopted IFRS 9 Financial Instruments as issued in July 2014. IFRS 9 incorporates new classification and measurement requirements for financial assets and liabilities, the introduction of an expected credit loss impairment model, new hedge accounting requirements and enhanced disclosures in the financial statements. For the Group, adopting IFRS 9 has resulted in changes to accounting policies, reclassification of certain financial assets, and changes to the impairment model applied. In accordance with the transition provisions set out in IFRS 9, comparative figures have not been restated.

## Classification and measurement of financial instruments

On the date of initial application of IFRS 9, being 1 January 2018, the following financial assets were reclassified. There was no material change to the underlying accounting treatment for the reclassified financial assets, and no change in the carrying amount upon reclassification. No reclassifications were required for financial liabilities.

	Measurement category	
	IAS 39	IFRS 9
Renewal income assets	Available for sale	Fair value through profit or loss
Shareholder other receivables	Loans and receivables	Amortised cost
Shareholder cash and cash equivalents	Loans and receivables	Amortised cost

The total financial assets recognised under each IFRS 9 and IAS 39 measurement category at 1 January 2018, and reclassifications between categories as required on adoption of IFRS 9, are set out below:

1 January 2018	Fair value through profit or loss (FVTPL) £'Million	Fair value through other comprehensive income (FVOCI) <sup>(1)</sup> £'Million	Amortised cost <sup>(2)</sup> £'Million	Total financial assets £'Million
Shareholder financial assets under IAS 39	1,462.9	71.6	1,078.9	<b>2,613.4</b>
Reclassify renewal income assets	71.6	(71.6)	-	-
Shareholder financial assets under IFRS 9	1,534.5	-	1,078.9	<b>2,613.4</b>

<sup>(1)</sup> Fair value through other comprehensive income under IFRS 9 was known as available for sale under IAS 39.

<sup>(2)</sup> All financial assets that are classified as amortised cost under IFRS 9 were classified as loans and receivables held at amortised cost under IAS 39.

### Reclassification of renewal income assets from 'available-for-sale' to FVTPL

Renewal income assets, which represent the present value of future cash flows associated with books of business acquired by the Group, are classified as FVTPL under IFRS 9. This is because the contractual cash flows associated with the assets are fees rather than payments of principal and interest. When contractual cash flows are not solely payments of principal and interest, IFRS 9 requires the assets to be classified as FVTPL. There was no difference between the previous carrying amount under IAS 39 and the revised carrying amount under IFRS 9, and the reclassification had no impact on the Group's equity.

### Reclassification from loans and receivables to amortised cost

Shareholder cash and cash equivalents, and shareholder other receivables except for renewal income assets, were reclassified from loans and receivables to amortised cost as at 1 January 2018. The business model for these assets is hold to collect or sell, and the contractual cash flows consist solely of payments of principal and interest. There was no difference between the previous carrying amount under IAS 39 and the revised carrying amount under IFRS 9, and the reclassification had no impact on the Group's equity.

## **Expected loss impairment model**

The implementation of IFRS 9 requires a three-stage model to be applied in calculating the expected credit loss provision. Unless purchased or originated credit-impaired, newly originated assets are recognised within Stage 1: Performing. Assets remain in Stage 1 until there is a significant increase in credit risk, in which case they move to Stage 2: Underperforming. Assets move to Stage 3: Non-performing when there is objective evidence of impairment. Assets are accounted for differently depending on the stage they are classified in.

The Group has applied the three-stage impairment model to the business loans to Partners portfolio. Business loans to Partners are interest-bearing (linked to the Bank of England base rate plus a margin), either repayable on demand or in line with the repayment plan, and secured against the future renewal income streams of the Partner. No provision is held against the other financial assets of the Group as these are either classified as FVTPL or are short-term trade receivables with insignificant risk of credit loss.

### Definition of underperforming

In line with the presumption set out in IFRS 9, the Group considers that business loans to Partners experience a significant increase in credit risk, and so move to Stage 2: Underperforming in the expected credit loss model, when they are more than 30 days past due.

### Definition of non-performing

Business loans to Partners are considered to be non-performing, in the context of the definition prescribed within IFRS 9, if they are in default. This is defined as a loan to either:

- a Partner who has left the St. James's Place Partnership; or
- a Partner who management considers to be at significant risk of leaving the Partnership where an orderly settlement of debt is considered to be in question.

The IFRS 9 presumption that default occurs when a loan is more than 90 days past due has been rebutted. Because of the quality cash flows on which loans are secured together with the direct control exercised over them from source, management have a practice of granting flexible ongoing terms to Partners who are investing in their own businesses. Past evidence supports the assertion that the vast majority of loans to Partners who remain in the Partnership are repaid in full, irrespective of the number of days past due the loan may be.

### Write-off

Business loans to Partners are written off where there is no reasonable expectation of further recovery. Credit-related write-off experience is considered when determining the Group's definition of underperforming and non-performing.

The provision held against business loans to Partners under the incurred loss model as required by the previous accounting standard, IAS 39, was immaterial. The provision required by applying the expected loss model from 1 January 2018, as required by IFRS 9, is also immaterial. For further information on the provision balance and gross business loans to Partners, refer to Note 10 Other Receivables.

## **ADOPTION OF IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS (INCLUDING SUBSEQUENT IFRS 15 CLARIFICATION AND ASSOCIATED AMENDMENTS TO VARIOUS OTHER STANDARDS).**

The adoption of IFRS 15 had no impact on the Group, as the way that the Group's revenue from contracts with customers was recognised under the previous accounting standard, IAS 18, satisfies the requirements of IFRS 15 with no changes required to existing accounting policies. This conclusion was reached following a detailed assessment of revenue recognised by the Group in the context of the IFRS 15 five-step revenue recognition model, covering advice charges (post-RDR), third-party fee and commission income, wealth management fees, investment management fees, fund tax deductions and discretionary management fees.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

#### Judgements

The primary areas in which the Group has applied judgement are as follows:

##### *Classification of contracts between insurance and investment business*

Contracts with a significant degree of insurance risk are treated as insurance contracts. All other contracts are treated as investment contracts. It is this classification that management considers to be a critical judgement; however, due to the carrying value of the insurance contract liabilities within the statement of financial position, management does not consider insurance business to be significant to the Group.

##### *Consolidation*

Entities are consolidated within the Group financial statements if they are controlled by the Group. Control exists if the Group is exposed to, or has rights to, variable returns from its involvement with the entity and the Group has the ability to affect those returns through its power over the entity. Significant judgement can be involved in determining whether the Group controls an entity, such as in the case of the structured entity set up for the Group's securitisation transaction, SJP Partner Loans No.1 Limited, and for the Group's unit trusts.

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. As a result, factors such as whether a Group entity is able to direct the relevant activities of the entity and the extent to which the Group is exposed to variability of returns are considered. In the case of SJP Partner Loans No.1 Limited, it was determined that the Group does control the entity and hence it is consolidated. This is due to an entity in the Group holding the junior tranche of loan notes, hence being subject to variability of returns, and the same entity being able to direct the relevant activities of the structured entity through its role of servicer to the securitised portfolio.

Unit trusts are consolidated when the Group holds more than 30% of the units in that unit trust. This is the threshold at which the Group is considered to achieve control, having regard for factors such as:

- the scope of decision making authority held by St. James's Place Unit Trust Limited, the unit trust manager;
- rights held by external parties to remove the unit trust manager; and
- the Group's exposure to variable returns through its holdings in the unit trusts and the unit trust manager's remuneration.

##### *Determining non-performing business loans to Partners*

As set out on page 52, business loans to Partners are considered to be non-performing, in the context of the definition prescribed within IFRS 9, if they are in default. This is defined as a loan to either:

- a Partner who has left the St. James's Place Partnership; or
- a Partner who management considers to be at significant risk of leaving the Partnership where an orderly settlement of debt is considered to be in question.

The IFRS 9 presumption that default occurs when a loan is more than 90 days past due has been rebutted. Because of the quality of cash flows on which loans are secured together with the direct control exercised over them from source, management have a practice of granting flexible ongoing terms to Partners that are investing in their own businesses. Past evidence supports the assertion that the vast majority of loans to Partners who remain in the Partnership are repaid in full, irrespective of the number of days past due the loan may be.

## Estimates

Critical accounting estimates are those which give rise to a significant risk of material adjustment to the balances recognised in the financial statements within the next 12 months. The Group's critical accounting estimates are:

- determining the value of insurance contract liabilities; and
- determining the fair value of investment property.

Estimates are also applied in other assets of the financial statements, including determining the value of deferred tax assets, investment contract benefits, the operational readiness prepayment and other provisions.

### *Measurement of insurance contract liabilities*

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

- the lapse assumption, which is set prudently based on an investigation of experience during the year;
- the level of expenses, which is based on actual expenses in 2018 and expected rates in 2019 and the long-term;
- the mortality and morbidity rates, which are based on the results of an investigation of experience during the year; and
- the assumed rate of investment return, which is based on current gilt yields.

Whilst the measurement of insurance contract liabilities is considered to be a critical accounting estimate for the Group, the vast majority of non-unit-linked insurance business written is reinsured. As a result, the impact of a change in estimate in determining the value of insurance contract liabilities would be mitigated to a significant degree by the impact of the change in estimate in determining the value of reinsurance assets.

### *Determining the fair value of investment property*

In accordance with IAS 40, the Group initially recognises investment properties at cost, and subsequently re-measures its portfolio to fair value in the statement of financial position. Fair value is determined monthly by professional external valuers. It is based on anticipated market values for the properties in accordance with the guidance issued by The Royal Institution of Chartered Surveyors, being the estimated amount that would be received from a sale of the assets in an orderly transaction between market participants.

The valuation of investment property is inherently subjective as it requires, among other factors, assumptions to be made regarding the ability of existing tenants to meet their rental obligations over the entire life of their leases, the estimation of the expected rental income into the future, an assessment of a property's potential to remain as an attractive technical configuration to existing and prospective tenants in a changing market and a judgement to be reached on the attractiveness of a building, its location and the surrounding environment. As such, investment properties are classified as Level 3 in the IFRS 13 fair value hierarchy because they are valued using techniques which are not based on observable inputs.

#### **4. SEGMENT REPORTING**

IFRS 8 Operating Segments requires operating segments to be identified, on the basis of internal reports about components of the Group that are regularly reviewed by the Board, in order to allocate resources to each segment and assess its performance.

The Group's only reportable segment under IFRS 8 is a 'wealth management' business – which is a vertically-integrated business providing support to our clients through the provision of financial advice and assistance through our Partner network, and financial solutions including (but not limited to) wealth management products manufactured in the Group, such as insurance bonds, pensions, unit trust and ISA investments, and a DFM service.

Separate geographical segmental information is not presented since the Group does not segment its business geographically. Most of its customers are based in the United Kingdom, as is management of the assets. In particular, the operation based in south-east Asia is not yet sufficiently material for separate consideration.

##### **Segment Revenue**

Revenue received from fee and commission income is set out in Note 5, which details the different types of revenue received from our wealth management business.

## Segment Profit

Two separate measures of profit are monitored on a monthly basis by the Board. These are the post-tax Underlying cash result and pre-tax European Embedded Value ('EEV').

### *Underlying cash result*

The measure of cash profit monitored on a monthly basis by the Board is the post-tax Underlying cash result. This reflects emergence of cash available for paying a dividend during the year. Underlying cash is based on the cashflows within the IFRS results, but with no allowance for intangibles, principally DAC, DIR, PVIF, goodwill and deferred tax, or short-term costs associated with the back-office infrastructure project. As the cost associated with non-cash-settled share options is reflected in changes in shareholder equity, they are also not included in the Underlying cash result.

More detail is provided on pages 18 to 24 of the Financial Review.

The Cash result should not be confused with the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7.

	Year Ended 31 December 2018 £'Million	Year Ended 31 December 2017 £'Million
<b>Underlying cash result after tax</b>	<b>309.0</b>	<b>281.2</b>
Non-cash-settled share-based payments	(33.4)	(30.5)
Deferred tax impacts	(31.8)	(15.0)
Back-office infrastructure	(35.8)	(21.7)
Impact in the year of DAC/DIR/PVIF	(54.4)	(48.1)
Other	19.9	(20.1)
<b>IFRS profit after tax</b>	<b>173.5</b>	<b>145.8</b>
Shareholder tax	38.4	40.3
<b>Profit before tax attributable to shareholders' returns</b>	<b>211.9</b>	<b>186.1</b>
Tax attributable to policyholder returns	(296.5)	156.0
<b>IFRS (loss)/profit before tax</b>	<b>(84.6)</b>	<b>342.1</b>



### ***EEV operating profit***

EEV operating profit is monitored on a monthly basis by the Board. The components of the EEV operating profit are included in more detail in the Financial Review section of the Annual Report and Accounts.

	Year Ended 31 December 2018 £'Million	Year Ended 31 December 2017 £'Million
<b>EEV operating profit before tax</b>	<b>1,002.0</b>	<b>918.5</b>
Investment return variance	(460.9)	340.8
Economic assumption changes	(15.1)	29.8
<b>EEV profit before tax</b>	<b>526.0</b>	<b>1,289.1</b>
<b>Adjustments to IFRS basis</b>		
Deduct: amortisation of purchased value of in-force	(3.2)	(3.2)
Movement of balance sheet life value of in-force (net of tax)	(243.7)	(586.2)
Movement of balance sheet unit trust and DFM value of in-force (net of tax)	(16.5)	(325.4)
Tax of movement in value of in-force	(50.7)	(188.2)
<b>Profit before tax attributable to shareholders' returns</b>	<b>211.9</b>	<b>186.1</b>
Tax attributable to policyholder returns	(296.5)	156.0
<b>IFRS (loss)/profit before tax</b>	<b>(84.6)</b>	<b>342.1</b>

The movement in life, unit trust and DFM value of in-force is the difference between the opening and closing discounted value of the profits that will emerge from the in-force book over time, after adjusting for DAC and DIR impacts which are already included under IFRS.

## Segment Assets

### *Funds under management (FUM)*

FUM, as reported in Section 1 of the Financial Review on page 12, is the measure of segment assets which is monitored on a monthly basis by the Board.

	31 December 2018	31 December 2017
	£'Million	£'Million
Investment	27,620.0	28,310.0
Pension	40,720.0	36,150.0
UT/ISA and DFM	27,210.0	26,290.0
<b>Total FUM</b>	<b>95,550.0</b>	<b>90,750.0</b>
Exclude client and third-party holdings in non-consolidated unit trusts and DFM	(4,701.6)	(4,882.5)
Other	666.9	296.7
<b>Gross assets held to cover unit liabilities</b>	<b>91,515.3</b>	<b>86,164.2</b>
IFRS intangible assets (see page 21 adjustment 2)	720.9	811.3
including goodwill, DAC, PVIF, reinsurance and deferred tax		
Shareholder gross assets (see page 21)	2,590.8	3,030.5
<b>Total assets</b>	<b>94,827.0</b>	<b>90,006.0</b>

## 5. FEE AND COMMISSION INCOME

	Year Ended 31 December 2018	Year Ended 31 December 2017
	£'Million	£'Million
Advice charges (post-RDR)	743.2	656.5
Third-party fee and commission income	113.0	114.3
Wealth management fees	721.9	638.3
Investment management fees	85.7	62.4
Fund tax deductions	(296.5)	156.2
Discretionary fund management fees	13.8	9.4
Fee and commission income before DIR amortisation	<b>1,381.1</b>	<b>1,637.1</b>
Amortisation of DIR	142.6	142.7
<b>Total fee and commission income</b>	<b>1,523.7</b>	<b>1,779.8</b>

Fund tax deductions represent amounts deducted from, or credited to, the underlying funds to match policyholder tax charges or credit. This arises because the UK tax regime includes a policyholder tax element within the Group's tax arrangements. The amount of tax attributable to policyholders reflects investment return in the underlying funds. During 2018, market falls led to a significant policyholder tax credit, hence a credit of £296.5 million to the funds. In contrast, during 2017 market gains led to a significant policyholder tax charge, hence £156.2 million of deductions were made from the funds.

## 6. INVESTMENT RETURN AND MOVEMENT IN INVESTMENT CONTRACT BENEFITS

The majority of the business written by the Group is unit-linked investment business, and so investment contract benefits are measured by reference to the underlying net asset value of the Group's unitised investment funds. As a result, investment return on the unitised investment funds and the movement in investment contract benefits are linked.

### Investment return

	Year Ended 31 December 2018 £'Million	Year Ended 31 December 2017 £'Million
<b>Investment return on net assets held to cover unit liabilities:</b>		
Rental income	90.9	82.3
(Loss)/gain on revaluation of investment properties	(22.8)	79.2
Net investment return on financial instruments classified as fair value through profit and loss	(3,046.0)	5,545.1
	<u>(2,977.9)</u>	<u>5,706.6</u>
<i>Attributable to unit-linked insurance contract liabilities</i>	6.6	43.5
<i>Attributable to unit-linked investment contract benefits</i>	(2,984.5)	5,663.1
	<u>(2,977.9)</u>	<u>5,706.6</u>
Income attributable to third-party holdings in unit trusts	(1,264.7)	1,547.8
	<u>(4,242.6)</u>	<u>7,254.4</u>
<b>Investment return on shareholder assets:</b>		
Net investment return on financial instruments classified as fair value through profit and loss <sup>(1)</sup>	(4.5)	19.5
Interest income on financial instruments held at amortised cost	12.1	8.6
	<u>7.6</u>	<u>28.1</u>
<b>Total investment return</b>	<u><b>(4,235.0)</b></u>	<u><b>7,282.5</b></u>

(1) The net investment return on financial instruments classified as fair value through profit and loss in 2017 includes a £1.8 million loss which was disclosed as net investment return on financial instruments classified as available for sale in prior year. The reclassification has occurred due to the adoption of IFRS 9 on 1 January 2018.

Included in the net investment return on financial instruments classified as fair value through profit and loss within investment return on net assets held to cover unit liabilities is dividend income of £987.7 million (2017: £825.6 million).

## Movement in investment contract benefits

	2018	2017
	£'Million	£'Million
Balance at 1 January	64,014.3	53,307.1
Deposits	11,307.4	9,711.4
Withdrawals	(4,168.5)	(3,924.5)
Movement in unit-linked investment contract benefits	(2,984.5)	5,663.1
Less: fees and other adjustments for reassessment of unit liability	(372.6)	(742.8)
	<hr/>	<hr/>
<b>Balance at 31 December</b>	<b>67,796.1</b>	<b>64,014.3</b>
	<hr/>	<hr/>
Current	4,188.2	3,840.9
Non-current	63,607.9	60,173.4
	<hr/>	<hr/>
	<b>67,796.1</b>	<b>64,014.3</b>
	<hr/>	<hr/>
<b>Movement in unit liabilities</b>		
Unit-linked investment contract benefits	(2,984.5)	5,663.1
Third-party unit trust holdings	(1,264.7)	1,547.8
	<hr/>	<hr/>
<b>Movement in investment contract benefits in consolidated statement of comprehensive income</b>	<b>(4,249.2)</b>	<b>7,210.9</b>
	<hr/>	<hr/>

## 7. INCOME AND DEFERRED TAXES

### Tax for the year

	Year Ended 31 December 2018	Year Ended 31 December 2017
	£'Million	£'Million
<b>Current tax</b>		
UK corporation tax		
- Current year charge	79.1	245.7
- Adjustment in respect of prior year	(2.7)	(3.1)
Overseas taxes		
- Current year charge	4.9	6.8
- Adjustment in respect of prior year	0.1	0.1
	<u>81.4</u>	<u>249.5</u>
<b>Deferred tax</b>		
Unrealised capital losses in unit-linked funds	(359.2)	(55.6)
<i>Unrelieved expenses</i>		
- Additional expenses recognised in the year	(11.1)	(12.7)
- Utilisation in the year	15.0	17.2
<i>Capital losses</i>		
- Revaluation in the year	(1.8)	-
- Utilisation in the year	29.7	12.1
- Adjustment in respect of prior year	2.4	0.9
DAC, DIR and PVIF	(11.5)	(12.7)
Other items	(3.4)	(3.5)
Overseas taxes on losses	(0.5)	(0.1)
Adjustments in respect of prior periods	0.9	1.2
	<u>(339.5)</u>	<u>(53.2)</u>
<b>Total tax (credit) / charge for the year</b>	<b><u>(258.1)</u></b>	<b><u>196.3</u></b>
<b>Attributable to:</b>		
- policyholders	(296.5)	156.0
- shareholders	38.4	40.3
	<b><u>(258.1)</u></b>	<b><u>196.3</u></b>

The prior year adjustment in current tax above represents a charge of £0.9 million in respect of policyholder tax (2017: £3.8 million credit) and a credit of £3.5 million in respect of shareholder tax (2017: £0.8 million charge).

Included within the deferred tax on 'other items' is a credit of £0.8 million (2017: £2.0 million charge) relating to share-based payments.

In arriving at the profit before tax attributable to shareholders' return, 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 on the profits attributable to shareholders. This is calculated by applying the appropriate effective corporate tax rates to the shareholder profits. The remainder of the tax charge represents tax on policyholders' investment returns. This calculation method is consistent with the legislation relating to the calculation of tax on shareholder profits.

## Tax paid in the year

	Year Ended 31 December 2018 <u>£'Million</u>	Year Ended 31 December 2017 <u>£'Million</u>
Current tax charge for the year	81.4	249.5
Refunds to be received/(payments to be made) in future years in respect of current year	9.7	(125.3)
Payments made in current year in respect of prior years	124.7	71.3
Other	<u>0.7</u>	<u>1.1</u>
<b>Tax paid</b>	<b><u>216.5</u></b>	<b><u>196.6</u></b>
Tax paid can be analysed as:		
- Taxes paid in UK	211.5	188.9
- Taxes paid in overseas jurisdictions	1.5	2.7
- Withholding taxes suffered on investment income received	<u>3.5</u>	<u>5.0</u>
<b>Tax paid</b>	<b><u>216.5</u></b>	<b><u>196.6</u></b>
<b>Movement in net deferred tax balance</b>		
	2018 <u>£'Million</u>	2017 <u>£'Million</u>
Deferred tax asset	182.7	199.9
Deferred tax liability	<u>(546.8)</u>	<u>(614.8)</u>
Net deferred tax balance at 1 January	(364.1)	(414.9)
Credit through the consolidated statement of comprehensive income	339.5	53.2
Arising on acquisitions during the year	<u>(1.2)</u>	<u>(2.4)</u>
Deferred tax asset	147.1	182.7
Deferred tax liability	<u>(172.9)</u>	<u>(546.8)</u>
<b>Balance at 31 December</b>	<b><u>(25.8)</u></b>	<b><u>(364.1)</u></b>

## Reconciliation of tax charge to expected tax

	Year Ended 31 December 2018		Year Ended 31 December 2017	
	£'Million		£'Million	
(Loss)/profit before tax	(84.6)		342.1	
Tax attributable to policyholders' returns <sup>(1)</sup>	296.5		(156.0)	
<b>Profit before tax attributable to shareholders' return</b>	<b>211.9</b>		<b>186.1</b>	
Shareholder tax charge at corporate tax rate of 19% (2017: 19.25%)	40.3	19%	35.8	19.3%
<b>Adjustments:</b>				
<u>Tax regime differences</u>				
Lower rates of corporation tax in overseas subsidiaries	(0.3)	(0.1%)	(0.3)	(0.2%)
<b>Expected shareholder tax</b>	<b>40.0</b>	<b>18.9%</b>	<b>35.5</b>	<b>19.1%</b>
<u>Other</u>				
Non-taxable income	(0.2)		(1.2)	
Revaluation of historic capital losses in the Group	(1.8)		-	
<i>Adjustment in respect of prior year</i>				
- Current tax	(3.5)		0.8	
- Deferred tax	0.9		0.8	
Differences in accounting and tax bases in relation to employee share schemes	(1.1)		(0.7)	
Disallowable expenses	2.0		2.0	
Tax losses not recognised or past losses now recognised	2.1		3.1	
	<b>(1.6)</b>	<b>(0.8%)</b>	<b>4.8</b>	<b>2.6%</b>
<b>Shareholder tax charge</b>	<b>38.4</b>	<b>18.1%</b>	<b>40.3</b>	<b>21.7%</b>
<b>Policyholder tax (credit)/charge</b>	<b>(296.5)</b>		<b>156.0</b>	
<b>Total tax (credit)/charge for the year</b>	<b>(258.1)</b>		<b>196.3</b>	

(1) Tax attributable to policyholder returns is equal to the policyholder tax charge and reflects fund tax deductions offset by policyholder tax effects on intangibles.

Tax calculated on (loss)/profit before tax at 19% (2017: 19.25%) would amount to £(16.1) million (2017: £65.9 million). The difference of £(242.0) million (2017: £130.4 million) between this number and the total tax of £(258.1) million (2017: £196.3 million) is made up of the reconciling items above which total £(1.9) million (2017: £4.5 million) and the effect of the apportionment methodology on tax applicable to policyholder returns of £(240.1) million (2017: £126.0 million).

## Deferred Tax Assets

	Expected utilisation Years	31 December 2018 £'Million	31 December 2017 £'Million
Unrelieved expenses (life insurance business)	6	42.5	46.4
Deferred income (DIR)	14	35.6	37.9
Capital losses (available for future relief)	6	55.7	86.0
Employee share scheme costs	3	8.0	7.5
Future capital allowances	6	4.0	3.7
Other		1.3	1.2
<b>Total deferred tax assets</b>		<b>147.1</b>	<b>182.7</b>

Appropriate investment income, gains or profits are expected to arise against which the tax assets can be utilised. Whilst the actual rates of utilisation will depend on business growth and external factors, particularly investment market conditions, they have been tested for sensitivity to experience and are resilient to a range of reasonably foreseeable scenarios.

At the reporting date there were unrecognised deferred tax assets of £7.5 million (2017: £5.9 million) in respect of losses in companies where appropriate profits are not considered probable in the forecast period. These losses primarily relate to our Asia-based businesses and can be carried forward indefinitely.

## Deferred Tax Liabilities

	Expected utilisation Years	31 December 2018 £'Million	31 December 2017 £'Million
Unrealised capital gains on life insurance (BLAGAB) assets backing unit liabilities	6	86.3	445.5
Deferred acquisition costs (DAC)	14	70.9	84.0
Purchased value of in-force business (PVIF)	9	4.1	4.8
Renewal income assets	20	10.4	10.6
Other		1.2	1.9
<b>Total deferred tax liabilities</b>		<b>172.9</b>	<b>546.8</b>

## Future Tax Changes

Future tax rate changes, including the reduction in the corporation tax rate to 17% effective from 1 April 2020 which was enacted in the Finance Act 2016, were incorporated into the deferred tax balances in 2016.



## 8. GOODWILL, INTANGIBLE ASSETS, DEFERRED ACQUISITION COSTS AND DEFERRED INCOME

	<u>Goodwill</u> £'Million	<u>Purchased value of in-force business</u> £'Million	<u>Computer software and other specific software developments</u> £'Million	<u>DAC</u> £'Million	<u>DIR</u> £'Million
<b>Cost</b>					
At 1 January 2017	13.8	73.4	15.7	1,649.8	(1,528.0)
Additions	1.8	-	0.3	36.9	(141.4)
At 31 December 2017	15.6	73.4	16.0	1,686.7	(1,669.4)
<b>At 1 January 2018</b>	<b>15.6</b>	<b>73.4</b>	<b>16.0</b>	<b>1,686.7</b>	<b>(1,669.4)</b>
Additions	-	-	0.1	33.7	(144.6)
At 31 December 2018	15.6	73.4	16.1	1,720.4	(1,814.0)
<b>Accumulated amortisation</b>					
At 1 January 2017	-	43.0	12.7	965.0	(880.4)
Charge for the year	-	3.2	0.9	98.7	(142.7)
At 31 December 2017	-	46.2	13.6	1,063.7	(1,023.1)
<b>At 1 January 2018</b>	<b>-</b>	<b>46.2</b>	<b>13.6</b>	<b>1,063.7</b>	<b>(1,023.1)</b>
Charge for the year	-	3.2	1.1	98.2	(142.6)
At 31 December 2018	-	49.4	14.7	1,161.9	(1,165.7)
<b>Carrying value</b>					
At 1 January 2017	13.8	30.4	3.0	684.8	(647.6)
At 31 December 2017	15.6	27.2	2.4	623.0	(646.3)
At 31 December 2018	15.6	24.0	1.4	558.5	(648.3)
Current	-	3.2	0.6	96.2	(154.5)
Non-current	15.6	20.8	0.8	462.3	(493.8)
	15.6	24.0	1.4	558.5	(648.3)
<b>Outstanding amortisation period</b>					
At 31 December 2017	n/a	8 years	4 years	14 years	6-14 years
At 31 December 2018	n/a	7 years	3 years	14 years	6-14 years

## Goodwill

The carrying value of goodwill split by acquisition is as follows:

	31 December 2018	31 December 2017
	£'Million	£'Million
SJP Asia companies	10.1	10.1
Technical Connection Limited	3.7	3.7
Rowan Dartington companies	1.8	1.8
<b>Balance at 31 December</b>	<b>15.6</b>	<b>15.6</b>

Goodwill in relation to the Rowan Dartington companies, which were acquired on 8 March 2016, arose during 2017 due to a reassessment of the value of the business acquired within the measurement period, which is defined as a period of up to one-year post acquisition.

Goodwill is reviewed at least annually for impairment, or when circumstances or events indicate there may be uncertainty over this value. The recoverable amount has been based on value-in-use calculations using pre-tax cash flows. Details of the assumptions made in these calculations are provided below:

Key assumptions based on experience:	Value of new business
Projection period:	Five years of detailed forecasts extrapolated into perpetuity using a long-term growth rate
Long-term growth rate based on economic forecasts:	1.3%
Pre-tax discount rate based on a risk-free rate plus a risk margin:	4.5%

It is considered that any reasonably possible levels of change in the key assumptions would not result in impairment of the goodwill.

## Purchased value of in-force business/DAC/Computer software

Amortisation is charged to expenses in the statement of comprehensive income. Amortisation profiles are reassessed annually.

## DIR

Amortisation is credited within fee and commission income in the statement of comprehensive income. Amortisation profiles are reassessed annually.

## 9. INVESTMENTS, INVESTMENT PROPERTY AND CASH AND CASH EQUIVALENTS

### Net assets held to cover unit liabilities

Included within the statement of financial position are the following assets and liabilities comprising the net assets held to cover unit liabilities. The assets held to cover unit liabilities are set out in adjustment 1 of the IFRS to Solvency II Net Assets Balance Sheet reconciliation on page 21.

	31 December 2018	31 December 2017
	£'Million	£'Million
<b>Assets</b>		
Investment property	1,820.7	1,630.9
Equities	56,077.9	55,086.9
Fixed income securities	21,960.6	17,134.6
Investment in Collective Investment Schemes	3,459.1	4,486.6
Cash and cash equivalents	6,629.1	7,005.9
Other receivables	1,059.1	475.9
Derivative financial instruments		
- <i>Currency forwards</i>	153.7	143.8
- <i>Interest rate swaps</i>	70.0	49.0
- <i>Index options</i>	45.6	70.9
- <i>Contracts for differences</i>	8.4	9.2
- <i>Equity rate swaps</i>	3.5	5.4
- <i>Foreign currency options</i>	21.4	19.1
- <i>Total return swaps</i>	139.0	41.0
- <i>Fixed income options</i>	55.9	-
- <i>Credit default swaps</i>	11.3	4.2
- <i>Other derivatives</i>	-	0.8
Total derivative financial assets	508.8	343.4
<b>Total assets</b>	<b>91,515.3</b>	<b>86,164.2</b>
<b>Liabilities</b>		
Other payables	277.7	151.5
Derivative financial instruments		
- <i>Currency forwards</i>	199.4	75.1
- <i>Interest rate swaps</i>	52.2	38.8
- <i>Index options</i>	26.5	24.0
- <i>Contracts for differences</i>	10.1	6.8
- <i>Equity rate swaps</i>	5.8	4.4
- <i>Foreign currency options</i>	0.7	22.9
- <i>Total return swaps</i>	194.5	3.1
- <i>Credit default swaps</i>	20.6	14.2
- <i>Fixed income options</i>	7.6	-
- <i>Other derivatives</i>	-	1.0
Total derivative financial liabilities	517.4	190.3
<b>Total liabilities</b>	<b>795.1</b>	<b>341.8</b>
<b>Net assets held to cover linked liabilities</b>	<b>90,720.2</b>	<b>85,822.4</b>
Investment contract benefits	67,796.1	64,014.3
Net asset value attributable to unit holders	22,502.9	21,349.1
Unit-linked insurance contract liabilities	421.2	459.0
<b>Net unit-linked liabilities</b>	<b>90,720.2</b>	<b>85,822.4</b>

Net assets held to cover linked liabilities, and third-party holdings in unit trusts, are considered to have a maturity of up to one year since the corresponding unit liabilities are repayable and transferable on demand.

## Investment Property

	31 December 2018	31 December 2017
	£'Million	£'Million
Balance at 1 January	1,630.9	1,462.4
Additions	274.0	88.5
Capitalised expenditure on existing properties	3.3	7.0
Disposals	(64.7)	(6.2)
Changes in fair value	(22.8)	79.2
<b>Balance at 31 December</b>	<b>1,820.7</b>	<b>1,630.9</b>

Investment property is held within unit-linked funds and is considered current. However, since investment properties are not traded in an organised public market they are relatively illiquid compared with many other asset classes. There are no restrictions on the realisability of the Group's individual properties, or on the remittance of income or proceeds of disposal.

Investment property is valued monthly by external chartered surveyors in accordance with the guidance issued by The Royal Institution of Chartered Surveyors. The investment property valuation has been prepared using the 'market approach' valuation technique: that is, using prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets.

The historical cost of investment properties held at 31 December 2018 is £1,706.6 million (2017: £1,480.6 million). This represents the price paid for investment properties, prior to any subsequent revaluation.

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

	Year Ended 31 December 2018	Year Ended 31 December 2017
	£'Million	£'Million
Rental income	90.9	82.3
Direct operating expenses	7.6	6.8

At the year end contractual obligations to purchase, construct or develop investment property amounted to £23.0 million (2017: £12.5 million). The most significant contractual obligation is the funding of a hotel development on a freehold site owned by the Group. The funding commitment for this development is £20.3 million, with building works scheduled to take place over the next two years. The development has been pre-let to a hotel operator, with the lease completing upon delivery of the finished building. Contractual obligations to dispose of investment property amounted to £nil (2017: £nil).

## Cash and cash equivalents

	31 December 2018	31 December 2017
	£'Million	£'Million
Cash and cash equivalents not held to cover unit liabilities	248.5	274.7
Balances held to cover unit liabilities	6,629.1	7,005.9
<b>Total cash and cash equivalents</b>	<b>6,877.6</b>	<b>7,280.6</b>

All cash and cash equivalents are considered current.

## 10. OTHER RECEIVABLES

	31 December 2018	31 December 2017
	<u>£'Million</u>	<u>£'Million</u>
Receivables in relation to unit liabilities	1,060.1	885.1
Other receivables in relation to insurance and unit trust business	68.6	124.0
Operational readiness prepayment	236.4	170.6
Advanced payments to Partners	44.9	39.5
Other prepayments	70.1	58.2
Business loans to Partners	394.5	263.9
Renewal income assets	72.1	71.6
Miscellaneous	5.6	7.1
<b>Total other receivables</b>	<b><u>1,952.3</u></b>	<b><u>1,620.0</u></b>
Current	1,297.7	1,168.1
Non-current	654.6	451.9
	<b><u>1,952.3</u></b>	<b><u>1,620.0</u></b>

All items within other receivables meet the definition of financial assets with the exception of prepayments and advanced payments to Partners. The fair value of those financial assets held at amortised cost is not materially different from amortised cost.

Receivables in relation to unit liabilities primarily relate to outstanding market trade settlements (sales) in the life unit-linked funds and the consolidated unit trusts. Other receivables in relation to insurance and unit trust business primarily relate to outstanding policy-related settlement timings. Both of these categories of receivables are short-term, typically settled within three days.

The operational readiness prepayment relates to the new administration platform being developed by our key outsourced back-office administration provider. Management has assessed the recoverability of this prepayment against the expected cost saving benefit of lower future tariff costs arising from the new platform. It is believed that any reasonably possible change in the assumptions applied within this assessment, such as levels of future business, the anticipated future service tariffs and the discount rate, would have no impact on the carrying value of the asset.

Renewal income assets represent the present value of future cash flows associated with books of business acquired by the Group.

## Business loans to Partners

Business loans to Partners are interest-bearing (linked to Bank of England base rate plus a margin), repayable on demand and secured against the future renewal income streams of the Partner.

Business loans to Partners include £99.0 million of loans that have been securitised. Legal ownership of the securitised assets has been transferred to a structured entity, SJP Partner Loans No.1 Limited, which has issued £70.0 million of loan notes backed by these assets to a third-party investor and £32.8 million to another entity within the Group. The securitised assets are ring fenced from the other assets of the Group, which means that the cash flows associated with the assets can only be used to purchase new loans into the structure in the revolving period, or repay the note holders in the amortisation period, plus associated issuance fees and costs. Holders of the loan notes have no recourse to the Group's other assets.

Despite being securitised, the business loans to Partners remain recognised in the Group statement of financial position. For further information on the loan notes issued by the structured entity to third-party investors, see Note 12 Borrowings and Financial Commitments.

### *Reconciliation of the business loans to Partners opening and closing gross loan balances*

	Stage 1 Performing	Stage 2 Under-performing	Stage 3 Non-performing	Total
	£'Million	£'Million	£'Million	£'Million
<b>Gross balance at 1 January 2018</b>	<b>252.0</b>	<b>8.3</b>	<b>8.1</b>	<b>268.4</b>
Business loans to Partners classification changes:				
- Transfer to underperforming	(5.0)	5.0	-	-
- Transfer to non-performing	(0.2)	(0.1)	0.3	-
- Transfer to performing	5.0	(5.0)	-	-
New Lending activity during the year	296.5	-	-	296.5
Repayments activity during the year	(165.3)	(0.6)	(1.4)	(167.3)
<b>Gross balance at 31 December 2018</b>	<b>383.0</b>	<b>7.6</b>	<b>7.0</b>	<b>397.6</b>

### *Business loans to Partners: Provision*

The expected loss impairment model for business loans to Partners has been built based on the levels of loss experienced in the portfolio, with due consideration given to forward-looking information.

The provision held against business loans to Partners under the incurred loss model as required by the previous accounting standard, IAS 39, was immaterial. The provision required by applying the expected loss model from 1 January 2018, as required by IFRS 9, is also immaterial. At 31 December 2018, the provision held against the total book was £3.1 million (31 December 2017: £4.5 million). During the period, £0.6 million of the provision was released (2017: £0.1 million) whilst new provisions and adjustments to existing provisions increased the total by £1.4 million (2017: £1.3 million).

### *Business loans to Partners as recognised on the statement of financial position*

	31 December 2018	31 December 2017
	£'Million	£'Million
Gross Business loans to Partners	397.6	268.4
Provision	(3.1)	(4.5)
<b>Net Business loans to Partners</b>	<b>394.5</b>	<b>263.9</b>

## Movement in renewal income assets

	2018	2017
	£'Million	£'Million
At 1 January	71.6	58.9
Additions	9.7	14.5
Disposals	(0.2)	-
Revaluation	(9.0)	(1.8)
	<hr/>	<hr/>
<b>Total renewal income at 31 December</b>	<b>72.1</b>	<b>71.6</b>

The key assumptions used for the assessment of the fair value of the renewal income are as follows:

	31 December 2018	31 December 2017
Lapse rate – SJP Partner renewal income <sup>(1)</sup>	5.0% - 15.0%	5.0% - 15.0%
Lapse rate – non-SJP renewal income <sup>(1)</sup>	15.0% - 25.0%	15.0% - 25.0%
Discount rate	5.0% - 7.5%	5.0% - 7.5%

(1) Future income streams are projected making use of persistency assumptions derived from the Group's experience of the business or, where insufficient data exists, from external industry experience. These assumptions are reviewed on an annual basis.

These assumptions have been used for the analysis of each business combination classified within renewal income.

## 11. OTHER PAYABLES

	31 December 2018	31 December 2017
	<u>£'Million</u>	<u>£'Million</u>
Payables in relation to unit liabilities	560.3	420.4
Other payables in relation to insurance and unit trust business	336.9	412.2
Accruals	151.2	139.4 <sup>(1)</sup>
Accruals to Partners	107.3	87.6
Miscellaneous	<u>135.1</u>	<u>171.6<sup>(1)</sup></u>
<b>Total other payables</b>	<b><u>1,290.8</u></b>	<b><u>1,231.2</u></b>
Current	1,213.7	1,140.4
Non-current	<u>77.1</u>	<u>90.8</u>
	<b><u>1,290.8</u></b>	<b><u>1,231.2</u></b>

(1) Payables of £12.9 million at 31 December 2017 have been reallocated from accruals to miscellaneous to better reflect the nature of the balance, given invoices had been received for these amounts.

Payables in relation to unit liabilities primarily relate to outstanding market trade settlements (purchases) in the life unit-linked funds and the consolidated unit trusts. Other payables in relation to insurance and unit trust business primarily relate to outstanding policy-related settlement timings. Both of these categories of payables are short-term, typically settled within three days.

Included within miscellaneous is a contract payment of £85.3 million (2017: £92.5 million) which is non-interest bearing and repayable on a straight-line basis over the life of a 12-year service agreement. The repayment period commenced on 1 January 2017.

The fair value of financial instruments held at amortised cost within other payables is not materially different from amortised cost.



## 12. BORROWINGS AND FINANCIAL COMMITMENTS

### Borrowings

	31 December 2018	31 December 2017
	£'Million	£'Million
Bank borrowings	164.8	165.8
Loan notes	183.8	114.1
<b>Total borrowings</b>	<b>348.6</b>	<b>279.9</b>
Current	0.3	0.8
Non-current	348.3	279.1
	<b>348.6</b>	<b>279.9</b>

Borrowings are a liability arising from financing activities. The primary borrowings in the Group are:

- a £340 million revolving credit facility, which includes a £90 million extension agreed in 2017 to the original £250 million facility entered into with a group of UK banks in 2015. The facility is repayable over five years to 2022 with a variable interest rate. At 31 December 2018 the undrawn credit available under this facility was £179 million (31 December 2017: £179 million);
- a US Dollar \$160 million private shelf facility, also entered into in 2015. The Group authorised the issue of £50 million of loan notes during 2015, and a further issue of £64 million of loans notes during 2017 in relation to this facility. Both note issues were denominated in Sterling, eliminating any Group currency risk. The notes are repayable over ten years, ending in 2025 and 2027 respectively, with variable interest rates; and
- £70.0 million of AAA-rated securitised loan notes issued during 2018, which are backed by a portfolio of business loans to Partners (for further information refer to Note 10 'Other receivables'). Holders of these notes have no recourse to the Group's other assets. The notes are repayable over the expected life of the securitisation, which is estimated to be five years. This includes a two-year revolving period where cash flows arising from the securitised portfolio are used to purchase new loans into the portfolio, rather than repay the notes. The notes have variable interest rates.

The movement in borrowings over the year are as follows:

	2018	2017
	£'Million	£'Million
Borrowings at 1 January	279.9	281.4
Additional borrowing during the year	232.5	100.0
Repayment of borrowings during the year	(162.2)	(101.0)
Costs on additional borrowings during the year	(2.0)	(0.9)
Unwind of borrowing costs (non-cash movement)	0.4	0.4
<b>Borrowings at 31 December</b>	<b>348.6</b>	<b>279.9</b>

The fair value of the outstanding borrowings is not materially different from amortised cost. Interest expense on borrowings is recognised within expenses in the consolidated statement of comprehensive income.

The Group also guarantees loans provided by third parties to Partners. In the event of default of any individual Partner loan, the Group guarantees to repay the full amount of the loan, with the exception of Metro Bank plc, where 50% of the loan is guaranteed. These loans are secured against the future renewal income streams of the Partner. The value of the loans guaranteed is as follows:

	Loans Drawn		Facility	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	£'Million	£'Million	£'Million	£'Million
Bank of Scotland	61.7	65.4	80.0	80.0
Metro Bank plc	52.5	46.7	61.0	61.0
Santander plc	49.5	55.0	50.0	75.0
<b>Total loans</b>	<b>163.7</b>	<b>167.1</b>	<b>191.0</b>	<b>216.0</b>

The fair value of these guarantees has been assessed as £nil (2017: £nil).

### Financial Commitments

The Group has commitments under non-cancellable operating leases in connection with the rental of office buildings and office equipment with varying lease end dates ranging from 2019 to 2042. The following table represents the future minimum lease payments under non-cancellable operating leases, including VAT, service charges and buildings insurance:

	31 December 2018	31 December 2017
	£'Million	£'Million
Not later than one year	18.0	18.1
Later than one year and not later than five years	53.7	56.2
Later than five years	69.6	74.4
<b>Total financial commitments</b>	<b>141.3</b>	<b>148.7</b>

As at 31 December 2018, there was £0.1 million (2017: £0.2 million) of future minimum sub-lease payments expected to be received under non-cancellable sub-leases.

### 13. CAPITAL MANAGEMENT AND ALLOCATION

The Group's Capital Management policy, set by the Board, is to maintain a strong capital base in order to:

- protect clients' interests;
- meet regulatory requirements;
- protect creditors' interests; and
- create shareholder value through support for business development.

The policy requires that each subsidiary manages its own capital, in particular to maintain regulatory solvency, in the context of a Group capital plan. Any capital in excess of planned requirements is returned to the Group's Parent Company, St. James's Place plc, normally by way of dividends. The Group capital position is monitored by the Audit Committee on behalf of the St. James's Place plc Board.

#### Regulatory capital

The Group's capital management policy is, for each subsidiary, to hold the higher of:

- the capital required by any relevant supervisory body uplifted by a specified margin to absorb changes; or
- the capital required based on the Company's internal assessment.

For our insurance companies, we hold capital based on our own internal assessment, recognising the regulatory requirement. For other regulated companies we generally hold capital based on the regulatory requirement uplifted by a specified margin.

The following entities are subject to regulatory supervision and have to maintain a minimum level of regulatory capital:

<b>Entity</b>	<b>Regulatory Body and Jurisdiction</b>
St. James's Place UK plc	PRA and FCA: Long-term insurance business
St. James's Place International plc	Central Bank of Ireland: Life insurance business
St. James's Place Unit Trust Group Limited	FCA: UCITS Management Company
St. James's Place Investment Administration Limited	FCA: Investment Firm
St. James's Place Wealth Management (PCIS) Limited	FCA: Securities and Futures Firm
St. James's Place Wealth Management plc	FCA: Personal Investment Firm
St. James's Place Partnership Services Limited	FCA: Consumer Credit Firm
BFS Financial Services Limited	FCA: Personal Investment Firm
Hale Financial Solutions Limited	FCA: Personal Investment Firm
Linden House Financial Services Limited	FCA: Personal Investment Firm
LP Financial Management Limited	FCA: Personal Investment Firm
St. James's Place (Hong Kong) Limited	Securities and Futures Commission (Hong Kong): A Member of The Hong Kong Confederation of Insurance Brokers
St. James's Place International (Hong Kong) Limited	Insurance Authority (Hong Kong)

<b>Entity</b>	<b>Regulatory Body and Jurisdiction</b>
St. James's Place (Singapore) Private Limited	Monetary Authority Singapore: A Member of the Association of Financial Advisers
Rowan Dartington & Co Limited	FCA: Investment Firm

In addition, the St. James's Place Group is regulated as an insurance group under Solvency II, with the PRA as the lead regulator.

As an insurance group, St. James's Place is subject to the Solvency II regulations, which were implemented on 1 January 2016. More information about capital position of the Group under Solvency II regulations is set out in the separate Solvency and Financial Condition Report document. The overall capital position for the Group at 31 December 2018, assessed on the standard formula basis, is presented in the following table:

	<u>31 December 2018</u>	<u>31 December 2017</u>
	£'Million	£'Million
IFRS total assets	94,827.0	90,006.0
Less Solvency II valuation adjustments and unit-linked liabilities	<u>(93,719.0)</u>	<u>(88,910.9)</u>
Solvency II net assets	<b>1,108.0</b>	<b>1,095.1</b>
<i>Management Solvency Buffer (MSB)</i>	491.0	461.9
<i>Excess of free assets over MSB</i>	617.0	633.2
Solvency II VIF	3,388.8	3,244.3
Risk margin	(989.4)	(946.1)
Standard formula SCR (A)	<u>(2,447.3)</u>	<u>(2,449.2)</u>
Sub-total	(47.9)	(151.0)
Solvency II Free Assets (B)	<u><b>1,060.1</b></u>	<u><b>944.1</b></u>
Solvency II ratio ((A + B) / A)	143%	139%

An overall internal capital assessment is required for insurance groups. This is known as an ORSA (Own Risk and Solvency Assessment) and is described in more detail in the section on Risk and Risk Management on page 36.

The regulatory capital requirements of companies within the Group, and the associated solvency of the Group, are assessed and monitored by the Finance Executive Committee, a Committee of the Executive Board, with oversight by the Audit Committee on behalf of the Group Board. Ultimate responsibility for individual companies' regulatory capital lies with the relevant subsidiary boards.

There has been no material change in the level of capital requirements of individual companies during the year, nor in the Group's management of capital. All regulated entities exceeded the minimum solvency requirements at the reporting date and during the year.

## IFRS capital composition

The principal forms of capital are included in the following balances on the consolidated statement of financial position:

	31 December 2018 £'Million	31 December 2017 £'Million
Share capital	79.4	79.4
Share premium	174.5	171.7
Shares in trust reserve	(23.7)	(26.7)
Miscellaneous reserves	2.5	2.5
Retained earnings	787.3	832.1
<b>Shareholders' equity</b>	<b>1,020.0</b>	<b>1,059.0</b>
Non-controlling interests	(0.9)	(0.9)
<b>Total equity</b>	<b>1,019.1</b>	<b>1,058.1</b>

The above assets do not all qualify as regulatory capital. The required minimum regulatory capital and analysis of the assets that qualify as regulatory capital are outlined in Section 3 of the Financial Review on page 31, which demonstrates that the Group has met its internal capital objectives. The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the year.

## 14. SHARE CAPITAL, EARNINGS PER SHARE AND DIVIDENDS

### Share Capital

	Number of Ordinary Shares	Called-up Share Capital £'Million
<b>At 1 January 2017</b>	<b>527,482,348</b>	<b>79.1</b>
- Issue of share capital	372,325	0.1
- Exercise of options	1,223,223	0.2
<b>At 31 December 2017</b>	<b>529,077,896</b>	<b>79.4</b>
- Exercise of options	375,501	0.0
<b>At 31 December 2018</b>	<b>529,453,397</b>	<b>79.4</b>

The total authorised number of ordinary shares is 605 million (2017: 605 million), with a par value of 15 pence per share (2017: 15 pence per share). All issued shares are fully paid.

Included in the issued share capital are 3,505,217 (2017: 4,210,906) shares held in the shares in trust reserve with a nominal value of £0.5 million (2017: £0.6 million). The shares are held by the SJP Employee Share Trust and the St. James's Place 2010 SIP Trust to satisfy certain share-based payment schemes. The trustees of the SJP Employee Share Trust retain the right to dividends on the shares held by the Trust but have chosen to waive their entitlement to the dividends on 845,897 shares at 31 December 2018 and 1,755,831 shares at 31 December 2017. No dividends have been waived on shares held in the St. James's Place 2010 SIP Trust in 2018 or 2017.

## Earnings per share

	Year Ended 31 December 2018	Year Ended 31 December 2017
	£'Million	£'Million
<b>Earnings</b>		
Profit after tax attributable to equity shareholders ( <i>for both basic and diluted EPS</i> )	173.5	145.9
<b>Weighted average number of shares</b>	Million	Million
Weighted average number of ordinary shares in issue ( <i>for basic EPS</i> )	526.0	524.3
Adjustments for outstanding share options	8.7	8.8
Weighted average number of ordinary shares ( <i>for diluted EPS</i> )	534.7	533.1
	Pence	Pence
<b>Earnings per share (EPS)</b>		
Basic earnings per share	33.0	27.8
Diluted earnings per share	32.4	27.4

## Dividends

The following dividends have been paid by the Group:

	Year Ended 31 December 2018	Year Ended 31 December 2017	Year Ended 31 December 2018	Year Ended 31 December 2017
	Pence per Share	Pence per Share	£'Million	£'Million
Final dividend in respect of previous financial year	27.45	20.67	145.0	108.8
Interim dividend in respect of current financial year	18.49	15.41	97.7	81.2
<b>Total dividends</b>	<b>45.94</b>	<b>36.08</b>	<b>242.7</b>	<b>190.0</b>

The Directors have recommended a final dividend of 29.73 pence per share (2017: 27.45 pence). This amounts to £157.4 million (2017: £145.2 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 24 May 2019 to those shareholders on the register as at 5 April 2019.

## 15. RELATED PARTY TRANSACTIONS

### 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 were losses recognised of £36.2 million (2017: income £10.9 million) and the total value of transactions with those non-consolidated unit trusts was £26.1 million (2017: £38.0 million). Net management fees receivable from these unit trusts amounted to £12.2 million (2017: £15.4 million). The value of the investment into the non-consolidated unit trusts at 31 December 2018 was £143.2 million (2017: £195.5 million).

### Transactions with key management personnel

Key management personnel have been defined as the Board of Directors and members of the Executive Board.

Compensation of key management personnel is as follows:

	Year Ended 31 December 2018	Year Ended 31 December 2017
	£'Million	£'Million
Short-term employee benefits	5.9	7.4
Post-employment benefits	0.5	0.5
Share-based payment	4.5	6.6
<b>Total</b>	<b>10.9</b>	<b>14.5</b>

The total value of Group FUM held by related parties of the Group as at 31 December 2018 was £24.7 million (2017: £36.1 million). The total value of St. James's Place plc dividends paid to related parties of the Group during the year was £1.2 million (2017: £1.4 million).

## 16. POST BALANCE SHEET EVENTS

On 1 January 2019, the Group entered into a lease for new office accommodation in London. The lease term is 15 years and the annual rent is £3.8 million, subject to review every five years.

## 17. NON-STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

## 18. ANNUAL REPORT

The Company's annual report and accounts for the year ended 31 December 2018 is expected to be posted to shareholders by 9 April 2019. Copies of both this announcement and the annual report and accounts will be available to the public at the Company's registered office at St. James's Place House, 1 Tetbury Road, Cirencester GL7 1FP and through the Company's website at [www.sjp.co.uk](http://www.sjp.co.uk).

## GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

Within this announcement various alternative performance measures (APMs) are disclosed. An APM is a measure of financial performance, financial position or cash flows which is not defined by the relevant financial reporting framework, which for the Group is International Financial Reporting Standards (IFRS) as adopted by the European Union. APMs are used to provide greater insight into the performance of the Group and the way it is managed by the Directors. The table below defines each APM, explains why it is used and, if applicable, where the APM has been reconciled to IFRS:

### *Financial position related APMs*

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Solvency II net assets	<p>Based on IFRS Net Assets, but with the following adjustments:</p> <ol style="list-style-type: none"> <li>1. Reflection of the recognition requirements of the Solvency II regulations for assets and liabilities. In particular this removes deferred acquisition costs (DAC), deferred income (DIR), purchased value of in-force (PVIF) and their associated deferred tax balances, other intangibles and some other small items which are treated as inadmissible from a regulatory perspective; and</li> <li>2. Adjustment to remove the matching client assets and the liabilities as these do not represent shareholder assets.</li> </ol> <p>No adjustment is made to deferred tax, except for that arising on DAC, DIR and PVIF, as this is treated as an allowable asset in the Solvency II regulation.</p>	<p>Our ability to satisfy our liabilities to clients, and consequently our solvency, is central to our business. By removing the liabilities which are fully matched by assets, this presentation allows the reader to focus on the business operation. It also provides a simpler comparison with other wealth management companies.</p>	Refer to page 21.
Total embedded value	<p>A discounted cashflow valuation methodology, assessing the long-term economic value of the business.</p> <p>Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II.</p>	<p>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 and Cash results by providing additional disclosure on an embedded value basis, which brings into account the net present value of expected future cash flows, as we believe that a measure of total economic value of the Group is useful to investors.</p>	Not applicable.
Net asset value (NAV) per share (EEV)	<p>EEV net asset value per share is calculated as the EEV net assets divided by the year end number of ordinary shares.</p>	<p>Total embedded value provides a measure of total economic value of the Group, and assessing the NAV per share allows analysis of the overall value of the group by share.</p>	Not applicable.



NAV per share (IFRS)	IFRS net asset value per share is calculated as the IFRS net assets divided by the year-end number of ordinary shares.	Total IFRS net assets provides a measure of value of the Group, and assessing the NAV per share allows analysis of the overall value of the Group by share.	Not applicable.
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*Financial performance related APMs*

APM	Definition	Why is this measure used?	Reconciliation to the financial statements
Operating cash result, Underling cash result and Cash result	<p>The Cash result is defined as the movement between the opening and closing Solvency II net assets adjusted for the following items:</p> <ol style="list-style-type: none"> <li>1. The movement in deferred tax is removed to reflect just the cash realisation from the deferred tax position;</li> <li>2. The movements in goodwill and other intangibles are included; and</li> <li>3. Other changes in equity, such as dividends paid in the year and non-cash-settled share option costs, are excluded.</li> </ol> <p>The Operating cash result reflects the regular emergence of cash from the business operations.</p> <p>The Underlying cash results additionally reflects the cash impact of the strategic investments we are making.</p> <p>Finally, the Cash result reflects all other cash items, including those whose emergence is volatile, varying over time and often influenced by markets, together with the short-term costs associated with the back-office infrastructure project.</p> <p>Neither the Cash result nor the underlying cash result should be confused with the IFRS consolidated statement of cash flows which is prepared in accordance with IAS 7.</p>	<p>IFRS income statement methodology recognises non-cash items such as deferred tax and non-cash-settled share options. By contrast, dividends can only be paid to shareholders from appropriately fungible assets. The Board therefore uses the Cash results to monitor the level of cash generated by the business.</p> <p>While the Cash result gives an absolute measure of the cash generated in the year, the Underlying and Operating cash results are particularly useful for monitoring the expected long-term rate of cash emergence, which supports dividends and sustainable dividend growth.</p>	Refer to page 18 and also see Note 4 – Segment Profit to the consolidated financial statements
Underlying cash basic and diluted earnings per share (EPS)	These EPS measures are calculated as Underlying cash divided by the number of shares used in the calculation of IFRS basic and diluted EPS.	As Underlying cash is the best reflection of the cash generated by the business, Underlying cash EPS measures allow analysis of the shareholder cash generated by the business by share.	Not applicable.

EEV profit	Derived as the movement in the total EEV during the year.	Both the IFRS and Cash results reflect only the cashflows in the year. However our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.	See Note 4 – Segment Profit to the consolidated financial statements
EEV operating profit	<p>A discounted cashflow valuation methodology, assessing the long-term economic value of the business.</p> <p>Our embedded value is determined in line with the EEV principles, originally set out by the Chief Financial Officers (CFO) Forum in 2004, and amended for subsequent changes to the principles, including those published in April 2016, following the implementation of Solvency II.</p> <p>The EEV operating profit reflects the total EEV result with an adjustment to strip out the impact of stock market and other economic effects during the year.</p>	<p>Both the IFRS and Cash results reflect only the cash flows in the year. However, our business is long-term, and activity in the year can generate business with a long-term value. We therefore believe it is helpful to understand the full economic impact of activity in the year, which is the aim of the EEV methodology.</p> <p>Within the EEV, many of the future cash flows derive from fund charges, which change with movements in stock markets. Since the impact of these changes is typically unrelated to the performance of the business, we believe that the EEV operating profit (reflecting the EEV profit, adjusted to reflect only the expected investment performance and no change in economic basis) provides the most useful measure of embedded value performance in the year.</p>	See Note 4 – Segment Profit to the consolidated financial statements
EEV operating profit basic and diluted earnings per share (EPS)	These EPS measures are calculated as EEV operating profit after tax divided by the number of shares used in the calculation of IFRS basic and diluted EPS.	As EEV operating profit is the best reflection of the EEV generated by the business, EEV operating profit EPS measures allow analysis of the long-term value generated by the business by share.	Not applicable.

<p>Policyholder and Shareholder tax</p>	<p>Shareholder tax is estimated by making an assessment of the effective rate of tax that is applicable to the shareholders on the profits attributable to the shareholders. This is calculated by applying the appropriate effective corporate tax rates to the shareholder profits.</p> <p>The remainder of the tax charge represents tax on policyholders' investment returns.</p> <p>This calculation method is consistent with the legislation relating to the calculation of the tax on shareholders' profits.</p>	<p>The UK tax regime facilitates the collection of tax from life insurance policyholders by making an equivalent charge within the corporate tax of the Company. The total tax charge for the insurance companies therefore comprises both this element and an element more closely related to normal corporation tax.</p> <p>Life insurance business impacted by this tax typically includes policy charges which align with the tax liability, to mitigate the impact on the corporate. As a result, when policyholder tax increases, the charges also increase. Given these offsetting items can be large, and typically do not perform in line with the business, it is beneficial to be able to identify the two elements separately. We therefore refer to that part of the overall tax charge, which is deemed attributable to policyholders, as policyholder tax, and the rest as shareholder tax.</p>	<p>Disclosed as separate line items in the statement of comprehensive income on page 46.</p>
<p>Profit before shareholder tax</p>	<p>A profit measure which reflects the IFRS result adjusted for policyholder tax, but before deduction of shareholder tax. Within the consolidated statement of comprehensive income the full title of this measure is 'Profit before tax attributable to shareholders' returns'.</p>	<p>The IFRS methodology requires that the tax recognised in the financial statements 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, we believe it is also useful to separately identify the profit before shareholder tax, which reflects the IFRS profit before tax, adjusted only for tax paid on behalf of policyholders.</p>	<p>Disclosed as a separate line item in the statement of comprehensive income on page 46.</p>

Underlying profit	A profit measure which reflects the IFRS result adjusted to remove the DAC, DIR and PVIF adjustments.	The IFRS methodology promotes recognition of profits in line with the provision of services and so, for long-term business, some of the initial cash flows are spread over the life of the contract through the use of intangible assets and liabilities (DAC and DIR). Due to the Retail Distribution Review (RDR) regulation change in 2013, there was a step change in the progression of these items in our accounts, which resulted in significant accounting presentation changes despite the fundamentals of our vertically-integrated business remaining unchanged. We therefore believe it is useful to consider the IFRS result having removed the impact of movements in these intangibles as it better reflects the underlying performance of the business.	Refer to page 16.
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**RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT  
OF THE ANNUAL FINANCIAL REPORT**

The Directors confirm to the best of their knowledge that:

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

On behalf of the Board

Andrew Croft  
Chief Executive

Craig Gentle  
Chief Financial Officer

26 February 2019

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on this announcement (or any other website) is incorporated into, or forms part of, this announcement.

**SUPPLEMENTARY INFORMATION:  
CONSOLIDATED FINANCIAL STATEMENTS  
ON A CASH RESULT BASIS (UNAUDITED)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
ON A CASH RESULT BASIS (UNAUDITED)**

	Note	Year Ended 31 December 2018 £'Million	Year Ended 31 December 2017 £'Million
Fee and commission income		1,523.6	1,788.5
Investment return	6	7.6	28.1
<b>Net income</b>		<u>1,531.2</u>	<u>1,816.6</u>
<b>Expenses</b>		(1,540.5)	(1,370.1)
<b>(Loss)/profit before tax</b>		<u>(9.3)</u>	<u>446.5</u>
Tax attributable to policyholders' returns		296.5	(156.2)
Tax attributable to shareholders' returns		<u>(18.5)</u>	<u>(37.7)</u>
<b>Total Cash result for the year</b>		<u><u>268.7</u></u>	<u><u>252.6</u></u>
		Pence	Pence
<b>Cash result basic earnings per share</b>	III	51.1	48.2
<b>Cash result diluted earnings per share</b>	III	50.2	47.4

The Note references above cross refer to the Notes to the consolidated financial statements under IFRS on pages 50 to 79, except where denoted in roman numerals.

**CONSOLIDATED STATEMENT OF CHANGED IN EQUITY  
ON A CASH RESULT BASIS (UNAUDITED)**

Equity attributable owners of the Parent Company								
Note	Share Capital	Share Premium	Shares in Trust Reserve	Retained Earnings	Misc Reserves	Total	Non- controlling Interests	Total Equity
	£'M	£'M	£'M	£'M	£'M	£'M	£'M	£'M
At 1 January 2017	79.1	164.5	(20.9)	845.6	2.5	1,070.8	(0.8)	1,070.0
Cash result for the year				252.7		252.7	(0.1)	252.6
Dividends	14			(190.0)		(190.0)		(190.0)
Issue of share capital	14	0.1	4.1			4.2		4.2
Exercise of options	14	0.2	3.1			3.3		3.3
Consideration paid for own shares			(11.3)			(11.3)		(11.3)
Shares sold during the year			5.5	(5.5)		-		-
Misc reserves on acquisition								
Change in deferred tax				(15.0)		(15.0)		(15.0)
Change in tax discounting				(16.2)		(16.2)		(16.2)
Change in goodwill and intangibles				(2.5)		(2.5)		(2.5)
At 31 December 2017	<u>79.4</u>	<u>171.7</u>	<u>(26.7)</u>	<u>869.1</u>	<u>2.5</u>	<u>1,096.0</u>	<u>(0.9)</u>	<u>1,095.1</u>
Cash result for the year				268.7		268.7	-	268.7
Dividends	14			(242.7)		(242.7)		(242.7)
Issue of share capital	14					-		-
Exercise of options	14		2.8			2.8		2.8
Consideration paid for own shares			(6.0)			(6.0)		(6.0)
Shares sold during the year			9.0	(9.0)		-		-
Change in deferred tax				(31.8)		(31.8)		(31.8)
Change in tax discounting				23.4		23.4		23.4
Change in goodwill and intangibles				(1.5)		(1.5)		(1.5)
At 31 December 2018	<u>79.4</u>	<u>174.5</u>	<u>(23.7)</u>	<u>876.2</u>	<u>2.5</u>	<u>1,108.9</u>	<u>(0.9)</u>	<u>1,108.0</u>



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
ON A CASH RESULT BASIS (UNAUDITED)**

	Note	31 December 2018 £'Million	31 December 2017 £'Million
<b>Assets</b>			
Property and equipment		28.5	26.4
Fixed income securities		5.4	46.1
Investment in Collective Investment Schemes		1,297.0	1,416.8
Cash and cash equivalents		248.5	274.7
Other receivables		890.1	1,122.4
Income tax assets		9.7	-
Deferred tax assets		111.6	144.1
<b>Total assets</b>		<b>2,590.8</b>	<b>3,030.5</b>
<b>Liabilities</b>			
Borrowings	12	348.6	279.9
Other provisions		22.7	20.0
Other payables		956.9	1,079.7
Income tax liabilities		-	125.3
Deferred tax liabilities		154.5	430.4
Preference shares		0.1	0.1
<b>Total liabilities</b>		<b>1,482.8</b>	<b>1,935.4</b>
<b>Net assets</b>		<b>1,108.0</b>	<b>1,095.1</b>
<b>Shareholders' equity</b>			
Share capital	14	79.4	79.4
Share premium		174.5	171.7
Shares in trust reserve		(23.7)	(26.7)
Miscellaneous reserves		2.5	2.5
Retained earnings		876.2	869.1
Shareholders' equity		<b>1,108.9</b>	<b>1,096.0</b>
Non-controlling interests		(0.9)	(0.9)
<b>Total shareholders' equity on a Cash result basis</b>		<b>1,108.0</b>	<b>1,095.1</b>
		Pence	Pence
<b>Net assets per share</b>		<b>209.3</b>	<b>207.0</b>

The Note references above cross refer to the Notes to the consolidated financial statements under IFRS on pages 50 to 79, except where denoted in roman numerals.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ON A CASH RESULT BASIS (UNAUDITED)**

### **I. BASIS OF PREPARATION**

The consolidated financial statements on a Cash result basis have been prepared by adjusting the financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs') and interpretations issued by the IFRS Interpretations Committee ('IFRS IC') for items which do not reflect the cash emerging from the business. The adjustments are as follows:

1. Unit liabilities and net assets held to cover unit liabilities, as set out in Note 9 to the consolidated financial statements, are policyholder balances which are removed in the statement of financial position on a Cash result basis. No adjustment for payments in or out is required in the statement of comprehensive income as this business is subject to deposit accounting, which means that policyholder deposits and withdrawals are recognised in the statement of financial position under IFRS, with only marginal cash flows attributable to shareholders recognised in the statement of comprehensive income. However, adjustment is required for the investment return and the movement in investment contract liabilities, which are offsetting and are both zero-ised.
2. Deferred acquisition costs, the purchased value of in-force business and deferred income assets and liabilities are removed from the statement of financial position on a Cash result basis, and the amortisation of these balances is removed in the statement of comprehensive income on a Cash result basis. The assets, liabilities and amortisation are set out in Note 8 to the consolidated financial statements.
3. Share-based payment expense is removed from the statement of comprehensive income on a Cash result basis, and the equity and liability balances for equity-settled and cash-settled share-based payment schemes respectively are removed from the statement of financial position on a Cash result basis.
4. Non-unit-linked insurance contract liabilities and reinsurance assets are removed in the statement of financial position on a Cash result basis. The movement in these balances is removed from the statement of comprehensive income on a Cash result basis.
5. Goodwill, computer software intangible assets and some other assets and liabilities which are inadmissible under the Solvency II regime are removed from the statement of financial position on a Cash result basis, however the movement in these figures are included in the statement of comprehensive income on a Cash result basis.
6. Deferred tax assets and liabilities are adjusted in the statement of financial position on a Cash result basis to reflect the adjustments noted above and other discounting differences between tax charges and IFRS accounting. However, the impact of movements in deferred tax assets and liabilities are not included in the statement of comprehensive income on a Cash result basis.

## II. RECONCILIATION OF THE IFRS BALANCE SHEET TO THE CASH BALANCE SHEET

The Solvency II (or Cash) balance sheet is based on the IFRS consolidated statement of financial position (on page 48), with adjustments made to accounting assets and liabilities to reflect the Solvency II regulations and the provision for insurance liabilities set equal to the associated unit liabilities. The following table sets out the full reconciliation.

<b>31 December 2018</b>	<b>IFRS Balance Sheet</b>	Adjustment 1	Adjustment 2	<b>Solvency II Net Assets Balance Sheet</b>
	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>
<b>Assets</b>				
Goodwill	15.6	-	(15.6)	-
Deferred acquisition costs	558.5	-	(558.5)	-
Purchased value of in-force business	24.0	-	(24.0)	-
Developments	1.4	-	(1.4)	-
Property and equipment	28.5	-	-	28.5
Investment property	1,820.7	(1,820.7)	-	-
Equities	56,077.9	(56,077.9)	-	-
Fixed income securities	21,966.0	(21,960.6)	-	5.4
Investment in Collective Investment Schemes	4,756.1	(3,459.1)	-	1,297.0
Derivative financial instruments	508.8	(508.8)	-	-
Reinsurance assets	82.8	-	(82.8)	-
Cash and cash equivalents	6,877.6	(6,629.1)	-	248.5
Other receivables	1,952.3	(1,059.1)	(3.1)	890.1
Income tax assets	9.7	-	-	9.7
Deferred tax assets	147.1	-	(35.5)	111.6
<b>Total assets</b>	<b>94,827.0</b>	<b>(91,515.3)</b>	<b>(720.9)</b>	<b>2,590.8</b>
<b>Liabilities</b>				
Insurance contract liabilities	508.1	(421.2)	(86.9)	-
Borrowings	348.6	-	-	348.6
Investment contract benefits	67,796.1	(67,796.1)	-	-
Derivative financial instruments	517.4	(517.4)	-	-
Net asset value attributable to unit holders	22,502.9	(22,502.9)	-	-
Other provisions	22.7	-	-	22.7
Other payables	1,290.8	(277.7)	(56.2)	956.9
Income tax liabilities	-	-	-	-
Deferred tax liabilities	172.9	-	(18.4)	154.5
Deferred income	648.3	-	(648.3)	-
Preference shares	0.1	-	-	0.1
<b>Total liabilities</b>	<b>93,807.9</b>	<b>(91,515.3)</b>	<b>(809.8)</b>	<b>1,482.8</b>
<b>Net Assets</b>	<b>1,019.1</b>	<b>-</b>	<b>88.9</b>	<b>1,108.0</b>

**Adjustment 1** nets out the policyholder interest in unit-linked assets and liabilities. **Adjustment 2** comprises adjustment to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

<b>31 December 2017</b>	<b>IFRS Balance Sheet</b>	Adjustment 1	Adjustment 2	<b>Solvency II Net Assets Balance Sheet</b>
	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>	<b>£'Million</b>
<b>Assets</b>				
Goodwill	15.6	-	(15.6)	-
Deferred acquisition costs	623.0	-	(623.0)	-
Purchased value of in-force business	27.2	-	(27.2)	-
Developments	2.4	-	(2.4)	-
Property and equipment	26.4	-	-	26.4
Investment property	1,630.9	(1,630.9)	-	-
Equities	55,086.9	(55,086.9)	-	-
Fixed income securities	17,180.7	(17,134.6)	-	46.1
Investment in Collective Investment Schemes	5,903.4	(4,486.6)	-	1,416.8
Derivative financial instruments	343.4	(343.4)	-	-
Reinsurance assets	82.8	-	(82.8)	-
Cash and cash equivalents	7,280.6	(7,005.9)	-	274.7
Other receivables	1,620.0	(475.9)	(21.7)	1,122.4
Deferred tax assets	182.7	-	(38.6)	144.1
<b>Total assets</b>	<b>90,006.0</b>	<b>(86,164.2)</b>	<b>(811.3)</b>	<b>3,030.5</b>
<b>Liabilities</b>				
Insurance contract liabilities	544.6	(459.0)	(85.6)	-
Borrowings	279.9	-	-	279.9
Investment contract benefits	64,014.3	(64,014.3)	-	-
Derivative financial instruments	190.3	(190.3)	-	-
Net asset value attributable to unit holders	21,349.1	(21,349.1)	-	-
Other provisions	20.0	-	-	20.0
Other payables	1,231.2	(151.5)	-	1,079.7
Income tax liabilities	125.3	-	-	125.3
Deferred tax liabilities	546.8	-	(116.4)	430.4
Deferred income	646.3	-	(646.3)	-
Preference shares	0.1	-	-	0.1
<b>Total liabilities</b>	<b>88,947.9</b>	<b>(86,164.2)</b>	<b>(848.3)</b>	<b>1,935.4</b>
<b>Net Assets</b>	<b>1,058.1</b>	<b>-</b>	<b>37.0</b>	<b>1,095.1</b>

**Adjustment 1** nets out the policyholder interest in unit-linked assets and liabilities. **Adjustment 2** comprises adjustment to the IFRS statement of financial position in line with Solvency II requirements, including removal of DAC, DIR, PVIF and their associated deferred tax balances, goodwill and other intangibles.

### III. EARNINGS PER SHARE

	Year Ended 31 December 2018	Year Ended 31 December 2017
	£'Million	£'Million
<b>Earnings</b>		
Cash result after tax attributable to equity shareholders ( <i>for both basic and diluted EPS</i> )	<u>268.7</u>	<u>252.7</u>
<b>Weighted average number of shares</b>	Million	Million
Weighted average number of ordinary shares in issue ( <i>for basic EPS</i> )	526.0	524.3
Adjustments for outstanding share options	8.7	8.8
Weighted average number of ordinary shares ( <i>for diluted EPS</i> )	<u>534.7</u>	<u>533.1</u>
	Pence	Pence
Basic earnings per share	51.1	48.2
Diluted earnings per share	<u>50.2</u>	<u>47.4</u>